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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)

ASSET REORGANISATION, DISTRIBUTION IN SPECIE OF THE SHARES IN KAI SHI HOLDINGS COMPANY LIMITED AND NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial adviser to the Company



**Independent Financial Adviser to Independent Board Committee
and the Independent Shareholders**



Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "DEFINITIONS" in this circular. A letter from the Board is set out on pages 10 to 49 of this circular. A letter from the Independent Board Committee is set out on page 50 of this circular. A letter from Quam Capital Limited containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 51 to 73 of this circular.

Notice of the EGM to be held at Office E, 10th Floor, China Overseas Building, No. 139 Hennessy Road, Wan Chai, Hong Kong on Friday, 16 January 2015 at 10:00 a.m. is set out on pages EGM-1 to EGM-2 of this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting at the EGM or any adjournment thereof if you so wish.

24 December 2014

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EXPECTED TIMETABLE

Below is an indicative timetable showing the key dates of the relevant events:

Event	Time & Date
Latest time and date for lodging proxy forms for the EGM.....	10:00 a.m. on Wednesday, 14 January 2015
Time and date of the EGM.....	10:00 a.m. on Friday, 16 January 2015
Publication of an announcement regarding the poll results of the EGM	Friday, 16 January 2015

If the approvals sought at the EGM are obtained:

Last day of dealings in the Shares cum-entitlement to the Distribution in Specie	Monday, 19 January 2015
First day of dealings in the Shares ex-entitlement to the Distribution in Specie	Tuesday, 20 January 2015
Latest date and time for lodging transfers of Shares to qualify for entitlement to the Distribution In Specie.....	4:30 p.m. on. Wednesday, 21 January 2015
Book closure period.....	Thursday, 22 January 2015
Record Date	Thursday, 22 January 2015
Expected date of Share Sale Completion (<i>Note 1</i>)	Friday, 23 January 2015
Expected despatch date of certificate of KSH Shares to the Shareholders (<i>Note 2</i>).....	Friday, 23 January 2015
Expected completion of the Distribution In Specie (<i>Note 2</i>)	Friday, 23 January 2015

Notes:

1. Pursuant to the terms of the Share Sale Agreement, the Share Sale Completion shall take place within five Business Day after the date on which the last condition under the Share Sale Agreement have been fulfilled (or waived), or such other date as otherwise agreed in writing between the Vendors and Longevity.
2. Pursuant to the terms of the Share Sale Agreement, the Distribution In Specie shall be completed upon or after the Share Sale Completion and in any event within five Business Days after the date of the Share Sale Completion (i.e. 30 January 2015).
3. A detailed timetable for the Listco Offers and the KSH Offer will be included in the Listco Offer Document and the KSH Offer Document, respectively. As the making of the Listco Offers is subject to the Share Sale Completion and the KSH Offer is subject to the completion of the Distribution In Specie, both of which are in turn subject to Independent Shareholders' approval at the EGM, an application has been made by Longevity to the Executive in accordance with Note 2 to Rule 8.2 of the Takeovers Code for an extension of time to despatch the Listco Offer Document to a date not later than seven days of the Share Sale Completion and an application has been made by Yi Ming Jia Lin to the Executive in accordance with Note 2 to Rule 8.2 of the Takeovers Code for an extension of time to despatch the KSH Offer Document to a date not later than seven days of the completion of the Distribution In Specie.

EXPECTED TIMETABLE

4. Dates and deadlines stated in this circular for events in the timetable are indicative only and may be extended or varied. Any changes to the expected timetable will be announced as appropriate. All times and dates refer to Hong Kong local time.

Further announcement(s) will be made in relation to those events which are scheduled to take place after the EGM as and when appropriate in accordance with applicable regulatory requirements.

DEFINITIONS

In this circular, the following expressions have the following meanings, unless the context otherwise requires:

“acting in concert”	has the meaning ascribed thereto in the Takeovers Code
“Asset Reorganisation”	the proposed asset reorganisation of the Group, details of which are set out in the section headed “Asset Reorganisation” in this circular
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Beihaijiedao”	北海街道, part of the region in Dalian Lvshunkou and which is planned to be developed into a tourist and resort area pursuant to the city plan of “Five Functional Areas and One Base” (五城一都)
“Board”	the board of Directors
“Business Day”	a day (excluding Saturday and Sunday) on which licensed banks in Hong Kong are open for business
“BVI”	the British Virgin Islands
“CICCHKS”	China International Capital Corporation Hong Kong Securities Limited, a registered institution under the SFO, licensed to conduct type 1 (dealing in securities), type 2 (dealing in futures contracts), type 3 (leveraged foreign exchange trading), type 4 (advising on securities), type 5 (advising on futures contracts) and type 6 (advising on corporate finance) regulated activities under the SFO and the financial adviser to Longevity in respect of the Listco Offers
“Company”	Kai Shi China Holdings Company Limited (開世中國控股有限公司), an exempted company incorporated on 4 January 2011 with limited liability under the laws of the Cayman Islands, with the Shares listed on the Main Board of the Stock Exchange
“Construction and Engineering Business”	the provision of construction and engineering services in the PRC business of the Remaining Group carried out by KS Engineering

DEFINITIONS

“Dalian Lvshunkou”	Lvshunkou District, an administrative district in Dalian City (one of the 10 most liveable cities in China as recognised by the Economist Intelligent Unit of the Economist) of Liaoning Province, the PRC, and an important military port in the north-eastern part of China that fully opened up by the PRC Government since the end of 2009
“Director(s)”	director(s) of the Company
“Distributed Businesses”	all businesses of the Group, other than the Remaining Businesses, to be carried by the KSH Group
“Distribution In Specie”	the distribution in specie of the KSH Shares by the Company to the Shareholders as described in section headed “Distribution In Specie” of this circular
“Doors and Windows Business”	the business of manufacture, processing and sale of doors and windows in the PRC of the Remaining Group carried out by Lion Tianjin
“EGM”	the extraordinary general meeting of the Company to be held to consider and, if thought fit, approve the resolutions in respect of the Distribution In Specie and the respective transactions contemplated thereunder
“Excluded Options”	5,700,000 Options held by Mr. Kai and Ms. Hu Shicui and Mr. Kai has irrevocably and unconditionally undertaken in the Share Sale Agreement to Longevity that Mr. Kai will, and he shall procure Ms. Hu Shicui (i) not exercise any subscription rights attached to these 5,700,000 Options prior to the close of the Listco Offers; and (ii) not accept the Option Offer
“Executive”	the Executive Director of the Corporate Finance Division of the SFC and any of its delegates
“Group”	the Company and its subsidiaries as at the Latest Practicable Date
“Hong Kong” or “HK”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board comprising all the independent non-executive Directors, established to give a recommendation to the Independent Shareholders regarding the Distribution In Specie, the Listco Offers and the respective transactions contemplated thereunder

DEFINITIONS

“Independent Financial Adviser”	Quam Capital Limited, a licenced corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, the independent financial adviser appointed by the Independent Board Committee and KSH in respect of the Distribution In Specie, the Listco Offers and the respective transactions contemplated thereunder (where appropriate) and KSH Offer, respectively
“Independent KSH Shareholders”	the KSH Shareholders other than Yi Ming Jia Lin, its ultimate beneficial owner and/or parties acting in concert with any of them
“Independent Shareholders”	Shareholders other than the Vendors, Longevity, their respective associates and parties acting in concert with any of them
“Joint Announcement”	the joint announcement issued by Longevity, the Company, Yi Ming Jia Lin and KSH dated 5 December 2014 in relation to, among other things, the Share Sale Agreement, the Asset Reorganisation, the Distribution In Specie, the Listco Offers and the KSH Offer
“Kingston CF”	Kingston Corporate Finance Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the financial adviser to Yi Ming Jia Lin in respect of the KSH Offer
“Kingston Securities”	Kingston Securities Limited, a licensed corporation to carry out Type 1 (dealing in securities) regulated activity under the SFO, being the agent making the KSH Offer on behalf of Yi Ming Jia Lin
“KS Engineering”	Dalian Kai Shi Construction Engineering Co., Ltd. (大連市開世建設工程有限公司), a limited liability company established under the laws of the PRC and an indirect wholly-owned subsidiary of the Company
“KSH”	Kai Shi Holdings Company Limited (開世控股有限公司), a company incorporated in BVI on 31 October 2014 with limited liability for the purpose of carrying out the Distributed Businesses and a wholly-owned subsidiary of the Company immediately prior to completion of the Distribution In Specie
“KSH Group”	KSH and its subsidiaries upon completion of the Asset Reorganisation

DEFINITIONS

“KSH Offer”	the unconditional voluntary cash offer to be made by Kingston Securities on behalf of Yi Ming Jia Lin to acquire all the then issued KSH Shares (other than those KSH Shares as may be received by Yi Ming Jia Lin and parties acting in concert with it pursuant to the Distribution in Specie)
“KSH Offer Document”	the offer and response document (in either composite or separate form) and the form of acceptance and transfer to be despatched to the KSH Shareholders pursuant to the KSH Offer
“KSH Offer Price”	HK\$0.6800, the price at which the KSH Offer will be made
“KSH Share(s)”	ordinary share(s) with no par value in the capital of KSH
“KSH Shareholder(s)”	holder(s) of the KSH Shares
“Last Trading Day”	20 November 2014, being the last trading day of the Shares immediately prior to the suspension of trading in the Shares on the Stock Exchange at 1:43 p.m. on the same day
“Latest Practicable Date”	22 December 2014, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Lion Tianjin”	Tianjin Lion Window & Door Co., Ltd. (萊恩(天津)門窗有限公司), a wholly foreign-owned enterprise in the PRC and an indirect wholly-owned subsidiary of the Company
“Listco Offer Document”	the offer and response document (in either composite or separate form) together with the form of acceptance and transfer and form of acceptance and cancellation to be despatched to the Shareholders and Optionholders pursuant to the Listco Offers
“Listco Offers”	collectively, the Share Offer and the Option Offer
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Longjitaihe”	Longjitaihe Industry Co. Ltd. (隆基泰和實業有限公司), a company incorporated in the PRC and is ultimately controlled by Mr. Wei
“Long Stop Date”	30 June 2015 or such other date as the Vendors and Longevity may at any time and from time to time agree in writing

DEFINITIONS

“Longevity”	Longevity Investment Holding Limited, a company incorporated in BVI with limited liability and wholly owned by Mr. Wei, also being the purchaser under the Share Sale Agreement and the offeror under the Listco Offers
“Mr. Kai”	Mr. Kai Chenglian, the chairman and executive Director and the controlling Shareholder of the Company as at the Latest Practicable Date
“Mr. Wei”	Mr. Wei Shaojun, the sole shareholder of Longevity and the founder and chairman of Longjitaihe as at the Latest Practicable Date, being the Purchaser’s guarantor under the Share Sale Agreement
“Offer Share(s)”	issued Share(s) other than those already owned or agreed to be acquired by Longevity and parties acting in concert with it when the Listco Offers are made
“Option(s)”	options which have been granted by the Company in accordance with the Pre-IPO Option Scheme
“Optionholder(s)”	holder(s) of the Options
“Option Offer”	the unconditional mandatory cash offer to be made by CICCHKS, for and on behalf of Longevity, upon the Share Sale Completion for the cancellation of all outstanding Options in accordance with the Takeovers Code
“Overseas KSH Shareholder(s)”	KSH Shareholders, whose addresses, as shown on the register of members of KSH, are outside of Hong Kong
“Overseas Shareholders”	Shareholders, whose addresses, as shown on the register of members of the Company, are outside of Hong Kong
“PRC”	the People’s Republic of China which, for the purpose of this circular, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Pre-IPO Option Scheme”	the pre-IPO share option scheme adopted by the Company on 24 June 2011
“Properties”	properties in the PRC held by the Company and to be held by the KSH Group upon completion of the Asset Reorganisation

DEFINITIONS

“Qualifying Shareholder(s)”	the Shareholder(s), who are qualified for the Distribution in Specie, whose names appeared on the register of members of the Company at the close of business on the Record Date
“Record Date”	a date to be fixed for determining entitlements of the Shareholders to the Distribution In Specie, which is expected to be the third Business Day after the date of the EGM, being a date falling before the date of Share Sale Completion
“Remaining Businesses”	the Construction and Engineering Business and the Doors and Windows Business to be carried out by the Remaining Group after the Asset Reorganisation and the Distribution In Specie
“Remaining Group”	the Company, the Remaining Holdco and its subsidiaries upon completion of the Asset Reorganisation and the Distribution In Specie
“Remaining Group Entities”	collectively, Profit Gear Development Limited, Lion Tianjin and KS Engineering
“Remaining Holdco”	Trade Up Business Limited, a company incorporated in BVI with limited liability on 12 May 2014, which is wholly owned by the Company as at the Latest Practicable Date
“Sale Shares”	450,900,000 Shares, representing approximately 74.90% of the total issued share capital of the Company as at the Latest Practicable Date
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Future Ordinance (Cap. 571 of the Laws of Hong Kong)
“Share(s)”	ordinary shares of HK\$0.01 each in the share capital of the Company
“Share Offer”	the unconditional mandatory cash offer to be made by CICCHK, for and on behalf of Longevity to acquire all the issued Shares (other than those already owned or agreed to be acquired by Longevity and parties acting in concert with it)
“Share Offer Price”	HK\$0.8568, the price at which the Share Offer will be made

DEFINITIONS

“Share Sale Agreement”	the conditional sale and purchase agreement entered into between the Vendors, Longevity and Mr. Wei on 22 November 2014 in relation to the acquisition of the Sale Shares by Longevity
“Share Sale Completion”	completion of the Share Sale Agreement
“Shareholder(s)”	holder(s) of the issued Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Code on Takeovers and Mergers as in force in Hong Kong from time to time
“Vendors”	collectively, Mr. Kai and Yi Ming Jia Lin
“Yi Ming Jia Lin”	Yi Ming Jia Lin Holdings Company Limited, a company incorporated in BVI with limited liability, the controlling shareholder of the Company, which is wholly owned by Mr. Kai as at the Latest Practicable Date
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.
“sq.m.”	square metre

For the purpose of this circular, unless otherwise stated, all amounts in RMB are translated into HK\$ at an exchange rate of RMB1 = HK\$1.26.

If there is any inconsistency between the official Chinese name of the PRC laws or regulations or the PRC Government authorities or the PRC entities mentioned in this circular and their English translation, the Chinese version shall prevail. English translations of official Chinese names are for identification purposes only.

LETTER FROM THE BOARD



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)

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

Registered Office:

Clifton House

75 Fort Street

PO Box 1350

Grand Cayman

KY1-1108

Cayman Islands

Principal Place of Business

in Hong Kong:

Office E, 10th Floor

China Overseas Building

No. 139 Hennessy Road

Wanchai

Hong Kong

24 December 2014

To the Shareholders,

Dear Sir or Madam,

**ASSET REORGANISATION
AND
DISTRIBUTION IN SPECIE OF THE SHARES IN
KAI SHI HOLDINGS COMPANY LIMITED**

INTRODUCTION

Reference is made to the Joint Announcement in relation to, among others, the Asset Reorganisation and the Distribution In Specie. The Distribution In Specie will be put forward for the Independent Shareholders' approval at the EGM.

LETTER FROM THE BOARD

On 22 November 2014, the Vendors, Longevity and Mr. Wei entered into the Share Sale Agreement, pursuant to which the Vendors have conditionally agreed to sell and procure the sale of, and Longevity has conditionally agreed to purchase, the Sale Shares, being 450,900,000 Shares, representing approximately 74.90% of the entire issued share capital of the Company as at the Latest Practicable Date, at an aggregate consideration of HK\$386,331,120, representing HK\$0.8568 per Sale Share. The Share Sale Agreement is conditional upon, among other things, completion of the Asset Reorganisation.

The Asset Reorganisation, which reorganises the Distributed Businesses under the KSH Group, is necessary to give effect to the Distribution In Specie. The approval by the Independent Shareholders in respect of the Distribution In Specie, being a condition precedent to the Share Sale Completion, will ultimately lead to the Listco Offers and the Distribution In Specie in turn will lead to the KSH Offer.

Upon the Share Sale Completion, Longevity will hold 450,900,000 Shares, representing approximately 74.90% of the entire issued share capital of the Company pursuant to the Share Sale Agreement. Subject to the Share Sale Completion, CICCHKS will, on behalf of Longevity and pursuant to Rule 26.1 of the Takeovers Code, make the Listco Offers, which will be unconditional mandatory cash offers to acquire all the issued Shares (other than those already owned or agreed to be acquired by Longevity and parties acting in concert with it) and to cancel all outstanding Options. The Share Offer Price will be HK\$0.8568 per Share, which is equal to the price per Sale Share under the Share Sale Agreement. The Option Offer to cancel each Option will be calculated on a see-through basis pursuant to Rule 13.5 and Practice Note 6 of the Takeovers Code, so that each Optionholder will be entitled to receive a price for his/her Options being the amount by which the consideration for the Share Offer exceeds the exercise price of his/her Options. In respect of the 11,140,000 Options convertible at an exercise price of HK\$0.72 per Share, the cancellation consideration will be HK\$0.1368 per Option. Details of the Listco Offers are set out in Appendix I to this circular. Longevity and the Company are required to issue and despatch the Listco Offer Document to the Shareholders in accordance with the Takeovers Code.

Immediately upon or after the Share Sale Completion, the Company will distribute all of its KSH Shares in specie to the Shareholders whose names appear on the register of members of the Company on the Record Date on the basis of one KSH Share for every Share held.

It is stated in the Joint Announcement that subject to the completion of the Distribution In Specie, Kingston Securities will, on behalf of Yi Ming Jia Lin (a company wholly owned by Mr. Kai), make the KSH Offer to the Independent KSH Shareholders in accordance with the requirements of the Takeovers Codes. The offer price of the KSH Offer will be HK\$0.6800 per KSH Share. Details of the KSH Offer are set out in Appendix I to this circular. Yi Ming Jia Lin and KSH are required to issue and despatch the KSH Offer Document to the Independent KSH Shareholders in accordance with the Takeovers Code.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, *inter alia*, further information about the Asset Reorganisation, the Distribution In Specie and the respective transactions contemplated thereunder, a letter of recommendation from the Independent Board Committee and a letter of advice from the Independent Financial Adviser in respect of the Distribution In Specie and a notice of the EGM.

SHARE SALE AGREEMENT

Date

22 November 2014

Parties

Purchaser: Longevity, a company incorporated in the BVI and wholly owned by Mr. Wei

Purchaser's Guarantor: Mr. Wei

Vendors: (i) Mr. Kai; and (ii) Yi Ming Jia Lin, a company incorporated in the BVI and wholly owned by Mr. Kai

As at the Latest Practicable Date, the Vendors, being the existing controlling Shareholders, together with the spouse and son of Mr. Kai, held an aggregate of 450,900,000 Shares, representing approximately 74.90% of the issued share capital of the Company, of which 450,000,000 Shares, 340,000 Shares, 260,000 Shares and 300,000 Shares were held directly by Yi Ming Jia Lin, Mr. Kai, Ms. Hu Shicui (the spouse of Mr. Kai) and Mr. Kai Xiaojiang (the son of Mr. Kai and a Director), respectively. The Vendors will procure the sale of the Shares held by Ms. Hu Shicui and Mr. Kai Xiaojiang to Longevity pursuant to the Share Sale Agreement.

Each of Longevity and its parties acting in concert is a third party independent of and not connected with the Company and its connected persons (as defined in the Listing Rules) as at the Latest Practicable Date.

Subject matter

450,900,000 Shares, representing approximately 74.90% of the issued share capital of the Company.

Consideration

The aggregate consideration for the Sale Shares is HK\$386,331,120, representing HK\$0.8568 per Sale Share, which was determined after arm's length negotiations between the Vendors and Longevity taking into account, *inter alia*, (i) the unaudited consolidated net asset value of the Remaining Group as at 30 June 2014, taking into consideration the effects including mainly the Asset Reorganisation (which includes the intended settlement or assignment of, among others,

LETTER FROM THE BOARD

certain intra-group balances between the Remaining Group and the KSH Group), the Share Sale Completion and the Distribution In Specie; (ii) the KSH Offer Price of HK\$0.6800 per KSH Offer Share; (iii) the then prevailing market prices of the Shares as further described in the section headed “Comparison of the combined offer price with market prices of the Shares and net asset value per Share” below; and (iv) the fact that Longevity can obtain a controlling interest in the Company after the Share Sale Completion.

The aggregate consideration for the Sale Shares payable by Longevity to the Vendors shall be satisfied as follows:

- (i) the sum of HK\$60,000,000 shall be and had been paid in cash as deposit to the credit of the bank account designated by the Vendors within three (3) Business Days upon signing of the Share Sale Agreement; and
- (ii) the remaining balance of the consideration (i.e. HK\$326,331,120) shall be paid to the credit of the bank accounts designated by the Vendors upon the Share Sale Completion.

Conditions precedent

The Share Sale Completion shall be conditional upon the satisfaction or waiver (where applicable) of the following:

- (a) the Shareholders (other than those who are required to abstain from voting pursuant to the Listing Rules and the Takeovers Code) passing at the EGM resolutions approving, among other things, the Distribution In Specie and the transactions contemplated thereunder, and the capacity of the Shareholders entitled to receive the Distribution In Specie having been determined as at the Record Date in accordance with the Listing Rules and applicable laws, and all conditions to the Distribution In Specie having been satisfied (except for the fulfillment or waiver of the conditions precedent to the Share Sale Completion);
- (b) all the necessary consents and approvals required to be issued by any relevant regulatory authorities and/or obtained from any third parties in connection with the Share Sale Agreement and the transactions contemplated thereunder and the Listco Offers (including the Asset Reorganisation and Distribution In Specie) having been obtained and no laws, rules, regulations or decisions having been proposed, promulgated or adopted by any relevant regulatory authorities prohibiting or restricting the transactions contemplated under the Share Sale Agreement and the Listco Offers;
- (c) the Asset Reorganisation having been completed in accordance with applicable laws, the Takeovers Code and the Listing Rules, and sufficient evidence for proving the completion of the Asset Reorganisation as may be reasonably required by Longevity having been provided to Longevity;

LETTER FROM THE BOARD

- (d) no indication from the SFC having received by Longevity that the offer price under the Share Offer would exceed HK\$0.8568 per Share (except that Longevity and its parties acting in concert purchase the Shares with a higher price or increase the offer price voluntarily);
- (e) the warranties given by the Vendors under the Share Sale Agreement remain true and accurate and not misleading in all material respects as at the date of Share Sale Completion; and
- (f) (i) the listing of the Shares not having been revoked and trading in the Shares on the Stock Exchange not having been suspended (except for (a) any suspension of trading pending publication of announcement(s) in relation to the execution of the Share Sale Agreement or the transactions contemplated thereunder (including but not limited to the Asset Reorganisation and Distribution In Specie), and (b) any other suspension of trading for a period of not more than three (3) consecutive Business Days pending publication of announcement(s)); (ii) no notification having been received from the Stock Exchange or the SFC that it may revoke or oppose the listing of the Shares for any reasons other than insufficient public float of the Shares due to (a) the terms of the Share Sale Agreement; or (b) upon the completion of the Share Sale Agreement and the Listco Offers; and (iii) there not having occurred other events which may have an adverse effect on the listing status of the Company on the Stock Exchange.

Longevity shall be entitled to waive the conditions precedent set out above (except conditions (a), (b) and (c) which are incapable of being waived) by serving a notice in writing to the Vendors. If the conditions precedent set out above have not been fulfilled (or waived by Longevity in whole or in part) on or before 5:00 p.m. on the Long Stop Date, the Share Sale Agreement (except surviving terms) shall cease and determine and the parties shall not have any obligations and liabilities thereunder save for any antecedent breaches of the terms thereof.

Net asset value of the Remaining Group

Pursuant to the Share Sale Agreement, the Vendors agreed and undertook that they will ensure the net asset value of the Remaining Group will not be less than RMB56,076,000 (equivalent to approximately HK\$70,656,000) as at the date of Share Sale Completion. In case where the net asset value as at the date of Share Sale Completion is less than RMB56,076,000 and the reduction is more than 3%, the Vendors shall compensate Longevity for the reduction in the net asset value amount. For the avoidance of doubt, any reduction in the net asset value of the Remaining Group does not constitute a breach of the terms of the Share Sale Agreement and Longevity cannot terminate the Share Sale Agreement and/or refuse to proceed with the Share Sale Completion.

The level of net asset value of the Remaining Group as at the date of the Share Sale Completion of RMB56,076,000 was an estimation of the result of the Asset Reorganisation and the Distribution In Specie at the time of the Share Sale Agreement. In the event that the net asset value of the Remaining Group as at the date of the Share Sale Completion fell below RMB56,076,000, the net asset value per Share attributable to the then existing Shareholders would decrease

LETTER FROM THE BOARD

accordingly. However, such event alone will not lead to the Share Sale Completion not to occur. Notwithstanding that there is a compensation arrangement between the Vendors and Longevity, being the offeror, the Listco Offers will be made upon the Share Sale Completion and the offer price under the Share Offer of HK\$0.8568 per Share will remain unchanged. In addition, the net asset value of the Remaining Group as at the date of the Share Sale Completion is the end result of the Asset Reorganisation and the Distribution In Specie but not a goal. In this regard, the Directors consider that there is no material impact to the existing Shareholders. The Company has engaged its auditors and legal advisers to review the steps of the Asset Reorganisation and the Distribution In Specie and assist to estimate the possible result of the Asset Reorganisation and the Distribution In Specie to ensure the net asset value of the Remaining Group will not materially differ from the initial estimation.

Completion

The Share Sale Completion shall take place within five (5) Business Days after the date on which the last condition as set out in the sub-section headed “Conditions precedent” above in this circular have been fulfilled (or waived), or such other date as otherwise agreed in writing between the Vendors and Longevity.

ASSET REORGANISATION

Pursuant to the Asset Reorganisation:

- (i) after completion of a series of acquisitions, KSH will directly or indirectly hold the entire equity interests of each member of the KSH Group (apart from KSH itself) and the Distributed Businesses will be carried out by the KSH Group;
- (ii) after completion of a series of acquisitions, the Remaining Holdco will directly or indirectly hold the entire equity interests of each member of the Remaining Group (apart from the Company and the Remaining Holdco itself), and the Remaining Businesses will be carried out by the Remaining Group;
- (iii) the operations of the Remaining Group and the KSH Group will be delineated by, among others, the KSH Group entering into employment contracts with those employees who will be transferred from the Remaining Group to the KSH Group and vice versa;
- (iv) subject to the Share Sale Completion, the release of all guarantees and security given by the KSH Group in favour of the Remaining Group and vice versa; and
- (v) the outstanding intra-group balances between the Remaining Group and the KSH Group will be settled upon or before the Share Sale Completion.

There is no condition precedent to the completion of the Asset Reorganisation. As at the Latest Practicable Date, a series of acquisitions and disposals have been completed and KSH had issued and allotted 601,999,999 shares to the Company in consideration for the acquisition of the entire issued share capital in Kai Shi Investment Group Company Limited such that KSH has

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become the holding company of the KSH Group (apart from KSH itself) and the Remaining Holdco has become the holding company of the Remaining Group (apart from the Remaining Holdco itself). It is expected that (a) the transfer of employment contracts between the KSH Group and the Remaining Group (as mentioned in item (iii) above); (b) the release of the guarantees and security given by the KSH Group in favour of the Remaining Group and vice versa (as mentioned in item (iv) above); and (c) the settlement of outstanding intra-group balances between the KSH Group and the Remaining Group (as mentioned in item (v) above) will be completed upon or before the Share Sale Completion.

DISTRIBUTION IN SPECIE

Immediately upon or after the Share Sale Completion, the Company will distribute all of its KSH Shares in specie to the Shareholders (for the avoidance of doubt, include Yi Ming Jia Lin and other Shareholders whose names appear on the register of members of the Company on the Record Date (which is expected to be the third Business Day after the date of the EGM, i.e. 22 January 2015)) on the following basis:

For every Share held one KSH Share

The Distribution In Specie will be effected by distribution from the distributable reserves of the Company and the amount to be distributed will be equivalent to the carrying value of the Company's long term investment in KSH (assuming all the steps set out in the section headed "Asset Reorganisation" above have been completed) which will be ascertained immediately prior to the Share Sale Completion.

The KSH Shares when issued will rank *pari passu* in all respects with each other. No application will be made for the listing of, and permission to deal in, the KSH Shares on the Stock Exchange or any other stock exchange.

As a result of the Distribution In Specie, the KSH Group will cease to be subsidiaries of the Company, and the Remaining Group will carry on the Remaining Businesses, being the Construction and Engineering Business and Doors and Windows Business.

Upon completion of the Distribution In Specie, the KSH Group will be held by the then Shareholders as at the Record Date. The Company will not have any interest in the KSH Group.

It is the intention of the parties that the Distribution In Specie will be completed immediately upon or after the Share Sale Completion, and in any event within five Business Days after the date of the Share Sale Completion; and immediately upon completion of the Distribution In Specie, Kingston Securities will, on behalf of Yi Ming Jia Lin, make the KSH Offer in accordance with the requirements of the Takeovers Code. Therefore, the Listco Offers will be made after the Share Sale Completion while the KSH Offer will be made after completion of the Distribution In Specie. Arrangements will be made such that the Distribution In Specie will be made immediately upon or after the Share Sale Completion and the Listco Offers and the KSH Offer will be expected to commence on the same day.

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The Qualifying Shareholders

For the purpose of the Distribution In Specie, the Qualifying Shareholders, whose names appear in the register of members of the Company on the Record Date, are entitled to participate in the Distribution In Specie. As the Distribution In Specie to persons who are not residents in Hong Kong may be affected by the laws of the relevant jurisdiction in which they are residents, the Overseas Shareholders who are citizens or residents or nationals of a jurisdiction outside Hong Kong should keep themselves informed about and observe any applicable legal or regulatory requirements and where necessary seek legal advice. It is the responsibility of the Overseas Shareholders to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith (including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes due in respect of such jurisdiction).

Conditions to the Distribution In Specie

The Distribution In Specie is conditional upon:

- (i) completion of the Asset Reorganisation;
- (ii) the passing of ordinary resolution at the EGM to approve the Distribution In Specie;
- (iii) the obtaining of approval from relevant regulatory authorities, including but not limited to the Stock Exchange and SFC; and
- (iv) the fulfilment or waiver (if applicable) of all the conditions precedent to the Share Sale Agreement.

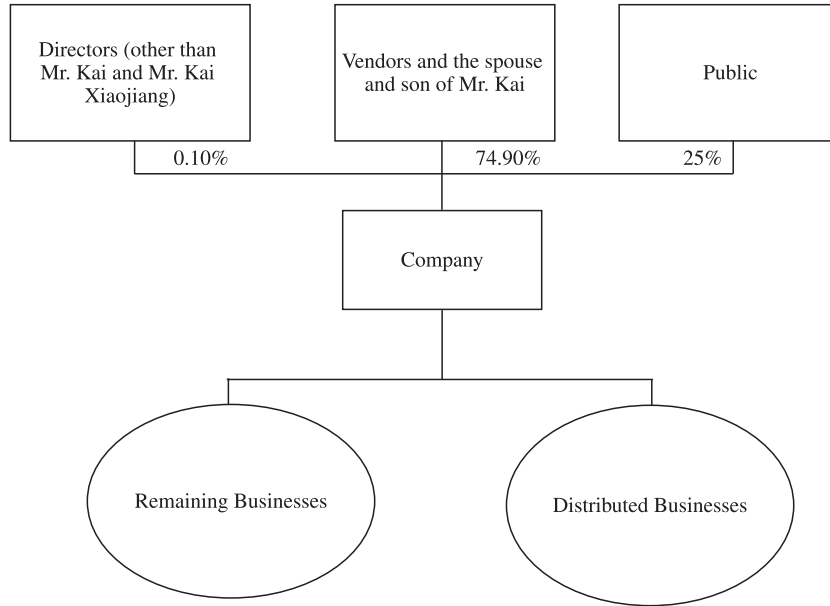
None of the above conditions can be waived. Completion of the Distribution In Specie will not take place unless all the above conditions precedent to the Distribution In Specie have been fulfilled.

The Vendors, Longevity and their respective associates and parties acting in concert with any one of them will abstain from voting on the relevant resolution(s) regarding the Distribution In Specie and the transactions contemplated thereunder, which will be taken by poll at the EGM.

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Group structure before and after the Asset Reorganisation and the Distribution In Specie

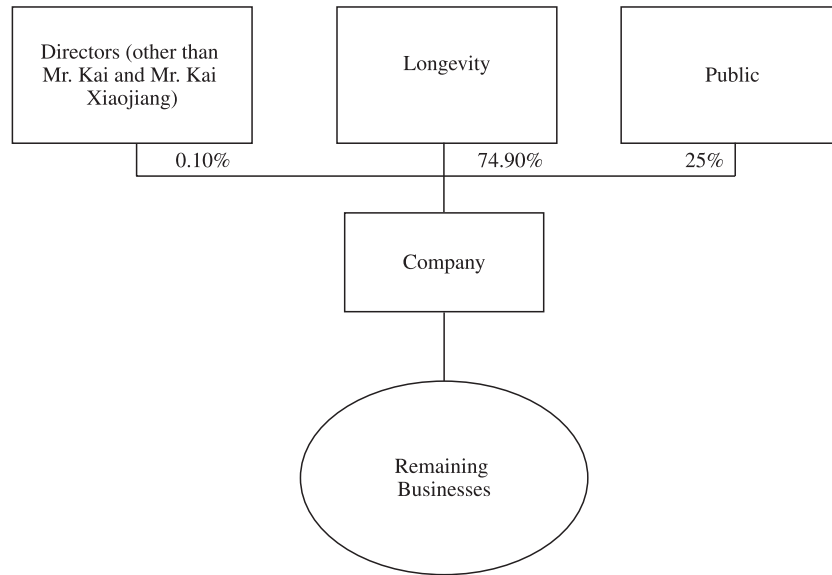
The chart below shows in summary the structure of the Group as at the Latest Practicable Date:



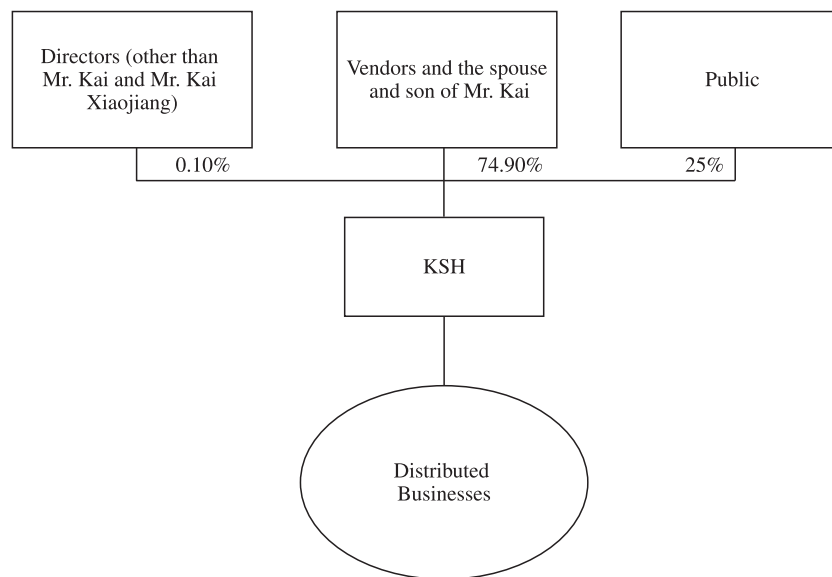
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The chart below shows in summary the respective group structures of the KSH Group and the Remaining Group immediately after completion of the Asset Reorganisation, the Share Sale Completion (which is conditional on, among other things, completion of the Asset Reorganisation) and completion of the Distribution In Specie (which is conditional on completion of the Asset Reorganisation and will take place after the Share Sale Completion), but before commencement of the KSH Offer and the Listco Offers (assuming no other changes in the shareholding structure of the Group during this period):

The group structure of the Remaining Group:



The group structure of the KSH Group:



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Reasons for and effects of the Asset Reorganisation and the Distribution In Specie

During the negotiations between the parties to the Share Sale Agreement, Longevity has expressed that it has no intention to operate the property development project located at Dalian, Liaoning Province. As opposed to an outright disposal of the Distributed Businesses to the controlling Shareholder, the Distribution In Specie and the KSH Offer together provide an option for the KSH Independent Shareholders to keep or through the KSH Offer dispose of their investments in the Distributed Businesses. The KSH Offer provides a cash exit option to the Independent KSH Shareholders (at HK\$0.6800 per KSH Share) to realise all or part of their shareholdings in KSH, which are unlisted and may be illiquid, upon completion of the Distribution In Specie.

In addition, upon the Share Sale Completion, Longevity will become a controlling Shareholder and is obliged to make the Share Offer, which will be an unconditional mandatory cash offer to acquire all the issued Shares (other than those already owned or agreed to be acquired by Longevity and parties acting in concert with it), and the Option Offer for cancellation of all outstanding Options.

The Asset Reorganisation, which reorganises the Distributed Businesses under the KSH Group, is a crucial step for achieving the Distribution In Specie which in turn will lead to the KSH Offer. Subject to the completion of the Distribution In Specie, Kingston Securities will, on behalf of Yi Ming Jia Lin, make the KSH Offer to the Independent KSH Shareholders in accordance with the requirements of the Takeovers Code. The Asset Reorganisation is also a condition precedent to the Share Sale Completion which in turn will ultimately lead to the Listco Offers. The Board therefore considers that the Asset Reorganisation is in the interests of the Shareholders as a whole.

The Listco Offers and the KSH Offer will provide a cash exit option to the Independent Shareholders and the Independent KSH Shareholders who wish to realise all or part of their interests in the Company and KSH, respectively following the Share Sale Completion and the Distribution In Specie. The combined consideration under the Share Offer and the KSH Offer is equivalent to HK\$1.5368 per Share, which represents a premium of approximately 5.26% over the closing price per Share of HK\$1.460 as quoted on the Stock Exchange on the Last Trading Day. As such, the Board considers that it is in the interests of the Independent Shareholders to provide them with an opportunity to consider and, if thought fit, approve the resolution(s) for the Distribution In Specie and the transactions contemplated thereunder at the EGM.

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Information on the Distributed Businesses and the Remaining Businesses

The Group is principally engaged in the property development; provision of construction and engineering services and manufacture, processing and sales of doors and windows as at the Latest Practicable Date. Its principal customers are located in the PRC.

The Distributed Businesses to be operated by the KSH Group will consist principally of property development in Dalian, the PRC.

The Remaining Group will be principally engaged in the Construction and Engineering Business and the Doors and Windows Business in the PRC.

FINANCIAL INFORMATION OF THE GROUP

Set out below is the financial information for each of the three years ended 31 December 2013 and for the six months ended 30 June 2014 as extracted from the accountants' report of the Company in Appendix II to this circular:

	For the year ended 31 December			For the six months ended
	2011	2012	2013	30 June 2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	505,310	105,703	100,908	47,067
Profit/(Loss) before taxation	242,067	53,505	15,902	(56,912)
Profit/(Loss) attributable to equity shareholders of the Company	150,426	31,041	6,290	(33,908)

The equity attributable to equity Shareholders as at 30 June 2014 was approximately RMB297,279,000, representing approximately HK\$0.6222 per Share based on 602,000,000 Shares in issue as at 30 June 2014.

FINANCIAL INFORMATION OF THE KSH GROUP

The KSH Group will be principally engaged in property development business in Dalian Lvshunkou, Dalian City, Liaoning Province, the PRC. Upon completion of the Asset Reorganisation and the Distribution In Specie, KSH will be the holding company of the Distributed Businesses. Set

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out below is the financial information of the KSH Group for each of the three financial years ended 31 December 2013 and the six months ended 30 June 2014, as extracted from the accountants' report of the KSH Group in Appendix III to this circular:

	For the year ended			For the
	31 December			six months
	2011	2012	2013	ended
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	30 June
				2014
				<i>RMB'000</i>
Turnover	481,269	80,016	39,795	13,504
Profit/(Loss) before taxation	287,791	57,512	13,140	(61,577)
Profit/(Loss) for the year/ period	198,341	35,680	4,417	(37,915)

The net assets attributable to equity shareholders of KSH as at 30 June 2014 was approximately RMB293,073,000 (equivalent to approximately HK\$369,271,980), as extracted from the accountants' report of the KSH Group in Appendix III to this circular.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE KSH GROUP

The KSH Group will be principally engaged in property development business in Dalian Lvshunkou, Dalian City, Liaoning Province, the PRC.

Upon completion of the Asset Reorganisation and the Distribution In Specie, KSH will be the holding company of the Distributed Businesses.

Set out below is the management discussion and analysis on the KSH Group for the three years ended 31 December 2013 and the six months ended 30 June 2014.

For the year ended 31 December 2011

Operating Results

For the year ended 31 December 2011, the KSH Group recorded turnover of approximately RMB481.3 million with gross profit margin at approximately 58.0% and recorded net profit of approximately RMB198.3 million.

The KSH Group's main source of turnover was generated from sales of properties. The increase of turnover was mainly due to the substantial increase of the average selling price of properties as a result of the change in property types and the increase in the gross floor area delivered for use in the sale of residential properties in 2011.

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Liquidity and Financial Resources

Individual operating entities within the KSH 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 Board when the borrowings exceed certain predetermined levels of authority. The KSH 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.

The KSH Group did not use any financial instruments for hedging purposes during the year ended 31 December 2011.

As at 31 December 2011, the KSH Group's net current assets and current ratio were approximately RMB283.2 million and 1.9, respectively. The gearing ratio (defined as total bank borrowings divided by total equity) as at 31 December 2011 was approximately 0.9.

As at 31 December 2011, the KSH Group's bank balances and cash amounted to approximately RMB114.5 million.

Borrowings and Pledge of Assets

Bank loan of the KSH Group as at 31 December 2011 which was approximately RMB200 million and was collateralised by the KSH Group's completed properties held for sale, are subject to the fulfillment of covenants relating to certain of the KSH Group's balance sheet ratios, as are commonly found in lending agreements with financial institutions.

Capital Structure

For the year ended 31 December 2011, the KSH Group primarily finances its liquidity requirements through a combination of cash flow as generated from operations and bank borrowings.

Commitment and Contingent Liabilities

As at 31 December 2011, the KSH Group had approximately RMB5.7 million as capital commitments and no operating lease commitments occurred.

As at 31 December 2011, the KSH Group did not have any significant contingent liabilities.

Significant Investment, Material Acquisition and Disposals

The KSH Group did not have any significant investments, material acquisition or disposals during the year ended 31 December 2011.

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Staff and Remuneration Policy

As at 31 December 2011, the KSH Group utilised a total of 55 employees. Staff cost for the year ended 31 December 2011 was approximately RMB5.1 million. In order to attract and retain high quality employees to ensure smooth operation and cater for the KSH Group's constant expansion, the KSH Group offered competitive remuneration packages, with reference to market conditions and individual qualifications and experience. Pursuant to the relevant labour rules and regulations in the PRC, the members of KSH Group in the PRC participated in defined contribution retirement benefit schemes (the "Schemes") organised by the PRC municipal government authorities whereby the KSH 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 KSH Group has no other material obligation for the payment of pension benefits associated with the Schemes beyond the annual contributions described above.

Exchange Risk

The KSH Group conducts its business primarily in RMB. As at 31 December 2011, all of the KSH Group's assets and debts were denominated in RMB. Other than the RMB denominated bank deposits, the KSH Group has no material exposure directly due to foreign exchange fluctuations. Fluctuations in the exchange rate of RMB will not have material and unfavourable impacts on the operations of the KSH Group.

Future Plans for Material Investments and Acquisition of Capital Assets

There was no specific plan for material investments and acquisition of material capital assets as at 31 December 2011.

For the year ended 31 December 2012

Operating Results

For the year ended 31 December 2012

In early 2012, the PRC government further intensified the policies of the macroeconomic regulation and control with its objective changed from "Encouraging Containing Property" oriented to "Cooling Property Price" oriented. According to National Bureau of Statistics of China, the total investment in real estate development in 2012 was RMB718.0 billion, a year-on-year growth of 16.2 percent (the "%"), dropped 11.9 percentage points over that in 2011. The land area purchased by the real estate development enterprises totaled 3.6 million square meters ("sq. m."), a year-on-year decrease of 19.5%, and decreasing amplitude expanded 4.7 percentage points over the first eleven months. The total transaction of land topped RMB74.1 billion, decreased 16.7%, decreasing amplitude expanded 6.4 percentage points over the first eleven months.

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For the year ended 31 December 2012, the KSH Group recorded turnover of approximately RMB80.0 million with gross profit margin at approximately 59.0% and recorded net profit of approximately RMB35.7 million.

The turnover of the KSH Group for 2012 decreased by 83.4% to approximately RMB80.0 million in 2012 from approximately RMB481.3 million in 2011. The decrease was primarily due to the following:

- (i) No revenue for Kai Shi Xi Jun can be recognised in 2012 since the completion of construction progress of the residential properties of new project Kai Shi Xi Jun had been delayed due to the formalities delay, including the construction permit, as well as the delay in construction period due to the severe weather in Northern China. Pursuant to the requirement under the KSH Group's adopted accounting standards, any revenue generated from Kai Shi Xi Jun can only be recognised after its completion of construction. Therefore, the revenue of KSH Group generated from Kai Shi Xi Jun would not be booked in the financial statements of KSH Group for the year ended 31 December 2012.
- (ii) all the revenue of 2012 was generated from the Kai Shi Jia Nian project, and as at 31 December 2012, the number of saleable properties decreased. The decrease in the gross floor area of Kai Shi Jia Nian sold from 42,591 sq.m. in 2011 to 7,628 sq.m. in 2012 has a considerable impact on sales.
- (iii) in addition, the North Station of Dalian, which is relatively distant from the Lvshun District, is the main station for the high-speed line between Harbin and Dalian, the originally planned favourable transportation, which was opened on 1 December 2012. The relatively long distance between the North Station and the Lvshun District has to a certain extent reduced the purchase desire in properties of the Lvshun District.

Liquidity and Financial Resources

Individual operating entities within the KSH 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 Board when the borrowings exceed certain predetermined levels of authority. The KSH 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.

The KSH Group did not use any financial instruments for hedging purposes during the year ended 31 December 2012.

As at 31 December 2012, the KSH Group's net current assets and current ratio were approximately RMB69.8 million and 1.1, respectively. The current ratio reduced from approximately 1.9 as at 31 December 2011 to approximately 1.1 as at 31 December 2012. The

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decrease was mainly resulting from the classification of long term bank loans of RMB200.0 million to long term loan due within one year with the maturity in September and November 2013. The gearing ratio of the KSH Group (defined as total bank borrowings divided by total equity) as at 31 December 2012 was approximately 0.8.

As at 31 December 2012, the KSH Group's bank balances and cash amounted to approximately RMB70.3 million.

Borrowings and pledged assets

Bank loans of the KSH Group as at 31 December 2012 was approximately RMB200 million, which was collateralised by the KSH Group's completed properties held for sale, are subject to the fulfillment of covenants relating to certain of the KSH Group's balance sheet ratios, as are commonly found in lending agreements with financial institutions.

Capital Structure

For the year ended 31 December 2012, the KSH Group primarily financed its liquidity requirements through a combination of cash flow as generated from operations, bank borrowings and advances from related parties.

Commitment and Contingent Liabilities

As at 31 December 2012, the KSH Group had capital commitments of approximately RMB25.2 million and operating lease commitments of approximately RMB0.8 million.

As at 31 December 2012, the KSH Group did not have any significant contingent liabilities.

Significant Investment, Material Acquisition and Disposals

The KSH Group did not have significant investments, material acquisition or disposals during the year ended 31 December 2012.

Staff and Remuneration Policy

As at 31 December 2012, KSH Group utilised about 70 employees. Staff cost for the year ended 31 December 2012 was approximately RMB6.2 million. In order to attract and retain high quality employees to ensure smooth operation and cater for the KSH Group's constant expansion, the KSH Group offer competitive remuneration packages, with reference to market conditions and individual qualifications and experience. Pursuant to the relevant labour rules and regulations in the PRC, the members of KSH Group participated in the Schemes organised by the PRC municipal government authorities whereby the KSH 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 KSH Group has no other material obligation for the payment of pension benefits associated with the Schemes beyond the annual contributions described above.

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Exchange Risk

The KSH Group conducts its business primarily in RMB. As at 31 December 2012, all of the KSH Group's assets and debts were denominated in RMB. Other than the RMB denominated bank deposits, the KSH Group has no material exposure directly due to foreign exchange fluctuations. Fluctuations in the exchange rate of RMB will not have material and unfavourable impacts on the operations of the KSH Group.

Future Plans for Material Investments and Acquisition of Capital Assets

There was no specific plan for material investments and acquisition of material capital assets as at 31 December 2012.

For the year ended 31 December 2013

Operating Results

For the year ended 31 December 2013

The KSH Group recorded turnover of approximately RMB39.8 million with gross profit margin at approximately 52.6% and recorded net profit of approximately RMB4.4 million.

The turnover of the KSH Group for 2013 decreased by 50.3% to approximately RMB39.8 million in 2013 from approximately RMB80.0 million in 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 meetings of the National People's Congress and the Chinese People's Political Consultative Committee, 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 KSH Group for this type of properties are impacted accordingly.
- (ii) The implementation of the KSH 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 KSH 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 hot spring resort hotel around Kai Shi Xi Jun is 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

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gradually attracted potential clients to this area and increases the popularity of the project step by step, yet the overall sales results for 2013 were still not satisfactory. Accordingly, the KSH 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.

Liquidity and Financial Resources

Individual operating entities within the KSH 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 Board when the borrowings exceed certain predetermined levels of authority. The KSH 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.

The KSH Group did not use any financial instruments for hedging purposes during the year ended 31 December 2013.

As at 31 December 2013, the KSH Group's net current assets and current ratio were approximately RMB66.6 million and 1.1, respectively. The gearing ratio (defined as total bank borrowings divided by total equity) was nil as at 31 December 2013 as the KSH Group did not have any borrowings.

As at 31 December 2013, the KSH Group's bank balances and cash amounted to approximately RMB2.7 million.

Borrowings and pledged assets

As at 31 December 2013, the KSH Group had a deposit of RMB25 million, buildings with aggregate carrying value of RMB2.3 million and investment properties with aggregate value of RMB21.6 million pledged to commercial banks as security against bank loans granted to the Remaining Group.

Capital Structure

For the year ended 31 December 2013, the KSH Group primarily finances its liquidity requirements through a combination of cash flow as generated from operations and bank borrowings and advances from related parties.

Commitment and Contingent Liabilities

As at 31 December 2013, the KSH Group had approximately RMB9.0 million as capital commitments and approximately RMB0.3 million as operating lease commitments.

As at 31 December 2013, the KSH Group did not have any significant contingent liabilities.

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Significant Investment, Material Acquisition and Disposals

The KSH Group did not have any significant investments, material acquisition or disposals during the year ended 31 December 2013.

Staff and Remuneration Policy

As at 31 December 2013, the KSH Group utilised a total of 64 employees. Staff cost for the year ended 31 December 2013 was approximately RMB6.4 million. In order to attract and retain high quality employees to ensure smooth operation and cater for the KSH Group's constant expansion, the KSH Group offer competitive remuneration packages, with reference to market conditions and individual qualifications and experience. Pursuant to the relevant labour rules and regulations in the PRC, the members of the KSH Group in the PRC participated in the Schemes organised by the PRC municipal government authorities whereby the KSH 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 KSH Group has no other material obligation for the payment of pension benefits associated with the Schemes beyond the annual contributions described above.

Exchange Risk

The KSH Group conducts its business primarily in RMB. As at 31 December 2013, all of the KSH Group's assets and debts were denominated in RMB. Other than the RMB denominated bank deposits, the KSH Group has no material exposure directly due to foreign exchange fluctuations. Fluctuations in the exchange rate of RMB will not have material and unfavourable impacts on the operations of the KSH Group.

Future Plans for Material Investments and Acquisition of Capital Assets

There was no specific plan for material investments and acquisition of material capital assets as at 31 December 2013.

For the six months ended 30 June 2014

Operating Results

For the six months ended 30 June 2014

The KSH Group recorded turnover of approximately RMB13.5 million and recorded net loss of approximately RMB37.9 million.

The turnover of the KSH Group for the six months ended 30 June 2014 decreased by 16.7% to approximately RMB13.5 million from approximately RMB16.2 million for the corresponding period in 2013. The decrease was primarily due to (i) the influence of macroeconomic environment continued; and (ii) the implementation of the KSH Group's sales strategy according to the product position and overall environment. The KSH Group recorded a gross loss of approximately

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RMB10.1 million for the six months ended 30 June 2014 as compared to a gross profit of approximately RMB7.0 million for the corresponding period in 2013, which was primarily due to write-down of completed properties held for sale of RMB18.5 million caused by the downturn of property market in Lvshunkou, Dalian, the PRC.

Apart from the impact of the vigorous adjustment and control policies imposed by the government, the gradual fall of the real estate sales of the KSH Group over the years was also affected by the followings:

- (i) Most of the Kai Shi Jia Nian project was sold, and the remaining parts are currently mainly high-end villas. Upon the meetings of the National People's Congress and the Chinese People's Political Consultative Committee in 2013, the new session of the government greatly advocates anti-corruption and savings, which have in turn deeply lowered the demand for high-end properties.

Meanwhile, under the influence of the overall property market environment at the moment, the property price of all cities shows significant fluctuation, and some potential customers turn to adopt a cautionary approach, which has in turn affected the expected sales.

- (ii) The purchasing power of local residents of Dalian Lvshunkou and their demand for high-end villas and leisure and resort residence projects are limited.
- (iii) Kai Shi Xi Jun is situated in Beihaijiedao of Lvshunkou where the local government intends to develop into a coastal tourism and resorts area. Currently, the originally planned ancillary facilities in the surroundings, such as commercial streets, hotels, parks and playgrounds, are not completed as schedule and are yet to be constructed. The lagging behind of the construction progress of these facilities as compared to that of our project reduces the attractiveness of our project to local residents and potential customers, which have lowered the purchase demand and in turn imposed a relatively tremendous impact on our sales results.

Liquidity and Financial Resources

Individual operating entities within the KSH 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 Board when the borrowings exceed certain predetermined levels of authority. The KSH 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.

The KSH Group did not use any financial instruments for hedging purposes during the six months ended 30 June 2014.

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As at 30 June 2014, the KSH Group's net current assets and current ratio were approximately RMB132.2 million and 1.3, respectively. The gearing ratio (defined as total bank borrowings divided by total equity) was nil as at 30 June 2014 as the KSH Group did not have any borrowings.

As at 30 June 2014, the KSH Group's bank balances and cash amounted to approximately RMB52.4 million.

Borrowings and pledged assets

As at 30 June 2014, the KSH Group had a deposit of RMB25 million, buildings with aggregate carrying value of RMB2.2 million and investment properties with aggregate value of RMB20.1 million pledged to commercial banks as security against bank loans granted to the Remaining Group.

Capital Structure

As at 30 June 2014, the KSH Group primarily finances its liquidity requirements through a combination of cash flow as generated from operations and bank borrowings and advances from related parties.

Commitment and Contingent Liabilities

As at 30 June 2014, the KSH Group had approximately RMB6.1 million as capital commitments and approximately RMB0.1 million as operating lease commitments.

As at 30 June 2014, the KSH Group did not have any significant contingent liabilities.

Staff and Remuneration Policy

As at 30 June 2014, the KSH Group utilised a total of 61 employees. Staff cost for the six months ended 30 June 2014 was approximately RMB2.5 million. In order to attract and retain high quality employees to ensure smooth operation and cater for the KSH Group's constant expansion, the KSH Group offer competitive remuneration packages, with reference to market conditions and individual qualifications and experience. Pursuant to the relevant labour rules and regulations in the PRC, the members of the KSH Group in the PRC participated in the Schemes organised by the PRC municipal government authorities whereby the KSH 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 KSH Group has no other material obligation for the payment of pension benefits associated with the Schemes beyond the annual contributions described above.

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Exchange Risk

The KSH Group conducts its business primarily in RMB. As at 30 June 2014, all of the KSH Group's assets and debts were denominated in RMB. Other than the RMB denominated bank deposits, the KSH Group has no material exposure directly due to foreign exchange fluctuations. Fluctuations in the exchange rate of RMB will not have material and unfavourable impacts on the operations of the KSH Group.

Future Plans for Material Investments and Acquisition of Capital Assets

There was no specific plan for material investments and acquisition of material capital assets as at 30 June 2014. The KSH Group would currently further optimizes both Kai Shi Jia Nian and Kai Shi Xi Jun projects.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE REMAINING GROUP

The Remaining Group will be principally engaged in Doors and Windows Business and Construction and Engineering Business.

Set out below is the management discussion and analysis on the Remaining Group for the three years ended 31 December 2013 and the six months ended 30 June 2014.

For the year ended 31 December 2011

Operating Results

Doors and Windows Business

The revenue generated from the doors and windows processing business of the Remaining Group increases by 21.1% to approximately RMB29.8 million in 2011 from approximately RMB24.6 million in 2010 due to more contracts obtained.

Construction and Engineering Business

KS Engineering was just set up in the second half year of 2010, no revenue occurred in 2011.

Liquidity and Financial Resources

Individual operating entities within the Remaining 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 Board when the borrowings exceed certain predetermined levels of authority. The Remaining 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.

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The Remaining Group did not use any financial instruments for hedging purposes during the year ended 31 December 2011.

As at 31 December 2011, the Remaining Group's bank balances and cash amounted to approximately RMB2.0 million.

Borrowings and Pledge of Assets

As at 31 December 2011, the Remaining Group had no borrowings from the bank and had no charges on the assets. The gearing ratio as at 31 December 2011 was zero.

Lease Commitment and Contingent Liabilities

As at 31 December 2011, the Remaining Group had approximately RMB0.3 million as operating lease commitments. As at 31 December 2011, the Remaining Group did not have any significant contingent liabilities.

Significant Investment, Material Acquisition and Disposals

The Remaining Group did not have any significant investments, material acquisition or disposals during the year ended 31 December 2011.

Staff and Remuneration Policy

As at 31 December 2011, the Remaining Group utilized a total of 96 employees. Staff cost for the year ended 31 December 2011 was approximately RMB4.5 million. In order to attract and retain high quality employees to ensure smooth operation and cater for the Remaining Group's constant expansion, the Remaining Group offer competitive remuneration packages, with reference to market conditions and individual qualifications and experience. Pursuant to the relevant labour rules and regulations in the PRC, the members of Remaining Group in the PRC participate in the Schemes organised by the PRC municipal government authorities whereby the Remaining 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 Remaining Group has no other material obligation for the payment of pension benefits associated with the Schemes beyond the annual contributions described above.

Exchange Risk

The Remaining Group conducts its business primarily in RMB. As at 31 December 2011, all of the Remaining Group's assets and debts were denominated in RMB. Other than the RMB denominated bank deposits, the Remaining Group has no material exposure directly due to foreign exchange fluctuations. Fluctuations in the exchange rate of RMB will not have material and unfavourable impacts on the operations of the Remaining Group.

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Future Plans for Material Investments and Acquisition of Capital Assets

There was no specific plan for material investments and acquisition of material capital assets as at 31 December 2011.

For the year ended 31 December 2012

Operating Results

Doors and Windows Business

The revenue generated from the doors and windows processing business of the Remaining Group for the year ended 31 December 2012 decreased by 24.8% to approximately RMB22.4 million in 2012 from approximately RMB29.8 million in 2011. The decrease was primarily due to: (i) the unrecognised revenues from certain uncompleted large-scale doors and windows processing contracts undertaken during the year of 2012, such as Tian Jin Polar Ocean World Project (天津極地海洋館世界項目), Tian Jin Tian Bao Bei Tang Headquarter Doors and Windows Project (天津天寶北塘總部基地門窗幕牆工程) with total contract amount of approximately RMB16.2 million, which is expected to be completed until the first half year of 2013; (ii) Lion Tianjin has relatively lowered its product price to some valued and well-known customers such as property companies with good reputation and on time payment history as a result to maintain its competitiveness among the intensified market competition in doors and windows processing business in 2012.

Construction and Engineering Business

The revenue generated from provision of construction and engineering services amounted to approximately RMB3.3 million in 2012 comparing with nil in 2011. KS Engineering obtained its professional certificate for Earthwork Engineering (土石方工程專業資質) and commenced its operation in the second half of 2012, accordingly the revenue was recognized in 2012.

Liquidity and Financial Resources

Individual operating entities within the Remaining 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 Board when the borrowings exceed certain predetermined levels of authority. The Remaining 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.

The Remaining Group did not use any financial instruments for hedging purposes during the year ended 31 December 2012.

As at 31 December 2012, the Remaining Group's bank balances and cash amounted to approximately RMB18.0 million.

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Borrowings and Pledge of Assets

As at 31 December 2012, the Remaining Group had no borrowings from the bank and had no charges on the assets. The gearing ratio as at 31 December 2012 was zero.

Lease Commitment and Contingent Liabilities

As at 31 December 2012, the Remaining Group had approximately RMB1.72 million as operating lease commitments. As at 31 December 2012, the Remaining Group did not have any significant contingent liabilities.

Significant Investment, Material Acquisition and Disposals

The Remaining Group did not have any significant investments, material acquisition or disposals during the year ended 31 December 2012.

Staff and Remuneration Policy

As at 31 December 2012, the Remaining Group utilized over 90 employees. Staff cost for the year ended 31 December 2012 was approximately RMB7.5 million. In order to attract and retain high quality employees to ensure smooth operation and cater for the Remaining Group's constant expansion, the Remaining Group offer competitive remuneration packages, with reference to market conditions and individual qualifications and experience. Pursuant to the relevant labour rules and regulations in the PRC, the members of the Remaining Group in the PRC participated in the Schemes organised by the PRC municipal government authorities whereby the Remaining 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 Remaining Group has no other material obligation for the payment of pension benefits associated with the Schemes beyond the annual contributions described above.

Exchange Risk

The Remained Group conducts its business primarily in RMB. As at 31 December 2012, all of the Remaining Group's assets and debts were denominated in RMB. Other than the RMB denominated bank deposits, the Remaining Group has no material exposure directly due to foreign exchange fluctuations. Fluctuations in the exchange rate of RMB will not have material and unfavourable impacts on the operations of the Remaining Group.

Future Plans for Material Investments and Acquisition of Capital Assets

There was no specific plan for material investments and acquisition of material capital assets as at 31 December 2012.

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For the year ended 31 December 2013

Operating Results

Doors and Windows Business

The revenue generated from the doors and windows processing business of the Remaining Group increased by approximately 30.4% to approximately RMB29.2 million for the year ended 31 December 2013 from approximately RMB22.4 million as compared to the corresponding period in 2012. The increase was primary due to more sales contracts were obtained in 2013 than 2012.

Construction and Engineering Business

The revenue generated from provision of construction and engineering services greatly increased to approximately RMB31.9 million for 2013 from the corresponding period in 2012. KS Engineering commenced its operation in late 2012. As a series of auxiliary projects in Beihai were under construction, KS Engineering acquired new contracts and developed its business rapidly in 2013.

The revenue of KS 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).

Liquidity and Financial Resources

Individual operating entities within the Remaining 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 Board when the borrowings exceed certain predetermined levels of authority. The Remaining 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.

As at 31 December 2013, the Remaining Group's bank balances and cash amounted to approximately RMB36.4 million.

Borrowings and Pledge of Assets

Bank loans of the Remaining 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. Among these, the loans due in August 2014 and October 2014 have been repaid in due date. The above bank loans were secured by the KSH Group's pledged deposit of RMB25.0 million, investment properties with aggregate value of RMB21.6 million, buildings with aggregate carrying value of RMB2.3

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million and the properties owned by a related party controlled by the controlling Shareholder. The gearing ratio (defined as total bank borrowings divided by the aggregate of the total equity of the Company and the Remaining Group Entities) as at 31 December 2013 was 1.5.

During the year ended 31 December 2013, the Remaining Group entered into an interest rate swap contract with a bank to hedge against its interest rate exposure arising from the variable rate borrowing of the Remaining Group. As at 31 December 2013, the fair value of such interest rate swap contract was immaterial and the amount was not recognised in the financial statements of the Remaining Group.

Lease Commitment and Contingent Liabilities

As at 31 December 2013, the Remaining Group had approximately RMB1.0 million as operating lease commitments. As at 31 December 2013, the Remaining Group did not have any significant contingent liabilities.

Significant Investment, Material Acquisition and Disposals

The Remaining Group did not have any significant investments, material acquisition or disposals during the year ended 31 December 2013.

Staff and Remuneration Policy

As at 31 December 2013, the Remaining Group utilized a total of 98 employees. Staff cost for the year ended 31 December 2013 was approximately RMB6.1 million. In order to attract and retain high quality employees to ensure smooth operation and cater for the Remaining Group's constant expansion, the Remaining Group offer competitive remuneration packages, with reference to market conditions and individual qualifications and experience. Pursuant to the relevant labour rules and regulations in the PRC, the members of the Remaining Group in the PRC participate in the Schemes organised by the PRC municipal government authorities whereby the Remaining 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 Remaining Group has no other material obligation for the payment of pension benefits associated with the Schemes beyond the annual contributions described above.

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Exchange Risk

As the Remaining Group's principal activities are carried out in the PRC, the Remaining 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 Remaining 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 Remaining Group's operation is minimal.

Future Plans for Material Investments and Acquisition of Capital Assets

There was no specific plan for material investments and acquisition of material capital assets as at 31 December 2013.

For the six months ended 30 June 2014

Operating Results

Doors and Windows Business

The revenue generated from the sales of doors and windows processing business of the Remaining Group increased by approximately 81.9% to approximately RMB21.1 million for the six months ended 30 June 2014 from approximately RMB11.6 million for the corresponding period in 2013. The increase was mainly because sizable project contracts obtained in late 2013, such as "Polar City phase IV" (「太陽城四期」) and "Chun Ze Yuan phase I" (「春澤苑一期」), which were completed in the period. Accordingly, relevant revenue recognised increased in the first half of 2014.

Construction and Engineering Business

The revenue generated from provision of construction and engineering services decreased by 36.5% to approximately RMB12.5 million for the six months ended 30 June 2014 from approximately RMB19.7 million in the corresponding period of 2013. Except the earthwork engineering qualification obtained in the previous year, the Remaining Group acquired the other 4 construction qualifications in 2014. Accordingly, the Remaining Group was able to perform more varieties of construction work under the qualification scope such as the road construction work. The Remaining Group focused on the new business development in the first half of 2014. As it is the first time to involve such new business, the sales achieved and contract obtained during the six months ended 30 June 2014 decreased to a certain extent as compared to the corresponding period in 2013. Meanwhile, the Remaining Group expected to expand the sales with the new business development in the future.

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Liquidity and Financial Resources

Individual operating entities within the Remaining 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 Board when the borrowings exceed certain predetermined levels of authority. The Remaining 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.

As at 30 June 2014, the Remaining Group's bank balances and cash amounted to approximately RMB11.8 million.

Borrowings and Pledge of Assets

Bank loans of the Remaining Group as at 30 June 2014 were approximately RMB119.1 million, of which approximately RMB40.0 million will be due in May 2015, approximately RMB40.0 million will be due in August 2014, approximately RMB15.0 million will be due in October 2014 and approximately RMB24.1 million will be due in November 2014. Among these, the loans due in August 2014 and October 2014 have been repaid in due date. The above bank loans were secured by the KSH Group's pledged deposit of RMB25.0 million, buildings with aggregate carrying value of RMB2.2 million and investment properties with aggregate value of RMB20.1 million and the properties owned by a related party controlled by the Controlling Shareholder. The gearing ratio (defined as total bank borrowings divided by the aggregate of the total equity of the Company and the Remaining Group Entities) as at 30 June 2014 was 1.4.

During the six months ended 30 June 2014, the Remaining Group entered into an interest rate swap contract with a bank to hedge against its interest rate exposure arising from the variable rate borrowing of the Remaining Group. As at 30 June 2014, the fair value of such interest rate swap contract was immaterial and the amount was not recognized in the financial statements of the Remaining Group.

Lease Commitment and Contingent Liabilities

As at 30 June 2014, the Remaining Group had approximately RMB0.70 million as operating lease commitments. As at 30 June 2014, the Remaining Group did not have any significant contingent liabilities.

Significant Investment, Material Acquisition and Disposals

The Remaining Group did not have any significant investments, material acquisition or disposals for the six months ended 30 June 2014.

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Staff and Remuneration Policy

As at 30 June 2014, the Remaining Group utilized a total of 100 employees. Staff cost for the six months ended 30 June 2014 was approximately RMB3.3 million. In order to attract and retain high quality employees to ensure smooth operation and cater for the Remaining Group's constant expansion, the Remaining Group offer competitive remuneration packages, with reference to market conditions and individual qualifications and experience. Pursuant to the relevant labour rules and regulations in the PRC, the members of the Remaining Group in the PRC participated in the Schemes organised by the PRC municipal government authorities whereby the Remaining 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 Remaining Group has no other material obligation for the payment of pension benefits associated with the Schemes beyond the annual contributions described above.

Exchange Risk

As the Remaining Group's principal activities are carried out in the PRC, the Remaining 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 Remaining Group currently does not have a policy on foreign currency risk as it had minimal transactions denominated in foreign currencies for the six months ended 30 June 2014 and the impact of foreign currency risk on the Remaining Group's operation is minimal.

Future Plans for Material Investments and Acquisition of Capital Assets

There was no specific plan for material investments and acquisition of material capital assets as at 30 June 2014.

FINANCIAL EFFECTS OF THE ASSET REORGANISATION AND THE DISTRIBUTION IN SPECIE

Set out in Appendix IV to this circular is the unaudited pro forma financial information of the Remaining Group which illustrates the financial impact of the Asset Reorganisation and the Distribution In Specie on the results and cash flows of the Remaining Group for the six months ended 30 June 2014 as if the Asset Reorganisation and the Distribution In Specie had taken place on 1 January 2014 and the financial impact of the Asset Reorganisation and the Distribution In Specie on the financial position of the Remaining Group as at 30 June 2014 as if the Asset Reorganisation and the Distribution In Specie had taken place on 30 June 2014. Upon completion of the Distribution In Specie, the KSH Group will cease to be the Company's subsidiaries and its financial results will not be consolidated into the Company's financial results. According to the unaudited pro forma financial information of the Remaining Group as set out in Appendix IV to

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this circular, assuming the Asset Reorganisation and the Distribution In Specie had taken place on 30 June 2014, the pro forma total assets of the Remaining Group as at 30 June 2014 would be approximately RMB146.8 million (equivalent to approximately HK\$185.0 million), which represented a decrease of approximately RMB736.4 million (equivalent to approximately HK\$927.9 million) from the Group's total assets as at 30 June 2014. On the other hand, the pro forma total liabilities of the Remaining Group as at 30 June 2014 would be approximately RMB93.3 million (equivalent to approximately HK\$117.6 million), which represented a decrease of approximately RMB492.6 million (equivalent to approximately HK\$620.7 million) from the Remaining Group's total liabilities as at 30 June 2014. In addition, the pro forma net assets of the Remaining Group as at 30 June 2014 would be approximately RMB53.5 million (equivalent to approximately HK\$67.4 million), which represented a decrease of approximately RMB243.8 million (equivalent to approximately HK\$307.2 million) from the Group's net assets as at 30 June 2014.

According to the unaudited pro forma financial information of the Remaining Group as set out in Appendix IV to this circular, assuming the Asset Reorganisation and the Distribution In Specie had taken place on 1 January 2014, the Remaining Group would record a pro forma profit of approximately RMB6.0 million (equivalent to approximately HK\$7.6 million) for the six months ended 30 June 2014.

The Group did not recognise any gain or loss from the Assets Reorganisation and Distribution In Specie in its income statements for the three years ended 31 December 2011, 2012 and 2013 and the six months period ended 30 June 2014 because the Asset Reorganisation and Distribution In Specie have not been completed as of 30 June 2014. Further, even if the Asset Reorganisation and Distribution In Specie have been completed as of 30 June 2014, Distribution In Specie to be effected by the Company is an equity transaction in nature, and therefore will not result in any gain or loss to be recognised in the income statement of the Group.

INFORMATION ON THE REMAINING GROUP

Upon completion of the Asset Reorganisation and the Distribution In Specie, the business model of the Remaining Group will remain unchanged. The Remaining Group will still be principally engaged in the Doors and Windows Business and the Construction and Engineering Business.

Doors and Windows Business

The business of manufacture, processing and sale of doors and windows in the PRC of the Remaining Group has been carried out by Lion Tianjin. Lion Tianjin is a Taiwan, Hong Kong and Macao owned enterprise and was established in the PRC in 2004. Lion Tianjin possesses "Construction Enterprise Qualification Certificate — Metal Doors and Windows Engineering Projects (First Class)" (門窗工程專業承包一級資質) and "Construction Enterprise Qualification Certificate — Curtain Wall (Third Class)" (幕牆三級資質) qualifications. The registered capital of Lion Tianjin is USD2.88 million. There are more than 80 employees working for the Doors and Windows Business and Lion Tianjin has its own design team.

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The products of doors and windows of Lion Tianjin are for domestic sales and are tailor-made in terms of size and materials (plastic-covered steel and aluminium-alloy) for the customers of Lion Tianjin. Lion Tianjin has more than 50 customers. Most of the customers are independent real estate developers and construction companies in the PRC. Amongst these customers, some of them, such as a listed company in Hong Kong, have entered into strategic partnership agreement with Lion Tianjin where these customers have agreed to engage Lion Tianjin to provide the relevant products to them on a long term basis. Meanwhile, although some other customers, such as some large property developers and conglomerates state-owned enterprises, did not enter into strategic partnership agreement with Lion Tianjin, these customers have procured doors and windows from Lion Tianjin on a recurring basis whereas other customers may be one-off customers due to the fact that they may only have one property project on hand. The principal products of Lion Tianjin are energy-saving aluminium alloy doors and windows, uPVC doors and windows and curtain wall whilst the principal raw materials required for the production of doors and windows are glasses, aluminium alloy and plastic steel.

Since 2007 and at present, the manufacture and processing of doors and windows products have been carried out at the sub-leased premises (with a gross floor area (“GFA”) of approximately 5,453 sq.m.) which has been leased by the controlling Shareholder from independent third parties. The annual production capacity of Lion Tianjin is around 120,000 sq.m.. In June 2013, Lion Tianjin has completed the acquisition of a parcel of land with a site area of approximately 21,810 sq.m. at Airport Economic Zone in Tianjin (天津空港經濟區) and an existing plant erected thereon (with a GFA of approximately 3,704 sq.m.). The Directors expect that the ownership certificate of such plant can be obtained by the end of December 2014.

Lion Tianjin is managed by a management team comprising 11 members and is led by Mr. Li Yong, (its general manager), who is responsible for the daily operation management of Lion Tianjin. His detailed biography is set out in the next paragraph. Other members of the management team include the vice general manager and heads of various departments such as engineering, production, technical, sales, procurement, warehousing and quality control. Most of the department heads are equipped with tertiary education qualifications.

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 assistant 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 Tianjin Gangwan Property Management Company Limited (Datian branch) 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 Construction Engineering Company Limited (天津市大天建築工程有限公司), which was once the connected person of the Company prior to the disposal of the equity interest therein by Mr. Kai Xiaojiang (being an executive Director) and Ms. Hu Shichui

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(the spouse of Mr. Kai) to an independent third party on 4 May 2011 and Tianjin Datian Construction Engineering Company Limited (天津市大天建築工程有限公司) is currently an independent third party of the Company and its connected persons (as defined in the Listing Rules).

Construction and Engineering Business

The provision of construction and engineering services in the PRC of the Remaining Group has been carried out by KS Engineering. KS Engineering is a company established in the PRC in 2010 and the registered capital of KS Engineering is RMB6 million. KS Engineering has obtained the Earthwork Engineering Qualification (土石方工程專業資質), 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 the qualification as professional contractor of construction waterproofing (建築防水工程專業承包資質). KS Engineering has more than 30 employees and has regularly employed temporary workers from time to time to complete the works pursuant to the requirements of various projects. KS Engineering has three kinds of independent customers which are local government infrastructure projects, real estate developers and construction companies and troops in the PRC. KS Engineering generated around 59% and 68% of the respective turnover for the year ended 31 December 2013 and the six months ended 30 June 2014 from local government infrastructure projects in Dalian Lvshunkou. These projects include earthwork excavation, site handling, site preparation, municipal road construction, river course remold, bridge construction, plumbing and drainage construction and enclosure construction. The remaining portion of the turnover was generated from projects of real estate developers and construction companies and troops in the PRC and these projects are mainly earthwork and site preparation projects. KS Engineering has around 10 suppliers and all of them are independent third parties to the Company and its connected persons (as defined in the Listing Rules). KS Engineering has leased a premises from an independent third party of the Company and its connected persons (as defined in the Listing Rules) with a GFA of approximately 668 sq.m..

KS Engineering is managed by a management team comprising 9 members and is led jointly by Mr. Meng Jianjun, the general manager of KS Engineering, who will be responsible for supervising and monitoring the daily operations of KS Engineering, and the vice general manager. His detailed biography is set out in the next paragraph. Other members of the management team include the vice general manager and heads of various departments such as project management, operation, safety and technical, earthwork engineering and finance.

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 Property Company Limited 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

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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 KS Engineering.

INDUSTRY OVERVIEW

The doors and windows industry in the PRC is a sub-industry under the real estate industry in the PRC. Alongside with the ever-growing real estate market and the increasing demand for energy saving for construction, the doors and windows industry is developing into multiple directions in terms of materials used (such as aluminium alloy, uPVC and glass fiber reinforced plastic). At the same time, the relevant State government authorities of the PRC has implemented various policies in relation to energy saving from time to time and different municipal governments has established various design standards accordingly. Under this environment, the doors and windows industry in the PRC has expedited its cycle of technology development, product upgrade and quality upgrade and offered numerous new energy saving products and the industry experienced unprecedented development.

In recent years, the PRC government has accelerated the urbanisation process. In particular, the PRC government has promulgated the “National New-type Urbanization Plan (2014 to 2020)” in March 2014 which set out the guidelines on the strategic planning on promoting the healthy development of urbanization in the PRC. Urbanisation would require construction of public ancillary infrastructures, improvement in living standards of the relevant residents and the development of the related industry. Construction of infrastructures would include earthwork excavation, site handling, site preparation, municipal road construction, river course remold, bridge construction, plumbing and drainage construction and enclosure construction.

RISK FACTORS RELATING TO THE REMAINING BUSINESSES

The Remaining Group depends heavily on the performance of the property market in the PRC, particularly in Tianjin and Dalian Lvshunkou

The Remaining Businesses of the Remaining Group are the Doors and Windows Business and the Construction and Engineering Business. The customers of the Remaining Businesses are primarily property developers, construction companies and local government in Tianjin and Dalian Lvshunkou. Although the Remaining Group may shift its business to other regions of the PRC, the Remaining Group did not have any concrete plans in mind as at the Latest Practicable Date. Therefore, the business and prospects of the Remaining Group are highly dependent on the performance of the property markets in Tianjin and Dalian Lvshunkou, which may be affected by many factors including but not limited to the overall economic condition and policies implemented by the PRC Government. Any material adverse changes in the performance of the property markets in Tianjin and Dalian Lvshunkou are likely to adversely affect the business, results of operations and financial conditions of the Remaining Group.

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The Remaining Group is subject to legal and business risks if the Remaining Group fails to obtain or renew the relevant qualification certificates

In order to engage in the Remaining Businesses, the relevant operating companies are required to obtain a valid qualification certificate and renew it regularly unless the rules and regulations allow a longer renewal period. For instance, Lion Tianjin possesses “Construction Enterprise Qualification Certificate — Metal Doors and Windows Engineering Projects (First Class)” (門窗工程專業承包一級資質) and “Construction Enterprise Qualification Certificate — Curtain Wall (Third Class)” (幕牆三級資質) qualifications whereas KS Engineering has obtained the Earthwork Engineering Qualification (土石方工程專業資質), 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 the qualification as professional contractor of construction waterproofing (建築防水工程專業承包資質). There is no assurance that the qualification certificates of all of the existing operating companies of the Remaining Group will continue to be renewed or that formal qualification certificates for new project companies will be obtained in a timely manner, or at all. Thus, if the relevant operating companies of the Remaining Group fail to maintain or renew the relevant qualification certificates, the business, results of operations and financial conditions of the Remaining Group could be materially and adversely affected.

The business operation of the Remaining Group is affected by seasonality

The Construction and Engineering Business and the Doors and Windows Business are based in Dalian Lvshunkou and Tianjin, respectively, where both locations are in the north-eastern parts of the PRC. The cold and severe weather at times may prevent the construction of the projects undertaken and the assembling work of the doors and window products of Lion Tianjin from taking place during winter, and therefore most of the Remaining Group’s construction and assembling works are suspended during winter for approximately two months and are resumed afterwards. The financial results and operation of the Remaining Group are therefore subject to such seasonality factors, and such seasonal patterns will continue to exist. In addition, should the cold and severe weather prolong for more than two months, the operation of the Remaining Group will be interrupted for a longer period than expected, as a result of which the operations and financial results of the Remaining Group may be adversely affected.

Changes in PRC’s political, economic and government policies

The Remaining Group will conduct business in the PRC with all of its assets currently situated in the PRC and its revenue being generated from products manufactured and sold and/or services provided in the PRC. Accordingly, its business and financial conditions are subject to political, economic and government policies development in the PRC to a significant degree. With the implementation of the “Open and Reform” policy, the PRC has gradually shifted from a planned economy towards a market-oriented economy. However, the continued governmental control of the

LETTER FROM THE BOARD

economy may adversely affect the business of the Remaining Group and changes in policies and measures of PRC government to regulate the economy may also have a negative effect on the business of the Remaining Group.

The senior management of the Remaining Group may change

The Remaining Group's business is and will continue to be, to a significant extent, attributable to the experience of its senior management. In particular, the business of the Remaining Group is dependent on key personnel with extensive knowledge and experience in the doors and windows manufacturing industry and the construction industry. If the Remaining Group loses the services of any key personnel and is not able to recruit suitable replacement in a timely manner, the management and development of the Remaining Group's business may be adversely affected.

FINANCIAL AND TRADING PROSPECT OF THE REMAINING BUSINESSES

The Remaining Group is expected to continue to conduct the Remaining Businesses, i.e. the Doors and Windows Business and the Construction and Engineering Business. The Directors expect that Lion Tianjin can leverage on its existing customers base, its good business relationship with its customers and the relevant qualifications obtained to continue to develop and grow further. Besides, to the best knowledge of the Directors, there are only 7 contractors in Tianjin which are mainly engaged in the manufacturing of doors and windows and have obtained "Construction Enterprise Qualification Certificate — Metal Doors and Windows Engineering Projects (First Class)" (門窗工程專業承包一級資質) whereas Lion Tianjin has obtained "Construction Enterprise Qualification Certificate — Metal Doors and Windows Engineering Projects (First Class)" (門窗工程專業承包一級資質) and "Construction Enterprise Qualification Certificate — Curtain Wall (Third Class)" (幕牆三級資質) qualification and received various awards. Accordingly, the Directors consider that Lion Tianjin may have competitive advantages over its competitors.

On the other hand, in view of the fact that (i) KS Engineering has a successful track record with the local government in Dalian Lvshunkou; (ii) KS Engineering has obtained various qualifications such as the Earthwork Engineering Qualification (土石方工程專業資質), 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 the qualification as professional contractor of construction waterproofing (建築防水工程專業承包資質); and (iii) the policies of the PRC government in relation to urbanisation and upgrade of town and county which require implementation of various infrastructure projects, the Directors intend to participate in more government tenders in future in order to enhance the financial position and profitability of the Remaining Group.

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Moreover, as disclosed in the Joint Announcement, Longevity intends to continue the operation of the Remaining Businesses with the financial and technical support from Mr. Wei and his controlled companies in particular, Longjitaihe. Leveraged on the background, experiences, resources and network of Mr. Wei and Longjitaihe (its three core businesses such as property development), Longevity is confident that the Remaining Group will be able to identify more business opportunities to further develop its businesses and expand its income base. Longjitaihe was founded by Mr. Wei in 2002, and was awarded “2013 China Top 500 Enterprises” (ranked 216th), “2014 China Top 100 Real Estate Enterprises” (ranked 48th), “2013 Chinese Real Estate Sales in Billion Enterprises List” (ranked 43rd, sales of 2013 reached RMB17 billion), and China Outstanding Commercial Real Estate Enterprise. Longjitaihe has a National Grade 1 Qualification in Real Estate Development. Its real estate projects are mainly located in various regions within Capital Economic Circle in Beijing, Tianjin and Hebei Province showing Longjitaihe as the leading real estate developer within the above-mentioned regions. Up to now, Longjitaihe has developed more than 70 projects with a total development area of over 15 million square meters.

Furthermore, alongside with the strategic development of the Capital Economic Circle in Beijing, Tianjin and Hebei Province, it is expected that the PRC government will implement various policies to promote the integration of relevant infrastructure and transportation systems within the Capital Economic Circle which is expected to bring business opportunities to the Remaining Group. Besides, in view that the projects of Mr. Wei and Longjitaihe are mainly located in various regions within Capital Economic Circle in Beijing, Tianjin and Hebei Province, it is also expected that the Remaining Group will be able to identify more business opportunities by leveraging on the background, experiences, resources and network of Mr. Wei and Longjitaihe within the Capital Economic Circle.

Your attention is also drawn to the paragraph headed “Intention of Longevity regarding the Remaining Group” as set out in Appendix I to this circular.

INTENTION OF LONGEVITY REGARDING THE REMAINING GROUP

Following the Share Sale Completion, Longevity intends to continue to operate the Remaining Businesses with the financial and technical support from Mr. Wei and his controlled companies, in particular, Longjitaihe. Leveraged on the background, experiences, resources and network of Mr. Wei and Longjitaihe (the three core businesses such as property development as mentioned above), Longevity is confident that the Remaining Group will be able to identify more business opportunities and potential to further develop its businesses and expand its income base. As at the Latest Practicable Date, Longevity had no plan and had not engaged in any discussion or negotiation on any injection of any assets or businesses into the Remaining Group and it would conduct a detailed review of the operations of the Remaining Group with a view to establishing a suitable business strategy to enhance the growth of its business and asset base as well as to broaden its income stream.

LETTER FROM THE BOARD

EGM

Notice of the EGM to be held at Office E, 10th Floor, China Overseas Building, No. 139 Hennessy Road, Wan Chai, Hong Kong on Friday, 16 January 2015 at 10:00 a.m. is set out on pages EGM-1 to EGM-2 of this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting at the EGM or any adjournment thereof if you so wish.

The EGM will be held for the purpose of considering and, if thought fit, approving the resolution(s) in respect of the Distribution In Specie and the transactions contemplated thereunder by the Independent Shareholders by way of poll at the EGM. The Vendors, Longevity, their respective associates and parties acting in concert with any of them will abstain from voting on the relevant resolution(s) at the EGM.

As at the Latest Practicable Date, (i) the Vendors, their respective associates and parties acting in concert with any of them (including the spouse and son of Mr. Kai) held 450,900,000 Shares, representing approximately 74.90% of the existing issued Shares; and (ii) Longevity, its associates and parties acting in concert with any of them did not own any Shares.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising all the independent non-executive Directors has been formed in order to make a recommendation to the Independent Shareholders regarding the Distribution In Specie and the transactions contemplated thereunder.

Quam Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Distribution In Specie and the respective transactions contemplated thereunder.

RECOMMENDATION

The Board believes that the terms of the Distribution In Specie are fair and reasonable and the Distribution In Specie is in the interests of the Company and the Shareholders as a whole and recommends the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Distribution In Specie.

LETTER FROM THE BOARD

In addition, your attention is drawn to the letter from the Independent Board Committee set out on page 50 of this circular which contains its recommendation to the Independent Shareholders in respect of the Distribution In Specie, based on the letter of advice from Quam Capital Limited set out on pages 51 to 73 of this circular which contains their recommendation to the Independent Board Committee and the Independent Shareholders and the principal factors and reasons taken into consideration.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the Appendices to this circular.

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



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)

24 December 2014

To the Independent Shareholders

Dear Sir or Madam,

**DISTRIBUTION IN SPECIE OF THE SHARES IN
KAI SHI HOLDINGS COMPANY LIMITED**

We refer to the letter from the Board set out on pages 10 to 49 of the circular dated 24 December 2014 (the “Circular”) of which this letter forms part. Capitalised terms used herein shall have the same meanings as those defined in the Circular unless the context otherwise requires.

We have been appointed by the Board to consider and to advise the Independent Shareholders as to whether the terms of the Distribution In Specie are fair and reasonable so far as the Company and the Shareholders are concerned and to recommend whether or not the Independent Shareholders should approve the Distribution In Specie.

We wish to draw your attention to the letter of advice from Quam Capital Limited, being the Independent Financial Adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the terms of the Distribution In Specie as set out on pages 51 to 73 of the Circular, and the letter from the Board set out on pages 10 to 49 of the Circular.

Having considered, among other matters, the factors and reasons considered by, and the opinion of the Independent Financial Adviser as stated in its letter of advice, we consider that the terms of the Distribution In Specie are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Distribution In Specie.

Yours faithfully,

For and on behalf of

Independent Board Committee

Ms. Yang Jing

Mr. Li Fook Wing

Ms. Sun Huijun

Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of a letter of advice from Quam Capital, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of incorporation into the Circular, setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the Distribution In Specie and the respective transactions contemplated thereunder.



Quam Capital Limited

A Member of The Quam Group

24 December 2014

*To the Independent Board Committee and
the Independent Shareholders*

Dear Sir or Madam,

ASSET REORGANISATION AND DISTRIBUTION IN SPECIE OF THE SHARES IN KAI SHI HOLDINGS COMPANY LIMITED

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee in respect of the Distribution In Specie and the respective transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 24 December 2014 (the “**Circular**”), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as defined in the Circular.

The Independent Board Committee comprising all independent non-executive Directors, namely Ms. Yang Jing, Mr. Li Fook Wing and Ms. Sun Huijun, has been formed to advise the Independent Shareholders in respect of the Distribution In Specie and the respective transactions contemplated thereunder, in particular as to whether the Distribution In Specie and the respective transactions contemplated thereunder are fair and reasonable and as to the acceptance of the Distribution In Specie and the respective transactions contemplated thereunder. As the independent financial adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders in such regard. Our appointment has been approved by the Independent Board Committee.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Quam Capital is not associated or connected with the Company, the Vendors or Longevity, or any of their respective substantial shareholders, directors or chief executives, or any of their respective associates, or any party acting, or presumed to be acting in concert with any of them and accordingly, we are considered eligible to give independent advice to the Independent Board Committee and Independent Shareholders in respect of the Distribution In Specie and the respective transactions contemplated thereunder. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Vendors or Longevity, or any of their respective substantial shareholders, directors or chief executives, or any of their respective associates, or any party acting, or presumed to be acting, in concert with any of them.

BASIS OF OUR OPINION

In formulating our recommendation, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information and facts supplied by the Company and its advisers; (iii) the opinions expressed by and the representations of the Directors and management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects at the time they were made and as at the Latest Practicable Date and may be relied upon. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations regarding the Group, the Vendor and Longevity provided to us by the Company, the Directors and the management of the Group, the Vendor and Longevity are true, accurate, complete and not misleading in all respects at the time they were made and as at the Latest Practicable Date. We have assumed that such information and statements, and any representation made to us, are true, accurate and complete in all material respects as of the date hereof and the Shareholders will be notified of any material changes as soon as possible.

We consider that we have reviewed the relevant information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have neither carried out any independent verification of the information, nor conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Company, the Vendor or Longevity or any of their respective subsidiaries or associates.

We have not considered the tax implications on the Independent Shareholders since these are particular to their individual circumstances. In particular, Independent Shareholders who are resident overseas or subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our recommendation to the Independent Board Committee and the Independent Shareholders regarding the Distribution In Specie, we have taken into consideration the principal factors and reasons set out below:

1. Principal terms of the Asset Reorganisation, Distribution In Specie, the Listco Offer, the Option Offer and the KSH Offer

Set out below are the principal terms of the Asset Reorganisation, Distribution In Specie, the Listco Offer, the Option Offer and the KSH Offer as extracted from the Circular. Further details of the terms of the Asset Reorganisation, Distribution In Specie, the Listco Offer, the Option Offer and the KSH Offer, including conditions precedent thereof, are set out in the Appendix I to this Circular.

(a) *Asset Reorganisation*

Pursuant to the Asset Reorganisation:

- (i) after completion of a series of acquisitions, KSH will directly or indirectly hold the entire interests of each member of the KSH Group (apart from KSH itself) and the Distributed Businesses will be carried out by the KSH Group;
- (ii) after completion of a series of acquisitions, the Remaining Holdco will directly or indirectly hold the entire equity interests of each member of the Remaining Group (apart from the Company and the Remaining Holdco itself), and the Remaining Businesses will be carried out by the Remaining Group;
- (iii) the operations of the Remaining Group and the KSH Group will be delineated by, among others, the KSH Group entering into employment contracts with those employees who will be transferred from the Remaining Group to the KSH Group and vice versa;
- (iv) subject to the Share Sale Completion, the release of all guarantees and security given by the KSH Group in favour of the Remaining Group and vice versa; and
- (v) the outstanding intra-group balances between the Remaining Group and the KSH Group will be settled upon or before the Share Sale Completion.

There is no condition precedent to the completion of the Asset Reorganisation.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(b) Distribution In Specie

Immediately upon or after the Share Sale Completion, the Company will distribute all of its KSH Shares in specie to the Shareholders (for the avoidance of doubt, include Yi Ming Jia Lin and other Shareholders whose names appear on the register of members of the Company on the Record Date (which is expected to be the third Business Day after the date of the EGM)) on the following basis:

For every Share held one KSH Share

The Company will announce the Record Date in accordance with Rule 13.66 of the Listing Rules as and when appropriate.

The Distribution In Specie will be effected by distribution from the distributable reserves of the Company and the amount to be distributed will be equivalent to the carrying value of the Company’s long term investment in KSH (assuming all the steps set out in the section headed “Asset Reorganisation” above have been completed) which will be ascertained immediately prior to the Share Sale Completion.

The KSH Shares when issued will rank *pari passu* in all respects with each other. No application will be made for the listing of, and permission to deal in, the KSH Shares on the Stock Exchange or any other stock exchange.

As a result of the Distribution In Specie, the KSH Group will cease to be subsidiaries of the Company, and the Remaining Group will carry on the Remaining Businesses, being the provision of construction and engineering services and manufacture, processing and sales of doors and windows.

The Distribution In Specie is conditional upon:

- (i) completion of the Asset Reorganisation;
- (ii) the passing of ordinary resolution at the EGM to approve the Distribution In Specie;
- (iii) the obtaining of approval from relevant regulatory authorities, including but not limited to the Stock Exchange and SFC; and
- (iv) the fulfilment or waiver (if applicable) of all the conditions precedent to the Share Sale Agreement.

None of the above conditions can be waived. Completion of the Distribution In Specie will not take place unless all the above conditions precedent of the Distribution In Specie have been fulfilled.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(c) *The Listco Offer and the Option Offer*

Upon the Share Sale Completion, Longevity will hold 450,900,000 Shares, representing approximately 74.90% of the entire issued share capital of the Company. Subject to the Share Sale Completion, CICCHKS will, on behalf of Longevity and pursuant to Rule 26.1 of the Takeovers Code, make the Listco Offers, which will be unconditional mandatory cash offers to acquire all the issued Shares (other than those already owned or agreed to be acquired by Longevity and parties acting in concert with it) and to cancel all outstanding Options on the following basis:

- for each Offer Share heldHK\$0.8568 in cash**
- for cancellation of each Option held.HK\$0.1368 in cash**

The making of the Listco Offers is subject to the Share Sale Completion which in turn is subject to a number of conditions precedent as referred to in the paragraph headed “Conditions precedent” in the section headed “Share Sale Agreement” in the Appendix I to this Circular and therefore is a possibility only and it may or may not proceed. Investors and Shareholders are urged to exercise caution when dealing in the Shares.

As at the Latest Practicable Date, there are 602,000,000 Shares in issue and, save for the 11,140,000 outstanding Options conferring the rights to the Option holders to subscribe for an aggregate of 11,140,000 new Shares at HK\$0.72 per Share, the Company has no outstanding securities, options, warrants or derivatives which are convertible into or which confer rights to require the issue of Shares and the Company has no other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) as at the Latest Practicable Date.

Out of the 11,140,000 outstanding Options, 3,280,000 Options are currently exercisable. Assuming all the 11,140,000 outstanding Options are exercised in full, the Company will have to issue 11,140,000 Shares, representing approximately 1.85% of the existing issued share capital of the Company as at the Latest Practicable Date. The Option Offer to cancel each Option will be calculated on a see-through basis pursuant to Rule 13.5 and Practice Note 6 of the Takeovers Code, so that each Option holder will be entitled to receive a price for his/her Options being the amount by which the consideration for the Share Offer exceeds the exercise price of his/her Options. In respect of the 11,140,000 Options convertible at an exercise price of HK\$0.72, the cancellation consideration will be HK\$0.1368 per Option. According to the Pre-IPO Option Scheme, all the 11,140,000 outstanding Options are immediately exercisable upon the Share Offer becoming or being declared unconditional.

As at the Latest Practicable Date, Mr. Kai and Ms. Hu Shicui are holding an aggregate of 5,700,000 Options conferring the right to subscribe for 5,700,000 Shares and Mr. Kai has irrevocably and unconditionally undertaken to Longevity under the Share Sale Agreement that Mr. Kai will, and he shall procure Ms. Hu Shicui, (i) not exercise any subscription rights attached to the Options held by him/her prior to the close of the Listco Offers; and (ii) not

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

accept the Option Offer. Save for the aforesaid, none of Longevity and parties acting in concert with it has received any indication or irrevocable commitment from any Shareholder that he/she/it will accept or reject the Listco Offers as at the Latest Practicable Date.

(d) *The KSH Offer*

As at the Latest Practicable Date, KSH had 602,000,000 shares in issue. Assuming there is no change in the issued share capital of the Company after the Latest Practicable Date and on the basis of every one Share held received one KSH Share, KSH will remain to have 602,000,000 KSH Shares in issue upon completion of the Distribution In Specie, which will be distributed to the KSH Shareholders whose names appear on the register of members of KSH on the Record Date. Assuming there is no change in number of Shares held by Yi Ming Jia Lin and parties acting in concert with it including Mr. Kai, Ms. Hu Shicui (the spouse of Mr. Kai) and Mr. Kai Xiaojiang (the son of Mr. Kai and a Director), they will be directly interested in a total of 450,900,000 KSH Shares, representing approximately 74.90% of the total share capital of KSH then in issue.

Each of Ms. Jiang Shuxia and Ms. Han Liping, being Directors, owns 300,000 Shares as at the Latest Practicable Date. As such, each of them will own 300,000 KSH Shares upon completion of the Distribution in Specie.

Given that the KSH Shares will not be listed on the Stock Exchange or any other stock exchange, it will be difficult, if not impossible, for holders of the KSH Shares to liquidate their holdings in the KSH Shares. Yi Ming Jia Lin intends to make the KSH Offer to provide the Independent KSH Shareholders with an opportunity to realise their holdings in the KSH Shares.

Terms of the KSH Offer

Subject to the completion of the Distribution In Specie, Kingston Securities will, on behalf of Yi Ming Jia Lin (a company wholly owned by Mr. Kai) to make the KSH Offer to the Independent KSH Shareholders in accordance with the requirements of the Takeovers Code on the following basis:

For each KSH Share held HK\$0.6800 in cash

The number of the KSH Shares to be in issue will be equal to the total number of the Shares in issue on the Record Date. According to the Pre-IPO Option Scheme, 11,140,000 outstanding Options are immediately exercisable upon the Share Offer becoming or being declared unconditional. However, as at the Latest Practicable Date, Mr. Kai and Ms. Hu Shicui are holding an aggregate of 5,700,000 Options conferring the right to subscribe for 5,700,000 Shares and Mr. Kai has irrevocably and unconditionally undertaken to Longevity under the Share Sale Agreement that Mr. Kai will, and he shall procure Ms. Hu Shicui to, (i) not exercise any subscription rights attached to the Options held by him/her prior to the close of the Listco Offers; and (ii) not accept the Option Offer. The Company will announce the Record Date in accordance with Rule 13.66 of the Listing Rules as and when appropriate.

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As the KSH Offer will only be made following completion of the Distribution In Specie, which is subject to a number of conditions precedent to the Distribution In Specie, the making of the KSH Offer may or may not proceed and, therefore is a possibility only. In the event that the KSH Offer is made, it will be an unconditional voluntary cash offer.

The KSH Shares subject to the KSH Offer will be acquired by Yi Ming Jia Lin fully paid and free from all liens, equities, charges and encumbrances and together with all rights now and hereafter attaching thereto, including the right to receive and retain all dividends and other distributions declared, made or paid hereafter.

2. Reasons for the Asset Reorganisation and Distribution In Specie

During the negotiations between the parties to the Share Sale Agreement, Longevity has no intention to operate the property development project located at Dalian, Liaoning Province As opposed to an outright disposal of the Distributed Businesses to the controlling Shareholder, the Distribution In Specie and the KSH Offer together provide an option for the KSH Independent Shareholders to keep or through the KSH Offer dispose of their investments in the Distributed Businesses. The KSH Offer provides a cash exit option to the Independent KSH Shareholders (at HK\$0.6800 per KSH Share) to realise all or part of their shareholdings in KSH, which are unlisted and may be illiquid, upon completion of the Distribution In Specie.

In addition, upon the Share Sale Completion, Longevity will become a controlling Shareholder and is obliged to make the Share Offer, which will be an unconditional mandatory cash offer to acquire all the issued Shares (other than those already owned or agreed to be acquired by Longevity and parties acting in concert with it), and the Option Offer for cancellation of all outstanding Options.

The Asset Reorganisation, which reorganises the Distributed Businesses under the KSH Group, is a crucial step for achieving the Distribution In Specie which in turn will lead to the KSH Offer. The Asset Reorganisation is also a condition precedent to the Share Sale Completion which in turn will ultimately lead to the Listco Offers. The Board therefore considers that the Asset Reorganisation is in the interests of the Shareholders as a whole.

The Listco Offers and the KSH Offer will provide a cash exit to the Independent Shareholders and the Independent KSH Shareholders who wish to realise all or part of their interests in the Company and KSH, respectively following the Share Sale Completion and the Distribution In Specie at a premium of approximately 5.26% over the closing price per Share of HK\$1.460 as quoted on the Stock Exchange on the Last Trading Day. As such, the Board considers that it is in the interests of the Independent Shareholders to provide them with an opportunity to consider and, if thought fit, approve the resolution(s) for the Distribution In Specie at the EGM.

For those Shareholders who wish to retain their investment in the Distributed Businesses after completion of the Distribution In Specie, they can choose not to accept KSH Offer and continue to hold the KSH Shares. However, they should aware that there will be no liquid market for the KSH Shares as there is no intention to list the KSH Shares on any stock exchange.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Given the aforesaid and having considered that the Share Sale Completion, the completion of Asset Reorganisation and the Distribution In Specie will provide a cash exit to the Shareholders to realise all or part of their interests in the Company and the KSH respectively through the Listco Offer and the KSH Offer at a Combined Offer Price (as defined below) which has a premium of approximately 147.07% over the unaudited consolidated net asset value attributable to owners of the Company of approximately HK\$0.622 per Share as at 30 June 2014 based on the interim report of the Company for the six months ended 30 June 2014 and the closing price of the Share was never exceeding the Combined Offer Price since 27 March 2014, we are of the view that the Distribution In Specie are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

3. Information on the Remaining Group and KSH Group

The Group is principally engaged in property development, sale of doors and windows and earthwork engineering business.

Upon completion of the Asset Reorganisation and the Distribution In Specie, the Distributed Businesses will be distributed to KSH Group which includes KSH and its subsidiaries, while the Remaining Businesses will be continued to be carried out by the Remaining Group which comprise the Company, the Remaining Holdco and their subsidiaries. The Distributed Businesses to be operated by the KSH Group will consist principally of property development, and the Remaining Business to be operated by the Remaining Group will consist of construction and engineering services and manufacture, processing and sales of doors and windows in the PRC.

(a) *Financial performance of the Group*

Set out below are the financial information of the Group as extracted from the annual reports of the Company for the two years ended 31 December 2012 and 2013 and the interim report of the Company for the six months ended 30 June 2014:

	For the year ended			For the	
	31 December			six months ended	
	2011	2012	2013	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
Turnover	505,310	105,703	100,908	47,528	47,067
Profit/(loss) attributable to equity shareholders of the Company	150,426	31,041	6,290	2,103	(33,908)

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER
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	As at 31 December			As at 30
	2011	2012	2013	June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>
Non-current assets	168,732	220,294	251,666	205,909
Current assets	569,093	648,135	660,218	677,249
Current liabilities	321,113	504,671	531,381	560,062
Net current assets	247,980	143,464	128,837	117,187
Net assets	190,058	320,787	330,137	297,279

For the year ended 31 December 2012, the turnover of the Group decreased from approximately RMB505.3 million in prior year to approximately RMB105.7 million, representing a drop of approximately 79.08% which was mainly attributable to (i) the delay in some of the construction projects of the Company; (ii) the decrease in saleable properties compared with prior year; and (iii) the purchase desire in the district where the properties of the Group were located. For the year ended 31 December 2013, the turnover of the Group decreased from approximately RMB105.7 million in prior year to approximately RMB100.9 million, representing a drop of approximately 4.54% which was mainly attributable to (i) the control policies regarding property market implemented by the PRC government; and (ii) the adjustment of the Group's sales strategy to adjust the pace of sales promotion in 2013. For the six months ended 30 June 2014, the turnover of the Group remained relatively stable as compared to that for the six months ended 30 June 2013.

For the three years ended 31 December 2011, 2012 and 2013, the profit attributable to equity Shareholders of the Company was in a decreasing trend which was generally in line with the drop in turnover. For the six months ended 30 June 2014, the Group recorded loss attributable to equity Shareholders of the Company of approximately RMB33.9 million, which was primarily due to write-down of completed properties held for sale of RMB18.5 million as well as the decrease in fair value of investment property caused by the downturn of property market in Lvshunkou, Dalian, the PRC.

The net assets of the Group as at 30 June 2014 was approximately RMB297.3 million, representing a decrease of approximately 9.95% compared with that as at 31 December 2013.

We noted that Grant Sherman Appraisal Limited ("**Grant Sherman**"), an independent property valuer, has performed valuation as at 31 October 2014 in connection with the property interests held by the Group in the PRC, the relevant property valuation report (the "**Valuation Report**") is incorporated in appendix VI to this circular. We have reviewed the terms of engagement of Grant Sherman (including the scope of work) and have discussed with Grant Sherman on the basis and assumption and methods of preparing the Valuation Report. Based on our discussion with Grant Sherman, we were advised that (i) in valuating the property interests, they have fully complied with the HKIS Valuation Standards (2012 Edition) published by The Hong Kong Institute of Surveyors (HKIS) and the requirements set out in Chapter 5 of and Practice Note 12 to the Listing Rules issued by the Stock Exchange; (ii) Grant Sherman is experienced in property valuation; and (iii) Grant Sherman is independent to

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the Company, the Vendors or Longevity, or any of their respective substantial shareholders, directors or chief executives, or any of their respective associates, or any party acting, or presumed to be acting in concert with any of them.

(b) *Prospect of the Remaining Group*

As stated in the paragraphs headed “Information on Longevity” and “Intention of Longevity regarding the Remaining Group” set out in the Appendix I to this Circular, it is the intention of Longevity to continue the Remaining Businesses. In addition to the Remaining Businesses, Longevity will, following the Share Sale Completion, conduct a detailed review of the operations of the Remaining Group with a view to establishing a suitable business strategy to enhance the growth of its business and asset base as well as to broaden its income stream.

Longevity intends to maintain the listing status of the Company which comprises the Remaining Group upon closing of the Listco Offer.

Up to the Latest Practicable Date, Longevity had no plan and has not engaged in any discussion or negotiation on any injection of any assets or businesses into the Remaining Group and has no intention to introduce any significant changes in the business of the Remaining Group, including any acquisitions, disposals and/or redeployment of assets and businesses of the Remaining Group, other than in its ordinary course of business.

(c) *Prospect of the KSH Group*

As stated in the paragraph headed “Background of Yi Ming Jia Lin and its intention regarding KSH” set out in the Appendix I to the Circular, it is the intention of Yi Ming Jia Lin that the KSH Group will not make changes to its principal businesses nor conduct any business other than the Distributed Businesses. It is also the intention of Yi Ming Jia Lin that the KSH Group will not hold any other material assets other than those relating to the Distributed Businesses, nor be injected with any major assets, nor dispose of any major assets, after the close of the KSH Offer, unless prior approval by the KSH Shareholders has been obtained.

According to the accountants’ report of KSH Group set out in Appendix III to the Circular, KSH Group was loss making for the six months ended 30 June 2014. The KSH Group recorded a loss attributable to equity shareholders of KSH of approximately RMB37.9 million for the six months ended 30 June 2014 which is mainly attributable to the increase in cost of sales due to write-down of completed properties held for sale of RMB18.5 million and the decrease in fair value of investment properties caused by the downturn of property market in Lvshunkou, Dalian, the PRC. Given that the circumstances in the wider economic and regulatory environment in the PRC are ever changing, and the recent downturn of property market in Lvshunkou, Dalian, the PRC, the prospectus of the KSH Group is uncertain.

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4. The Listco Offer, the Option Offer, the KSH Offer and the Combined Offer

Given the Share Sale Completion is a condition to the Distribution In Specie, the Listco Offer and the KSH Offer will only be made upon the Share Sale Completion and the Distribution In Specie. Having considered that (i) the KSH Shares will not be listed on the Stock Exchange or any other stock exchange and the Independent Shareholders will have an opportunity to realise their holdings in the KSH Shares under the KSH Offer; (ii) the fact that the existing market price of the Shares reflects the investors' perceived aggregate value of the Remaining Group and the KSH Group; and (iii) the Independent Shareholders will become holders of KSH Shares upon completion of the Distribution In Specie, we consider that it is fair and reasonable to assess the terms of the Listco Offer and the KSH Offer on a combined basis (the "**Combined Offer**") for the purpose of evaluating the potential return that the Independent Shareholders will be able to receive following the Share Sale Completion, Asset Reorganisation and the Distribution In Specie. The detailed analysis on the Listco Offer and the KSH Offer will be set out in the respective offer documents in relation to the Listco Offer and the KSH Offer to be sent to the Shareholders and the holders of KSH Shares respectively, upon the Share Sale Completion and the completion of the Distribution In Specie.

(a) *The Listco Offer*

Upon Share Sale Completion, Longevity will hold 450,900,000 Shares, representing approximately 74.90% of the issued share capital of the Company. Subject to the Share Sale Completion, CICCHKS will, on behalf of Longevity and pursuant to Rule 26.1 of the Takeovers Code, make the Listco Offers, which will be unconditional mandatory cash offers to acquire all the issued Shares (other than those already owned or agreed to be acquired by Longevity and parties acting in concert with it) of HK\$0.8568 in cash for each Share.

Based on the Share Offer Price of HK\$0.8568 per Offer Share and 602,000,000 Shares in issue as at the date of the Joint Announcement, the entire issued share capital of the Company is valued at approximately HK\$515,793,600. In the event that all outstanding Options (excluding the Excluded Options) are fully exercised prior to the closing of the Listco Offers, 5,440,000 Shares will be issued. The maximum amount payable by Longevity for the Share Offer of these 5,440,000 Shares under the Option Offer will be approximately HK\$4,660,992.

In the event that no Options have been exercised by the Optionholders prior to the closing of the Listco Offers and the Option Offer is accepted in full (excluding the Excluded Options), the total amount of cash required to effect the Share Offer and the Option Offer would be HK\$129,462,480 and HK\$744,192, respectively.

(b) *The Option Offer*

As at the Latest Practicable Date, there are 11,140,000 outstanding Options conferring the rights to the Optionholders to subscribe for an aggregate of 11,140,000 new Shares at HK\$0.72 per Share. According to the Pre-IPO Option Scheme, all the 11,140,000 outstanding Options are immediately exercisable upon the Share Offer becoming or being declared unconditional.

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We have adopted the “see-through” price approach in the evaluation of the terms of the Option Offer. The “see-through” price refers to the difference between the offer price for each share subject to a general offer less any given exercise price of the option, and will be the minimum reasonable offer price for any option under a general offer. Under the Option Offer, Longevity is making an offer to the Option holders to cancel each existing Option in exchange for cash being an amount equal to HK\$0.1368 per Option, which is the difference between the price per Share of the Listco Offer of HK\$0.8568 and the exercise price of the Option of HK\$0.72.

On this basis, we consider that the terms of the Option Offer are fair and reasonable so far as the Optionholders are concerned.

(c) *The KSH Offer*

As at the Latest Practicable Date, KSH had 602,000,000 shares in issue. Assuming there is no change in the issued share capital of the Company after the Latest Practicable Date and on the basis of every one Share held received one KSH Share, KSH will remain to have 602,000,000 KSH Shares in issue upon completion of the Distribution In Specie, which will be distributed to the KSH Shareholders whose names appear on the register of members of KSH on the Record Date. Assuming there is no change in number of Shares held by Yi Ming Jia Lin and parties acting in concert with it including Mr. Kai, Ms. Hu Shicui (the spouse of Mr. Kai) and Mr. Kai Xiaojiang (the son of Mr. Kai and a Director), they will be directly interested in a total of 450,900,000 KSH Shares, representing approximately 74.90% of the total share capital of KSH then in issue.

Each of Ms. Jiang Shuxia and Ms. Han Liping, being Directors, owns 300,000 Shares as at the date of the Joint Announcement. As such, each of them will own 300,000 KSH Shares upon completion of the Distribution in Specie.

Given that the KSH Shares will not be listed on the Stock Exchange or any other stock exchange, it will be difficult, if not impossible, for holders of the KSH Shares to liquidate their holdings in the KSH Shares. Yi Ming Jia Lin intends to make the KSH Offer to provide the Independent KSH Shareholders with an opportunity to realise their holdings in the KSH Shares.

Subject to the completion of the Distribution In Specie, Kingston Securities will, on behalf of Yi Ming Jia Lin (a company wholly owned by Mr. Kai) to make the KSH Offer to the Independent KSH Shareholders in accordance with the requirements of the Takeovers Code of HK\$0.6800 in cash for each KSH Share.

The KSH Offer Price shall be HK\$0.6800 per KSH Share, which is expected to be close to or slightly higher than the unaudited adjusted net asset value of the KSH Group per KSH Share as at 30 June 2014, which has been determined principally with reference to the unaudited adjusted net asset value of the KSH Group as at 30 June 2014 after taking into consideration of the effects arising from (i) the Asset Reorganisation (which includes the intended settlement or assignment of, among others, certain intra-group balances between the Remaining Group and the KSH Group); (ii) the Share Sale Completion; (iii) the Distribution

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In Specie; (iv) the appreciation of the Properties which is equal to the difference between the carrying value of the Properties as at 30 June 2014 and the preliminary appraised value of the Properties as at 31 October 2014 valued by an independent property valuer.

As at the Latest Practicable Date, KSH had 602,000,000 shares in issue. Immediately after completion of the Distribution In Specie and assuming no Option is exercised in full before the Record Date, it is expected that the number of new KSH Shares in issue will remain to be 602,000,000. Assuming all 11,140,000 Options (except for the Excluded Options) are exercised in full before the Record Date, the total number of new KSH Shares in issue, which will be subject to the KSH Offer, will be increased to 607,440,000 KSH Shares.

Excluding the 450,900,000 KSH Shares to be distributed to Yi Ming Jia Lin, Mr. Kai and the spouse and son of Mr. Kai and assuming no Option is exercised in full before the Record Date, there will be 151,100,000 KSH Shares subject to the KSH Offer. Based on the offer price of HK\$0.6800 per KSH Share, the KSH Offer is valued at approximately HK\$102,748,000.

Excluding the 450,900,000 KSH Shares to be distributed to Yi Ming Jia Lin, Mr. Kai and the spouse and son of Mr. Kai and assuming 5,440,000 Option are exercised in full (which excluding the Excluded Options) before the Record Date, there will be 156,540,000 KSH Shares subject to the KSH Offer. Based on the offer price of HK\$0.6800 per KSH Share, the KSH Offer is valued at approximately HK\$106,447,200.

(d) *The Combined Offer*

The following analysis on the Combined Offer has been conducted on the assumption that the Independent Shareholders will be able to receive a potential aggregate cash consideration of HK\$1.5368 (the “**Combined Offer Price**”), being the sum of the cash consideration for the Listco Offer of HK\$0.8568 and that for the KSH Offer of HK\$0.6800, under the Combined Offer for every Listco Share and KSH Share held by them after the completion of the Asset Reorganisation and the Distribution In Specie.

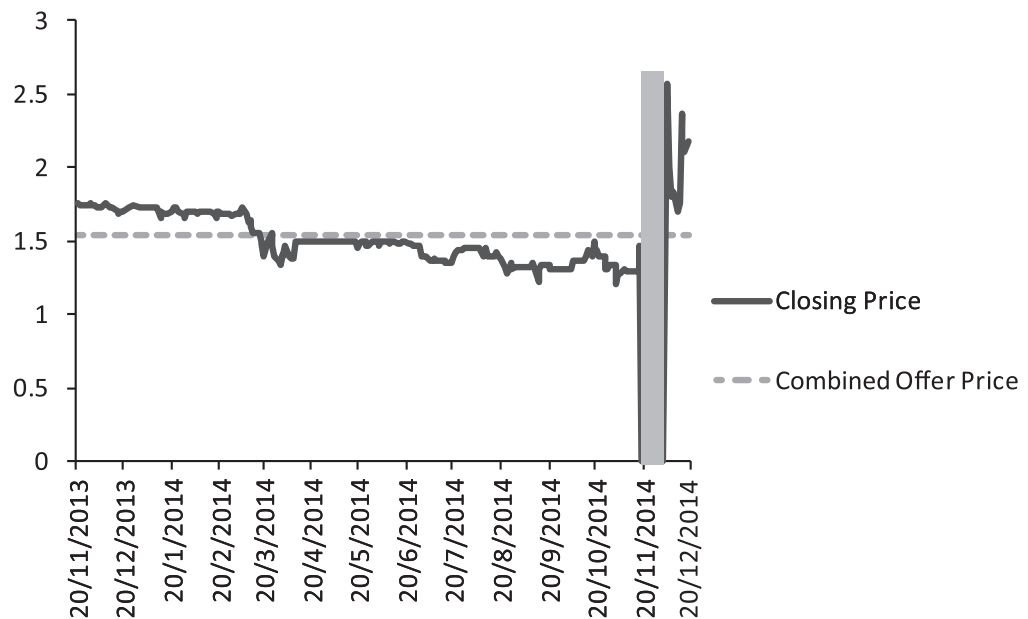
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(i) Share price performance

The combined consideration under the Share Offer and the KSH Offer is equivalent to HK\$1.5368 per Share, which represents:

- a premium of approximately 5.26% over the closing price of HK\$1.460 per Share as quoted on the Stock Exchange on the Last Trading Day;
- a premium of approximately 16.07% over and a premium of approximately 14.03% over the average of the closing prices of approximately HK\$1.324 and HK\$1.348 per Share, respectively as quoted on the Stock Exchange for the 5 and 30 consecutive trading days up to and including the Last Trading Day;
- a premium of approximately 13.18% over the average of the closing prices of approximately HK\$1.358 per Share as quoted on the Stock Exchange for the 90 consecutive trading days up to and including the Last Trading Day; and
- a premium of approximately 147.07% over the unaudited consolidated net asset value attributable to owners of the Company of approximately HK\$0.622 per Share as at 30 June 2014 based on the interim report of the Company for the six months ended 30 June 2014.

The following chart sets out the daily closing prices of the Shares on the Stock Exchange for the period from 20 November 2013 (being the first trading day of the 12-month period ending on the Last Trading Day) up to and including the Latest Practicable Date (the “**Review Period**”).



Source: The website of the Stock Exchange (www.hkex.com.hk)

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As shown in the chart above, during the Review Period, the highest closing price of the Shares was HK\$2.57 on 8 December 2014, while the lowest closing price of the Shares was HK\$1.21 on 5 November 2014. The average closing price during the Review Period was approximately HK\$1.52. The Shares were traded in most of the time during the Review Period below the Combined Offer Price, and the closing price of the Share was never exceeding the Combined Offer Price since 27 March 2014 up to the Last Trading Day. The Combined Offer Price also represents a premium of approximately 1.1% over the average closing price during the Review Period.

During the period from 20 November 2013 to 20 November 2014, being the Last Trading Date, the price of Shares fluctuated within a range from HK\$1.21 to HK\$1.75. The trading of the Shares was suspended from 20 November 2014 to 5 December 2014 at the request of the Company pending the release of the Joint Announcement. During the period from 8 December 2014, being the first trade day subsequent to the publication of the Joint Announcement, to the Latest Practicable Date, the closing price of the Share was ranged from HK\$1.70 to HK\$2.57. Save for the Joint Announcement, the Directors confirmed that they were not aware of the reasons for the increase in price and transaction volume of the Shares.

Save for the Joint Announcement, the Company did not issue any other announcement which is price-sensitive in nature after the Last Trading Date up to the Latest Practicable Date, and we are of the view that the surge in the Share price subsequent to the publication of the Joint Announcement may likely be driven by the market speculation on the possible sale and purchase of Shares in the Company. Given that the recent surge in the Share price subsequent to the publication of the Joint Announcement is likely driven by market speculation rather than fundamentals of the Company and that the trading volume of the Shares has been extremely low as discussed in the paragraphs under the section headed “5. Liquidity” below, the market price of the Shares may not be an appropriate indicator of the valuation of the Shares, in particular the realizable value one could get by selling the Shares in the open market. In the absence of a meaningful market of reasonable depth for the Shares, we consider that the Combined Offer Price, which was agreed after arm’s length negotiations and being the actual transacted price for a sizable amount of the Shares, would be a more appropriate indicator of the underlying value that a willing buyer, if any, is prepared to pay for the Shares in the open market, without taking into consideration any control premium that might have been accounted for in the Combined Offer Price.

Given the above, in particular the Shares were traded in most of the time during the Review Period below the Combined Offer Price, the closing price of the Share was never exceeding the Combined Offer Price since 27 March 2014 up to the Last Trading Day, and the Combined Offer Price also represents a premium of approximately 1.1% over the average closing price during the Review Period, as well as the relatively low liquidity as discussed in the paragraph heading “5. Liquidity” below, we are of the view that the

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Combined Offer Price would be attractive to the Independent Shareholders who are interested to realise all or part of their investment in the Company through the Listco Offer and the KSH Offer.

(ii) *Comparison of the Combined Offer Price with market comparables*

In order to assess the fairness and reasonableness of the Combined Offer Price, we have conducted researches from the public domain and have identified sixteen companies, being an exhaustive list, which (i) are listed on the Main Board of the Stock Exchange; (ii) are principally engaged in the property development related business (accounted for more than 50% of their turnovers for their respective latest financial year); and (iii) had a market capitalisation of less than HK\$1 billion as at the Latest Practicable Date, and compared their price-to-earning multiple (“**P/E Ratio**”) and price-to-book multiple (“**P/B Ratio**”) to that of the Company as implied by the Combined Offer Price. Based on the aforesaid selection criteria, we consider the selected companies represent fair and representative samples considering that the selected companies are engaged in principal business similar to that of the Company, the P/E Ratios and the P/B Ratios of which could reflect how the market values companies taking part in such industry, and could provide a general reference when assessing the fairness of the Combined Offer Price. The list of the selected companies and their respective P/E Ratios and P/B Ratios, which is exhaustive, are set out below:

Company name	Stock code	Principal business	Market	Net	Net	P/B	P/E
			capitalisation	Asset value	Profit	Ratio	Ratio
			(1)	(2)	(3)	(4) = (1)/(2)	(5) = (1)/(3)
			(HK\$ million)	(HK\$ million)	(HK\$ million)	(times)	(times)
Great China Properties Holdings Limited	21	Property development and investment, investment holding and security investment.	911.0	1,159.9	N/A	0.8	N/A
Grand Field Group Holdings Ltd.	115	Investment holding, property development and property investment.	241.3	198.9	N/A	1.2	N/A
Chinney Investments, Ltd.	216	Property development and investment, manufacturing and trading of garments.	678.2	3,680.8	256.5	0.2	2.6
PNG Resources Holdings Ltd.	221	Property development, retailing of fresh pork meat and related produce, and the forestry and timber logging project.	232.5	897.6	77.0	0.3	3.0

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Company name	Stock code	Principal business	Market capitalisation (1) (HK\$ million)	Net Asset value (2) (HK\$ million)	Net Profit (3) (HK\$ million)	P/B Ratio (4) = (1)/(2) (times)	P/E Ratio (5) = (1)/(3) (times)
Chuang's China Investments Ltd.	298	Property investment and development, hotel operation, manufacturing and sale of watch components and merchandise, and securities investment and trading.	836.0	2,558.1	110.3	0.3	7.6
PYI Corporation Ltd.	498	Development of ports facilities and ports related properties, operation of ports, LPG and logistics businesses, development, sale and leasing of real estate properties and formed land, provision of credit services and securities trading.	764.4	4,922.7	85.6	0.2	8.9
Ceneric (Holdings) Ltd.	542	Properties development.	318.7	543.2	N/A	0.6	N/A
South East Group Limited	726	Property development and investment.	927.4	0.2	N/A	4,637.0	N/A
Talent Property Group Ltd.	760	Real estate development, property investment and property management.	322.9	285.1	N/A	1.1	N/A
Easyknit International Holdings Limited	1218	Property investments, property development, investment in securities, loan financing and garment sourcing and exporting.	343.1	2,728.5	13.0	0.1	26.4
Sun Century Group Ltd.	1383	Development and leasing of property.	616.7	581.8	N/A	1.1	N/A
Sino Harbour Property Group Ltd.	1663	Property development focused on residential properties in Jiangxi Province, the PRC.	924.0	1,391.8	182.6	0.7	5.1
South West Eco Development Ltd.	1908	Property development, property leasing, building management services and provision for advisory and consultancy services.	942.0	682.3	63.5	1.4	14.8
Xiwang Property Holdings Co. Ltd.	2088	Property development.	469.6	871.5	N/A	0.5	N/A

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Company name	Stock code	Principal business	Market	Net	Net	P/B	P/E
			capitalisation	Asset	Profit	Ratio	Ratio
			(1)	(2)	(3)	(4) = (1)/(2)	(5) = (1)/(3)
			(HK\$ million)	(HK\$ million)	(HK\$ million)	(times)	(times)
Rykadan Capital Ltd.	2288	Manufacturing of interior decorative materials and property development.	601.6	1,237.9	421.9	0.5	1.4
China Uptown Group Co. Ltd.	2330	Property development; property investment; trading of electronic related components, mobile phone modules and automation products.	367.2	636.4	199.9	0.6	1.8
					Mean	0.6	8.0
					Maximum	1.4	26.4
					Minimum	0.2	1.4
Ratio represented by the Combined Offer Price			925.2	419.2	8.0	2.2	115.6

Source: The website of the Stock Exchange (www.hkex.com.hk)

Note: P/B Ratio of South East Group Limited is considered to be an outlier, and is not used in the analysis.

As shown in the table above, the P/B Ratios of the selected companies ranged from approximately 0.2 times to 1.4 times, with a mean of approximately 0.6 times, while the P/E Ratios of the selected companies ranged from approximately 1.4 times to 26.4 times, with a mean of approximately 8.0 times. The P/B Ratio and the P/E Ratio of approximately 2.2 times and 115.6 times as implied by the Combined Offer Price were higher than the ranges of the P/B Ratios and the P/E Ratios of the selected companies.

Based on the above comparison of the Combined Offer Price with the historical price performance of the Shares and the market comparable analysis, we consider that the Combined Offer Price represents a reasonable premium over the net asset value of the Shares, over the average closing price of the Shares during the Review Period and over the ranges of the P/B Ratios and the P/E Ratios of the selected companies, and are of the view that the Combined Offer Price is favourable so far as the Independent Shareholders are concerned.

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5. Liquidity

The following tables sets out the trading volume of the Shares during the Review Period:

Month	Total trading volume (no. of Shares)	No. of trading days	Average daily trading volume (no. of Shares)	Percentage of average daily trading volume to no. of outstanding Shares (Approximate %) (Note 1)	Percentage of average daily trading volume to no. of Shares held by the public (Approximate %) (Note 2)
Nov-13 (From 20 November 2013)	32,000	8	4,000	Negligible	Negligible
Dec-13	296,000	20	14,800	Negligible	0.01%
Jan-14	320,000	21	15,238	Negligible	0.01%
Feb-14	220,000	19	11,579	Negligible	0.01%
Mar-14	760,000	21	36,190	0.01%	0.02%
Apr-14	460,000	20	23,000	Negligible	0.02%
May-14	228,000	20	11,400	Negligible	0.01%
Jun-14	124,000	20	6,200	Negligible	Negligible
Jul-14	3,108,000	22	141,273	0.02%	0.09%
Aug-14	152,000	21	7,238	Negligible	Negligible
Sep-14	216,000	21	10,286	Negligible	0.01%
Oct-14	704,000	21	33,524	0.01%	0.02%
Nov-14	220,000	14	15,714	Negligible	0.01%
Dec-14 (Up to the Latest Practicable Date)	4,524,000	11	411,273	0.07%	0.27%

Source: The website of the Stock Exchange (www.hkex.com.hk)

Notes:

- (1) Based on the 602,000,000 Shares in issue as at the Latest Practicable Date.
- (2) Based on the 150,500,000 Shares held by the public as at the Latest Practicable Date.

As illustrated in the table above, during the Review Period save for the period after the Last Trading Day, we noted that the average daily trading volume of Shares as a percentage of the average total number of issued Shares ranged from negligible to approximately 0.02% while the average daily trading volume of Shares as a percentage of the average total number of the Shares held by the public ranged from negligible to approximately 0.09%. Based on the above, the trading volume accounted for less than 0.02% of the total number of the Shares in issue and for less than 0.09% of the Shares held by the public in all months during the Review Period except for the recent increase in the daily turnover for the dates following the publication of the Joint Announcement.

6. Possible financial effects of the Group Reorganisation and the Distribution In Specie

(a) *Earnings*

Upon completion of the Asset Reorganisation and the Distribution In Specie, those existing subsidiaries of the Group carrying on the Distributed Businesses will no longer be members of the Group as they will become subsidiaries of KSH. Accordingly, their financial results will not be consolidated into the Group in the future. Based on the unaudited pro forma consolidated statement of comprehensive income of the Remaining Group set out in Appendix IV to the Circular, the loss attributable to Shareholders of approximately RMB33.9 million would improve to a profit of approximately RMB6.0 million. Such change in the Group's result is principally due to the exclusion of the income and expenses attributable to the Distributed Businesses upon completion of the Asset Reorganisation and the Distribution In Specie.

(b) *Net assets*

According to the unaudited pro forma consolidated statement of financial position of the Remaining Group set out in Appendix IV to the Circular, assuming completion of the Asset Reorganisation and the Distribution In Specie had been completed as at 30 June 2014, the Group's net assets would decrease by approximately 82.0% from approximately RMB297.3 million to approximately RMB53.5 million as a result of the exclusion of the assets and liabilities attributable to the Distributed Businesses from the Group.

The reduction in the net assets of the Remaining Group as a result of the Asset Reorganisation and the Distribution In Specie is reasonably expected given that the net assets associated with the Distributed Businesses are no longer held by the Group upon completion of the Asset Reorganisation and the Distribution In Specie. Notwithstanding that the net assets of the Group will reduce as a result of the successful implementation of the Asset Reorganisation and the Distribution In Specie, all Shareholders will at the same time receive the KSH Shares under the Distribution In Specie, the net asset value of which is not expected to differ materially from the decrease in the net asset value of the Remaining Group. In this connection, we have reviewed the unaudited pro forma consolidated statement of financial position of the KSH Group set out in Appendix V to the Circular and noted that the unaudited pro forma net asset value of the KSH Group would amount to approximately RMB243.2 million immediately upon completion of the Asset Reorganisation and the Distribution In Specie. Such net asset value of the KSH Group as at 30 June 2014 represents substantially the reduction in the unaudited pro forma net asset value of the Remaining Group of approximately RMB243.8 million as mentioned above. From the perspective of the Shareholders, their interests in the net worth of the existing Group are not expected to be adversely affected since the net assets of the existing Group will be split between that of the Remaining Group and the KSH Group upon the completion of the Asset Reorganisation and the Distribution In Specie and the Shareholders will hold both the Shares and the KSH Shares. As such, we are of the

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view that the expected reduction in the Group's net asset value due to the Asset Reorganisation and the Distribution In Specie is acceptable so far as the Independent Shareholders are concerned.

(c) *Liquidity and gearing*

Based on the consolidated statements of financial positions of the Group as at 30 June 2014, the Group had unaudited current assets of approximately RMB677.2 million and unaudited current liabilities of approximately RMB560.1 million, representing a current ratio of approximately 1.2 times. The gearing ratio (defined as net debt, i.e. total bank loans less cash and cash equivalents, divided by total capital, i.e. net debt plus total equity) as at 30 June 2014 was approximately 0.2 times. Based on the unaudited pro forma statement of the financial position of the Remaining Group set out in Appendix IV to the Circular, the current ratio will become 1.4 times, while the gearing ratio will be not applicable in view of the net cash position of the Remaining Group as a result of the deconsolidation of the KSH Group from the Group.

As set out in Appendix VIII to this Circular, the Directors are of the opinion that after taking into account of the effect of the Asset Reorganisation, Distribution in Specie, and the present available internal financial resources, the Group will have sufficient working capital to satisfy its present requirements, that is, for at least the next twelve months from the date of this Circular in the absence of unforeseen circumstances. In view of the existing financial position of the Group, we do not consider that the Asset Reorganisation and the Distribution In Specie will have any immediate impact on the working capital requirements of the Remaining Group.

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7. Effect of Share Sale Completion on shareholding structure of the Company

Set out below is the shareholding structure of the Company as at the Latest Practicable Date and immediately upon Share Sale Completion (assuming no other changes in the issued share capital and shareholding in the Company from the Latest Practicable Date up to Share Sale Completion but before the commencement of the Listco Offer):

	As at the Latest Practicable Date		Immediately upon Share Sale Completion but before the commencement of the Listco Offer	
	<i>Approximate Number of Shares</i>	<i>Shareholding %</i>	<i>Approximate Number of Shares</i>	<i>Shareholding %</i>
The Vendors and the spouse and son of Mr. Kai (<i>Note 1</i>)	450,900,000	74.90	—	—
Longevity and parties acting in concert with it (<i>Note 2</i>)	—	—	450,900,000	74.90
Directors (other than Mr. Kai and Mr. Kai Xiaojiang (<i>Note 3</i>))	600,000	0.10	600,000	0.10
Public Shareholders	<u>150,500,000</u>	<u>25.00</u>	<u>150,500,000</u>	<u>25.00</u>
Total	<u>602,000,000</u>	<u>100.00</u>	<u>602,000,000</u>	<u>100.00</u>

Notes:

1. As at the Latest Practicable Date, 450,000,000 Shares, 340,000 Shares, 260,000 Shares and 300,000 Shares are held directly by Yi Ming Jia Lin, Mr. Kai, Ms. Hu Shicui (the spouse of Mr. Kai) and Mr. Kai Xiaojiang (the son of Mr. Kai and a Director), respectively.
2. Longevity and its parties acting in concert does not own any Shares as at the Latest Practicable Date.
3. As at the Latest Practicable Date, 600,000 Shares are directly owned as to 300,000 Shares by each of Ms. Jiang Shuxia and Ms. Han Liping, respectively.

Upon Share Sale Completion but before the commencement of the Listco Offer, Longevity and parties acting in concert with it will be interested in a total of 450,900,000 Shares, representing approximately 53.75% of the total issued share capital of the Company. As illustrated in the table above, the interest of the Independent Shareholders will remain unchanged upon Share Sale Completion.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

Based on the abovementioned principal factors and reasons for the Distribution In Specie and the Share Sale Agreement, in particular that:

- (a) the Share Sale Completion that leads to the Listco Offers is conditional upon, among others, the completion of the Asset Reorganisation and the Independent Shareholder's approval on the Distribution In Specie;
- (b) the making of the Listco Offer and the KSH Offer, which is subject to the Share Sale Completion and completion of the Distribution In Specie, will provide a cash exit to the Shareholders to relies all or part of their interests in the Company and the KSH respectively through Listco Offer and KSH Offer at the Combined Offer Price;
- (c) the Combined Offer Price represents a premium over the closing price of the Shares over the closing price on 20 November 2014 (being the Last Trading Date); as well as the closing price of the Shares since 27 March 2014 and over the audited consolidated net asset value of the Company as at 30 June 2014;
- (d) the overall low liquidity of the Shares during the Review Period, which may be difficult for the Shareholders to dispose of a large number of Shares in the open market without exerting a downward pressure on the price of the Shares and the Combined Offer provides an alternative exit to the Independent Shareholders to realise their investment in the Shares; and
- (e) the Option Offer is calculated by deducting the exercise price per Share payable on exercise of an Option from the Share Offer Price per Offer Share.

We are of the view that the terms of Distribution In Specie are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolution(s) in respect of the Distribution In Specie.

Regarding the Option Offer, it is noted that upon exercise, Optionholders will receive Shares, which provide them an opportunity to be eligible to the Listco Offer and the KSH Offer. Optionholders are advised to exercise their own judgement to consider the Option Offer, the Listco Offer and the KSH Offer to best suit their own benefit.

Yours faithfully,
For and on behalf of
Quam Capital Limited
Gary Mui
Deputy Chief Executive Officer

Note: Mr. Gary Mui is a licensed person registered with the Securities and Futures Commission and a responsible officer of Quam Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 15 years of experience in the finance and investment banking industry.

Information contained in this appendix is reproduced from the Joint Announcement for the purpose of providing the Independent Shareholders the key terms of the Listco Offers and the KSH Offer. Information reproduced from the Joint Announcement reflects the situation as of the date of the Joint Announcement. Save for the possible change in shareholding structure of the Company due to issue of new Shares upon possible exercise of the Options, to the best of the Directors' knowledge and belief after all reasonable enquiries, there is no material change to the information contained in this appendix since the date of the Joint Announcement. Detailed terms of the Listco Offers and the KSH Offer were set out in the Joint Announcement and will be set out in the Listco Offer Document and the KSH Offer Document (as the case may be).

The Joint Announcement also contains the following responsibility statements:

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this joint announcement (other than the information relating to Longevity, the Vendors and parties acting in concert with any of them) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this joint announcement (other than those expressed by Longevity, the Vendors and parties acting in concert with any of them) have been arrived at after due and careful consideration and there are no other facts not contained in this joint announcement, the omission of which would make any statement in this joint announcement misleading.

The directors of Longevity jointly and severally accept full responsibility for the accuracy of the information contained in this joint announcement (other than those relating to KSH, the Vendors, the Group and parties acting in concert with any of them) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this joint announcement (other than those expressed by KSH, the Vendors, the Group and parties acting in concert with any of them) have been arrived at after due and careful consideration and there are no other facts not contained in this joint announcement, the omission of which would make any statement in this joint announcement misleading.

The sole director of Yi Ming Jia Lin accepts full responsibility for the accuracy of the information contained in this joint announcement (other than those relating to Longevity, KSH, the Group and parties acting in concert with any of them) and confirms, having made all reasonable inquiries, that to the best of his knowledge, opinions expressed in this joint announcement (other than those expressed by Longevity, KSH, the Group and parties acting in concert with any of them) have been arrived at after due and careful consideration and there are no other facts not contained in this joint announcement, the omission of which would make any statement in this joint announcement misleading.

The sole director of KSH accepts full responsibility for the accuracy of the information contained in this joint announcement (other than those relating to Longevity, the Vendors, the Group and parties acting in concert with any of them) and confirms, having made all reasonable inquiries, that to the best of his knowledge, opinions expressed in this joint announcement (other than those expressed by Longevity, the Vendors, the Group and parties acting in concert with any

of them) have been arrived at after due and careful consideration and there are no other facts not contained in this joint announcement, the omission of which would make any statement in this joint announcement misleading.

POSSIBLE UNCONDITIONAL MANDATORY CASH OFFERS FOR SHARES AND TO CANCEL THE OPTIONS

Upon the Share Sale Completion, Longevity will hold 450,900,000 Shares, representing approximately 74.90% of the entire issued share capital of the Company. Subject to the Share Sale Completion, CICCHKS will, on behalf of Longevity and pursuant to Rule 26.1 of the Takeovers Code, make the Listco Offers, which will be unconditional mandatory cash offers to acquire all the issued Shares (other than those already owned or agreed to be acquired by Longevity and parties acting in concert with it) and to cancel all outstanding Options on the following basis:

for each Offer Share held HK\$0.8568 in cash

for cancellation of each Option held. HK\$0.1368 in cash

The making of the Listco Offers is subject to the Share Sale Completion which in turn is subject to a number of conditions precedent as referred to in the paragraph headed “Conditions precedent” in the section headed “Share Sale Agreement” above and therefore is a possibility only and it may or may not proceed. Investors and Shareholders are urged to exercise caution when dealing in the Shares.

As at the date of this joint announcement, there are 602,000,000 Shares in issue and, save for the 11,140,000 outstanding Options conferring the rights to the Optionholders to subscribe for an aggregate of 11,140,000 new Shares at HK\$0.72 per Share, the Company has no outstanding securities, options, warrants or derivatives which are convertible into or which confer rights to require the issue of Shares and the Company has no other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) as at the date of this joint announcement.

Out of the 11,140,000 outstanding Options, 3,280,000 Options are currently exercisable. Assuming all the 11,140,000 outstanding Options are exercised in full, the Company will have to issue 11,140,000 Shares, representing approximately 1.85% of the existing issued share capital of the Company as at the date of this joint announcement. The Option Offer to cancel each Option will be calculated on a see-through basis pursuant to Rule 13.5 and Practice Note 6 of the Takeovers Code, so that each Optionholder will be entitled to receive a price for his/her Options being the amount by which the consideration for the Share Offer exceeds the exercise price of his/her Options. In respect of the 11,140,000 Options convertible at an exercise price of HK\$0.72 per Share, the cancellation consideration will be HK\$0.1368 per Option. According to the Pre-IPO Option Scheme, all the 11,140,000 outstanding Options are immediately exercisable upon the Share Offer becoming or being declared unconditional.

As at the date of this joint announcement, Mr. Kai and Ms. Hu Shicui are holding an aggregate of 5,700,000 Options conferring the right to subscribe for 5,700,000 Shares and Mr. Kai has irrevocably and unconditionally undertaken to Longevity under the Share Sale Agreement that Mr. Kai will, and he shall procure Ms. Hu Shicui, (i) not exercise any subscription rights attached to the Options held by him/her prior to the close of the Listco Offers; and (ii) not accept the Option Offer. Save for the aforesaid, none of Longevity and parties acting in concert with it has received any indication or irrevocable commitment from any Shareholder that he/she/it will accept or reject the Listco Offers as at the date of this joint announcement.

Total consideration

Based on the Share Offer Price of HK\$0.8568 per Offer Share and 602,000,000 Shares in issue as at the date of this joint announcement, the entire issued share capital of the Company is valued at approximately HK\$515,793,600. In the event that all outstanding Options (excluding the Excluded Options) are fully exercised prior to the closing of the Listco Offers, 5,440,000 Shares will be issued. The maximum amount payable by Longevity for the Share Offer of these 5,440,000 Shares under the Option Offer will be approximately HK\$4,660,992.

In the event that no Options have been exercised by the Optionholders prior to the closing of the Listco Offers and the Option Offer is accepted in full (excluding the Excluded Options), the total amount of cash required to effect the Share Offer and the Option Offer would be HK\$129,462,480 and HK\$744,192, respectively.

Financial resources

The maximum amount of funds required for the acquisition of the Sale Shares and the full acceptance of the Listco Offers by Longevity will be financed by a combination of a term loan facility in the amount of HK\$515,334,150 provided by Luso International Banking Limited and internal resources. CICCHKS, the financial adviser to Longevity in respect of the Listco Offers, is satisfied that sufficient financial resources are available to Longevity to satisfy full acceptance of the Listco Offers.

Payments

Payment in cash in respect of acceptance of the Listco Offers will be made as soon as possible but in any event within seven (7) business days (as defined in the Takeovers Code) from the receipt by Longevity or its agent acting on its behalf of duly completed acceptances.

Stamp duty

In Hong Kong, seller's ad valorem stamp duty arising in connection with acceptances of the Share Offer will be payable by the relevant Shareholders at a rate of 0.1% of: (i) the market value of the Offer Shares; or (ii) the consideration payable by Longevity in respect of the relevant acceptances of the Share Offer, whichever is higher, and will be deducted from the cash amount payable by Longevity on behalf of the relevant Shareholders accepting the Share Offer. Longevity

will arrange for payment of the seller's ad valorem stamp duty on behalf of the relevant Shareholders accepting the Share Offer and will pay the buyer's ad valorem stamp duty in connection with the acceptances of the Share Offer and the transfers of the Offer Shares in accordance with the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong).

No stamp duty is payable in connection with acceptance of the Option Offer.

Overseas Shareholders and Optionholders

The making and the implementation of the Listco Offers to Shareholders who are not resident in Hong Kong may be affected by the laws of the relevant jurisdiction in which they are residents, Overseas Shareholders and Optionholders who are citizens or residents or nationals of a jurisdiction outside Hong Kong should keep themselves informed about and observe any applicable legal or regulatory requirements and where necessary seek legal advice. It is the responsibility of the Overseas Shareholders and Optionholders who wish to accept the Listco Offers to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith (including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes due in respect of such jurisdiction).

Other arrangements

At the date of this joint announcement,

- (a) neither Longevity nor any parties acting in concert with it (i) owns or controls any Shares and other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company; and (ii) holds convertible securities, warrants or options of the Company;
- (b) save for the entering into the Share Sale Agreement, neither Longevity nor parties acting in concert with it has acquired any voting rights in or has otherwise dealt for value in the Shares and rights over the Shares during the 6-month period immediately prior to the date of this joint announcement;
- (c) neither Longevity nor parties acting in concert with it has borrowed or lent any Shares and other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company;
- (d) there are no outstanding derivatives in respect of securities in the Company entered into by Longevity nor parties acting in concert with it;
- (e) there is no arrangement (whether by way of option, indemnity or otherwise) as referred to in Note 8 to Rule 22, in relation to the Shares and other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company or shares and other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of Longevity which might be material to the Listco Offers; and

- (f) save for the Share Sale Agreement, there is no agreement or arrangement to which Longevity is a party, which relates to the circumstances in which it may or may not invoke or seek to invoke a precondition or a condition to the Listco Offers.

Information on Longevity

Longevity is an investment holding company incorporated in BVI with limited liability and is wholly owned by Mr. Wei. As at the date of this joint announcement, save for entering into the Share Sale Agreement, (i) Longevity has not engaged in any substantial business activities; and (ii) the directors of Longevity are Mr. Wei and Ms. Zhen Xiaojing.

Mr. Wei, aged 51, is the founder, the controlling shareholder and the chairman of Longjitaihe, and has approximately 18 years of experiences in real properties development industry. From 1996 and 2003, Mr. Wei had been acting as the general manager of Hebei Gaobeidian Construction Enterprise Group No 6 Constriction Company Limited (河北省高碑店市建築企業集團第六建築工程有限公司) and has accumulated a wealth of practical and management experiences, which has laid down a solid foundation for the development of Longjitaihe. In 2002, Mr. Wei founded Longjitaihe, and under the leadership of Mr. Wei, Longjitaihe has developed from a small-scale business into a large-scale industrial group which integrated the diversified industries including real estate development, commercial operations and new energy.

Mr. Wei was a Member of the 12th National People's Congress, a Member of the 9th and 10th Hebei Province Committee of the Chinese People's Political Consultative Conference (CPPCC), a National Model Worker, and the vice chairman of the Hebei Province Federation of Industry & Commerce. Mr. Wei has also been awarded the honorary titles such as the "China Honesty Entrepreneur", the "Person Award for Outstanding Contributions to 30 Years of Reform and Opening-up of China in the Commerce Industry" and the "Hebei Province Outstanding Private Entrepreneur".

Longjitaihe was awarded "2013 China Top 500 Enterprises" (ranked 216th), "2014 China Top 100 Real Estate Enterprises"(ranked 48th), "2013 Chinese Real Estate Sales in Billion Enterprises List" (ranked 43rd, sales of 2013 reached RMB17 billion), and China Outstanding Commercial Real Estate Enterprise. Longjitaihe has a National Grade 1 Qualification in Real Estate Development. The three core businesses of Longjitaihe are residential real estate development, special market development and operation, and new energy. Its real estate projects are mainly located in various regions within Capital Economic Circle in Beijing, Tianjin and Hebei Province, which showing Longjitaihe as the leading real estate developer within the above-mentioned regions. Up to now, Longjitaihe has developed more than 70 projects with a total development area of over 15 million square meters. In respect of the special market, Longjitaihe has cumulatively constructed and has been operating 12 wholesale markets, in particular, the Hedao International Cases and Bags Trading Center in Baigou, Hebei Province with a total area of 2 million square meters, which has the reputation of "Yiwu in the South Areas, Baigou in the North Areas" (南義烏，北白溝). The industries located in Dahongmen district of Beijing have been integrated with and consolidated into such wholesale markets, which are being described as the "Beijing-Tianjin-Hebei Market Transformation Base" (京津冀協同發展承接市場轉移示範基地). In respect of new energy,

Lightway Green New Energy Co., Ltd. (光為綠色新能源股份有限公司) was founded in 2008 and principally engaged in the production and sale of photovoltaics(PV), and was one of the first batches of PV-focused demonstration area in China. Lightway Green New Energy Co., Ltd. has also started to develop the PV power plant in 2012, which is one of the first batches of 18 Distributed PV Power Generation Demonstration Area Projects.

Intention of Longevity regarding the Remaining Group

Following the Share Sale Completion, Longevity intends to continue to operate the Remaining Businesses with the financial and technical support from Mr. Wei and his controlled companies, in particular, Longjitaihe. Leveraged on the background, experiences, resources and network of Mr. Wei and Longjitaihe (the three core businesses such as property development as mentioned above), Longevity is confident that the Remaining Group will be able to identify more business opportunities and potential to further develop its businesses and expand its income base. As at the date of this joint announcement, Longevity has no plan and has not engaged in any discussion or negotiation on any injection of any assets or businesses into the Remaining Group and it will conduct a detailed review of the operations of the Remaining Group with a view to establishing a suitable business strategy to enhance the growth of its business and asset base as well as to broaden its income stream.

Proposed change of board composition of the Company

The Board is currently made up of seven Directors, comprising four executive Directors and three independent non-executive Directors. Longevity intends to nominate new Directors to the Board with effect from the earliest time permitted under the Takeovers Code. Any changes to the Board will be made in compliance with the Takeovers Code and the Listing Rules and further announcement will be made accordingly.

Maintaining the listing status of the Company

Longevity intends to maintain the listing status of the Company and has no intention to privatise the Company. Longevity will undertake to the Stock Exchange to take appropriate steps to ensure that not less than 25% of the entire issued share capital of the Company will be held by the public at all times. The Stock Exchange has indicated that if, upon closing of the Listco Offers, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public or if the Stock Exchange believes that:

- a false market exists or may exist in the trading of the Shares; or
- there are insufficient Shares in public hands to maintain an orderly market,

the Stock Exchange will consider exercising its discretion to suspend dealings in the Shares.

POSSIBLE UNCONDITIONAL VOLUNTARY CASH OFFER FOR THE KSH SHARES

Assuming there is no change in the issued share capital of the Company after the date of this joint announcement and on the basis of every one Share held received one KSH Share, KSH will have 602,000,000 KSH Shares in issue upon completion of the Distribution In Specie, which will be distributed to the Shareholders whose names appear on the register of members of the Company on the Record Date. Assuming there is no change in number of Shares held by Yi Ming Jia Lin and parties acting in concert with it including Mr. Kai, Ms. Hu Shicui (the spouse of Mr. Kai) and Mr. Kai Xiaojiang (the son of Mr. Kai and a Director), they will be directly interested in a total of 450,900,000 KSH Shares, representing approximately 74.90% of the total share capital of KSH then in issue.

Each of Ms. Jiang Shuxia and Ms. Han Liping, being Directors, owns 300,000 Shares as at the date of this joint announcement. Assuming there is no change in number of Shares held by Ms. Jiang Shuxia and Ms. Han Liping, each of them will own 300,000 KSH Shares upon completion of the Distribution in Specie.

Given that the KSH Shares will not be listed on the Stock Exchange or any other stock exchange, it will be difficult, if not impossible, for holders of the KSH Shares to liquidate their holdings in the KSH Shares. Yi Ming Jia Lin intends to make the KSH Offer to provide the Independent KSH Shareholders with an opportunity to realise their holdings in the KSH Shares.

Terms of the KSH Offer

Subject to the completion of the Distribution In Specie, Kingston Securities will, on behalf of Yi Ming Jia Lin (a company wholly owned by Mr. Kai) to make the KSH Offer to the Independent KSH Shareholders in accordance with the requirements of the Takeovers Code on the following basis:

For each KSH Share heldHK\$0.6800 in cash

The number of the KSH Shares to be in issue will be equal to the total number of the Shares in issue on the Record Date. According to the Pre-IPO Option Scheme, 11,140,000 outstanding Options are immediately exercisable upon the Share Offer becoming or being declared unconditional. However, as at the date of this joint announcement, Mr. Kai and Ms. Hu Shicui are holding an aggregate of 5,700,000 Options conferring the right to subscribe for 5,700,000 Shares and Mr. Kai has irrevocably and unconditionally undertaken to Longevity under the Share Sale Agreement that Mr. Kai will, and he shall procure Ms. Hu Shicui to, (i) not exercise any subscription rights attached to the Options held by him/her prior to the close of the Listco Offers; and (ii) not accept the Option Offer. The Company will announce the Record Date in accordance with Rule 13.66 of the Listing Rules as and when appropriate.

As the KSH Offer will only be made following completion of the Distribution In Specie, which is subject to a number of conditions precedent to the Distribution In Specie, the making of the KSH Offer may or may not proceed and, therefore is a possibility only. In the event that the KSH Offer is made, it will be an unconditional voluntary cash offer.

The KSH Shares subject to the KSH Offer will be acquired by Yi Ming Jia Lin fully paid and free from all liens, equities, charges and encumbrances and together with all rights now and hereafter attaching thereto, including the right to receive and retain all dividends and other distributions declared, made or paid hereafter.

The KSH Offer Price

The KSH Offer Price shall be HK\$0.6800 per KSH Share, which is expected to be close to or slightly higher than the unaudited adjusted net asset value of the KSH Group per KSH Share as at 30 June 2014, which has been determined principally with reference to the unaudited adjusted net asset value of the KSH Group as at 30 June 2014 after taking into consideration of the effects arising from (i) the Asset Reorganisation (which includes the intended settlement or assignment of, among others, certain intra-group balances between the Remaining Group and the KSH Group); (ii) the Share Sale Completion; (iii) the Distribution In Specie; (iv) the appreciation of the Properties which is equal to the difference between the carrying value of the Properties as at 30 June 2014 and the preliminary appraised value of the Properties as at 31 October 2014 valued by an independent property valuer.

Value of the KSH Offer

As at the date of this joint announcement, there is one KSH Share in issue. Save as aforesaid, KSH has no other relevant securities (as defined in Note 4 to the Rule 22 of the Takeovers Code) as at the date of this joint announcement. In addition, the Optionholders will not be entitled to the Distribution In Specie by merely holding the Options.

Immediately after completion of the Distribution In Specie and assuming no Option is exercised before the Record Date, it is expected that the number of new KSH Shares in issue will be 602,000,000. Assuming all 11,140,000 outstanding Options (except for the Excluded Options) are exercised in full before the Record Date, the total number of new KSH Shares in issue, which will be subject to the KSH Offer, will be increased to 607,440,000 KSH Shares.

Excluding the 450,900,000 KSH Shares to be distributed to Yi Ming Jia Lin, Mr. Kai and the spouse and son of Mr. Kai and assuming no Option is exercised before the Record Date, there will be 151,100,000 KSH Shares subject to the KSH Offer. Based on the offer price of HK\$0.6800 per KSH Share, the KSH Offer is valued at approximately HK\$102,748,000.

Excluding the 450,900,000 KSH Shares to be distributed to Yi Ming Jia Lin, Mr. Kai and the spouse and son of Mr. Kai and assuming 5,440,000 Options are exercised in full (which excluding the Excluded Options) before the Record Date, there will be 156,540,000 KSH Shares subject to the KSH Offer. Based on the offer price of HK\$0.6800 per KSH Share, the KSH Offer is valued at approximately HK\$106,447,200.

Financial resources

The maximum amount of funds of HK\$106,447,200 required for the full acceptance of the KSH Offer by Yi Ming Jia Lin will be initially financed by a loan provided by Kingston Finance Limited in the amount of HK\$107 million. Upon completion of the Share Sale Agreement, Yi Ming Jia Lin shall apply part of the consideration for the Sale Shares and deposit HK\$107 million into the securities trading account of Yi Ming Jia Lin in Kingston Securities for the full acceptance of the KSH Offer. Kingston CF, the financial adviser to Yi Ming Jia Lin, is satisfied that sufficient financial resources are available to Yi Ming Jia Lin to satisfy full acceptance of the KSH Offer.

Effects of accepting the KSH Offer

By accepting the KSH Offer, the relevant Independent KSH Shareholders will sell their respective KSH Shares to Yi Ming Jia Lin free from all liens, charges, options, claims, equities, adverse interests, third-party rights or encumbrances whatsoever and together with all rights accruing or attaching thereto, including (without limitation) the right to receive dividends and distributions declared, made or paid, if any, on or after the date of the KSH Offer Document.

Overseas KSH Shareholders

As the KSH Offer to persons not resident in Hong Kong may be affected by the laws of the relevant jurisdiction in which they are resident, the Overseas KSH Shareholders who are citizens or residents or nationals of a jurisdiction outside Hong Kong should keep themselves informed about and observe any applicable legal or regulatory requirements and where necessary seek legal advice. It is the responsibility of the Overseas KSH Shareholders who wish to accept the KSH Offer to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith (including obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes due in respect of such jurisdiction).

Compulsory redemption right

Subject to sufficient KSH Shares being acquired, Yi Ming Jia Lin intends to avail itself of any compulsory redemption provisions under the applicable laws in the BVI and the relevant provisions of the Takeovers Code. Under section 176 of the BVI Business Companies Act, 2004, Yi Ming Jia Lin (together with its concert parties) can require KSH to compulsorily redeem KSH Shares of the remaining KSH Shareholders once Yi Ming Jia Lin and parties acting concert with it hold 90% or

more of all the issued KSH Shares. Such right of Yi Ming Jia Lin (together with its concert parties) to direct KSH to redeem the KSH Shares will constitute a right of compulsory acquisition under Rule 15.6 of the Takeovers Code.

In addition to the aforesaid requirement, Rule 2.11 of the Takeovers Code requires acceptances of the KSH Offer during the period of 4 months after posting of the composite offer document amount to total 90% of the disinterested KSH Shares.

Further announcement(s) will be made on whether the compulsory redemption can be implemented. As a result of the redemption (if applicable), Yi Ming Jia Lin and its concert parties together will hold 100% of the KSH Shares.

Stamp duty

Given that KSH is a company incorporated in BVI where its register of members is located and maintained, no Hong Kong stamp duty will be payable on any transfer of the KSH Shares.

Information of KSH

KSH was incorporated in BVI on 31 October 2014 with limited liability for the purpose of carrying out the Distributed Businesses and as a wholly-owned subsidiary of the Company prior to the Distribution In Specie. As at the date of this joint announcement, Mr. Kai is the sole director of KSH.

As at the date of this joint announcement, KSH is wholly owned by the Company and will remain a wholly-owned subsidiary of the Company until Distribution In Specie is completed.

Other arrangements

As at the date of this joint announcement, Yi Ming Jia Lin confirms that:

- (i) Yi Ming Jia Lin, its ultimate beneficial owner, and/or parties acting in concert with any of them have not received any irrevocable commitment to accept the KSH Offer;
- (ii) there is no outstanding derivative in respect of securities in KSH which has been entered into by Yi Ming Jia Lin, its ultimate beneficial owner and/or any person acting in concert with any of them;
- (iii) there is no other arrangement (whether by way of option, indemnity or otherwise) in relation to the shares of Yi Ming Jia Lin or KSH and which may be material to the KSH Offer (as referred to in Note 8 to Rule 22 of the Takeovers Code);
- (iv) there is no other agreement or arrangement to which Yi Ming Jia Lin, its ultimate beneficial owner and/or parties acting in concert with any of them is a party which relates to circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the KSH Offer; and

- (v) there is no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in KSH which Yi Ming Jia Lin, its ultimate beneficial owners, and/or any person acting in concert with any of them has borrowed or lent.

Save for the aforesaid and their entitlements to receive KSH Shares pursuant to the Distribution In Specie, Yi Ming Jia Lin, its ultimate beneficial owner and/or parties acting in concert with any of them does not hold any securities of KSH and there is no other existing holding of voting rights and rights over KSH Shares (a) which Yi Ming Jia Lin, its ultimate beneficial owner and/or parties acting in concert with any of them owns or over which it has control or direction; or (b) in respect of which Yi Ming Jia Lin, its ultimate beneficial owner and/or parties acting in concert with any of them holds any convertible securities, warrants or options. None of Yi Ming Jia Lin, its ultimate beneficial owner and/or parties acting in concert with any of them had dealt in the relevant securities of KSH during the six-month period prior to the date of this joint announcement.

Background of Yi Ming Jia Lin and its intention regarding KSH

Yi Ming Jia Lin is an investment holding company incorporated in the BVI with limited liability. As at the date of this joint announcement, Mr. Kai is the sole beneficial owner and sole director of Yi Ming Jia Lin.

Yi Ming Jia Lin and Mr. Kai are the existing controlling Shareholders and together with the spouse and son of Mr. Kai, they hold a total of 450,900,000 Shares, representing approximately 74.90% of the entire issued share capital of the Company as at the date of this joint announcement.

It is the intention of Yi Ming Jia Lin that the KSH Group will not make changes to its principal businesses nor conduct any business other than the Distributed Businesses. It is also the intention of Yi Ming Jia Lin that the KSH Group will not hold any other material assets other than those relating to the Distributed Businesses, nor be injected with any major assets, nor dispose of any major assets, after the close of the KSH Offer, unless prior approval by the KSH Shareholders has been obtained.

Yi Ming Jia Lin has no intention to terminate any employee(s) of KSH Group or make significant changes to any employment. None of the independent non-executive Directors will be appointed as a director of KSH. Following the despatch of the KSH Offer Document, the composition of the board of directors of KSH may change. Further announcement(s) will be made in this regard as and when appropriate.

For those KSH Shareholders who wish to retain their investments in the Distributed Businesses after completion of the Distribution In Specie, they can choose not to accept the KSH Offer and continue to hold the KSH Shares. **They should, however, be aware that there will be no liquid market for the KSH Shares as there is no intention to list the KSH Shares on any stock exchange.** Moreover, the KSH Offer may be subject to compulsory redemption if sufficient KSH Shares are acquired by Yi Ming Jia Lin under the KSH Offer.

COMPARISON OF THE COMBINED OFFER PRICES WITH MARKET PRICES OF THE SHARES AND NET ASSET VALUE PER SHARE

The combined consideration under the Share Offer and the KSH Offer is equivalent to HK\$1.5368 per Share, which represents:

- a premium of approximately 5.26% over the closing price of HK\$1.460 per Share as quoted on the Stock Exchange on the Last Trading Day;
- a premium of approximately 16.07% over and a premium of approximately 14.01% over the average of the closing prices of approximately HK\$1.324 and HK\$1.348 per Share, respectively as quoted on the Stock Exchange for the 5 and 30 consecutive trading days up to and including the Last Trading Day;
- a premium of approximately 13.17% over the average of the closing prices of approximately HK\$1.358 per Share as quoted on the Stock Exchange for the 90 consecutive trading days up to and including the Last Trading Day; and
- a premium of approximately 147.07% over the unaudited consolidated net asset value attributable to equity shareholders of the Company of approximately HK\$0.622 per Share as at 30 June 2014 based on the interim report of the Company for the six months ended 30 June 2014.

For illustration only, the Share Offer price of HK\$0.8568 per Offer Share represents:

- a discount of approximately 41.32% to the closing price of HK\$1.460 per Offer Share as quoted on the Stock Exchange on the Last Trading Day;
- a discount of approximately 35.29% to and a discount of approximately 36.44% to the average of the closing prices of approximately HK\$1.324 and HK\$1.348 per Share respectively as quoted on the Stock Exchange for the 5 and 30 consecutive trading days up to and including the Last Trading Day;
- a discount of approximately 36.90% to the average of the closing prices of approximately HK\$1.358 per Share as quoted on the Stock Exchange for the 90 consecutive trading days up to and including the Last Trading Day; and
- a premium of approximately 37.75% over the unaudited consolidated net asset value attributable to equity shareholders of the Company of approximately HK\$0.622 per Share as at 30 June 2014 based on the interim report of the Company for the six months ended 30 June 2014.

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

24 December 2014

The Directors
Kai Shi China Holdings Company Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to Kai Shi China Holdings Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") comprising the consolidated statements of financial position of the Group and the statement of financial position of the Company as at 31 December 2011, 2012, 2013 and 30 June 2014 and the consolidated statements of profit or loss, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of the Group, for each of the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014 (the "Relevant Periods"), together with the explanatory notes thereto (the "Financial Information"), for inclusion in the circular of the Company dated 24 December 2014 (the "Circular").

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. Pursuant to a group reorganisation (the "IPO Reorganisation") completed on 8 April 2011 for the purpose of Initial Public Offering of the Company's shares on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") as detailed in note 30(b)(ii) of Section B below, the Company became the holding company of the companies now comprising the Group. 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.

As at the date of this report, no audited financial statements have been prepared for Kai Shi Holdings Company Limited ("KSH"), Kai Shi Investment Group Company Limited, Kai Shi Projects Holdings Group Limited, Kai Shi Projects Development Group Limited, Trade Up Business Limited, Profit Gear Development Limited, Kai Shi Hengsheng Planning (Dalian) Co., Ltd. (開世恒

盛策劃(大連)有限公司) and Dalian Kai Shi Urban-Rural Investment and Construction Company Limited (大連開世城鄉投資建設有限公司), as they either are newly incorporated and have not issued their first audited financial statements since the date of incorporation or are investment holding companies and not subject to statutory audit requirements under the relevant rules and regulations in the jurisdiction of incorporation.

All companies now comprising the Group have adopted 31 December as their financial year end date. Details of the companies comprising the Group that are subject to audit during the Relevant Periods and the names of the respective auditors are set out in note 34 of Section B. The statutory financial statements of these companies were prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) or the relevant requirements of the Accounting Standards for Business Enterprises and Accounting Regulations (the “PRC GAAP”) issued by the Ministry of Finance of the People’s Republic of China (the “PRC”).

The directors of the Company have prepared the consolidated financial statements of the Group for the Relevant Periods (the “Underlying Financial Statements”) in accordance with the basis as used in the preparation of the Financial Information set out in Section B below. The Underlying Financial Statements for each of the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014 were audited by us under separate terms of engagement with the Company in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The Financial Information has been prepared by the directors of the Company for inclusion in the Circular in connection with the asset reorganisation of the Company and the conditional distribution in specie of the shares of KSH by the Company to its shareholders based on the Underlying Financial Statements, with no adjustments made thereon and in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

DIRECTORS’ RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”) and the applicable disclosure provisions of the Listing Rules, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS’ RESPONSIBILITY

Our responsibility is to form an opinion on the Financial Information based on our procedures performed in accordance with Auditing Guideline “Prospectuses and the Reporting Accountant” (Statement 3.340) issued by the HKICPA. We have not audited any financial statements of the Company, its subsidiaries or the Group in respect of any period subsequent to 30 June 2014.

OPINION

In our opinion, the Financial Information gives, for the purpose of this report, and on the basis of preparation set out in note 1(b) of Section B below, a true and fair view of the state of affairs of the Group and the Company as at 31 December 2011, 2012, 2013 and 30 June 2014 and the Group's consolidated results and cash flows for the Relevant Periods then ended.

CORRESPONDING FINANCIAL INFORMATION

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of the Group comprising 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 statement of cash flows for the six months ended 30 June 2013, together with the notes thereon (the "Corresponding Financial Information"), for which the directors are responsible, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

The directors of the Company are responsible for the preparation of the Corresponding Financial Information in accordance with the same basis adopted in respect of the Financial Information. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Corresponding Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Corresponding Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

A FINANCIAL INFORMATION

Consolidated statements of profit or loss

(Expressed in Renminbi)

	Section B Note	Years ended 31 December			Six months ended 30 June	
		2011 RMB'000	2012 RMB'000	2013 RMB'000	2013 RMB'000 (unaudited)	2014 RMB'000
Turnover	4	505,310	105,703	100,908	47,528	47,067
Cost of sales		<u>(218,265)</u>	<u>(52,040)</u>	<u>(63,889)</u>	<u>(32,166)</u>	<u>(45,254)</u>
Gross profit		287,045	53,663	37,019	15,362	1,813
Selling and distribution expenses		(17,359)	(15,470)	(10,763)	(6,367)	(2,203)
Administrative expenses		<u>(26,265)</u>	<u>(23,905)</u>	<u>(20,643)</u>	<u>(9,769)</u>	<u>(9,274)</u>
Profit/(loss) from operations before changes in fair value of investment properties		243,421	14,288	5,613	(774)	(9,664)
Increase/(decrease) in fair value of investment properties	14(b)(ii)	340	2,880	10,501	8,490	(44,300)
Fair value gain upon transfer of completed properties held for sale to investment properties	14(b)(ii)	<u>—</u>	<u>35,866</u>	<u>2,835</u>	<u>—</u>	<u>—</u>
Profit/(loss) from operations after changes in fair value of investment properties		243,761	53,034	18,949	7,716	(53,964)
Finance income		710	541	405	443	22
Finance costs	5(a)	<u>(2,404)</u>	<u>(70)</u>	<u>(3,452)</u>	<u>(495)</u>	<u>(2,970)</u>
Profit/(loss) before taxation	5	242,067	53,505	15,902	7,664	(56,912)
Income tax	6(a)	<u>(91,641)</u>	<u>(22,464)</u>	<u>(9,612)</u>	<u>(5,561)</u>	<u>23,004</u>
Profit/(loss) for the year/period		<u>150,426</u>	<u>31,041</u>	<u>6,290</u>	<u>2,103</u>	<u>(33,908)</u>
Attributable to:						
Equity shareholders of the Company		<u>150,426</u>	<u>31,041</u>	<u>6,290</u>	<u>2,103</u>	<u>(33,908)</u>
Profit/(loss) for the year/period		<u>150,426</u>	<u>31,041</u>	<u>6,290</u>	<u>2,103</u>	<u>(33,908)</u>
Earnings/(losses) per share	11					
Basic earnings/(losses) per share (RMB)		<u>0.334</u>	<u>0.05</u>	<u>0.01</u>	<u>0.0035</u>	<u>(0.0563)</u>
Diluted earnings/(losses) per share (RMB)		<u>0.334</u>	<u>0.05</u>	<u>0.01</u>	<u>0.0035</u>	<u>(0.0563)</u>

Consolidated statements of profit or loss and other comprehensive income

(Expressed in Renminbi)

Section B Note	Years ended 31 December			Six months ended 30 June	
	2011 RMB'000	2012 RMB'000	2013 RMB'000	2013 RMB'000	2014 RMB'000
				(unaudited)	
Profit/(loss) for the year/period	<u>150,426</u>	<u>31,041</u>	<u>6,290</u>	<u>2,103</u>	<u>(33,908)</u>
Other comprehensive income for the year/period (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	2,873	—
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translation of financial statements of overseas subsidiaries	—	—	(1,767)	(1,720)	522
Other comprehensive income for the year/period	<u>—</u>	<u>—</u>	<u>462</u>	<u>1,153</u>	<u>522</u>
Total comprehensive income for the year/period	<u>150,426</u>	<u>31,041</u>	<u>6,752</u>	<u>3,256</u>	<u>(33,386)</u>
Attributable to:					
Equity shareholders of the Company	<u>150,426</u>	<u>31,041</u>	<u>6,752</u>	<u>3,256</u>	<u>(33,386)</u>
Total comprehensive income for the year/period	<u>150,426</u>	<u>31,041</u>	<u>6,752</u>	<u>3,256</u>	<u>(33,386)</u>

Consolidated statements of financial position*(Expressed in Renminbi)*

		As at 31 December			As at 30 June
	Section B	2011	2012	2013	2014
	Note	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets					
Lease prepayments	12	—	—	6,485	6,407
Property, plant and equipment	13	10,882	10,564	18,381	17,002
Investment properties	14	<u>157,850</u>	<u>209,730</u>	<u>226,800</u>	<u>182,500</u>
Total non-current assets		<u>168,732</u>	<u>220,294</u>	<u>251,666</u>	<u>205,909</u>
Current assets					
Lease prepayments	12	—	—	154	154
Properties under development	16	172,033	329,310	160,915	164,311
Completed properties held for sale	17	206,280	160,388	345,276	322,696
Inventories	18	9,594	20,957	23,598	20,163
Trade and other receivables, deposits and prepayments	19	39,592	24,183	66,171	80,773
Deposit in an escrow account	21	25,000	25,000	—	—
Restricted cash		60	—	—	—
Cash and cash equivalents	22	116,534	88,297	39,104	64,152
Pledged deposit	23	<u>—</u>	<u>—</u>	<u>25,000</u>	<u>25,000</u>
Total current assets		<u>569,093</u>	<u>648,135</u>	<u>660,218</u>	<u>677,249</u>
Total assets		<u>737,825</u>	<u>868,429</u>	<u>911,884</u>	<u>883,158</u>

	<i>Section B</i>	As at 31 December			As at
		<i>Note</i>	2011 RMB'000	2012 RMB'000	2013 RMB'000
Current liabilities					
Bank loans	24	—	200,000	118,886	119,116
Receipts in advance	25	11,490	20,603	21,908	18,874
Trade and other payables	26	153,382	151,607	260,321	307,752
Current taxation	29(a)	<u>156,241</u>	<u>132,461</u>	<u>130,266</u>	<u>114,320</u>
Total current liabilities		<u>321,113</u>	<u>504,671</u>	<u>531,381</u>	<u>560,062</u>
Net current assets		<u>247,980</u>	<u>143,464</u>	<u>128,837</u>	<u>117,187</u>
Total assets less current liabilities		<u>416,712</u>	<u>363,758</u>	<u>380,503</u>	<u>323,096</u>
Non-current liabilities					
Bank loans	24	200,000	—	—	—
Deferred tax liabilities	29(b)	<u>26,654</u>	<u>42,971</u>	<u>50,366</u>	<u>25,817</u>
Total non-current liabilities		<u>226,654</u>	<u>42,971</u>	<u>50,366</u>	<u>25,817</u>
Net assets		<u>190,058</u>	<u>320,787</u>	<u>330,137</u>	<u>297,279</u>
Equity					
Share capital	30(b)	—	4,884	4,900	4,900
Reserves		<u>190,058</u>	<u>315,903</u>	<u>325,237</u>	<u>292,379</u>
Total equity attributable to equity shareholders of the Company		<u>190,058</u>	<u>320,787</u>	<u>330,137</u>	<u>297,279</u>
Total equity		<u>190,058</u>	<u>320,787</u>	<u>330,137</u>	<u>297,279</u>

Statements of financial position

(Expressed in Renminbi)

	Section B Note	As at 31 December			As at 30 June
		2011 RMB'000	2012 RMB'000	2013 RMB'000	2014 RMB'000
Non-current assets					
Investments in subsidiaries	15	—	—	—	82,956
Total non-current assets		—	—	—	82,956
Current assets					
Trade and other receivables	19	26,540	111,433	132,543	48,619
Cash and cash equivalents	22	—	2,655	554	558
Total current assets		26,540	114,088	133,097	49,177
Total assets		26,540	114,088	133,097	132,133
Current liabilities					
Bank loans	24	—	—	23,886	24,116
Trade and other payables	26	25,000	25,997	26,001	25,454
Total current liabilities		25,000	25,997	49,887	49,570
Net current assets		1,540	88,091	83,210	(393)
Total assets less current liabilities		1,540	88,091	83,210	82,563
Net assets		1,540	88,091	83,210	82,563
Equity					
Share capital	30(a)	—	4,884	4,900	4,900
Reserves	30(a)	1,540	83,207	78,310	77,663
Total Equity		1,540	88,091	83,210	82,563

Consolidated statements of changes in equity

(Expressed in Renminbi)

Section B Note	Attributable to equity shareholders of the Company						Total equity RMB'000
	Paid-in/ share capital RMB'000	Statutory reserve RMB'000	Share-based compensation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non- controlling interests RMB'000	
As at 1 January 2011	39,972	8,008	—	67,855	115,835	2,497	118,332
Changes in equity for 2011:							
Profit for the year	—	—	—	150,426	150,426	—	150,426
Total comprehensive income	—	—	—	150,426	150,426	—	150,426
Acquisition of equity interests from a non-controlling interests	30(b)(ii)	—	—	—	—	(2,497)	(2,497)
Equity settled share-based transactions	30(c)(iii)	—	—	1,540	—	1,540	1,540
Dividend declared in respect of the current year	30(c)(viii)	—	—	(25,000)	(25,000)	—	(25,000)
Appropriation to statutory reserve	30(c)(ii)	—	11,307	—	(11,307)	—	—
IPO Reorganisation	30(b)(ii)	(39,972)	—	—	(12,771)	—	(52,743)
As at 31 December 2011	—	19,315	1,540	169,203	190,058	—	190,058

Section B Note	Attributable to equity shareholders of the Company						Total RMB'000
	Share capital RMB'000	Share premium RMB'000	Statutory reserve RMB'000	Share-based compensation reserve RMB'000	Retained profits RMB'000	Total 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	

APPENDIX II
FINANCIAL INFORMATION OF THE GROUP

	<i>Section B Note</i>	Attributable to equity shareholders of the Company							Total <i>RMB'000</i>
		Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Statutory reserve <i>RMB'000</i>	Share-based compensation reserve <i>RMB'000</i>	Exchange reserve <i>RMB'000</i>	Property revaluation reserve <i>RMB'000</i>	Retained profits <i>RMB'000</i>	
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 reserve	30(c)(ii)	—	—	604	—	—	—	(604)	—
Balance at 31 December 2013		<u>4,900</u>	<u>94,089</u>	<u>21,013</u>	<u>4,691</u>	<u>(1,767)</u>	<u>2,229</u>	<u>204,982</u>	<u>330,137</u>
Balance at 1 January 2014		4,900	94,089	21,013	4,691	(1,767)	2,229	204,982	330,137
Changes in equity for 2014:									
Profit for the period		—	—	—	—	—	—	(33,908)	(33,908)
Other comprehensive income		—	—	—	—	522	—	—	522
Total comprehensive income		—	—	—	—	522	—	(33,908)	(33,386)
Equity settled share-based transactions	30(c)(iii)	—	—	—	528	—	—	—	528
Balance at 30 June 2014		<u>4,900</u>	<u>94,089</u>	<u>21,013</u>	<u>5,219</u>	<u>(1,245)</u>	<u>2,229</u>	<u>171,074</u>	<u>297,279</u>

Section B Note	Attributable to equity shareholders of the Company							Retained profits RMB'000	Total RMB'000
	Share capital RMB'000	Share premium RMB'000	Statutory reserve RMB'000	Share-based compensation reserve RMB'000	Exchange reserve RMB'000	Property revaluation reserve 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 period (unaudited)	—	—	—	—	—	—	2,103	2,103	
Other comprehensive income (unaudited)	—	—	—	—	(1,720)	2,873	—	1,153	
Total comprehensive income (unaudited)	—	—	—	—	(1,720)	2,873	2,103	3,256	
Shares issued for exercise of share options (unaudited)	30(b)(ii)	16	2,277	—	(1,150)	—	—	1,143	
Forfeiture of share options (unaudited)	28	—	—	—	(74)	—	74	—	
Equity settled share-based transactions (unaudited)	30(c)(iii)	—	—	—	923	—	—	923	
Balance at 30 June 2013 (unaudited)	<u>4,900</u>	<u>94,089</u>	<u>20,409</u>	<u>4,231</u>	<u>(1,720)</u>	<u>2,873</u>	<u>201,327</u>	<u>326,109</u>	

Consolidated cash flow statements*(Expressed in Renminbi)*

	<i>Section B Note</i>	Years ended 31 December			Six months ended 30 June	
		2011 <i>RMB'000</i>	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>
					(unaudited)	
Operating activities						
Cash generated from/(used in) operations	22(b)	108,496	(88,904)	(63,523)	(38,235)	(11,628)
Income tax paid		<u>(10,409)</u>	<u>(29,994)</u>	<u>(5,155)</u>	<u>(4,991)</u>	<u>(17,491)</u>
Net cash generated from/(used in) operating activities		<u>98,087</u>	<u>(118,898)</u>	<u>(68,678)</u>	<u>(43,226)</u>	<u>(29,119)</u>
Investing activities						
Payment for acquisition of leasehold land and buildings and other property, plant and equipment		(5,114)	(2,088)	(17,549)	(16,303)	(11)
Proceeds from sale of property plant and equipment		138	—	—	—	—
Advances to related parties		(42,610)	—	—	—	—
Repayment from related parties		<u>99,432</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net cash generated from/(used in) investing activities		<u>51,846</u>	<u>(2,088)</u>	<u>(17,549)</u>	<u>(16,303)</u>	<u>(11)</u>

<i>Section B</i>	Years ended 31 December			Six months ended 30 June		
	<i>Note</i>	2011 RMB'000	2012 RMB'000	2013 RMB'000	2013 RMB'000 (unaudited)	2014 RMB'000
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	923	—
Proceeds from new bank loans		112,000	—	118,886	40,000	—
Repayment of bank loans		(4,440)	—	(200,000)	—	—
Increase in amount deposited to an escrow account		(25,000)	—	—	—	—
Interest received		357	363	405	—	22
Advances from related parties		27,510	57,742	169,020	—	161,948
Repayment of advances from related parties		(30,595)	(44,855)	(36,893)	—	(104,391)
Interest paid		(11,714)	(14,033)	(15,159)	(7,111)	(3,449)
Dividend paid		(69,300)	—	—	—	—
Deemed distribution in relation to the Reorganisation		(52,743)	—	—	—	—
Acquisition of non-controlling interests		(2,497)	—	—	—	—
Net cash (used in)/generated from financing activities		<u>(56,422)</u>	<u>92,749</u>	<u>37,402</u>	<u>33,812</u>	<u>54,130</u>
Net increase/(decrease) in cash and cash equivalents		<u>93,511</u>	<u>(28,237)</u>	<u>(48,825)</u>	<u>(25,717)</u>	<u>25,000</u>
Cash and cash equivalents at 1 January		23,023	116,534	88,297	88,297	39,104
Effect of foreign exchange rate changes		—	—	(368)	(235)	48
Cash and cash equivalents at 31 December/30 June	22(a)	<u>116,534</u>	<u>88,297</u>	<u>39,104</u>	<u>62,345</u>	<u>64,152</u>

B NOTES TO THE FINANCIAL INFORMATION

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES**(a) Statement of compliance**

The Financial Information set out in this report has been prepared in accordance with International Financial Reporting Standards (“IFRSs”), which collective term includes International Accounting Standards (“IASs”) and related interpretations promulgated by the International Accounting Standards Board (“IASB”). Further details of the significant accounting policies adopted are set out in the remainder of this Section B.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Financial Information, the Group has adopted all applicable new and revised IFRSs to the Relevant Periods, except for any new standards or interpretations that are not yet effective for the Relevant Periods. The revised and new accounting standards and interpretations issued but not yet effective for the Relevant Periods are set out in note 36.

The Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

The Corresponding Financial Information for the six months ended 30 June 2013 has been prepared in accordance with the same basis and accounting policies adopted in respect of the Financial Information.

(b) Basis of preparation and presentation

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 on 12 January 2012.

Pursuant to the IPO Reorganisation of the Company and its subsidiaries (together referred to as the “Group”) completed on 8 April 2011 to rationalise the group structure in preparation for the listing of the Company’s shares on the Main Board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company became the holding company of the subsidiaries now comprising the Group. Details of the IPO Reorganisation are set out in note 30(b)(ii).

The Group is regarded as a continuing entity resulting from the IPO Reorganisation under common control and has been accounted for on the basis of merger accounting. The consolidated financial information of the Group have been prepared as if the group structure upon the completion of the IPO Reorganisation had been in existence throughout the Relevant Periods presented, or since the respective dates of incorporation or establishment of the group companies, rather than from the date when the Company became the holding company of the Group pursuant to the IPO Reorganisation.

(c) Basis of measurement

The Financial Information is presented in Renminbi (“RMB”), rounded to the nearest thousand. It is prepared on the historical cost basis except for investment properties (see note 1(h)) that are stated at their fair value.

(d) Going concern

The Financial Information has been prepared assuming the Group will continue as a going concern. The directors are of the opinion that, based on detailed review of liquidity requirement and working capital forecast of the Group for the next 12 months, the Group will have necessary liquid funds to finance its working capital and capital expenditure requirements.

(e) Use of estimates and judgements

The preparation of Financial Information 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 Information and the major sources of estimation uncertainty are discussed in note 2.

(f) 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 Financial Information 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(k)(ii)).

(g) Joint ventures

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in a joint venture is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 1(k)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

In the Company's statement of financial position, investments in joint venture are stated at cost less impairment losses (see note 1(k)). No investments in joint venture were recorded as at 31 December 2011, 2012, 2013 and 30 June 2014 as the Group's joint venture, Dalian Kai Shi Urban-Rural Investment and Construction Company Limited, was newly incorporated in May 2014.

(h) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (note 1(j)) 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(v)(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).

(i) Other property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(k)). 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(k)).

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(x)).

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	5–10 years
Motor vehicles	5–10 years
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.

(j) 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(h)) or property under development or held for development for sale (see note 1(l)).

(k) 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 the end of the 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.

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, except 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 the end of the 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
- Investments in subsidiaries and joint ventures in the Company's statements of financial information.

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).

— *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/period in which the reversals are recognised.

(l) 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(x)). 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.

(m) 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.

(n) 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(v)(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 statements 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”.

(o) 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(k)), 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.

(p) 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.

(q) 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.

(r) 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.

(s) 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).

(t) Income tax

Income tax for the year/period 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/period, using tax rates enacted or substantively enacted at the end of the 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(h), 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.

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 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 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.

(u) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group 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.

(v) 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.

(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.

(w) Translation of foreign currencies

Foreign currency transactions during the year/period 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 the 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.

(x) 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 the 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.

(y) 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.

(z) 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, there 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.

(b) Sources of estimation uncertainty

Notes 14, 28, 29 and 31 contain information about the assumptions and their risk factors relating to valuation of investment property, fair value of share options granted, recognition of deferred tax liabilities in respect of undistributed profits of the Group's subsidiaries in the People's Republic of China ("the PRC") and valuation of financial instruments. Other key sources of estimation uncertainty are as follows:

(i) Construction contracts

As explained in policy notes 1(n) and 1(v)(iii) revenue and profit recognition on an incompleting 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 20 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(l), 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/periods.

(iii) Provision for Land Appreciation Tax ("LAT")

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.

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".

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 is set out below.

	Property development <i>RMB'000</i>	Provision of earthwork engineering service <i>RMB'000</i>	Sales of door and windows <i>RMB'000</i>	Total <i>RMB'000</i>
For the year ended 31 December 2011				
Reportable segment revenue	<u>481,269</u>	<u>—</u>	<u>29,819</u>	<u>511,088</u>
Reportable segment profit	<u>190,183</u>	<u>(1,105)</u>	<u>45,624</u>	<u>234,702</u>
Interest income from bank deposits	<u>31</u>	<u>40</u>	<u>13</u>	<u>84</u>
Interest expense	<u>(2,156)</u>	<u>—</u>	<u>(180)</u>	<u>(2,336)</u>
Depreciation and amortisation for the year	<u>(1,649)</u>	<u>(231)</u>	<u>(192)</u>	<u>(2,072)</u>
Reportable segment assets	<u>795,290</u>	<u>—</u>	<u>120,033</u>	<u>915,323</u>
Reportable segment liabilities	<u>567,682</u>	<u>—</u>	<u>104,537</u>	<u>672,219</u>
For the year ended 31 December 2012				
Reportable segment revenue	<u>80,016</u>	<u>3,286</u>	<u>22,401</u>	<u>105,703</u>
Reportable segment profit	<u>29,159</u>	<u>926</u>	<u>757</u>	<u>30,842</u>
Interest income from bank deposits	<u>356</u>	<u>1</u>	<u>6</u>	<u>363</u>
Interest expense	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Depreciation and amortisation for the year	<u>(1,818)</u>	<u>(369)</u>	<u>(219)</u>	<u>(2,406)</u>
Reportable segment assets	<u>898,719</u>	<u>5,177</u>	<u>146,438</u>	<u>1,050,334</u>
Reportable segment liabilities	<u>556,786</u>	<u>2,411</u>	<u>116,697</u>	<u>675,894</u>

	Property development <i>RMB'000</i>	Provision of earthwork engineering service <i>RMB'000</i>	Sales of door and windows <i>RMB'000</i>	Total <i>RMB'000</i>
For the year ended 31 December 2013				
Reportable segment revenue	<u>39,795</u>	<u>31,867</u>	<u>29,246</u>	<u>100,908</u>
Reportable segment (loss)/profit	<u>(433)</u>	<u>6,129</u>	<u>455</u>	<u>6,151</u>
Interest income from bank deposits	<u>184</u>	<u>15</u>	<u>206</u>	<u>405</u>
Interest expense	<u>(38)</u>	<u>(1,422)</u>	<u>(1,341)</u>	<u>(2,801)</u>
Depreciation and amortisation for the year	<u>(2,209)</u>	<u>(380)</u>	<u>(303)</u>	<u>(2,892)</u>
Reportable segment assets	<u>879,547</u>	<u>208,362</u>	<u>188,903</u>	<u>1,276,812</u>
Reportable segment liabilities	<u>518,704</u>	<u>197,064</u>	<u>158,707</u>	<u>874,475</u>
For the period ended 30 June 2013 (unaudited)				
Reportable segment revenue	<u>16,194</u>	<u>19,741</u>	<u>11,593</u>	<u>47,528</u>
Reportable segment (loss)/profit	<u>(3,032)</u>	<u>4,341</u>	<u>723</u>	<u>2,032</u>
Interest income from bank deposits	<u>108</u>	<u>7</u>	<u>6</u>	<u>121</u>
Interest expense	<u>—</u>	<u>(480)</u>	<u>—</u>	<u>(480)</u>
Depreciation and amortisation for the period	<u>(1,101)</u>	<u>(188)</u>	<u>(109)</u>	<u>(1,398)</u>
Reportable segment assets	<u>872,400</u>	<u>48,422</u>	<u>131,436</u>	<u>1,052,258</u>
Reportable segment liabilities	<u>514,594</u>	<u>41,315</u>	<u>100,972</u>	<u>656,881</u>
For the period ended 30 June 2014				
Reportable segment revenue	<u>13,504</u>	<u>12,445</u>	<u>21,118</u>	<u>47,067</u>
Reportable segment (loss)/profit	<u>(39,884)</u>	<u>4,799</u>	<u>1,158</u>	<u>(33,927)</u>
Interest income from bank deposits	<u>9</u>	<u>6</u>	<u>7</u>	<u>22</u>
Interest expense	<u>(175)</u>	<u>(672)</u>	<u>(2,108)</u>	<u>(2,955)</u>
Depreciation and amortisation for the period	<u>(1,061)</u>	<u>(208)</u>	<u>(198)</u>	<u>(1,467)</u>
Reportable segment assets	<u>903,553</u>	<u>99,985</u>	<u>186,324</u>	<u>1,189,862</u>
Reportable segment liabilities	<u>498,117</u>	<u>84,360</u>	<u>154,971</u>	<u>737,448</u>

4 TURNOVER

The principal activities of the Group are property development, provision of earthwork engineering service and sales of doors and windows. The amount of each significant category of revenue recognised in turnover during the year/period is as follows:

	Years ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Sales of properties	479,555	77,577	36,121	14,309	10,998
Provision of earthwork engineering service	—	3,286	31,867	19,742	12,445
Sales of doors and windows	24,040	22,401	29,246	11,593	21,118
Rental income	1,715	2,439	3,674	1,884	2,506
	<u>505,310</u>	<u>105,703</u>	<u>100,908</u>	<u>47,528</u>	<u>47,067</u>

5 PROFIT/(LOSS) BEFORE TAXATION

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

	Years ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
(a) Finance costs:					
Interest on bank loans	11,714	14,033	15,159	7,111	3,427
Less: Interest expense capitalised into properties under development (<i>note</i>)	<u>(9,378)</u>	<u>(14,033)</u>	<u>(12,358)</u>	<u>(6,631)</u>	<u>(472)</u>
	2,336	—	2,801	480	2,955
Other finance costs	<u>68</u>	<u>70</u>	<u>651</u>	<u>15</u>	<u>15</u>
	<u>2,404</u>	<u>70</u>	<u>3,452</u>	<u>495</u>	<u>2,970</u>

Note: The borrowing costs have been capitalised into properties under development for sale at rates ranging from 5.88% to 6.41%, 6.14% to 6.98%, 6.46% to 7.20% and 6.46% to 7.20% per annum for the years ended 31 December 2011, 2012, 2013 and the six months ended 30 June 2014 respectively.

	Years ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(b) Staff costs:				(unaudited)	
Contributions to defined contribution retirement plans (note 27)	1,017	1,162	1,281	466	503
Salaries, wages and other benefits	7,019	9,504	9,720	4,675	4,804
Equity-settled share-based payment expenses (note 28)	1,540	2,992	1,455	923	528
	<u>9,576</u>	<u>13,658</u>	<u>12,456</u>	<u>6,064</u>	<u>5,835</u>

Staff costs included directors' and senior management's remuneration (notes 7 and 8).

(c) Other items:					
Depreciation	2,072	2,406	2,815	1,398	1,390
Amortisation of lease prepayments	—	—	77	—	78
Operating lease charges	—	1,644	1,722	—	—
Net foreign exchange (gain)/loss	(353)	(178)	373	(178)	2
Auditor's remuneration	2,535	1,309	1,419	250	450
Charity donations	235	—	—	—	—
Write-down of completed properties held for sale	—	—	—	—	18,500
(Gain)/loss on disposal of property, plant and equipment	(112)	—	3	—	—
Rentals receivable from investment properties less direct outgoings	(1,715)	(2,392)	(3,626)	(1,885)	(2,506)
Cost of inventories [#]	<u>21,137</u>	<u>17,492</u>	<u>22,776</u>	<u>8,928</u>	<u>15,329</u>

[#] Included in cost of inventories in respect of sales of doors and windows are RMB1,129,000, RMB1,602,000, RMB1,722,000, RMB619,000 (unaudited) and RMB1,060,000 for the years ended 31 December 2011, 2012, 2013 and six months ended 30 June 2013 and 2014 relating to staff costs, depreciation and amortisation expenses. These amounts are also included in the respective total amounts disclosed separately above or in notes 5(b) and (c) for each of these types of expenses.

6 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

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

	Years ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Current tax					
PRC Corporate Income Tax ("CIT")	71,543	566	843	729	652
PRC LAT	<u>33,866</u>	<u>5,581</u>	<u>2,117</u>	<u>632</u>	<u>893</u>
	105,409	6,147	2,960	1,361	1,545
Deferred tax					
Origination and reversal of temporary differences relating to CIT	(13,870)	12,583	1,766	602	(12,337)
Origination and reversal of temporary differences relating to LAT	<u>102</u>	<u>3,734</u>	<u>4,886</u>	<u>3,598</u>	<u>(12,212)</u>
	<u>91,641</u>	<u>22,464</u>	<u>9,612</u>	<u>5,561</u>	<u>(23,004)</u>

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

	Years ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Profit/(loss) before taxation	<u>242,067</u>	<u>53,505</u>	<u>15,902</u>	<u>7,664</u>	<u>(56,912)</u>
Notional tax on profit/(loss) before taxation, calculated at the rates applicable to profits in the countries concerned	61,289	13,967	4,200	1,856	(14,551)
Tax effect of non-deductible expenses	2,528	1,511	159	532	36
Tax effect of unused tax loss not recognised	276	—	—	—	—
LAT	33,968	9,315	7,003	4,230	(11,319)
Tax effect of LAT	(8,492)	(2,329)	(1,750)	(1,057)	2,830
Deemed withholding income tax for dividends declared	<u>2,072</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Actual tax expense/(benefit)	<u>91,641</u>	<u>22,464</u>	<u>9,612</u>	<u>5,561</u>	<u>(23,004)</u>

(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 BVI, 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 years ended 31 December 2011, 2012, 2013 and six months ended 30 June 2014.

- (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.

7 DIRECTORS' REMUNERATION

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

	Year ended 31 December 2011					Total RMB'000
	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	
Executive directors:						
Mr. Kai Chenglian	—	264	14	—	562	840
Mr. Kai Xiaojiang	—	162	12	—	169	343
Ms. Jiang Shuxia	—	162	12	—	169	343
Ms. Han Liping	—	159	13	—	169	341
Independent non-executive directors:						
Ms. Yang Jing	—	58	—	—	—	58
Mr. Li Fook Wing	—	32	—	—	—	32
Ms. Sun Huijun	—	58	—	—	—	58
Total	—	895	51	—	1,069	2,015

	Year ended 31 December 2012					Total RMB'000
	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	
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
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

Six months ended 30 June 2013 (unaudited)

	Fee <i>RMB'000</i>	Basic salaries, allowances and other benefits <i>RMB'000</i>	Contributions to retirement benefit scheme <i>RMB'000</i>	Discretionary bonuses <i>RMB'000</i>	Equity settled share-based payments <i>RMB'000</i>	Total <i>RMB'000</i>
Executive directors:						
Mr. Kai Chenglian	—	324	22	—	340	686
Mr. Kai Xiaojiang	—	64	13	—	102	179
Ms. Jiang Shuxia	—	204	19	—	102	325
Ms. Han Liping	—	71	21	—	102	194
Independent non-executive directors:						
Ms. Yang Jing	—	50	—	—	—	50
Mr. Li Fook Wing	—	49	—	—	—	49
Ms. Sun Huijun	—	50	—	—	—	50
Total	—	812	75	—	646	1,533

Six months ended 30 June 2014

	Fee <i>RMB'000</i>	Basic salaries, allowances and other benefits <i>RMB'000</i>	Contributions to retirement benefit scheme <i>RMB'000</i>	Discretionary bonuses <i>RMB'000</i>	Equity settled share-based payments <i>RMB'000</i>	Total <i>RMB'000</i>
Executive directors:						
Mr. Kai Chenglian	—	322	20	—	200	542
Mr. Kai Xiaojiang	—	97	17	—	60	174
Ms. Jiang Shuxia	—	193	24	—	60	277
Ms. Han Liping	—	57	27	—	60	144
Independent non-executive directors:						
Ms. Yang Jing	—	50	—	—	—	50
Mr. Li Fook Wing	—	49	—	—	—	49
Ms. Sun Huijun	—	50	—	—	—	50
Total	—	818	88	—	380	1,286

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(s)(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 Relevant Periods, 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. There was no arrangement under which a director has waived or agreed to waive any emoluments during the Relevant Periods.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

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

	Years ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Salaries and other emoluments	137	122	136	60	65
Equity settled share-based payment	56	108	52	33	20
Contributions to retirement benefitscheme					
	<u>13</u>	<u>10</u>	<u>36</u>	<u>16</u>	<u>17</u>
	<u>206</u>	<u>240</u>	<u>224</u>	<u>109</u>	<u>102</u>

The emolument of the above individual with the highest emoluments is within the following band during the Relevant Periods:

	Years ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	<i>Number of individuals</i>	<i>Number of individuals</i>	<i>Number of individuals</i>	<i>Number of individuals</i>	<i>Number of individuals</i>
				(unaudited)	
Nil to HK\$1,000,000	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>

9 PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The consolidated profit/(loss) attributable to equity shareholders of the Company includes profit of RMB25,000,000, loss of RMB13,137,000, loss of RMB4,850,000, loss of RMB2,809,000 (unaudited) and loss of RMB1,969,000 for the years ended 31 December 2011, 2012, 2013 and the six months ended 30 June 2013 and 2014 respectively, which have been dealt with in the financial statements of the Company.

10 OTHER COMPREHENSIVE INCOME

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

	31 December 2013		
	Before-tax amount	Tax expense	Net-of-tax amount
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
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	<u>2,972</u>	<u>(743)</u>	<u>2,229</u>
Other comprehensive income	<u><u>1,205</u></u>	<u><u>(743)</u></u>	<u><u>462</u></u>
	30 June 2013 (unaudited)		
	Before-tax amount	Tax expense	Net-of-tax amount
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Exchange differences on translation of financial statements of overseas subsidiaries	(1,720)	—	(1,720)
Surplus on revaluation upon transfer of property, plant and equipment to investment properties	<u>3,831</u>	<u>(958)</u>	<u>2,873</u>
Other comprehensive income	<u><u>2,111</u></u>	<u><u>(958)</u></u>	<u><u>1,153</u></u>
	30 June 2014		
	Before-tax amount	Tax expense	Net-of-tax amount
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Exchange differences on translation of financial statements of overseas subsidiaries	<u>522</u>	—	<u>522</u>
Other comprehensive income	<u><u>522</u></u>	<u><u>—</u></u>	<u><u>522</u></u>

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

	Years ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Surplus on revaluation upon transfer of property, plant and equipment to investment properties:					
Changes in fair value recognised during the year/period	—	—	2,972	3,831	—
Net deferred tax charged to other comprehensive income	—	—	(743)	(958)	—
	<u>—</u>	<u>—</u>	<u>2,229</u>	<u>2,873</u>	<u>—</u>
Surplus on revaluation upon transfer of property, plant and equipment to investment property during the year recognised in other comprehensive income	—	—	2,229	2,873	—

11 EARNINGS/(LOSSES) PER SHARE

(a) Basic earnings/(losses) per share

The Company's shares were listed on the Stock Exchange on 12 January 2012. For the purpose of this report, the calculation of basic earnings per share for the year ended 31 December 2011 is based on the profit attributable to equity shareholders of the Company of RMB150,426,000 and on the assumption that 450,000,000 ordinary shares of the Company were in issue throughout the year.

The calculation of basic earnings/(losses) per share for the years ended 31 December 2012, 2013 and six months ended 30 June 2013 and 2014 is based on the respective profit/(loss) attributable to ordinary equity shareholders of the Company of RMB31,041,000, RMB6,290,000, RMB2,103,000 (unaudited) and RMB(33,908,000) and the weighted average number of ordinary shares of 595,479,453, 601,075,342, 600,135,359 (unaudited) and 602,000,000 in issue during the respective year/period, calculated as follows:

Weighted average number of ordinary shares

	Years ended 31 December		Six months ended 30 June	
	2012	2013	2013	2014
	No. of shares	No. of shares	No. of shares	No. of shares
Issued ordinary shares at 1 January	1	600,000,000	600,000,000	602,000,000
Effect of issue of share by public offering (note 30(b)(ii))	145,479,452	—	—	—
Effect of capitalisation issue (note 30(b)(ii))	450,000,000	—	—	—
Effect of share options exercised (note 28)	—	1,075,342	135,359	—
	<u>595,479,453</u>	<u>601,075,342</u>	<u>600,135,359</u>	<u>602,000,000</u>
Weighted average number of ordinary shares at 31 December/30 June	<u>595,479,453</u>	<u>601,075,342</u>	<u>600,135,359</u>	<u>602,000,000</u>

(b) Diluted earnings/(losses) per share

There were no dilutive potential ordinary shares during the year ended 31 December 2011 and the six months ended 30 June 2014 and, therefore, diluted earnings/(losses) per share for the year ended 31 December 2011 and the six months ended 30 June 2014 are the same as the basic earnings/(losses) per share.

The calculation of diluted earnings/(losses) per share for the years ended 31 December 2012 and 2013 and six months ended 30 June 2013 is based on the profit attributable to ordinary equity shareholders of the Company of RMB31,041,000, RMB6,290,000 and RMB2,103,000 (unaudited) and the weighted average number of ordinary shares of 603,090,564, 607,672,452 and 607,183,746 (unaudited) shares, calculated as follows:

Weighted average number of ordinary shares

	Years ended		Six months ended
	31 December		30 June
	2012	2013	2013
	<i>No. of shares</i>	<i>No. of shares</i>	<i>No. of shares</i> (unaudited)
Weighted average number of ordinary shares at 31 December/30 June	595,479,453	601,075,342	600,135,359
Effect of deemed issue of shares under the Company's share option scheme for nil consideration (<i>note 28</i>)	<u>7,611,111</u>	<u>6,597,110</u>	<u>7,048,387</u>
Weighted average number of ordinary shares (diluted) at 31 December/30 June	<u>603,090,564</u>	<u>607,672,452</u>	<u>607,183,746</u>

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 (“天津保稅區投資有限公司”) for a total consideration of RMB16,500,000, of which RMB6,716,000 related to the acquisition of land. As at 30 June 2014, the Group was still in the process of applying the ownership certificate for the land and building.

As at 31 December 2013 and 30 June 2014, the Group had a current portion of lease prepayment of RMB154,000 and RMB154,000 respectively, which are expected to be amortised to profit or loss within one year.

13 PROPERTY, PLANT AND EQUIPMENT

	Buildings <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Furniture, fixtures and equipment <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
Cost:						
At 1 January 2011	3,251	724	5,328	1,845	—	11,148
Additions	—	1,885	2,939	290	—	5,114
Disposals	—	—	(390)	—	—	(390)
At 31 December 2011	3,251	2,609	7,877	2,135	—	15,872
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
At 1 January 2014	2,991	3,634	9,396	2,687	9,784	28,492
Additions	—	11	—	—	—	11
At 30 June 2014	2,991	3,645	9,396	2,687	9,784	28,503

	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
Accumulated depreciation:						
At 1 January 2011	276	506	1,592	908	—	3,282
Charge for the year	158	255	1,427	232	—	2,072
Written back on disposals	—	—	(364)	—	—	(364)
At 31 December 2011	<u>434</u>	<u>761</u>	<u>2,655</u>	<u>1,140</u>	<u>—</u>	<u>4,990</u>
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	<u>569</u>	<u>1,095</u>	<u>4,361</u>	<u>1,363</u>	<u>—</u>	<u>7,388</u>
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	<u>664</u>	<u>1,388</u>	<u>6,326</u>	<u>1,733</u>	<u>—</u>	<u>10,111</u>
At 1 January 2014	664	1,388	6,326	1,733	—	10,111
Charge for the period	76	261	958	95	—	1,390
At 30 June 2014	<u>740</u>	<u>1,649</u>	<u>7,284</u>	<u>1,828</u>	<u>—</u>	<u>11,501</u>
Net book value:						
At 31 December 2011	<u>2,817</u>	<u>1,848</u>	<u>5,222</u>	<u>995</u>	<u>—</u>	<u>10,882</u>
At 31 December 2012	<u>2,682</u>	<u>2,116</u>	<u>4,953</u>	<u>813</u>	<u>—</u>	<u>10,564</u>
At 31 December 2013	<u>2,327</u>	<u>2,246</u>	<u>3,070</u>	<u>954</u>	<u>9,784</u>	<u>18,381</u>
At 30 June 2014	<u>2,251</u>	<u>1,996</u>	<u>2,112</u>	<u>859</u>	<u>9,784</u>	<u>17,002</u>

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 2013. As at 30 June 2014, the building was still under construction (note 12) and the Group was in progress of obtaining the relevant building ownership certificates.

In addition to this, certain other buildings were pledged for certain bank loans granted to the Group since 2013. As at 31 December 2013 and 30 June 2014, the carrying value of these building were amounted to RMB2,327,000 and RMB2,230,000 respectively (note 24).

As at 31 December 2011, 2012 and 2013 and 30 June 2014, certain property, plant and equipment that were fully depreciated but still in use were amounted to RMB1,105,000, RMB2,257,000, RMB2,281,000, and RMB4,103,000 respectively.

14 INVESTMENT PROPERTIES

	Investment properties <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2011	157,510	157,510
Additions	—	—
Fair value adjustment	<u>340</u>	<u>340</u>
At 31 December 2011	<u><u>157,850</u></u>	<u><u>157,850</u></u>
Representing:		
Cost	48,975	48,975
Valuation adjustments	<u>108,875</u>	<u>108,875</u>
	<u><u>157,850</u></u>	<u><u>157,850</u></u>
At 1 January 2012	157,850	157,850
Additions	13,134	13,134
Fair value adjustment	<u>38,746</u>	<u>38,746</u>
At 31 December 2012	<u><u>209,730</u></u>	<u><u>209,730</u></u>
Representing:		
Cost	62,109	62,109
Valuation adjustments	<u>147,621</u>	<u>147,621</u>
	<u><u>209,730</u></u>	<u><u>209,730</u></u>

	Investment properties <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2013	209,730	209,730
Additions	762	762
Fair value adjustment	<u>16,308</u>	<u>16,308</u>
At 31 December 2013	<u><u>226,800</u></u>	<u><u>226,800</u></u>
Representing:		
Cost	62,871	62,871
Valuation adjustments	<u>163,929</u>	<u>163,929</u>
	<u>226,800</u>	<u>226,800</u>
At 1 January 2014	226,800	226,800
Additions	—	—
Fair value adjustment	<u>(44,300)</u>	<u>(44,300)</u>
At 30 June 2014	<u><u>182,500</u></u>	<u><u>182,500</u></u>
Representing:		
Cost	62,871	62,871
Valuation adjustments	<u>119,629</u>	<u>119,629</u>
	<u>182,500</u>	<u>182,500</u>
Net book value:		
As at 31 December 2011	<u><u>157,850</u></u>	<u><u>157,850</u></u>
As at 31 December 2012	<u><u>209,730</u></u>	<u><u>209,730</u></u>
As at 31 December 2013	<u><u>226,800</u></u>	<u><u>226,800</u></u>
At 30 June 2014	<u><u>182,500</u></u>	<u><u>182,500</u></u>

(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 aggregate values of RMB21,640,000 and RMB20,140,000 as at 31 December 2013 and 30 June 2014 respectively were pledged for certain loans granted to the Group (note 24).

During the Relevant Periods, 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 during the years ended 31 December 2012 and 2013. The Group had entered into lease agreements with independent third parties accordingly. As a result, fair value gains amounting to RMB35,866,000 and RMB2,835,000 were recognised upon the transfer in the years ended 31 December 2012 and 2013 respectively.
- During the year ended 31 December 2013, 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 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:

	As at 31 December		As at 30 June	
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	2,383	3,963	5,199	3,782
After 1 year but within 5 years	2,354	5,839	6,075	7,134
After 5 years	—	3,501	3,700	2,182
	<u>4,737</u>	<u>13,303</u>	<u>14,974</u>	<u>13,098</u>

(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 Total RMB'000	Fair value measurements categorised into		
		Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurement				
At 31 December 2011				
Investment properties:				
Commercial — PRC	157,850	—	—	157,850
At 31 December 2012				
Investment properties:				
Commercial — PRC	209,730	—	—	209,730
At 31 December 2013				
Investment properties:				
Commercial — PRC	226,800	—	—	226,800
At 30 June 2014				
Investment properties:				
Commercial — PRC	182,500	—	—	182,500

During the Relevant Periods, 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 the end of the reporting period. The valuations as at 31 December 2011 was carried out by Vigers Appraisal & Consulting Limited ("Vigers") and the valuation as at 31 December 2012, 2013 and 30 June 2014 were carried out by Grant Sherman Appraisal Limited ("Grant Sherman"). Both Vigers and Grant Sherman are an independent firm of surveyors, 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.

(ii) *Information about Level 3 fair value measurements*

	Valuation techniques	Unobservable input	Range	Weighted average
Investment properties	Capitalised rental	Risk-adjusted discount	3.7% to	3.8%
Commercial — PRC	income approach	rate	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 Relevant Periods in the balance of the Level 3 fair value measurement is as follows:

	<i>RMB'000</i>
Investment properties — Commercial — PRC	
At 1 January 2011	157,510
Fair value adjustment	<u>340</u>
At 31 December 2011	<u>157,850</u>
At 1 January 2012	157,850
Additions	13,134
Fair value adjustment	<u>38,746</u>
At 31 December 2012	<u>209,730</u>
At 1 January 2013	209,730
Additions	762
Fair value adjustment	<u>16,308</u>
At 31 December 2013	<u>226,800</u>
At 1 January 2014	226,800
Fair value adjustment	<u>(44,300)</u>
At 30 June 2014	<u>182,500</u>

Fair value adjustments of investment properties presented above includes:

	Years ended 31 December			Six months ended
	2011	2012	2013	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Change in fair value of investment properties	340	2,880	10,501	(44,300)
Valuation gains recognised in profit or loss upon transfer from completed properties held for sale to investment properties	—	35,866	2,835	—
Valuation gains recognised in other comprehensive income upon transfer from properties, plant and equipment to investment properties	<u>—</u>	<u>—</u>	<u>2,972</u>	<u>—</u>
	<u>340</u>	<u>38,746</u>	<u>16,308</u>	<u>(44,300)</u>

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

15 INVESTMENTS IN SUBSIDIARIES

	The Company			As at 30 June 2014 RMB'000
	As at 31 December			
	2011	2012	2013	
	RMB'000	RMB'000	RMB'000	
Unlisted shares, at cost	—	—	—	82,956

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			Principal activity
			The Group's effective interest	Held by the company	Held by subsidiaries	
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 Construction & Engineering Co., Ltd. 大連市開世建設工程有限公司*/*/* ("KS Engineering")	PRC 2 September 2010	RMB6,000,000/ RMB6,000,000	100%	—	100%	Earthwork engineering
Trade Up Business Limited ("Remaining Holdco")	BVI 12 May 2014	USD1/USD50,000	100%	100%	—	Investment holding
Profit Gear Development Limited ("Profit Gear")	Hong Kong 21 March 2014	HK\$1/HK\$10,000	100%	—	100%	Investment holding
Kai Shi Projects Holdings Group Limited ("Kai Shi Projects Holding")	BVI 11 June 2014	USD1/USD50,000	100%	100%	—	Investment holding
Kai Shi Projects Development Group Limited ("Kai Shi Projects Development")	Hong Kong 19 June 2014	HK\$1/HK\$10,000	100%	—	100%	Investment holding

* 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 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”).

**** Subsequent to 30 June 2014, KSH and Kai Shi Hengsheng Planning (Dalian) Co., Ltd. (“開世恒盛策劃(大連)有限公司”*) or “Kai Shi Hengsheng”) were respectively incorporated in the British Virgin Islands and the PRC with limited liability.

16 PROPERTIES UNDER DEVELOPMENT

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

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	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	172,033	179,301	160,915	164,311
	<u>172,033</u>	<u>329,310</u>	<u>160,915</u>	<u>164,311</u>

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

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
In the PRC, with lease term of 50 years or more:	169,280	169,280	121,585	121,585

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 RMB168,324,000, RMB50,381,000, RMB50,381,000 and RMB50,381,000 as at 31 December 2011, 2012 and 2013 and 30 June 2014 respectively.

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.

Completed properties held for sale that were pledged for certain bank loan granted to the Group were amounted to RMB163,390,000 and RMB138,818,000 as at 31 December 2011 and 2012 respectively (note 24). These completed properties were released from pledge in 2013 and no completed properties held for sale were pledged for bank loans granted to the Group since then.

Certain other buildings included in completed properties held for sale with aggregate carrying values of RMB33,132,000 and RMB17,798,000 as at 31 December 2013 and 30 June 2014 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.

Completed properties held for sale in the consolidated statements of financial position comprise:

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Expected to be recovered within one year	201,900	14,343	33,214	32,200
Expected to be recovered after more than one year	<u>4,380</u>	<u>146,045</u>	<u>312,062</u>	<u>290,496</u>
	<u>206,280</u>	<u>160,388</u>	<u>345,276</u>	<u>322,696</u>

During the six months ended 30 June 2014, certain completed properties held for sale was written down to their estimated net realisable value as a result of the downturn of property market in Lvshunkou, Dalian, the PRC and write-down of completed properties held for sale of RMB18,500,000 was recognised in "Cost of sales".

18 INVENTORIES

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

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Doors and windows for resale				
Raw materials	2,713	1,702	2,117	2,157
Work in progress	118	2	587	—
Finished goods	<u>6,763</u>	<u>19,253</u>	<u>20,894</u>	<u>18,006</u>
	<u>9,594</u>	<u>20,957</u>	<u>23,598</u>	<u>20,163</u>

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

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount of inventories sold	<u>21,137</u>	<u>17,492</u>	<u>22,776</u>	<u>15,329</u>

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			
	As at 31 December			As at 30 June
	2011	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables				
— Third parties	<u>24,116</u>	<u>9,590</u>	<u>19,036</u>	<u>32,742</u>
	24,116	9,590	19,036	32,742
Deposits and prepayments	8,990	6,121	30,867	28,310
Other receivables	6,486	8,472	12,577	14,697
Amounts due from subsidiaries	—	—	—	—
Gross amount due from customers for contract work	<u>—</u>	<u>—</u>	<u>3,691</u>	<u>5,024</u>
	<u><u>39,592</u></u>	<u><u>24,183</u></u>	<u><u>66,171</u></u>	<u><u>80,773</u></u>

	The Company			
	As at 31 December			As at 30 June
	2011	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Amounts due from subsidiaries	<u>26,540</u>	<u>111,433</u>	<u>132,543</u>	<u>48,619</u>
	<u><u>26,540</u></u>	<u><u>111,433</u></u>	<u><u>132,543</u></u>	<u><u>48,619</u></u>

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

As at 31 December 2011, 2012, 2013 and 30 June 2014, the amount of the Group's trade and other receivables expected to be recovered after more than one year were RMB2,980,000, RMB2,995,000, RMB3,054,000 and RMB5,674,000. All of the other trade and other receivables are expected to be recovered within one year.

In respect of sales to third parties, there is 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(k)(i)).

(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 the invoice date (or date of revenue recognition, if earlier) and net of allowance for doubtful debts, is as follows:

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year (inclusive)	23,377	9,176	17,328	31,063
Over 1 year	<u>739</u>	<u>414</u>	<u>1,708</u>	<u>1,679</u>
	<u>24,116</u>	<u>9,590</u>	<u>19,036</u>	<u>32,742</u>

(c) Impairment of trade receivables

No allowance for doubtful debts in respect of trade receivables was recognised as at 31 December 2011, 2012, 2013 and 30 June 2014.

(d) Trade receivables that are not impaired

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

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Neither past due nor impaired	<u>20,906</u>	<u>6,330</u>	<u>15,669</u>	<u>29,038</u>
Less than 1 month past due	79	285	13	838
Overdue more than 1 month but less than 1 year	2,392	1,865	1,437	644
Overdue more than 1 year	<u>739</u>	<u>1,110</u>	<u>1,917</u>	<u>2,222</u>
Past due	<u>3,210</u>	<u>3,260</u>	<u>3,367</u>	<u>3,704</u>
	<u>24,116</u>	<u>9,590</u>	<u>19,036</u>	<u>32,742</u>

20 CONSTRUCTION CONTRACTS

The aggregate amount of costs incurred plus recognised profits less recognised losses to date, included in the gross amount due from customers for contract work as at 31 December 2013 and 30 June 2014 were RMB3,691,000 and RMB1,333,000 respectively.

All of the gross amount due from customers for contract work at 31 December 2013 and 30 June 2014 is expected to be recovered within one year.

21 DEPOSIT IN AN ESCROW ACCOUNT

As at 31 December 2011 and 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			
	As at 31 December			As at 30 June
	2011	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash at bank and in hand	<u>116,534</u>	<u>88,297</u>	<u>39,104</u>	<u>64,152</u>

	The Company			
	As at 31 December			As at 30 June
	2011	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash at bank and in hand	<u>—</u>	<u>2,655</u>	<u>554</u>	<u>558</u>

As at 31 December 2011, 2012, 2013 and 30 June 2014, bank balances denominated in RMB that were placed with banks in the PRC amounted to RMB115,766,000, RMB81,740,000, RMB36,037,000 and RMB55,327,000, respectively. 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/(loss) before taxation to cash generated from/(used in) operations:

	Note	Years ended 31 December			Six months ended	
		2011	2012	2013	30 June	
		RMB'000	RMB'000	RMB'000	2014	
				(unaudited)	RMB'000	
Profit/(loss) before taxation		242,067	53,505	15,902	7,664	(56,912)
Adjustments for:						
— Depreciation	13	2,072	2,406	2,815	1,398	1,390
— Amortisation of lease prepayments	5(c)	—	—	77	—	78
— Finance costs	5(a)	2,336	—	3,452	480	2,955
— Net exchange (gain)/loss	5(c)	(353)	(178)	373	(178)	2
— Interest income		(357)	(363)	(405)	—	(22)
— (Gain)/loss on disposal of property, plant and equipment	5(c)	(112)	—	3	—	—
— Increase in fair value of investment properties	14(b)(ii)	(340)	(2,880)	(10,501)	(11,980)	44,300
— Increase in fair value of transfer of completed properties held for sale to investment properties	14(b)(ii)	—	(35,866)	(2,835)	—	—
— Write-down of completed properties held for sale		—	—	—	—	18,500
— Equity settled share-based payment expenses	28	1,540	2,992	1,455	3,681	527
Changes in working capital						
Decrease/(increase) in inventories		1,719	(11,363)	(2,641)	636	3,435
(Increase)/decrease in properties under development		(53,116)	(143,244)	181,108	196,682	(3,395)
(Increase)/decrease in completed properties held for sale		(153,637)	32,758	(185,452)	(184,512)	4,552
Decrease/(increase) in trade and other receivables, deposits and prepayments		6,341	15,409	(41,988)	(45,636)	(15,826)
(Decrease)/increase in receipts in advance		(2,517)	9,113	1,305	1,774	1,221
Increase/(decrease) in trade and other payables		55,557	(11,990)	(26,191)	(15,345)	(12,433)
Decrease in restricted cash		2,968	60	—	—	—
Net advances from						
Mr. Kai Chenglian (the “Controlling Shareholder”)		12,649	17,521	—	7,101	—
Net advances from other related parties		(8,321)	(16,784)	—	—	—
Cash generated from/(used) in operations		<u>108,496</u>	<u>(88,904)</u>	<u>(63,523)</u>	<u>(38,235)</u>	<u>(11,628)</u>

23 PLEDGED DEPOSIT

In November 2013, the Group placed a deposit of RMB25,000,000 to a commercial bank as pledge security against a bank loan granted to the Group. The balance of pledged deposit as at 31 December 2013 and 30 June 2014 were RMB25,000,000 and RMB25,000,000 respectively (note 24).

24 BANK LOANS

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

	The Group			
	As at 31 December			As at 30 June
	2011	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current				
— Secured	<u>—</u>	<u>200,000</u>	<u>118,886</u>	<u>119,116</u>
Non-Current				
— Secured	<u>200,000</u>	<u>—</u>	<u>—</u>	<u>—</u>
	The Company			
	As at 31 December			As at 30 June
	2011	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current				
— Secured	<u>—</u>	<u>—</u>	<u>23,886</u>	<u>24,116</u>

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

	The Group			
	As at 31 December			As at 30 June
	2011	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year or on demand	—	200,000	118,886	119,116
After 1 year but within 2 years	<u>200,000</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>200,000</u>	<u>200,000</u>	<u>118,886</u>	<u>119,116</u>
	The Company			
	As at 31 December			As at 30 June
	2011	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year or on demand	<u>—</u>	<u>—</u>	<u>23,886</u>	<u>24,116</u>
	<u>—</u>	<u>—</u>	<u>23,886</u>	<u>24,116</u>

The bank loans bear interest ranging from 5.88% to 6.90%, 6.14% to 6.98%, 1.21% to 7.20% and 1.21% to 7.5% per annum for the years ended 31 December 2011, 2012, 2013 and six months ended 30 June 2014 respectively. The bank loans are secured by the following assets:

	The Group			
	As at 31 December			As at 30 June
	2011	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Pledged deposit	—	—	25,000	25,000
Completed properties held for sale	163,390	138,818	—	—
Investment properties	—	—	21,640	20,140
Property, plant and equipment	—	—	2,327	2,230
	<u>163,390</u>	<u>138,818</u>	<u>48,967</u>	<u>47,370</u>
	<u><u>163,390</u></u>	<u><u>138,818</u></u>	<u><u>48,967</u></u>	<u><u>47,370</u></u>
	The Company			
	As at 31 December			As at 30 June
	2011	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Pledged deposit	—	—	25,000	25,000
	<u>—</u>	<u>—</u>	<u>25,000</u>	<u>25,000</u>
	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>25,000</u></u>	<u><u>25,000</u></u>

In addition to the above, the Group had certain bank loans amounting to RMB55,000,000 as at 31 December 2013 and 30 June 2014 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 2011, 2012, 2013 and 30 June 2014, none of the covenants relating to drawn down facilities had been breached.

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.

26 TRADE AND OTHER PAYABLES

	The Group			
	As at 31 December			As at 30 June
	2011	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	99,800	89,258	63,580	50,899
Other payables and accruals	28,582	23,973	26,626	29,062
Amounts due to an immediate holding company	25,000	25,000	25,000	25,000
Amounts due to Controlling Shareholder	—	489	132,616	190,173
Amounts due to other related parties	—	12,887	12,499	12,618
	<u>153,382</u>	<u>151,607</u>	<u>260,321</u>	<u>307,752</u>
	The Company			
	As at 31 December			As at 30 June
	2011	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Other payables and accruals	—	—	38	454
Amounts due to an immediate holding company	25,000	25,000	25,000	25,000
Amounts due to Controlling Shareholder	—	997	963	—
Amounts due to other related parties	—	—	—	—
	<u>25,000</u>	<u>25,997</u>	<u>26,001</u>	<u>25,454</u>

The amounts 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:

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 month	33,715	37,372	31,597	10,268
Over 1 month but within 1 year	48,010	36,433	18,800	31,832
Over 1 year	<u>18,075</u>	<u>15,453</u>	<u>13,183</u>	<u>8,799</u>
Total	<u>99,800</u>	<u>89,258</u>	<u>63,580</u>	<u>50,899</u>

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. These construction retention payables were amounted to RMB14,976,000, RMB3,249,000, RMB3,264,000 and RMB2,254,000 as at 31 December 2011, 2012, 2013 and 30 June 2014. Details of the Group's management of liquidity risk are set out in note 31(b).

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
			<u>9,500,000</u>	<u>4,400,000</u>	<u>13,900,000</u>	

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:

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	Number of	Number of	Number of	Number of
	options	options	options	options
	'000	'000	'000	'000
Outstanding at the beginning of the year/period	—	13,700	13,700	11,300
Granted during the year/period (<i>Note</i>)	13,900	—	—	—
Forfeited during the year/period (<i>Note</i>)	(200)	—	(400)	—
Exercised during the year/period (<i>Note</i>)	—	—	(2,000)	—
Outstanding at the end of the year/period	13,700	13,700	11,300	11,300
Exercisable at the end of the year/period	—	—	660	3,320

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”) and 13,900,000 share options were granted to the Company’s directors and employees.

During the years ended 31 December 2011 and 2013, certain participants of Pre-IPO Share Option Scheme resigned from the Group and the share options granted to the participants 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 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.

The options outstanding had an exercise price of HK\$0.72, HK\$0.72, HK\$0.72, HK\$0.72 as at 31 December 2011, 2012, 2013 and 30 June 2014 respectively and a weighted average remaining contractual life of 5 years, 4 years, 3 years and 2.5 years as at 31 December 2011, 2012, 2013 and 30 June 2014 respectively.

(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 STATEMENTS OF FINANCIAL POSITION

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

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Provision for CIT	93,960	86,353	85,107	84,004
Provision for LAT	<u>62,281</u>	<u>46,108</u>	<u>45,159</u>	<u>30,316</u>
	<u>156,241</u>	<u>132,461</u>	<u>130,266</u>	<u>114,320</u>

(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 2011	8,427	73	(48,922)	—	—	(40,422)
Credited/(charged) to profit or loss	<u>7,143</u>	<u>196</u>	<u>(161)</u>	<u>6,590</u>	<u>—</u>	<u>13,768</u>
At 31 December 2011	<u>15,570</u>	<u>269</u>	<u>(49,083)</u>	<u>6,590</u>	<u>—</u>	<u>(26,654)</u>
At 1 January 2012	15,570	269	(49,083)	6,590	—	(26,654)
Credited/(charged) to profit or loss	<u>(4,043)</u>	<u>(66)</u>	<u>(12,487)</u>	<u>(6,590)</u>	<u>6,869</u>	<u>(16,317)</u>
At 31 December 2012	<u>11,527</u>	<u>203</u>	<u>(61,570)</u>	<u>—</u>	<u>6,869</u>	<u>(42,971)</u>
At 1 January 2013	11,527	203	(61,570)	—	6,869	(42,971)
Credited/(charged) to profit or loss	<u>(237)</u>	<u>(46)</u>	<u>(6,999)</u>	<u>—</u>	<u>630</u>	<u>(6,652)</u>
Charged to reserves	<u>—</u>	<u>—</u>	<u>(743)</u>	<u>—</u>	<u>—</u>	<u>(743)</u>
At 31 December 2013	<u>11,290</u>	<u>157</u>	<u>(69,312)</u>	<u>—</u>	<u>7,499</u>	<u>(50,366)</u>
At 1 January 2014	11,290	157	(69,312)	—	7,499	(50,366)
Credited/(charged) to profit or loss	<u>(3,711)</u>	<u>(7)</u>	<u>20,234</u>	<u>4,625</u>	<u>3,408</u>	<u>24,549</u>
At 30 June 2014	<u>7,579</u>	<u>150</u>	<u>(49,078)</u>	<u>4,625</u>	<u>10,907</u>	<u>(25,817)</u>

(c) Deferred tax liabilities not recognised

As at 31 December 2011, 2012, 2013 and 30 June 2014, temporary differences relating to the undistributed profits of subsidiaries amounted to RMB123,695,000, RMB141,816,000, RMB143,538,000 and RMB166,041,000. Deferred tax liabilities 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.

30 SHARE CAPITAL AND RESERVES

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each components of the Group's consolidated equity is set out in the consolidated statements of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the years/periods during the Relevant Periods are set out below:

	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Share-based compensation reserve <i>RMB'000</i>	Retained profits <i>RMB'000</i>	Total <i>RMB'000</i>
Balance at 4 January 2011 (date of incorporation)	—	—	—	—	—
Changes in equity for the period from 4 January 2011 to 31 December 2011:					
Profit for the period	—	—	—	25,000	25,000
Total comprehensive income for the period	—	—	—	25,000	25,000
Equity settled share-based transactions	—	—	1,540	—	1,540
Dividends declared in respect of the current period	—	—	—	(25,000)	(25,000)
Balance at 31 December 2011 and 1 January 2012	—	—	1,540	—	1,540
Changes in equity for the year ended 31 December 2012:					
Profit for the year	—	—	—	(13,137)	(13,137)
Total comprehensive income for the year	—	—	—	(13,137)	(13,137)
Issue of shares, net of listing expenses	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	4,884	91,812	4,532	(13,137)	88,091

	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Share-based compensation reserve <i>RMB'000</i>	Exchange reserve <i>RMB'000</i>	Accumulated losses <i>RMB'000</i>	Total <i>RMB'000</i>
Balance at 1 January 2013	4,884	91,812	4,532	—	(13,137)	88,091
Charges 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 and 1 January 2014	<u>4,900</u>	<u>94,089</u>	<u>4,691</u>	<u>(2,629)</u>	<u>(17,841)</u>	<u>83,210</u>
Charges in equity for 2014:						
Loss for the period						
Total comprehensive income for the period	—	—	—	797	(1,971)	(1,174)
Equity settled share- based transactions	—	—	527	—	—	527
Balance at 30 June 2014	<u>4,900</u>	<u>94,089</u>	<u>5,218</u>	<u>(1,832)</u>	<u>(19,812)</u>	<u>82,563</u>

During the year ended 31 December 2011, as part of the IPO Reorganisation, Dalian Kai Shi paid a cash consideration of RMB3,000,000 to Tianjin Da Zhong for the acquisition of the entire equity interests in Dalian Construction. For the purpose of this report, the consideration paid/payable is regarded as a deemed distribution to the Controlling Shareholder.

During the year ended 31 December 2011, as part of the IPO Reorganisation, Tianjin Lion paid a cash consideration of RMB42,570,000 and RMB430,000 to Tianjin Da Zhong and Tianjin Shan Di Materials Trading Company Limited* (天津市山地物資貿易有限公司 or “Tianjin Shan Di”) respectively for the acquisition of the entire equity interests in Dalian Kai Shi. For the purpose of this report, the consideration paid/payable is regarded as a deemed distribution to the Controlling Shareholder.

With the completion of the IPO Reorganisation on 8 April 2011, the capital represents the issued share capital of the Company comprising 1 share of HK\$0.01 each.

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.

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.

* *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.*

(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 Company that has been recognised in accordance with the accounting policy adopted for share-based payments in note 1(s)(ii).

(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(w).

(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(h).

(vi) *Distributability of reserves*

The Company has no reserve available for distribution to shareholders as at 31 December 2011, 2012, 2013 and 30 June 2014.

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 2011, the Group has declared a special dividend of RMB25,000,000 to the shareholders of the Company.

During the years ended 31 December 2012 and 2013 and six months ended 2014, the Company has not declared any dividend 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 2011, 2012 and 2013 and six months ended 30 June 2014.

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.

(i) Interest rate profile

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

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Net fixed rate borrowing:				
Bank loans	—	—	95,000	95,000
	—	—	95,000	95,000
Variable rate borrowing:				
Bank loans	200,000	200,000	23,886	24,116
	200,000	200,000	23,886	24,116
Total net borrowings	200,000	200,000	118,886	119,116
Net fixed rate borrowings as a percentage of total net borrowings	—	—	80%	80%

(ii) Sensitivity analysis

At 31 December 2011, 2012, 2013 and 30 June 2014, 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 RMB219,000, RMB325,000, RMB(151,000) and RMB(325,000) 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.

(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 during the Relevant Periods 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 2011, 2012, 2013 and 30 June 2014.

32 **COMMITMENTS**

(a) **At 31 December 2011, 2012, 2013 and 30 June 2014, capital commitments on land and development costs outstanding not provided for in the Financial Information were as follows:**

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted but not provided for	<u>5,677</u>	<u>25,220</u>	<u>9,006</u>	<u>6,077</u>

(b) **Operating lease commitment**

At 31 December 2011, 2012, 2013 and 30 June 2014, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	845	1,879	1,722	1,223
After 1 year but within 5 years	<u>—</u>	<u>2,420</u>	<u>769</u>	<u>188</u>
	<u>845</u>	<u>4,299</u>	<u>2,491</u>	<u>1,411</u>

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 Relevant Periods up to the date that party ceased to be a related party, if applicable.

During the Relevant Periods, 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.

(a) Transactions

	Note	As at 31 December		As at 30 June	
		2011 RMB'000	2012 RMB'000	2013 RMB'000	2014 RMB'000
Sales of doors and windows					
— Beihai Sunshine		8,638	—	2,513	—
Earthwork engineering service income					
— Beihai Sunshine	(i)	—	3,286	8,860	4,098
Rental expense					
— Tianjin Da Zhong	(ii)	720	720	720	360

	Note	As at 31 December		As at 30 June	
		2011 RMB'000	2012 RMB'000	2013 RMB'000	2014 RMB'000
Rental income					
— Beihai Sunshine	(iii)	324	324	324	172
— Mudhouse Wine	(iv)	319	319	319	169
— Gangwan Property	(v)	<u>1,072</u>	<u>1,608</u>	<u>1,606</u>	<u>1,500</u>

(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 years ended 31 December 2012 and 2013, two and six projects had been completed and revenue of RMB3,286,000 and RMB8,860,000 respectively were 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 years ended 31 December 2011, 2012, 2013 and six months ended 30 June 2014, RMB720,000, RMB720,000, RMB720,000 and RMB360,000 have been recognised as rental expense respectively.

(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.

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 Information, the Group had the following balances with related parties at the end of the reporting period:

- (i) As at 31 December 2011, 2012, 2013 and 30 June 2014, the Company had dividend payable of RMB25,000,000, which was declared on 10 December 2011, to its immediate holding company, Yi Ming Jia Lin Holdings Company Limited.

(c) Financing arrangements

	<i>Note</i>	Amounts owed by the Group to related parties as at 31 December			As at 30 June 2014 RMB'000
		As at 31 December			
		2011 RMB'000	2012 RMB'000	2013 RMB'000	
Amount due to Controlling Shareholder	(i)	—	489	132,616	190,173
Amount due to other related parties	(ii)	—	12,887	12,499	12,618

Notes:

- (i) During the year ended 31 December 2012, the Group received advances from a director of RMB86,291,000 and repaid RMB85,803,000. As at 31 December 2013, the Group had an amount due to Controlling Shareholder of RMB489,000, which is included in "Trade and other payables".

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, which is included in "Trade and other payables".

During the six months ended 30 June 2014, the Group received advances from the Controlling shareholders of RMB161,948,000 and repaid RMB104,391,000. As at 30 June 2014, the Group had an amount due to Controlling Shareholder of RMB190,173,000, which is included in "Trade and other payables".

The outstanding balances are unsecured, interest-free and have 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 2012, 2013 and 30 June 2014, the Group had a balance with Australia New Zealand of RMB12,887,000, RMB12,496,000 and RMB12,618,000, which are included in "Trade and other payables". The outstanding balances are 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:

	Year ended 31 December			Six months ended 30 June	
	2011 RMB'000	2012 RMB'000	2013 RMB'000	2013 RMB'000 (unaudited)	2014 RMB'000
Short-term employee benefits	1,074	1,569	1,592	730	730
Equity settled share-based payment Expenses	1,238	2,367	1,120	745	419
Contributions to retirement benefit Scheme	74	177	197	93	99
Total	2,386	4,113	2,909	1,568	1,248

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

34 INFORMATION OF STATUTORY FINANCIAL STATEMENTS OF THE SUBSIDIARIES

The statutory financial statements of the companies comprising the Group which were subject to audit during the Relevant Periods were either prepared in accordance with HKFRSs issued by the HKICPA or the PRC GAAP issued by the Ministry of Finance of the PRC. These financial statements for the Relevant Periods were audited by the respective statutory auditors as indicated below:

Name of company	Financial period	Statutory auditors
China Kai Shi	Period from 20 April 2010 (date of incorporation) to 31 December 2011, Years ended 31 December 2012 and 2013	KPMG
Lion Tianjin	Years ended 31 December 2011, 2012 and 2013	Tianjin Shulun Pan Certified Public Accountants Co., Ltd. 天津立信會計師事務所有限公司
Dalian Kai Shi	Years ended 31 December, 2012 and 2013	Liaoning Zhengwei Certified Public Accountants Co., Ltd. 遼寧正威會計師事務所有限公司
KS Engineering	Year ended 31 December 2012	Dalian Ruihua Certified Public Accountants Co., Ltd. 大連瑞華會計師事務所有限公司

35 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2011, 2012, 2013 and 30 June 2014, the directors consider the immediate parent and ultimate controlling party of the Group to be Yi Ming Jia Lin Holding 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.

36 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE RELEVANT PERIODS

Up to the date of issue of this Financial Information, the IASB has issued a few amendments and a new standard which are not yet effective for the Relevant Periods and which have not been adopted in this Financial Information. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Annual improvements to IFRSs 2010–2012 cycles	1 July 2014
Annual improvements to IFRSs 2010–2013 cycles	1 July 2014
IFRS 9, <i>Financial instruments</i>	1 January 2015
Amendments to IFRS 9, Financial instruments and IFRS 7, Financial instruments: Disclosures — <i>Mandatory effective date and transition disclosures</i>	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 Group's results of operation and financial position.

37 EVENT AFTER REPORTING DATE

- (a) **In preparation for the distribution in specie of KSH by the Company, the Group underwent the reorganisation (the “Asset Reorganisation”) such that KSH will hold the property development business, which will be distributed to the Company’s shareholders and the Group’s businesses in Sales of doors and windows and provision of earthwork engineering service will remain in the Group. The details of Asset Reorganisation are as follows:**

On 12 May 2014, Trade Up Business Limited (the “Remaining Holdco”) was incorporated in the BVI with issued share capital of US\$1.

On 21 March 2014, Profit Gear Development Limited (“Profit Gear”), a wholly-owned subsidiary of the Remaining Holdco, was incorporated in Hong Kong with issued share capital of HK\$1.

On 31 October 2014, Kai Shi Holdings Company Limited (“KSH”) was incorporated in the BVI with issued share capital of US\$0.01.

On 8 December 2014, Dalian Kai Shi transferred all its equity interests in KS Engineering to Lion Tianjin for a consideration of RMB2,000,000.

On 9 December, Lion Tianjin transferred all its equity interests (27.66% of the total paid-in capital) in Dalian Kai Shi to Kai Shi Hengsheng for a consideration of RMB50,500,000.

On 8 December 2014, China Kai Shi transferred all its equity interests in Lion Tianjin, which together with its subsidiary, KS Engineering, which are engaged in manufacture and sale of doors and windows and earthwork engineering (“the Retained Businesses”), to Profit Gear, a wholly-owned subsidiary of the Remaining Holdco for a

consideration of RMB4,000,000. The Company, the Remaining Holdco and its three subsidiaries, Profit Gear, Lion Tianjin and KS Engineering (Profit Gear, Lion Tianjin and KS Engineering, together known as the “Remaining Group Entities”) are known as the “Remaining Group”.

On 19 December 2014, KSH issued and allotted 601,999,999 shares to the Company in exchange for the Company’s entire equity interests in Kai Shi Investment, together with their respective subsidiaries which are principally engaged in property development (“Distributed Business”). KSH and Kai Shi Investment and its subsidiaries are known as the “KSH Group”.

Subsequent to the date of this report, the Company will distribute all of its shares in KSH in specie to the Company’s shareholders on the basis of one share in KSH for every share in the Company. The distribution of KSH’s shares in specie is subject to the approval of the independent shareholders of the Company.

The combined results of the KSH Group have been prepared using the financial information of the Distributed Business, under the common control of the Company as if the current group structure of KSH Group had been in existence throughout the Relevant Periods. The combined financial positions of the KSH Group have been prepared to present the assets and liabilities of the Distributed Business as if the current group structure of KSH Group had been in existence as at these dates.

The combined results of the Remaining Group Entities have been prepared using the financial information of the Retained Businesses, under the common control of the Company as if the current group structure of the Remaining Group Entities had been in existence throughout the Relevant Periods. The combined financial positions of the Remaining Group Entities have been prepared to present the assets and liabilities of the Retained Businesses as if the current group structure of the Remaining Group Entities had been in existence as at these dates.

- (b) The reconciliation of the results/combined results and assets and liabilities/combined financial positions of the Group to the Company, the KSH Group and Remaining Group Entities as follows:

	The Company	The KSH Group	Remaining Group Entities	Eliminations <i>(note)</i>	The Group
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
For the year ended					
31 December					
2011:					
Turnover	<u>—</u>	<u>481,269</u>	<u>29,819</u>	<u>(5,778)</u>	<u>505,310</u>
Profit/(loss) for the year	<u>25,000</u>	<u>198,341</u>	<u>44,519</u>	<u>(117,434)</u>	<u>150,426</u>
At 31 December					
2011:					
Total assets	<u>26,540</u>	<u>762,064</u>	<u>51,151</u>	<u>(101,930)</u>	<u>737,825</u>
Total liabilities	<u>25,000</u>	<u>540,459</u>	<u>76,816</u>	<u>(94,508)</u>	<u>547,767</u>
Net assets/ (liabilities)	<u>1,540</u>	<u>221,605</u>	<u>(25,665)</u>	<u>(7,422)</u>	<u>190,058</u>
For the year ended					
31 December					
2012:					
Turnover	<u>—</u>	<u>80,016</u>	<u>25,687</u>	<u>—</u>	<u>105,703</u>
(Loss)/profit for the year	<u>(13,137)</u>	<u>35,680</u>	<u>1,683</u>	<u>6,815</u>	<u>31,041</u>
At 31 December					
2012:					
Total assets	<u>114,088</u>	<u>868,934</u>	<u>80,446</u>	<u>(195,039)</u>	<u>868,429</u>
Total liabilities	<u>25,997</u>	<u>625,137</u>	<u>90,938</u>	<u>(194,430)</u>	<u>547,642</u>
Net assets/ (liabilities)	<u>88,091</u>	<u>243,797</u>	<u>(10,492)</u>	<u>(609)</u>	<u>320,787</u>
For the six months					
ended 30 June					
2013					
(unaudited):					
Turnover	<u>—</u>	<u>16,194</u>	<u>31,334</u>	<u>—</u>	<u>47,528</u>
(Loss)/profit for the period	<u>(2,810)</u>	<u>(222)</u>	<u>5,064</u>	<u>71</u>	<u>2,103</u>

APPENDIX II
FINANCIAL INFORMATION OF THE GROUP

	The Company	The KSH Group	Remaining Group Entities	Eliminations <i>(note)</i>	The Group
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 30 June 2013					
(unaudited):					
Total assets	<u>111,368</u>	<u>828,796</u>	<u>101,373</u>	<u>(137,516)</u>	<u>904,021</u>
Total liabilities	<u>25,541</u>	<u>582,547</u>	<u>106,802</u>	<u>(136,978)</u>	<u>577,912</u>
Net assets/ (liabilities)	<u>85,827</u>	<u>246,249</u>	<u>(5,429)</u>	<u>(538)</u>	<u>326,109</u>
For the year ended 31 December 2013:					
Turnover	<u>—</u>	<u>39,795</u>	<u>61,113</u>	<u>—</u>	<u>100,908</u>
(Loss)/profit for the year	<u>(4,850)</u>	<u>4,417</u>	<u>6,584</u>	<u>139</u>	<u>6,290</u>
At 31 December 2013:					
Total assets	<u>133,097</u>	<u>804,085</u>	<u>136,869</u>	<u>(162,167)</u>	<u>911,884</u>
Total liabilities	<u>49,887</u>	<u>555,780</u>	<u>137,778</u>	<u>(161,698)</u>	<u>581,747</u>
Net assets/ (liabilities)	<u>83,210</u>	<u>248,305</u>	<u>(909)</u>	<u>(469)</u>	<u>330,137</u>
For the six months ended 30 June 2014:					
Turnover	<u>—</u>	<u>13,504</u>	<u>33,563</u>	<u>—</u>	<u>47,067</u>
(Loss)/profit for the period	<u>(1,969)</u>	<u>(37,915)</u>	<u>5,957</u>	<u>19</u>	<u>(33,908)</u>
At 30 June 2014:					
Total assets	<u>132,133</u>	<u>790,057</u>	<u>137,990</u>	<u>(177,022)</u>	<u>883,158</u>
Total liabilities	<u>49,570</u>	<u>496,984</u>	<u>132,943</u>	<u>(93,618)</u>	<u>585,879</u>
Net assets/ (liabilities)	<u>82,563</u>	<u>293,073</u>	<u>5,047</u>	<u>(83,404)</u>	<u>297,279</u>

Notes:

- (i) The elimination adjustments for turnover for the year/period mainly represent sales of RMB5,778,000 of doors and windows from the Remaining Group Entities to the KSH Group in 2011.
- (ii) The elimination adjustments for profit/(loss) for the year/period mainly represents: (1) dividends declared by KSH and its subsidiaries to a subsidiary of the Remaining Group and the Company of RMB44,316,000 and RMB26,539,000 respectively in 2011 and dividend of RMB41,442,000 from a subsidiary of the Remaining Group to the KSH Group and (2) unrealised profit and deferred tax effect of intercompany transactions with amounts of RMB590,000, RMB199,000, RMB139,000 RMB71,000 (unaudited) and RMB19,000 for the years ended 31 December 2011, 2012, 2013 and the six months ended 30 June 2013 and 2014 respectively.
- (iii) The elimination adjustments for total assets and total liabilities mainly represent: (1) intercompany balance between the Remaining Group and the KSH Group with aggregate amounts of RMB99,276,000, RMB198,490,000, RMB153,729,000 and RMB89,796,000 as at 31 December 2011, 2012, 2013 and 30 June 2014 respectively, and (2) capitalisation issue of RMB82,956,000 for the six months ended 30 June 2014.
- (iv) The elimination adjustment for net assets mainly represents the (1) unrealised profit and deferred tax effect of intercompany transactions with amounts of RMB7,422,000, RMB609,000, RMB469,000 and RMB448,000 for the years ended 31 December 2011, 2012, 2013 and the six months ended 30 June 2014 and (2) capitalisation issue of RMB82,956,000 for the six months ended 30 June 2014.

(c) The combined financial information of the KSH Group for the Relevant Periods is disclosed as follows:

Combined statements of profit or loss for the Relevant Periods

	Years ended 31 December			Six months ended 30 June	
	2011 RMB'000	2012 RMB'000	2013 RMB'000	2013 RMB'000 (unaudited)	2014 RMB'000
Turnover	481,269	80,016	39,795	16,194	13,504
Cost of sales	(202,120)	(33,023)	(18,859)	(9,210)	(23,623)
Gross profit/(loss)	279,149	46,993	20,936	6,984	(10,119)
Other income	41,442	—	—	—	—
Selling and distribution expenses	(16,017)	(14,095)	(8,962)	(5,785)	(1,712)
Administrative expenses	(15,234)	(14,597)	(12,090)	(5,188)	(5,443)
Profit/(loss) from operations before changes in fair value of investment properties	289,340	18,301	(116)	(3,989)	(17,274)
Increase/(decrease) in fair value of investment properties	340	2,880	10,501	8,490	(44,300)
Fair value gain upon transfer of completed properties held for sale to investment properties	—	35,866	2,835	—	—
Profit/(loss) from operations after changes in fair value of investment properties	289,680	57,047	13,220	4,501	(61,574)
Finance income	327	501	185	109	9
Finance costs	(2,216)	(36)	(265)	(9)	(12)
Profit/(loss) before taxation	287,791	57,512	13,140	4,601	(61,577)
Income tax	(89,450)	(21,832)	(8,723)	(4,823)	23,662
Profit/(loss) for the year/period	<u>198,341</u>	<u>35,680</u>	<u>4,417</u>	<u>(222)</u>	<u>(37,915)</u>
Attributable to:					
Equity shareholders of the KSH	<u>198,341</u>	<u>35,680</u>	<u>4,417</u>	<u>(222)</u>	<u>(37,915)</u>
Profit/(loss) for the year/period	<u>198,341</u>	<u>35,680</u>	<u>4,417</u>	<u>(222)</u>	<u>(37,915)</u>

Combined statements of profit or loss and other comprehensive income for the Relevant Periods

	Years ended 31 December			Six months ended 30 June	
	2011 RMB'000	2012 RMB'000	2013 RMB'000	2013 RMB'000 (unaudited)	2014 RMB'000
Profit/(loss) for the year/period	<u>198,341</u>	<u>35,680</u>	<u>4,417</u>	<u>(222)</u>	<u>(37,915)</u>
Other comprehensive income for the year/period (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	2,873	—
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translation of financial statements of overseas subsidiaries	<u>—</u>	<u>—</u>	<u>862</u>	<u>(198)</u>	<u>(273)</u>
Other comprehensive income for the year/period	<u>—</u>	<u>—</u>	<u>3,091</u>	<u>2,675</u>	<u>(273)</u>
Total comprehensive income for the year/period	<u><u>198,341</u></u>	<u><u>35,680</u></u>	<u><u>7,508</u></u>	<u><u>2,453</u></u>	<u><u>(38,188)</u></u>
Attributable to:					
Equity shareholders of the KSH	<u>198,341</u>	<u>35,680</u>	<u>7,508</u>	<u>2,453</u>	<u>(38,188)</u>
Total comprehensive income for the year/period	<u><u>198,341</u></u>	<u><u>35,680</u></u>	<u><u>7,508</u></u>	<u><u>2,453</u></u>	<u><u>(38,188)</u></u>

APPENDIX II
FINANCIAL INFORMATION OF THE GROUP

Combined statements of financial position at 31 December 2011, 2012, 2013 and 30 June 2014

	As at 31 December		As at 30 June	
	2011 RMB'000	2012 RMB'000	2013 RMB'000	2014 RMB'000
Non-current assets				
Property, plant and equipment	7,495	7,444	5,432	4,369
Investment properties	<u>157,850</u>	<u>209,730</u>	<u>226,800</u>	<u>182,500</u>
Total non-current assets	<u>165,345</u>	<u>217,174</u>	<u>232,232</u>	<u>186,869</u>
Current assets				
Properties under development	172,033	331,021	160,915	164,311
Completed properties held for sale	207,355	161,198	346,942	324,335
Trade and other receivables, deposits and prepayments	23,119	10,000	36,253	37,175
Amounts receivable from Remaining Group Entities	54,724	54,196	—	—
Deposit in an escrow account	25,000	25,000	—	—
Cash and cash equivalents	114,488	70,345	2,743	52,367
Pledged deposit	<u>—</u>	<u>—</u>	<u>25,000</u>	<u>25,000</u>
Total current assets	<u>596,719</u>	<u>651,760</u>	<u>571,853</u>	<u>603,188</u>
Total assets	<u>762,064</u>	<u>868,934</u>	<u>804,085</u>	<u>790,057</u>
Current liabilities				
Bank loan	—	200,000	—	—
Receipts in advance	3,704	4,024	501	966
Trade and other payables	138,030	140,475	219,962	267,208
Amounts due to Remaining Group Entities	—	—	28,996	44,849
Amounts due to the Company	20,431	110,439	131,580	48,619
Current taxation	<u>151,371</u>	<u>127,026</u>	<u>124,218</u>	<u>109,375</u>
Total current liabilities	<u>313,536</u>	<u>581,964</u>	<u>505,257</u>	<u>471,017</u>
Net current assets	<u>283,183</u>	<u>69,796</u>	<u>66,596</u>	<u>132,171</u>
Total assets less current liabilities	<u>448,528</u>	<u>286,970</u>	<u>298,828</u>	<u>319,040</u>
Non-current liabilities				
Bank loan	200,000	—	—	—
Deferred tax liabilities	<u>26,923</u>	<u>43,173</u>	<u>50,523</u>	<u>25,967</u>
Total non-current liabilities	<u>226,923</u>	<u>43,173</u>	<u>50,523</u>	<u>25,967</u>
Net assets	<u>221,605</u>	<u>243,797</u>	<u>248,305</u>	<u>293,073</u>
Equity				
Combined capital	—	—	—	—
Reserves	<u>221,605</u>	<u>243,797</u>	<u>248,305</u>	<u>293,073</u>
Total equity attributable to equity shareholders of KSH	<u>221,605</u>	<u>243,797</u>	<u>248,305</u>	<u>293,073</u>
Total equity	<u>221,605</u>	<u>243,797</u>	<u>248,305</u>	<u>293,073</u>

- (d) The combined financial information of the Remaining Group Entities for the Relevant Periods is disclosed as follows:

Combined statements of profit or loss for the Relevant Periods

	Year ended 31 December			Six months ended 30 June	
	2011 RMB'000	2012 RMB'000	2013 RMB'000	2013 RMB'000	2014 RMB'000
Turnover	29,819	25,687	61,113	31,334	33,563
Cost of sales	(21,137)	(19,282)	(45,214)	(23,034)	(21,657)
Gross profit	8,682	6,405	15,899	8,300	11,906
Other Revenue	44,322	—	—	—	—
Selling and distribution expenses	(1,285)	(1,268)	(1,749)	(548)	(471)
Administrative expenses	(3,792)	(2,882)	(3,801)	(1,808)	(2,056)
Profit from operations	47,927	2,255	10,349	5,944	9,379
Finance income	53	7	221	13	13
Finance cost	(193)	(13)	(3,143)	(164)	(2,783)
Profit before taxation	47,787	2,249	7,427	5,793	6,609
Income tax	(3,268)	(566)	(843)	(729)	(652)
Profit for the year/ period and other comprehensive for the year/period	<u>44,519</u>	<u>1,683</u>	<u>6,584</u>	<u>5,064</u>	<u>5,957</u>

Combined statements of financial position at 31 December 2011, 2012, 2013 and 30 June 2014

	As at 31 December			As at 30 June
	2011 RMB'000	2012 RMB'000	2013 RMB'000	2014 RMB'000
Non-current assets				
Lease prepayments	—	—	6,485	6,407
Property, plant and equipment	3,385	3,119	12,950	12,632
	<u>3,385</u>	<u>3,119</u>	<u>19,435</u>	<u>19,039</u>
Current assets				
Lease prepayments	—	—	154	154
Inventories	9,593	22,845	26,230	22,794
Trade and other receivables, deposits and prepayments	36,067	39,185	29,917	43,599
Amounts receivable from the KSH Group	—	—	25,326	41,178
Cash and cash equivalents	2,046	15,297	35,807	11,226
Pledged deposit	60	—	—	—
	<u>47,766</u>	<u>77,327</u>	<u>117,434</u>	<u>118,951</u>
Total Assets	<u>51,151</u>	<u>80,446</u>	<u>136,869</u>	<u>137,990</u>
Current liabilities				
Bank loans	—	—	95,000	95,000
Receipts in advance	7,786	16,579	21,408	17,908
Trade and other payables	9,471	10,642	15,322	15,089
Amounts payable to the KSH Group	54,690	58,282	—	—
Current taxation	4,869	5,435	6,048	4,946
	<u>76,816</u>	<u>90,938</u>	<u>137,778</u>	<u>132,943</u>
Net current assets	(29,050)	(13,611)	(20,344)	(13,992)
Total assets less current liabilities	<u>(25,665)</u>	<u>(10,492)</u>	<u>(909)</u>	<u>5,047</u>
Net Assets	<u>(25,665)</u>	<u>(10,492)</u>	<u>(909)</u>	<u>5,047</u>
Equity				
Reserves	(25,665)	(10,492)	(909)	5,047
Total equity	<u>(25,665)</u>	<u>(10,492)</u>	<u>(909)</u>	<u>5,047</u>

C SUBSEQUENT FINANCIAL STATEMENTS AND DIVIDENDS

No audited financial statements have been prepared by the Company and its subsidiaries comprising the Group in respect of any period subsequent to 30 June 2014. Save as disclosed in the Financial Information, no dividend or distribution has been declared or made by any companies comprising the Group in respect of any period subsequent to 30 June 2014.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

24 December 2014

The Directors
Kai Shi China Holdings Company Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to Kai Shi Holdings Company Limited (“KSH”) and its subsidiaries as set out in note 1(b) of section B (hereinafter collectively referred to as the “KSH Group”) comprising the combined statements of financial position of the KSH Group as of 31 December 2011, 2012 and 2013 and 30 June 2014 and the combined statements of profit or loss, the combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined cash flow statements of the KSH Group, for each of the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014 (the “Relevant Periods”), together with the explanatory notes thereto (the “Financial Information”), for inclusion in the circular of the Company dated 24 December 2014 (the “Circular”).

KSH was incorporated in the British Virgin Islands on 31 October 2014 with limited liability. Upon completion of proposed asset reorganisation, KSH will become the holding company of the companies now comprising the KSH Group, details of which are set out in note 1(b) of Section B below. KSH has not carried on any business since the date of its incorporation save for the aforementioned Reorganisation.

As at the date of this report, no audited financial statements have been prepared for KSH, Kai Shi Investment Group Company Limited, Kai Shi Projects Holdings Group Limited, Kai Shi Projects Development Group Limited, Kai Shi Hengsheng Planning (Dalian) Co., Ltd. (開世恒盛策劃(大連)有限公司) and Dalian Kai Shi Urban-Rural Investment and Construction Company Limited (大連開世城鄉投資建設有限公司), as they either are newly incorporated and have not issued their first audited financial statements since the date of incorporation or are investment holding companies and not subject to statutory audit requirements under the relevant rules and regulations in the jurisdiction of incorporation.

All companies now comprising the KSH Group have adopted 31 December as their financial year end date. Details of the companies comprising the KSH Group that are subject to audit during the Relevant Periods and the names of the respective auditors are set out in note 25 of Section B. The statutory financial statements of these companies were prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) or the relevant requirements of the Accounting Standards for Business Enterprises and Accounting Regulations (the “PRC GAAP”) issued by the Ministry of Finance of the People’s Republic of China (the “PRC”).

The directors of the Company have prepared the combined financial statements of the KSH Group for the Relevant Periods (the “Underlying Financial Statements”) on the same basis as used in the preparation of the Financial Information set out in Section B below. The Underlying Financial Statements for each of the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014 were audited by us under separate terms of engagement with the Company in accordance with Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The Financial Information has been prepared by the directors of the Company for inclusion in the Circular in connection with the Group reorganisation of the Company and the conditional distribution in specie of the shares of KSH by the Company to its shareholders based on the Underlying Financial Statements, with no adjustments made thereon and in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

DIRECTORS’ RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with IFRSs issued by the IASB and the applicable disclosure provisions of the Listing Rules, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS’ RESPONSIBILITY

Our responsibility is to form an opinion on the Financial Information based on our procedures performed in accordance with Auditing Guideline “Prospectuses and the Reporting Accountant” (Statement 3.340) issued by the HKICPA. We have not audited any financial statements of KSH, its subsidiaries or KSH Group in respect of any period subsequent to 30 June 2014.

OPINION

In our opinion, the Financial Information gives, for the purpose of this report, and on the basis of preparation set out in note 1(b) of Section B below, a true and fair view of the combined state of affairs of the KSH Group as at 31 December 2011, 2012 and 2013 and 30 June 2014 and the KSH Group’s combined results and cash flows for the Relevant Periods then ended.

CORRESPONDING FINANCIAL INFORMATION

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of the KSH Group comprising the combined statement of profit or loss, the combined statement of profit or loss and other comprehensive income, the combined statement of changes in equity and the combined statement of cash flows for the six months ended 30 June 2013, together with the notes thereon (the “Corresponding Financial Information”), for which the directors are responsible, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA.

The directors of the Company are responsible for the preparation of the Corresponding Financial Information in accordance with the same basis adopted in respect of the Financial Information. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Corresponding Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Corresponding Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

A FINANCIAL INFORMATION OF THE KSH GROUP

Combined statements of profit or loss

(Expressed in Renminbi)

	Section B Note	Year ended 31 December			Six months ended 30 June	
		2011 RMB'000	2012 RMB'000	2013 RMB'000	2013 RMB'000 (unaudited)	2014 RMB'000
Turnover	3	481,269	80,016	39,795	16,194	13,504
Cost of sales		<u>(202,120)</u>	<u>(33,023)</u>	<u>(18,859)</u>	<u>(9,210)</u>	<u>(23,623)</u>
Gross profit/(loss)		279,149	46,993	20,936	6,984	(10,119)
Other income	3	41,442	—	—	—	—
Selling and distribution expenses		(16,017)	(14,095)	(8,962)	(5,785)	(1,712)
Administrative expenses		<u>(15,234)</u>	<u>(14,597)</u>	<u>(12,090)</u>	<u>(5,188)</u>	<u>(5,443)</u>
Profit/(loss) from operations before changes in fair value of investment properties		289,340	18,301	(116)	(3,989)	(17,274)
Increase/(decrease) in fair value of investment properties	8(b)(ii)	340	2,880	10,501	8,490	(44,300)
Fair value gain upon transfer of completed properties held for sale to investment properties	8(b)(ii)	<u>—</u>	<u>35,866</u>	<u>2,835</u>	<u>—</u>	<u>—</u>
Profit/(loss) from operations after changes in fair value of investment properties		289,680	57,047	13,220	4,501	(61,574)
Finance income		327	501	185	109	9
Finance costs	4(a)	<u>(2,216)</u>	<u>(36)</u>	<u>(265)</u>	<u>(9)</u>	<u>(12)</u>
Profit/(loss) before taxation	4	287,791	57,512	13,140	4,601	(61,577)
Income tax	5(a)	<u>(89,450)</u>	<u>(21,832)</u>	<u>(8,723)</u>	<u>(4,823)</u>	<u>23,662</u>
Profit/(loss) for the year/period		<u>198,341</u>	<u>35,680</u>	<u>4,417</u>	<u>(222)</u>	<u>(37,915)</u>
Attributable to:						
Equity shareholders of KSH		<u>198,341</u>	<u>35,680</u>	<u>4,417</u>	<u>(222)</u>	<u>(37,915)</u>
Profit/(loss) for the year/period		<u>198,341</u>	<u>35,680</u>	<u>4,417</u>	<u>(222)</u>	<u>(37,915)</u>

Combined statements of profit or loss and other comprehensive income*(Expressed in Renminbi)*

	<i>Section B</i>	Year ended 31 December			Six months ended 30 June	
		2011	2012	2013	2013	2014
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					(unaudited)	
Profit/(loss) for the year/period		<u>198,341</u>	<u>35,680</u>	<u>4,417</u>	<u>(222)</u>	<u>(37,915)</u>
Other comprehensive income for the year/period (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	2,873	—
Items that may be reclassified subsequently to profit or loss:						
Exchange differences on translation of financial statements of overseas subsidiaries		—	—	862	(198)	(273)
Other comprehensive income for the year/period	6	<u>—</u>	<u>—</u>	<u>3,091</u>	<u>2,675</u>	<u>(273)</u>
Total comprehensive income for the year/period		<u>198,341</u>	<u>35,680</u>	<u>7,508</u>	<u>2,453</u>	<u>(38,188)</u>
Attributable to:						
Equity shareholders of KSH		<u>198,341</u>	<u>35,680</u>	<u>7,508</u>	<u>2,453</u>	<u>(38,188)</u>
Total comprehensive income for the year/period		<u>198,341</u>	<u>35,680</u>	<u>7,508</u>	<u>2,453</u>	<u>(38,188)</u>

Combined statements of financial position*(Expressed in Renminbi)*

	<i>Section B Note</i>	As at 31 December			As at
		2011	2012	2013	30 June
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets					
Property, plant and equipment	7	7,495	7,444	5,432	4,369
Investment properties	8	<u>157,850</u>	<u>209,730</u>	<u>226,800</u>	<u>182,500</u>
Total non-current assets		<u>165,345</u>	<u>217,174</u>	<u>232,232</u>	<u>186,869</u>
Current assets					
Properties under development	9	172,033	331,021	160,915	164,311
Completed properties held for sale	10	207,355	161,198	346,942	324,335
Trade and other receivables, deposits and prepayments	11	23,119	10,000	36,253	37,175
Amounts receivable from Remaining Group Entities	12	54,724	54,196	—	—
Deposit in an escrow account	13	25,000	25,000	—	—
Cash and cash equivalents	14	114,488	70,345	2,743	52,367
Pledged deposit	15	<u>—</u>	<u>—</u>	<u>25,000</u>	<u>25,000</u>
Total current assets		<u>596,719</u>	<u>651,760</u>	<u>571,853</u>	<u>603,188</u>
Total assets		<u>762,064</u>	<u>868,934</u>	<u>804,085</u>	<u>790,057</u>

	<i>Section B Note</i>	As at 31 December			As at 30 June
		2011 <i>RMB'000</i>	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>
Current liabilities					
Bank loan	16	—	200,000	—	—
Receipts in advance	17	3,704	4,024	501	966
Trade and other payables	18	138,030	140,475	219,962	267,208
Amounts due to Remaining Group Entities	12	—	—	28,996	44,849
Amounts due to the Company	12	20,431	110,439	131,580	48,619
Current taxation	20(a)	<u>151,371</u>	<u>127,026</u>	<u>124,218</u>	<u>109,375</u>
Total current liabilities		<u>313,536</u>	<u>581,964</u>	<u>505,257</u>	<u>471,017</u>
Net current assets		<u>283,183</u>	<u>69,796</u>	<u>66,596</u>	<u>132,171</u>
Total assets less current liabilities		<u>448,528</u>	<u>286,970</u>	<u>298,828</u>	<u>319,040</u>
Non-current liabilities					
Bank loan	16	200,000	—	—	—
Deferred tax liabilities	20(b)	<u>26,923</u>	<u>43,173</u>	<u>50,523</u>	<u>25,967</u>
Total non-current liabilities		<u>226,923</u>	<u>43,173</u>	<u>50,523</u>	<u>25,967</u>
Net assets		<u>221,605</u>	<u>243,797</u>	<u>248,305</u>	<u>293,073</u>
Equity					
Combined capital	21(a)	—	—	—	—
Reserves		<u>221,605</u>	<u>243,797</u>	<u>248,305</u>	<u>293,073</u>
Total equity attributable to equity shareholders of KSH		<u>221,605</u>	<u>243,797</u>	<u>248,305</u>	<u>293,073</u>
Total equity		<u>221,605</u>	<u>243,797</u>	<u>248,305</u>	<u>293,073</u>

Combined statements of changes in equity*(Expressed in Renminbi)*

	<i>Section B Note</i>	Attributable to equity shareholders of KSH				Total <i>RMB'000</i>
		Combined capital <i>RMB'000</i>	Contributed surplus <i>RMB'000</i>	Statutory reserve <i>RMB'000</i>	Retained profits <i>RMB'000</i>	
Balance at 1 January 2011		—	20,639	8,009	65,472	94,120
Changes in equity for 2011:						
Profit for the year		—	—	—	198,341	198,341
Total comprehensive income		—	—	—	198,341	198,341
Dividend declared in respect of the current year	21(b)(vii)	—	—	—	(70,856)	(70,856)
Appropriation to statutory reserve		—	—	8,431	(8,431)	—
Balance at 31 December 2011		—	20,639	16,440	184,526	221,605
Balance at 1 January 2012		—	20,639	16,440	184,526	221,605
Changes in equity for 2012:						
Profit for the year		—	—	—	35,680	35,680
Total comprehensive income		—	—	—	35,680	35,680
Appropriation to statutory reserve		—	—	1,001	(1,001)	—
Capital injection to a company within the Remaining Group		—	(13,488)	—	—	(13,488)
Balance at 31 December 2012		—	7,151	17,441	219,205	243,797

	Attributable to equity shareholders of KSH						
	Combined capital RMB'000	Contributed surplus RMB'000	Statutory reserve RMB'000	Exchange reserve RMB'000	Property revaluation reserve RMB'000	Retained profits RMB'000	Total RMB'000
Balance at 1 January 2013	—	7,151	17,441	—	—	219,205	243,797
Changes in equity for 2013:							
Profit for the year	—	—	—	—	—	4,417	4,417
Other comprehensive income	—	—	—	862	2,229	—	3,091
Total comprehensive income	—	—	—	862	2,229	4,417	7,508
Capital injection to a company within the Remaining Group	—	(3,000)	—	—	—	—	(3,000)
Balance at 31 December 2013	—	4,151	17,441	862	2,229	223,622	248,305
Balance at 1 January 2014	—	4,151	17,441	862	2,229	223,622	248,305
Changes in equity for 2014:							
Loss for the period	—	—	—	—	—	(37,915)	(37,915)
Other comprehensive income	—	—	—	(273)	—	—	(273)
Total comprehensive income	—	—	—	(273)	—	(37,915)	(38,188)
Increase in paid-in capital of a subsidiary of the KSH Group	—	82,956	—	—	—	—	82,956
Balance at 30 June 2014	—	87,107	17,441	589	2,229	185,707	293,073

	Attributable to equity shareholders of KSH						Total RMB'000
	Combined capital RMB'000	Contributed surplus RMB'000	Statutory reserve RMB'000	Exchange reserve RMB'000	Property revaluation reserve RMB'000	Retained profits RMB'000	
Balance at 1 January 2013	—	7,151	17,441	—	—	219,205	243,797
Changes in equity for 2013:							
Loss for the period (unaudited)	—	—	—	—	—	(222)	(222)
Other comprehensive income (unaudited)	—	—	—	(198)	2,873	—	2,675
Total comprehensive income (unaudited)	—	—	—	(198)	2,873	(222)	2,453
Balance at 30 June 2013 (unaudited)	—	7,151	17,441	(198)	2,873	218,983	246,250

Combined cash flow statement*(Expressed in Renminbi)*

	<i>Section B Note</i>	Year ended 31 December			Six months ended 30 June	
		2011 <i>RMB'000</i>	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>
					(unaudited)	
Operating activities						
Cash generated from/(used in) operations	14(b)	44,086	(88,852)	(85,230)	(34,863)	(7,798)
Income tax paid		(10,357)	(29,927)	(4,925)	(4,739)	(15,736)
Net cash generated from/(used in) operating activities		<u>33,729</u>	<u>(118,779)</u>	<u>(90,155)</u>	<u>(39,602)</u>	<u>(23,534)</u>
Investing activities						
Proceeds from disposal of property, plant and equipment		11	—	—	—	—
Payments for acquisition of property, plant and equipment		(2,222)	(1,766)	(394)	(348)	—
Payments for acquisition of investment		—	(13,488)	(3,000)	—	—
Net cash used in investing activities		<u>(2,211)</u>	<u>(15,254)</u>	<u>(3,394)</u>	<u>(348)</u>	<u>—</u>

<i>Section B</i>	Year ended 31 December			Six months ended 30 June		
	<i>Note</i>	2011 RMB'000	2012 RMB'000	2013 RMB'000	2013 RMB'000 (unaudited)	2014 RMB'000
Financing activities						
Proceeds from new bank loan		112,000	—	—	—	—
Repayment of bank loan		—	—	(200,000)	—	—
Interest received		327	501	185	109	9
Advances from Controlling Shareholder		5	86,291	137,381	9,972	64,355
Advances from the Company and Remaining Group Entities		—	96,559	188,998	72,382	15,676
Advances from other related parties		80,617	12,887	—	—	—
Repayment of advances from Controlling Shareholder		(4,642)	(86,291)	(4,765)	(2,386)	(6,798)
Repayment of advances from the Company and Remaining Group Entities		(19,889)	(6,023)	(84,176)	(47,865)	—
Repayment of advances from Other related parties		(92,558)	—	—	—	—
Interest paid		(11,534)	(14,034)	(11,761)	(6,631)	—
Net cash generated from financing activities		<u>64,326</u>	<u>89,890</u>	<u>25,862</u>	<u>25,581</u>	<u>73,242</u>
Net increase/(decrease) in cash and cash equivalents		95,844	(44,143)	(67,687)	(14,369)	49,708
Cash and cash equivalents at 1 January		18,644	114,488	70,345	70,345	2,743
Effect of foreign exchange rate changes		—	—	85	46	(84)
Cash and cash equivalents at 31 December/30 June	<i>14(a)</i>	<u>114,488</u>	<u>70,345</u>	<u>2,743</u>	<u>56,022</u>	<u>52,367</u>

B NOTES TO THE FINANCIAL INFORMATION

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES**(a) Statement of compliance**

The Financial Information set out in this report has been prepared in accordance with International Financial Reporting Standards (“IFRSs”), which collective term includes International Accounting Standards and related interpretations, promulgated by the International Accounting Standards Board (“IASB”). Further details of the significant accounting policies adopted are set out in the remainder of this Section B.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Financial Information, the KSH Group has adopted all applicable new and revised IFRSs to the Relevant Periods, except for any new standards or interpretations that are not yet effective for the Relevant Periods. The revised and new accounting standards and interpretations issued but not yet effective for the Relevant Periods are set out in note 27.

The Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

The Corresponding Financial Information for the six months ended 30 June 2013 has been prepared in accordance with the same basis and accounting policies adopted in respect of the Financial Information.

(b) Basis of preparation and presentation

The Financial Information comprises KSH and its subsidiaries and has been prepared using the merger basis of accounting as if the KSH Group had always been in existence.

Kai Shi Holdings Company Limited (“KSH”) is a limited liability company incorporated in the British Virgin Islands (“BVI”) on 31 October 2014 and is wholly-owned by Kai Shi China Holdings Company Limited (the “Company”).

For the purpose of distribution in specie of KSH by the Company, the Group underwent the reorganisation (the “Asset Reorganisation”). KSH was incorporated for the purpose of holding the property development business (“Distributed Business”), which is primarily carried out by Dalian Kai Shi Property Company Limited (“Dalian Kai Shi”). Trade Up Business Limited (the “Remaining Holdco”) was also incorporated for the purpose of holding dissimilar business to the Distributed Business. Details of the Asset Reorganisation are as follows:

- On 12 May 2014, the Remaining Holdco was incorporated in the BVI with issued share capital of US\$1.
- On 21 March 2014, Profit Gear Development Limited (“Profit Gear”), a wholly-owned subsidiary of the Remaining Holdco, was incorporated in Hong Kong with issued share capital of HK\$1.
- On 31 October 2014, KSH was incorporated in the BVI with issued share capital of US\$0.01.
- On 8 December 2014, Dalian Kai Shi transferred all its equity interests in Dalian Kai Shi Construction & Engineering Co., Ltd. (“KS Engineering”) to Tianjin Lion Window & Door Co., Ltd. (“Lion Tianjin”) for a consideration of RMB2,000,000.

- On 9 December 2014, Lion Tianjin transferred all its equity interests (27.66% of the total paid-in capital) in Dalian Kai Shi to Kai Shi Hengsheng Planning (Dalian) Co., Ltd. (“Kai Shi Hengsheng”) for a consideration of RMB50,500,000.
- On 8 December 2014, China Kai Shi Group Holdings Limited (“China Kai Shi”) transferred all its equity interests in Lion Tianjin, which together with its subsidiary, KS Engineering, which are engaged in manufacture and sale of doors and windows and earthwork engineering (“the Retained Businesses”), to Profit Gear, a wholly-owned subsidiary of the Remaining Holdco for a consideration of RMB4,000,000. The Company, the Remaining Holdco and its three subsidiaries, Profit Gear, Lion Tianjin and KS Engineering (Profit Gear, Lion Tianjin and KS Engineering, together known as the “Remaining Group Entities”) are known as the “Remaining Group”.
- On 19 December 2014, KSH issued and allotted 601,999,999 shares to the Company in exchange for the Company’s entire equity interests in Kai Shi Investment Group Company Limited (“Kai Shi Investment”), together with their respective subsidiaries which are principally engaged in property development (“Distributed Business”). KSH and Kai Shi Investment and its subsidiaries are known as the “KSH Group”.

As at the date of this report, the above reorganisation steps had been completed. And the following companies had become the subsidiaries of KSH:

- (i) Kai Shi Investment
- (ii) China Kai Shi
- (iii) Kai Shi Projects Holdings Group Limited
- (iv) Kai Shi Projects Development Group Limited
- (v) Kai Shi Hengsheng
- (vi) Dalian Kai Shi

and Dalian Kai Shi Urban-Rural Investment and Construction Company Limited had become the joint venture of KSH.

For the purpose of the KSH Group Asset Reorganisation, the directors of the Company have prepared the Financial Information of KSH Group for the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014 (the “Relevant Periods”) in accordance with IFRSs issued by the IASB and the applicable disclosure provisions of the Listing Rules.

(c) Basis of measurement

The Financial Information is presented in Renminbi (“RMB”), rounded to the nearest thousand. It is prepared on the historical cost basis except for investment properties (see note 1(h)) that are stated at their fair value.

(d) Going concern

The Financial Information has been prepared assuming the KSH Group will continue as a going concern. The directors are of the opinion that, based on detailed review of liquidity requirement and working capital forecast of the KSH Group, the KSH Group will have necessary liquid funds to finance its working capital and capital expenditure requirements.

(e) Use of estimates and judgements

The preparation of Financial Information 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 Information and the major sources of estimation uncertainty are discussed in note 2.

(f) Subsidiaries

Subsidiaries are entities controlled by the KSH Group. The KSH 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 KSH Group has power, only substantive rights (held by the KSH Group and other parties) are considered.

An investment in a subsidiary is consolidated into the Financial Information 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 Financial Information. 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.

(g) Joint ventures

A joint venture is an arrangement whereby the KSH Group and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in a joint venture is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the KSH Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the KSH Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 1(k)). Any acquisition-date excess over cost, the KSH Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the KSH Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

(h) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (note 1(j)) 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(t)(ii).

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).

(i) Other property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(k)). 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(k)).

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(v)).

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
Motor vehicles	5–10 years
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.

(j) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the KSH 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 KSH Group

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

(ii) Operating lease charges

Where the KSH Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments 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(h)) or property under development or held for development for sale (see note 1(l)).

(k) 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 the end of the 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 KSH 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.

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, except 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 KSH 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 the end of the 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; and
- investment in subsidiaries and joint ventures in KSH's statement of financial position; and

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).

— *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/period in which the reversals are recognised.

(l) 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(v)). 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 KSH 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.

(m) 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(k)), 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.

(n) 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.

(o) 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.

(p) 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.

(q) Employee benefits

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.

(r) Income tax

Income tax for the year/period 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/period, using tax rates enacted or substantively enacted at the end of the 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(h), 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.

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 KSH 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 KSH 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.

(s) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the KSH Group 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.

(t) 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 KSH 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 KSH 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.

(ii) 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.

(iii) Interest income

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

(u) Translation of foreign currencies

Foreign currency transactions during the year/period 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 the 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.

(v) 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 the 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.

(w) Related parties

- (a) A person, or a close member of that person's family, is related to the KSH Group if that person:
 - (i) has control or joint control over the KSH Group;
 - (ii) has significant influence over the KSH Group; or
 - (iii) is a member of the key management personnel of the KSH Group or the KSH Group's parent.
- (b) An entity is related to the KSH Group if any of the following conditions applies:
 - (i) The entity and the KSH 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 KSH Group or an entity related to the KSH 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.

(x) Segment reporting

Operating segments, and the amounts of each segment item reported in the Financial Information, are identified from the financial information provided regularly to the KSH Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the KSH 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.

The KSH Group operates in a single business, the property development in Lvshunkou, Dalian, the PRC. Accordingly, no segmental analysis is presented.

2 ACCOUNTING JUDGEMENT AND ESTIMATES**(a) Critical accounting judgements in applying the KSH Group's accounting policies**

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

(i) *Withholding taxes arising from the distributions of dividends*

The KSH 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 KSH 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 KSH 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 KSH 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, there 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.

(b) Sources of estimation uncertainty

Notes 8, 20 and 22 contain information about the assumptions and their risk factors relating to valuation of investment property, recognition of deferred tax liabilities in respect of undistributed profits of the KSH Group's subsidiaries in the PRC and valuation of financial instruments. Other key sources of estimation uncertainty are as follows:

(i) *Impairments*

As explained in note 1(l), the KSH 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 KSH Group's recent experience and the nature of the subject property, the KSH 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/periods.

(ii) *Provision for Land Appreciation Tax ("LAT")*

As explained in note 5(b), the KSH 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.

3 TURNOVER AND OTHER INCOME

The principal activity of the KSH Group is property development. The amounts of each significant category of revenue recognised in turnover and other income during the Relevant Periods are as follows:

	Year ended 31 December			Six months ended 30 June	
	2011 RMB'000	2012 RMB'000	2013 RMB'000	2013 RMB'000	2014 RMB'000
				(unaudited)	
<i>Turnover</i>					
Sales of properties	479,554	77,577	36,120	14,309	10,998
Rental income	<u>1,715</u>	<u>2,439</u>	<u>3,675</u>	<u>1,885</u>	<u>2,506</u>
	<u>481,269</u>	<u>80,016</u>	<u>39,795</u>	<u>16,194</u>	<u>13,504</u>
<i>Other income</i>					
Dividend income from a company within the Remaining Group	<u>41,442</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

4 PROFIT/(LOSS) BEFORE TAXATION

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

(a) Finance costs:

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Interest on bank loan	11,534	14,033	11,761	6,631	—
Interest on other loan	—	—	598	—	472
Less: Interest expense capitalised into properties under development (<i>note</i>)	<u>(9,378)</u>	<u>(14,033)</u>	<u>(12,359)</u>	<u>(6,631)</u>	<u>(472)</u>
	2,156	—	—	—	—
Other finance costs	<u>60</u>	<u>36</u>	<u>265</u>	<u>9</u>	<u>12</u>
	<u>2,216</u>	<u>36</u>	<u>265</u>	<u>9</u>	<u>12</u>

Note: The borrowing costs have been capitalised into properties under development at rates ranging from 5.88% to 6.41%, 6.14% to 6.98%, 6.46% to 7.20% and 6.46% to 7.20% per annum for the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014 respectively.

(b) Staff costs:

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Contributions to defined contribution retirement plans (<i>note 19</i>)	686	821	1,281	236	—
Salaries, wages and other benefits	<u>4,381</u>	<u>5,356</u>	<u>5,074</u>	<u>2,677</u>	<u>2,536</u>
	<u>5,067</u>	<u>6,177</u>	<u>6,355</u>	<u>2,913</u>	<u>2,536</u>

Staff costs included directors' and senior management's remuneration.

During the Relevant Periods, the directors of KSH received directors' emoluments from KSH Group and the Company totalling RMB2,015,000, RMB3,715,000, RMB2,783,000, RMB1,328,000 (unaudited) and RMB1,285,000 for the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2013 and 2014, respectively. No apportionment has been made as the directors of KSH consider that it is impracticable to apportion this amount between their services to KSH Group and their services to the Company and the Remaining Group Entities.

During the Relevant Periods, no directors or senior management of the Company waived any emoluments and no emoluments were paid by the Company to any of the directors or senior management as an inducement to join or upon joining the KSH Group or as compensation for loss of office.

(c) **Other items:**

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Depreciation	1,647	1,818	2,208	1,102	1,063
Auditor's remuneration	3,380	1,309	1,419	250	450
Write-down of completed properties held for sale	—	—	—	—	18,500
Rentals receivable from investment properties less direct outgoings	<u>(1,715)</u>	<u>(2,392)</u>	<u>(3,626)</u>	<u>(1,885)</u>	<u>(2,506)</u>

5 **INCOME TAX IN THE COMBINED STATEMENTS OF PROFIT OR LOSS**

(a) **Taxation in the combined statements of profit or loss represents:**

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Current tax					
PRC Corporate Income Tax ("CIT")	69,155	—	—	—	—
PRC LAT	<u>33,867</u>	<u>5,582</u>	<u>2,117</u>	<u>632</u>	<u>894</u>
	103,022	5,582	2,117	632	894
Deferred tax					
Origination and reversal of temporary differences relating to CIT	(13,673)	12,517	1,720	593	(12,343)
Origination and reversal of temporary differences relating to LAT	<u>101</u>	<u>3,733</u>	<u>4,886</u>	<u>3,598</u>	<u>(12,213)</u>
	<u>89,450</u>	<u>21,832</u>	<u>8,723</u>	<u>4,823</u>	<u>(23,662)</u>

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

	Year ended 31 December			Six months ended 30 June	
	2011 RMB'000	2012 RMB'000	2013 RMB'000	2013 RMB'000	2014 RMB'000
Profit/(loss) before taxation	<u>287,791</u>	<u>57,512</u>	<u>13,140</u>	<u>4,601</u>	<u>(61,577)</u>
Notional tax on profit/(loss) before taxation, calculated at the rates applicable to profits/(losses) in the countries concerned	72,533	14,442	3,336	1,167	(15,321)
Tax effect of non-deductible expenses	244	404	136	483	148
Tax effect of non-taxable income	(10,875)	—	—	—	—
LAT	33,968	9,315	7,003	4,230	(11,319)
Tax effect of LAT	(8,492)	(2,329)	(1,752)	(1,057)	2,830
Deemed withholding income tax for dividends declared	<u>2,072</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Actual tax expense/(benefit)	<u>89,450</u>	<u>21,832</u>	<u>8,723</u>	<u>4,823</u>	<u>(23,662)</u>

- (i) Effective from 1 January 2008, the PRC's statutory income tax rate is 25%.
- (ii) Pursuant to the rules and regulations of the BVI, KSH is not subject to any income tax in the BVI during the Relevant Periods.

No provision for Hong Kong Profits Tax was made as the KSH Group's Hong Kong subsidiaries did not earn any income subject to Hong Kong Profits Tax during the Relevant Periods.

- (iii) PRC LAT is levied on properties developed by the KSH 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 KSH 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 KSH 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 OTHER COMPREHENSIVE INCOME

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

	31 December 2013		
	Before-tax amount	Tax expense	Net-of-tax amount
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Exchange differences on translation of financial statements of overseas subsidiaries	862	—	862
Surplus on revaluation upon transfer of property, plant and equipment to investment properties	<u>2,972</u>	<u>(743)</u>	<u>2,229</u>
Other comprehensive income	<u><u>3,834</u></u>	<u><u>(743)</u></u>	<u><u>3,091</u></u>
	30 June 2013 (unaudited)		
	Before-tax amount	Tax expense	Net-of-tax amount
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Exchange differences on translation of financial statements of overseas subsidiaries	(198)	—	(198)
Surplus on revaluation upon transfer of property, plant and equipment to investment properties	<u>3,830</u>	<u>(957)</u>	<u>2,873</u>
Other comprehensive income	<u><u>3,632</u></u>	<u><u>(957)</u></u>	<u><u>2,675</u></u>
	30 June 2014		
	Before-tax amount	Tax expense	Net-of-tax amount
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Exchange differences on translation of financial statements of overseas subsidiaries	<u>(273)</u>	—	<u>(273)</u>
Other comprehensive income	<u><u>(273)</u></u>	—	<u><u>(273)</u></u>

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

	Year ended 31 December			Six months ended 30 June	
	2011 <i>RMB'000</i>	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>
Surplus on revaluation upon transfer of property, plant and equipment to investment properties:					
Changes in fair value recognised during the year/period	—	—	2,972	3,830	—
Net deferred tax charged to other comprehensive income	—	—	(743)	(957)	—
Surplus on revaluation upon transfer of property, plant and equipment to investment properties during the year/period recognised in other comprehensive income	—	—	2,229	2,873	—

7 PROPERTY, PLANT AND EQUIPMENT

	Buildings <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Furniture, fixtures and equipment <i>RMB'000</i>	Total <i>RMB'000</i>
Cost:				
At 1 January 2011	3,251	5,107	1,068	9,426
Additions	—	1,947	275	2,222
Disposals	—	(346)	—	(346)
At 31 December 2011	<u>3,251</u>	<u>6,708</u>	<u>1,343</u>	<u>11,302</u>
At 1 January 2012	3,251	6,708	1,343	11,302
Additions	—	1,437	330	1,767
Disposals	—	—	(8)	(8)
At 31 December 2012	<u>3,251</u>	<u>8,145</u>	<u>1,665</u>	<u>13,061</u>
At 1 January 2013	3,251	8,145	1,665	13,061
Additions	—	—	394	394
Transfer to investment Properties	(260)	—	—	(260)
At 31 December 2013	<u>2,991</u>	<u>8,145</u>	<u>2,059</u>	<u>13,195</u>
At 1 January 2014 and 30 June 2014	<u>2,991</u>	<u>8,145</u>	<u>2,059</u>	<u>13,195</u>
Accumulated depreciation:				
At 1 January 2011	276	1,500	719	2,495
Charge for the year	158	1,287	202	1,647
Written back on disposals	—	(335)	—	(335)
At 31 December 2011	<u>434</u>	<u>2,452</u>	<u>921</u>	<u>3,807</u>
At 1 January 2012	434	2,452	921	3,807
Charge for the year	135	1,455	228	1,818
Written back on disposals	—	—	(8)	(8)
At 31 December 2012	<u>569</u>	<u>3,907</u>	<u>1,141</u>	<u>5,617</u>

	Buildings <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Furniture, fixtures and equipment <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2013	569	3,907	1,141	5,617
Charge for the year	179	1,739	290	2,208
Written back on disposals	—	—	—	—
Transfer to investment properties	<u>(62)</u>	<u>—</u>	<u>—</u>	<u>(62)</u>
At 31 December 2013	<u>686</u>	<u>5,646</u>	<u>1,431</u>	<u>7,763</u>
At 1 January 2014	686	5,646	1,431	7,763
Charge for the period	<u>76</u>	<u>829</u>	<u>158</u>	<u>1,063</u>
At 30 June 2014	<u>762</u>	<u>6,475</u>	<u>1,589</u>	<u>8,826</u>
Net book value:				
At 31 December 2011	<u>2,817</u>	<u>4,256</u>	<u>422</u>	<u>7,495</u>
At 31 December 2012	<u>2,682</u>	<u>4,238</u>	<u>524</u>	<u>7,444</u>
At 31 December 2013	<u>2,305</u>	<u>2,499</u>	<u>628</u>	<u>5,432</u>
At 30 June 2014	<u>2,229</u>	<u>1,670</u>	<u>470</u>	<u>4,369</u>

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

Certain buildings with aggregate carrying values of RMB2,327,000 and RMB2,230,000 as at 31 December 2013 and 30 June 2014 respectively were pledged for certain bank loan granted to a company within the Remaining Group.

During the Relevant Periods, certain property, plant and equipment were fully depreciated but still in use. The cost of these property, plant and equipment were amounted to RMB938,696, RMB2,040,874, RMB2,003,526 and RMB2,367,855 as at 31 December 2011, 2012, 2013 and 30 June 2014.

8 INVESTMENT PROPERTIES

	Investment properties	Total
	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2011	157,510	157,510
Fair value adjustment	<u>340</u>	<u>340</u>
At 31 December 2011	<u><u>157,850</u></u>	<u><u>157,850</u></u>
Representing:		
Cost	48,975	48,975
Valuation adjustments	<u>108,875</u>	<u>108,875</u>
	<u><u>157,850</u></u>	<u><u>157,850</u></u>
At 1 January 2012	157,850	157,850
Additions	13,134	13,134
Fair value adjustment	<u>38,746</u>	<u>38,746</u>
At 31 December 2012	<u><u>209,730</u></u>	<u><u>209,730</u></u>
Representing:		
Cost	62,109	62,109
Valuation adjustments	<u>147,621</u>	<u>147,621</u>
	<u><u>209,730</u></u>	<u><u>209,730</u></u>
At 1 January 2013	209,730	209,730
Additions	762	762
Fair value adjustment	<u>16,308</u>	<u>16,308</u>
At 31 December 2013	<u><u>226,800</u></u>	<u><u>226,800</u></u>
Representing:		
Cost	62,871	62,871
Valuation adjustments	<u>163,929</u>	<u>163,929</u>
	<u><u>226,800</u></u>	<u><u>226,800</u></u>

	Investment properties <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2014	226,800	226,800
Fair value adjustment	<u>(44,300)</u>	<u>(44,300)</u>
At 30 June 2014	<u>182,500</u>	<u>182,500</u>
Representing:		
Cost	62,871	62,871
Valuation adjustments	<u>119,629</u>	<u>119,629</u>
	<u>182,500</u>	<u>182,500</u>
Net book value:		
At 31 December 2011	<u>157,850</u>	<u>157,850</u>
At 31 December 2012	<u>209,730</u>	<u>209,730</u>
At 31 December 2013	<u>226,800</u>	<u>226,800</u>
At 30 June 2014	<u>182,500</u>	<u>182,500</u>

(a) Properties leased out under operating lease

The KSH 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 aggregate carrying values of RMB21,640,000 and RMB20,140,000 as at 31 December 2013 and 30 June 2014 respectively were pledged for certain loans granted to a company within the Remaining Group.

During the Relevant Periods, the directors of the KSH 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 during the years ended 31 December 2012 and 2013. The KSH Group had entered into lease agreements with independent third parties accordingly. As a result, fair value gains amounting to RMB35,866,000 and RMB2,835,000 were recognised upon the transfer in the years ended 31 December 2012 and 2013 respectively.

- During the year ended 31 December 2013, certain portion of the KSH 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 was recognised upon the transfer.

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

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

	As at 31 December		As at 30 June	
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	2,383	3,963	5,199	3,782
After 1 year but within 5 years	2,354	5,839	6,075	7,134
After 5 years	—	3,501	3,700	2,182
	<u>4,737</u>	<u>13,303</u>	<u>14,974</u>	<u>13,098</u>

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

(i) *Fair value hierarchy*

The following table presents the fair value of the KSH 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	Fair value measurements categorised into		
	Total	Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurement				
At 31 December 2011				
Investment properties:				
Commercial — PRC	<u>157,850</u>	<u>—</u>	<u>—</u>	<u>157,850</u>
At 31 December 2012				
Investment properties:				
Commercial — PRC	<u>209,730</u>	<u>—</u>	<u>—</u>	<u>209,730</u>
At 31 December 2013				
Investment properties:				
Commercial — PRC	<u>226,800</u>	<u>—</u>	<u>—</u>	<u>226,800</u>
At 30 June 2014				
Investment properties:				
Commercial — PRC	<u>182,500</u>	<u>—</u>	<u>—</u>	<u>182,500</u>

During the Relevant Periods, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The KSH 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 KSH Group's investment properties were revalued as at the end of the reporting period. The valuation as at 31 December 2011 was carried out by Vigers Appraisal & Consulting Limited ("Vigers") and the valuation as at 31 December 2012, 2013 and 30 June 2014 were carried out by Grant Sherman Appraisal Limited ("Grant Sherman"). Both Vigers and Grant Sherman are independent firms of surveyors, 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 KSH 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.

(ii) *Information about Level 3 fair value measurements*

	Valuation technique	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 Relevant Periods in the balance of the Level 3 fair value measurement is as follows:

	<i>RMB'000</i>
Investment properties — Commercial — PRC	
At 1 January 2011	157,510
Fair value adjustment	<u>340</u>
At 31 December 2011	<u><u>157,850</u></u>
At 1 January 2012	157,850
Additions	13,134
Fair value adjustment	<u>38,746</u>
At 31 December 2012	<u><u>209,730</u></u>
At 1 January 2013	209,730
Additions	762
Fair value adjustment	<u>16,308</u>
At 31 December 2013	<u><u>226,800</u></u>
At 1 January 2014	226,800
Fair value adjustment	<u>(44,300)</u>
At 30 June 2014	<u><u>182,500</u></u>

Fair value adjustments of investment properties presented above includes:

	Year ended 31 December			Six months ended
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
Change in fair value of investment properties	340	2,880	10,501	(44,300)
Valuation gains recognised in profit or loss upon transfer from completed properties held for sale to investment properties	—	35,866	2,835	—
Valuation gains recognised in other comprehensive income upon transfer from properties, plant and equipment to investment properties	—	—	2,972	—
	<u>340</u>	<u>38,746</u>	<u>16,308</u>	<u>(44,300)</u>

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

9 PROPERTIES UNDER DEVELOPMENT

(a) Properties under development in the combined statements of financial position comprise:

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Expected to be recovered within one year				
Properties under development for sale	<u>—</u>	<u>150,009</u>	<u>—</u>	<u>—</u>
Expected to be recovered after more than one year				
Properties held for future development for sale	<u>172,033</u>	<u>181,012</u>	<u>160,915</u>	<u>164,311</u>
	<u>172,033</u>	<u>331,021</u>	<u>160,915</u>	<u>164,311</u>

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

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
In the PRC, with lease term of 50 years or more:	<u>169,280</u>	<u>169,280</u>	<u>121,585</u>	<u>121,585</u>

The KSH 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 RMB168,324,000, RMB50,381,000, RMB50,381,000 and RMB50,381,000 as at 31 December 2011, 2012 and 2013 and 30 June 2014 respectively.

10 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.

Completed properties held for sale that were pledged for certain bank loan granted to the KSH Group were amounted to RMB163,390,000 and RMB138,818,000 as at 31 December 2011 and 2012 respectively (note 16). These completed properties were released from pledge in 2013 and no completed properties held for sale were pledged for bank loans granted to the KSH Group since then.

Certain other buildings included in completed properties held for sale with aggregate carrying values of RMB33,132,000 and RMB17,798,000 as at 31 December 2011 and 2012 respectively, were located on the land parcels which was pledged for the bank loan purpose. Pursuant to the KSH 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 loan. Such land parcels were released from pledge in 2013.

Completed properties held for sale in the combined statements of financial position comprise:

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Expected to be recovered within one year	201,900	14,343	33,214	32,200
Expected to be recovered after more than one year	<u>5,455</u>	<u>146,855</u>	<u>313,728</u>	<u>292,135</u>
	<u>207,355</u>	<u>161,198</u>	<u>346,942</u>	<u>324,335</u>

During the six months ended 30 June 2014, certain completed properties held for sale was written down to their estimated net realisable value as a result of the downturn of property market in Lvshunkou, Dalian, the PRC and write-down of completed properties held for sale of RMB18,500,000 was recognised in "Cost of sales".

11 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

- (a) Trade and other receivables, deposits and prepayments in the combined statements of financial position comprise:

	As at 31 December		As at 30 June	
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables				
— Third parties	17,980	1,839	293	831
Deposits and prepayments	441	1,746	26,652	24,731
Other receivables	<u>4,698</u>	<u>6,415</u>	<u>9,308</u>	<u>11,613</u>
	<u>23,119</u>	<u>10,000</u>	<u>36,253</u>	<u>37,175</u>

All of the trade and other receivables at the end of the reporting period are expected to be recovered within one year.

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

At each of the balance sheet date during the Relevant Periods, the KSH 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 balance sheet date during the Relevant Periods. Impairment losses in respect of trade and other receivables are recorded using an allowance account unless the KSH 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(k)(i)).

(b) Ageing analysis

At each of the balance sheet date during the Relevant Periods, the ageing analysis of trade receivables (which are included in trade and other receivables, deposits and prepayments), based on the invoice date (or date of revenue recognition, if earlier) and net of allowance for doubtful debts, is as follows:

	As at 31 December		As at 30 June	
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year (inclusive)	<u>17,980</u>	<u>1,839</u>	<u>293</u>	<u>831</u>

(c) Impairment of trade receivables

No allowance for doubtful debts in respect of trade receivables was recognised as at 31 December 2011, 2012, 2013 and 30 June 2014.

(d) Trade receivables that are not impaired

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

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Neither past due nor impaired	17,980	1,838	293	831
Less than 1 month past due	—	—	—	—
Overdue more than 1 month but less than 1 year	—	1	—	—
Past due	—	1	—	—
	<u>17,980</u>	<u>1,839</u>	<u>293</u>	<u>831</u>

12 BALANCES WITH THE REMAINING GROUP ENTITIES AND THE COMPANY

Amounts due from/(to) Remaining Group Entities and the Company are denominated in RMB, unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of the balances approximate their fair values.

These balances with Remaining Group Entities and the Company will be settled upon completion of the KSH Group Asset Reorganisation.

13 DEPOSIT IN AN ESCROW ACCOUNT

As at 31 December 2011 and 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.

14 CASH AND CASH EQUIVALENTS**(a) Cash and cash equivalents comprise:**

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at bank and in hand	<u>114,488</u>	<u>70,345</u>	<u>2,743</u>	<u>52,367</u>

As at 31 December 2011, 2012, 2013 and 30 June 2014, bank balances denominated in RMB that were placed with banks in the PRC amounted to RMB113,731,000, RMB66,439,000, RMB218,000 and RMB44,100,000 respectively. 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/(loss) before taxation to cash generated from/(used in) operations:

	Note	Year ended 31 December			Six months ended	
		2011	2012	2013	30 June	2014
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit/(loss) before taxation		287,791	57,512	13,140	4,601	(61,577)
Adjustments for:					(unaudited)	
— Depreciation	4(c)	1,647	1,818	2,208	1,102	1,063
— Finance costs	4(a)	2,216	36	265	9	12
— Interest income		(327)	(501)	(185)	(109)	(9)
— Increase in fair value of investment properties	8(b)(ii)	(340)	(2,880)	(10,501)	(8,490)	44,300
— Increase in fair value of transfer of completed properties held for sale to investment properties	8(b)(ii)	—	(35,866)	(2,835)	—	—
— Write-down of completed properties held for sale	10	—	—	—	—	18,500
— Dividend income	3	(41,442)	—	—	—	—
Changes in working capital						
Increase/(decrease) in properties under development		(43,738)	(144,955)	181,866	198,393	(3,395)
(Increase)/decrease in completed properties held for sale		(163,801)	33,023	(186,296)	(186,350)	4,106
Decrease/(increase) in trade and other receivables, deposits and prepayments		14,197	13,119	(23,932)	(23,186)	(922)
(Decrease)/increase in receipts in advance		(4,783)	(320)	(3,523)	(2,818)	465
Decrease in trade and other payables		(7,334)	(9,838)	(55,437)	(18,015)	(10,341)
Cash generated from/(used in) operations		<u>44,086</u>	<u>(88,852)</u>	<u>(85,230)</u>	<u>(34,863)</u>	<u>(7,798)</u>

15 PLEDGED DEPOSIT

In November 2013, the KSH Group placed a deposit of RMB25,000,000 to a commercial bank as pledge security against a bank loan granted to the Company. The balance of pledged deposit as at 31 December 2013 and 30 June 2014 were RMB25,000,000 and RMB25,000,000 respectively.

16 BANK LOAN

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

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Current				
— Secured	<u>—</u>	<u>200,000</u>	<u>—</u>	<u>—</u>
Non-current				
— Secured	<u>200,000</u>	<u>—</u>	<u>—</u>	<u>—</u>

The KSH Group's bank loan was denominated in RMB and was repayable as follows:

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year or on demand	—	200,000	—	—
After 1 year but within 2 years	<u>200,000</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>200,000</u>	<u>200,000</u>	<u>—</u>	<u>—</u>

The bank loan bears interest ranging from 5.88% to 6.90% and 6.14% to 6.98% per annum for the years ended 31 December 2011 and 2012 respectively. The bank loan is secured by the following assets:

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Completed properties held for sale	<u>163,390</u>	<u>138,818</u>	<u>—</u>	<u>—</u>

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

Further details of the KSH Group's management of liquidity risk are set out in note 22(b). As at 31 December 2011, 2012, 2013 and 30 June 2014, none of the covenants relating to drawn down facilities had been breached.

17 RECEIPTS IN ADVANCE

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

18 TRADE AND OTHER PAYABLES

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	94,561	82,804	54,089	43,047
Other payables and accruals	43,469	44,784	20,758	21,370
Amounts due to Controlling Shareholder	—	—	132,616	190,173
Amounts due to related parties	—	12,887	12,499	12,618
	<u>138,030</u>	<u>140,475</u>	<u>219,962</u>	<u>267,208</u>

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

As of each balance sheet date during the Relevant Periods, the ageing analysis of trade payables (which are included in trade and other payables), based on invoice date, is as follows:

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 month	17,654	15,453	29,339	8,145
Over 1 month but within 1 year	76,907	67,351	11,567	26,103
Over 1 year	—	—	13,183	8,799
Total	<u>94,561</u>	<u>82,804</u>	<u>54,089</u>	<u>43,047</u>

Included in trade and other payables and accruals of the KSH Group were construction retention payables which were expected to be settled after more than one year amounted to RMB14,976,000, RMB3,249,000, RMB3,264,000 and RMB2,103,000 as at 31 December 2011, 2012, 2013 and 30 June 2014 respectively. Details of the KSH Group's management of liquidity risk are set out in note 22(b).

19 EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plans

Pursuant to the relevant labour rules and regulations in the PRC, the KSH Group's subsidiaries in the PRC participate in defined contribution retirement benefit schemes (the "Schemes") organised by the PRC municipal government authorities whereby the KSH 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 KSH Group has no other material obligation for the payment of pension benefits associated with the Schemes beyond the annual contributions described above.

20 INCOME TAX IN THE COMBINED STATEMENTS OF FINANCIAL POSITION

(a) Current taxation in the combined statements of financial position represents:

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Provision for CIT	89,090	80,918	79,059	79,059
Provision for LAT	<u>62,281</u>	<u>46,108</u>	<u>45,159</u>	<u>30,316</u>
	<u>151,371</u>	<u>127,026</u>	<u>124,218</u>	<u>109,375</u>

(b) Deferred tax assets and liabilities

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

	Provision for LAT RMB'000	Fair-value change on investment properties RMB'000	Accruals RMB'000	Tax losses RMB'000	Total RMB'000
At 1 January 2011	8,427	(48,922)	—	—	(40,495)
Credited/(charged) to profit or loss	<u>7,143</u>	<u>(161)</u>	<u>6,590</u>	<u>—</u>	<u>13,572</u>
At 31 December 2011	<u>15,570</u>	<u>(49,083)</u>	<u>6,590</u>	<u>—</u>	<u>(26,923)</u>
At 1 January 2012	15,570	(49,083)	6,590	—	(26,923)
Credited/(charged) to profit or loss	<u>(4,043)</u>	<u>(12,487)</u>	<u>(6,590)</u>	<u>6,870</u>	<u>(16,250)</u>
At 31 December 2012	<u>11,527</u>	<u>(61,570)</u>	<u>—</u>	<u>6,870</u>	<u>(43,173)</u>
At 1 January 2013	11,527	(61,570)	—	6,870	(43,173)
Credited/(charged) to profit or loss	<u>(237)</u>	<u>(6,999)</u>	<u>—</u>	<u>629</u>	<u>(6,607)</u>
Charged to reserves	<u>—</u>	<u>(743)</u>	<u>—</u>	<u>—</u>	<u>(743)</u>
At 31 December 2013	<u>11,290</u>	<u>(69,312)</u>	<u>—</u>	<u>7,499</u>	<u>(50,523)</u>
At 1 January 2014	11,290	(69,312)	—	7,499	(50,523)
Credited/(charged) to profit or loss	<u>(3,711)</u>	<u>20,234</u>	<u>4,625</u>	<u>3,408</u>	<u>24,556</u>
At 30 June 2014	<u>7,579</u>	<u>(49,078)</u>	<u>4,625</u>	<u>10,907</u>	<u>(25,967)</u>

(c) **Deferred tax liabilities not recognised**

As at 31 December 2011, 2012, 2013 and 30 June 2014, temporary differences relating to the undistributed profits of subsidiaries amounted to RMB116,821,000, RMB134,261,000, RMB133,723,000 and RMB104,865,000. Deferred tax liabilities have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as KSH 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.

21 CAPITAL AND RESERVES

(a) **Combined capital**

The combined capital presented in the combined statements of financial position as at 31 December 2011, 2012, 2013 and 30 June 2014 represented the share capital of Kai Shi Investment, which is directly held by KSH.

(b) **Reserves**

(i) *Contributed surplus*

Contributed surplus represented the difference between interests in subsidiaries in the book of intermediate holding companies including Kai Shi Investment, China Kai Shi and Dalian Kai Shi and the paid-in capital of their respective subsidiaries arising from the preparation of the Financial Information.

(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 KSH 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) *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(u).

(iv) *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(h).

(v) *Distributability of reserves*

On the basis set out note 1(b) of Section B above, the aggregate amount of distributable reserves of the companies comprising the KSH group were RMB205,165,000, RMB226,356,000, RMB230,864,000 and RMB275,632,000 as at 31 December 2011, 2012, 2013 and 30 June 2014 respectively.

(vi) Capital management

The KSH Group's primary objectives when managing capital are to safeguard the KSH 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 KSH 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 KSH 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 KSH 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.

(vii) Dividends

During the year ended 31 December 2011, the KSH Group has declared special dividends of RMB26,540,000 and RMB44,316,000 to the Company and a company within the Remaining Group respectively.

During the years ended 31 December 2012, 2013 and 30 June 2014, the KSH Group has not declared any dividends to the Company or any companies within the Remaining Group.

22 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 KSH Group's business. The KSH Group's exposure to these risks and the financial risk management policies and practices used by the KSH Group to manage these risks are described below.

(a) Credit risk

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

The KSH Group has no concentrations of credit risk in view of its large number of customers. The KSH Group did not record significant bad debts losses during the years ended 31 December 2011, 2012, 2013 and six months ended 30 June 2014.

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

Further quantitative disclosures in respect of the KSH Group's exposure to credit risk arising from trade and other receivables are set out in note 11.

(b) Liquidity risk

Individual operating entities within the KSH 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

KSH 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 16 and 18.

(c) Interest rate risk

The KSH Group's interest rate risk arises primarily from its bank loan, which expose the KSH Group to interest rate risk. The interest rates of the KSH Group's bank loan during the Relevant Periods are disclosed in note 16.

(i) Interest rate profile

All of the KSH Group's bank loans during the Relevant Periods were variable rate borrowings.

(ii) Sensitivity analysis

At 31 December 2011, 2012, 2013 and 30 June 2014, it is estimated that a general increase of 50 basis points in interest rates, with all other variables held constant, would have (decreased)/increased the KSH Group's profit after tax and retained profits by approximately (RMB227,000), (RMB392,000), RMB104,000 and RMB387,000 respectively, in response to the general increase/decrease in interest rates.

The sensitivity analysis above indicates the instantaneous change in the KSH Group's profit after tax (and retained profits) that would arise assuming that the change in interest rates had occurred at each of the balance sheet date during the Relevant Periods and had been applied to re-measure those financial instruments held by the KSH Group which expose the KSH Group to fair value interest rate risk at each of the balance sheet date during the Relevant Periods. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the KSH Group at each of the balance sheet date during the Relevant Periods, the impact on the KSH 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.

(d) Currency risk

As the KSH Group's principal activities are carried out in the PRC, the KSH 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 KSH Group currently does not have a policy on foreign currency risk as it had minimal transactions denominated in foreign currencies during the Relevant Periods and the impact of foreign currency risk on the KSH Group's operation is minimal.

(e) Fair value

The carrying amounts of the KSH Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2011, 2012, 2013 and 30 June 2014.

23 COMMITMENTS

- (a) At 31 December 2011, 2012, 2013 and 30 June 2014, capital commitments on land and development costs outstanding not provided for in the Financial Information were as follows:

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted but not provided for	<u>5,677</u>	<u>25,220</u>	<u>9,006</u>	<u>6,077</u>

- (b) Operating lease commitment

At 31 December 2011, 2012, 2013 and 30 June 2014, the total future minimum lease payments under non-cancellable operating leases are payables as follows:

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	—	480	336	97
After 1 year but within 5 years	<u>—</u>	<u>336</u>	<u>—</u>	<u>—</u>
	<u>—</u>	<u>816</u>	<u>336</u>	<u>97</u>

24 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the related party information disclosed elsewhere in this Financial Information, KSH Group entered into the following material related party transactions during the Relevant Periods up to the date that party ceased to be a related party, if applicable.

During the Relevant Periods, the directors are of the view that the following are related parties of the KSH Group:

Name of party	Relationship
Mr. Kai Chenglian	A director and the Controlling Shareholder
Mr. Kai Xiaojiang	A close family member of Mr. Kai Chenglian
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

Name of party	Relationship
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
Tianjin Lion Doors and Windows Co., Ltd (“Lion Tianjin”) (“萊恩(天津)門窗有限公司”)	Effectively 100% owned by the Controlling shareholders
Dalian Kai Shi Construction & Engineering Co., Ltd** (“大連市開世建設工程有限公司”)	Effectively 100% owned by the Controlling shareholders

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

* On 5 March 2014, the legal name of 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”).

(a) Transactions

	Note	As at 31 December			As at 30 June
		2011 RMB’000	2012 RMB’000	2013 RMB’000	2014 RMB’000
Purchase of doors and windows					
— Tian Jin Lion		6,200	3,487	184	—
Rental income					
— Beihai Sunshine	(i)	324	324	324	172
— Mudhouse Wine	(ii)	319	319	319	169
— Gangwan Property	(iii)	1,072	1,608	1,606	1,500

(i) 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.

(ii) 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.

(iii) 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.

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 24(c) of this Financial Information, the KSH Group had the following balances with related parties at the end of the reporting period:

- (i) As at 31 December 2011, 2012, 2013 and 30 June 2014, the KSH Group had dividend payable to the Company and a company within the Remaining Group of RMB26,540,000 and RMB44,316,000 respectively, which were declared on 10 December 2011.
- (ii) As at 31 December 2011, 2012, 2013 and 30 June 2014, the KSH Group had dividend receivable, net of withholding tax, of RMB39,370,000 from a company within the Remaining Group.

(c) Financing arrangements

	<i>Note</i>	As at 31 December			As at 30 June
		2011	2012	2013	2014
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Amount due to Controlling Shareholder	(i)	—	—	132,616	190,173
Amount due from Remaining Group Entities	(ii)	59,670	59,142	—	—
Amount due to Remaining Group Entities	(ii)	—	—	24,050	39,903
Amount due from the Company	(ii)	6,109	—	—	—
Amount due to the Company	(ii)	—	83,899	105,040	22,079
Amount due to other related parties	(iii)	—	12,889	12,498	12,618

Notes:

- (i) As at 31 December 2013 and 30 June 2014, the KSH Group had amounts due to Controlling Shareholder of RMB132,616,000 and RMB190,173,000. The outstanding balance is unsecured, interest-free and has no fixed repayment terms.
- (ii) Amounts receivables from Remaining Group Entities and payables to Remaining Group Entities are denominated in RMB and Hong Kong dollars, unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of the balances approximate their fair values.

The balance with Remaining Group Entities will be settled upon completion of the Group Reorganisation.

- (iii) In October 2012, the KSH Group received an advance of RMB12,887,000 from Australia New Zealand. As at 31 December 2012 and 2013 and 30 June 2014, the KSH Group had balances with Australia New Zealand of RMB12,887,000, RMB12,496,000 and RMB12,618,000 respectively, which are included in "Trade and other payables". The outstanding balances are unsecured, interest-free and have no fixed repayment terms.

25 INFORMATION OF STATUTORY FINANCIAL STATEMENTS OF THE SUBSIDIARIES

The statutory financial statements of the companies comprising the KSH Group which were subject to audit during the Relevant Periods were either prepared in accordance with HKFRSs issued by the HKICPA or the PRC GAAP issued by the Ministry of Finance of the PRC. These financial statements for the Relevant Periods were audited by the respective statutory auditors as indicated below:

Name of company	Financial period	Statutory auditors
China Kai Shi Group Holdings Company Limited	Period from 20 April 2010 (date of incorporation) to 31 December 2011, Years ended 31 December 2012 and 2013	KPMG
Dalian Kai Shi Property Company Limited	Years ended 31 December 2011, 2012 and 2013	Liaoning Zhengwei Certified Public Accountants Co., Ltd. 遼寧正威會計師事務所有限公司

26 PARENT AND ULTIMATE CONTROLLING PARTY

As of 31 December, 2011, 2012, 2013 and 30 June 2014, the Board of Directors of KSH considers that KSH's immediate controlling party and ultimate controlling party are Kai Shi China Holdings Company Limited and Mr. Kai Chenglian respectively.

27 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE RELEVANT PERIODS

Up to the date of issue of this Financial Information, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the Relevant Periods and which have not been adopted in the Financial Information. These include the following which may be relevant to the KSH Group.

	Effective for accounting periods beginning on or after
Annual improvements to IFRSs 2010–2012 cycles	1 July 2014
Annual improvements to IFRSs 2010–2013 cycles	1 July 2014
IFRS 9, <i>Financial instruments</i>	1 January 2015
Amendments to IFRS 9, <i>Financial instruments</i> and IFRS 7, <i>Financial instruments</i> : Disclosures — <i>Mandatory effective date and transition disclosures</i>	1 January 2015

The KSH Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations 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 KSH Group's results of operations and financial position.

C SUBSEQUENT FINANCIAL STATEMENTS AND DIVIDENDS

No audited financial statements have been prepared by KSH and its subsidiaries comprising the KSH Group in respect of any period subsequent to 30 June 2014. Save as disclosed in the Financial Information, no dividend or distribution has been declared or made by any companies comprising the KSH Group in respect of any period subsequent to 30 June 2014.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong

APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP
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The information set forth in this appendix does not form part of the accountants' reports prepared by KPMG, Certified Public Accountants, Hong Kong, the Company's reporting accountants, as set forth in Appendix II and III to this Circular, and is included herein for illustrative purposes only.

The unaudited pro forma financial information of the Remaining Group should be read in conjunction with the accountants' reports set forth in Appendices II and III to this Circular.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

Introduction to the unaudited pro forma financial information

The unaudited pro forma financial information presented below is prepared to illustrate (i) the financial position of the Remaining Group as at 30 June 2014 as if the proposed Asset Reorganisation and Distribution In Specie (together, the "Transactions") had been completed on 30 June 2014; and (ii) the results and cash flows of the Remaining Group for the six months ended 30 June 2014 as if the Transactions had been completed on 1 January 2014. The unaudited pro forma financial information of the Remaining Group is prepared based on the financial information of the Group as set out in the Accountants' Report of the Company included in Appendix II to this Circular, after giving effect to the pro forma adjustments described in the notes.

The unaudited pro forma financial information has been prepared by the directors of the Company in accordance with Rules 4.29 and 14.68(2)(a)(ii) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, for the purposes of illustrating the effect of the Transactions, and because of its hypothetical nature, it may not give a true picture of the financial position or results of the Remaining Group had the Transactions been completed as of the specified dates or any future date.

APPENDIX IV	UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP
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Unaudited pro forma consolidated statement of financial position of the Remaining Group as at 30 June 2014

	Consolidated statement of financial position of the Group as at 30 June 2014	RMB'000	RMB'000	Pro forma adjustments			RMB'000	RMB'000	Unaudited pro forma consolidated statement of financial position of the Remaining Group
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
	Note 1	Note 2	Note 3	Note 4	Note 5	Note 6	Note 7	RMB'000	
Non-current assets									
Lease prepayments	6,407							6,407	
Property, plant and equipment	17,002	(4,369)						12,633	
Investment properties	182,500	(182,500)						—	
	<u>205,909</u>							<u>19,040</u>	
Current assets									
Lease prepayments	154							154	
Properties under development	164,311	(164,311)						—	
Completed properties held for sale	322,696	(324,335)	1,639					—	
Inventories	20,163							20,163	
Trade and other receivables, deposits and prepayments	80,773	(37,175)						43,598	
Amounts receivable from the KSH Group	—			93,468	44,500	4,800	(142,768)	—	
Cash and cash equivalents	64,152	(52,367)					52,017	63,802	
Pledged deposit	25,000	(25,000)						—	
	<u>677,249</u>							<u>127,717</u>	
Total Assets	<u>883,158</u>							<u>146,757</u>	
Current liabilities									
Bank loans	119,116						(66,116)	53,000	
Receipts in advance	18,874	(966)						17,908	
Trade and other payables	307,752	(267,208)				(605)	(24,635)	15,304	
Amounts due to the Remaining Group Entities	—	(44,849)		44,849				—	
Amounts due to the Company	—	(48,619)		48,619				—	
Current taxation	114,320	(109,375)	260		1,875			7,080	
	<u>560,062</u>							<u>93,292</u>	
Net current assets	<u>117,187</u>							<u>34,425</u>	
Total assets less current liabilities	<u>323,096</u>							<u>53,465</u>	
Non-current liabilities									
Deferred tax liabilities	25,817	(25,967)	150					—	
	<u>25,817</u>							<u>—</u>	
Net assets	<u>297,279</u>							<u>53,465</u>	
Equity									
Share capital	4,900							4,900	
Reserves	292,379	(293,073)	1,229		42,625	5,405		48,565	
Equity attributable to shareholders of the Company	<u>297,279</u>							<u>53,465</u>	
Total equity	<u>297,279</u>							<u>53,465</u>	

APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP
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Notes:

1. The amounts are extracted from the Accountants' Report of the Company as set out in Appendix II to this Circular.
2. Pursuant to the Distribution In Specie, the adjustment represents the exclusion of the assets and liabilities of the KSH Group as at 30 June 2014, which is extracted from the Financial Information of the KSH Group as at 30 June 2014 as set out in the section A of Appendix III to this Circular.
3. The adjustment reflects the reinstatement of the intercompany transactions between the Remaining Group and the KSH Group, which should not be eliminated after the completion of the Transactions.
4. The adjustment reflects the intercompany balances between the Remaining Group and the KSH Group, which should not be eliminated after the completion of the Transactions.
5. Pursuant to the Asset Reorganisation, the adjustment represents the combined effect of the following equity transfers between the Remaining Group and the KSH Group and the related tax effect:
 - (i) The Remaining Group transfers all of its equity interests in Dalian Kai Shi to the KSH Group at a consideration of RMB50,500,000.
 - (ii) The Remaining Group acquires the entire equity interests of Lion Tianjin and KS Engineering from the KSH Group at considerations of RMB4,000,000 and RMB2,000,000, respectively.
6. Pursuant to the Distribution In Specie, the adjustment represents:
 - (i) The declaration of dividend by China Kai Shi to the Company of RMB4,800,000.
 - (ii) The amounts payable of the Company to its Controlling Shareholder of RMB605,000 will be waived by the Controlling Shareholder.
7. Pursuant to the Asset Reorganisation, the adjustment represents:
 - (i) The amounts receivable from the KSH Group of RMB142,768,000 will be partially settled by transferring of the amounts payable to the Controlling Shareholder by the Remaining Group Entities of RMB24,635,000 to the KSH Group. To release the security given by the KSH Group in favour of the Remaining Group, the Controlling Shareholder will also pay HK\$30,380,000 (equivalent to RMB 23,857,000) to the Remaining Group on behalf of the KSH Group for repayment of the Company's bank borrowing. The remaining balance of RMB94,276,000 will be settled in cash.
 - (ii) The amounts receivable from the KSH Group of RMB94,276,000 will be used to repay the bank borrowings of RMB42,000,000 by the Remaining Group. Entities in order to release the security given by the KSH Group in favour of the Remaining Group. The remaining cash of RMB52,017,000 will be kept by the Remaining Group.
8. No other adjustment has been made to reflect any trading result or other transaction of the Remaining Group entered into subsequent to 30 June 2014.

APPENDIX IV	UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP
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Unaudited pro forma consolidated statement of profit or loss of the Remaining Group for the six months ended 30 June 2014

	Consolidated statement of profit or loss of the Group for the six months ended 30 June 2014	Pro forma adjustments				Unaudited pro forma consolidated statement of profit or loss of the Remaining Group
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
	<i>Note 1</i>	<i>Note 2</i>	<i>Note 3</i>	<i>Note 4</i>	<i>Note 5</i>	
Turnover	47,067	(13,504)	3,671		37,234	
Cost of sales	<u>(45,254)</u>	23,623	(2,658)		<u>(24,289)</u>	
Gross profit	1,813				12,945	
Selling and distribution expenses	(2,203)	1,712			(491)	
Administrative expenses	(9,274)	5,443			(3,831)	
(Loss)/profit from operations before changes in fair value of investment properties	(9,664)				8,623	
Decrease in fair value of investment properties	<u>(44,300)</u>	44,300			<u>—</u>	
(Loss)/profit from operations after changes in fair value of investment properties	(53,964)				8,623	
Finance income	22	(9)			13	
Finance cost	<u>(2,970)</u>	12		1,611	<u>(1,347)</u>	
(Loss)/profit before taxation	(56,912)				7,289	
Income tax	<u>23,004</u>	(23,662)	(254)	(360)	<u>(1,272)</u>	
(Loss)/profit for the period	<u><u>(33,908)</u></u>				<u><u>6,017</u></u>	
Attributable to:						
Equity shareholders of the Company	<u><u>(33,908)</u></u>				<u><u>6,017</u></u>	

APPENDIX IV	UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP
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Unaudited pro forma consolidated statement of profit or loss and other comprehensive income of the Remaining Group for the six months ended 30 June 2014

	Consolidated statement of profit or loss and other comprehensive income of the Group for the six months ended 30 June 2014	Pro forma adjustments				Unaudited pro forma consolidated statement of profit or loss and other comprehensive income of the Remaining Group
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
	<i>Note 1</i>	<i>Note 2</i>	<i>Note 3</i>	<i>Note 4</i>	<i>Note 5</i>	
(Loss)/profit for the period	(33,908)	37,915	759	1,251	6,017	
Other comprehensive income for the period (after tax and reclassification adjustments):						
Items that may be reclassified subsequently to profit or loss:						
Exchange differences on translation of financial statements of overseas subsidiaries	522	273			795	
Other comprehensive income for the period	522				795	
Total comprehensive income for the period	(33,386)				6,812	
Attributable to:						
Equity shareholders of the Company	(33,386)				6,812	

APPENDIX IV	UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP
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Unaudited pro forma consolidated cash flow statement of the Remaining Group for the six months ended 30 June 2014

	Consolidated cash flow statement of the Group for the six months ended 30 June 2014	Pro forma adjustments				Unaudited pro forma consolidated cash flow statement of the Remaining Group
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
	<i>Note 1</i>	<i>Note 2</i>	<i>Note 3</i>	<i>Note 4</i>	<i>Note 5</i>	
(Loss)/profit before taxation	(56,912)	61,577	1,013	1,611	7,289	
Adjustments for:						
— Depreciation	1,390	(1,063)			327	
— Amortisation of lease prepayments	78				78	
— Finance costs	2,955			(1,611)	1,344	
— Net exchange loss/(gain)	2	(12)			(10)	
— Interest income	(22)	9			(13)	
— Increase in fair value of investment properties	44,300	(44,300)			—	
— Write-down of completed properties held for sale	18,500	(18,500)			—	
— Equity settled share-based payment expenses	527				527	
Changes in working capital						
— Increase in inventories	3,435		2,631		6,066	
— Increase in properties under development	(3,395)	3,395			—	
— Increase in completed properties held for sale	4,552	(4,106)			446	
— Increase in trade and other receivables, deposits and prepayments	(15,826)	922			(14,904)	
— Increase/(decrease) in receipt in advance	1,221	(465)	(3,671)		(2,915)	
— Decrease in trade and other payables	(12,433)	10,341	27		(2,065)	
Cash used in operations	<u>(11,628)</u>				<u>(3,830)</u>	

APPENDIX IV	UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP
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	Consolidated cash flow statement of the Group for the six months ended 30 June 2014	Pro forma adjustments				Unaudited pro forma consolidated cash flow statement of the Remaining Group
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
	<i>Note 1</i>	<i>Note 2</i>	<i>Note 3</i>	<i>Note 4</i>	<i>Note 5</i>	
Cash used in operations	(11,628)				(3,830)	
Income tax paid	<u>(17,491)</u>	15,736			<u>(1,755)</u>	
Net cash used in operating activities	<u>(29,119)</u>				<u>(5,585)</u>	
Investing activities						
Payment for acquisition of leasehold land and buildings and other property, plant and equipment	<u>(11)</u>				<u>(11)</u>	
Net cash used in investing activities	<u>(11)</u>				<u>(11)</u>	
Financing activities						
Interest received	22	(9)			13	
Advances from the Controlling Shareholder	161,948	(64,355)	23,857		121,450	
Advances from related parties	—	(15,676)			(15,676)	
Repayment of advance(to)/from related parties	(104,391)	6,798	94,276		(3,317)	
Repayment of bank loans	—		(66,116)		(66,116)	
Interest paid	<u>(3,449)</u>			2,105	<u>(1,344)</u>	
Net cash generated from financing activities	<u>54,130</u>				<u>35,010</u>	
Net increase in cash and cash equivalents	<u>25,000</u>				<u>29,414</u>	
Cash and cash equivalents at 1 January	39,104	(2,743)			36,361	
Effect of foreign exchange rate changes	<u>48</u>	84			<u>132</u>	
Cash and cash equivalents at 30 June 2014	<u>64,152</u>				<u>65,907</u>	
Analysis of cash and cash equivalents						
Bank balances and cash	64,152	(52,367)	52,017	2,105	65,907	

APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP
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Notes:

1. The amounts are extracted from the Accountants' Report of the Company as set out in Appendix II to this Circular.
2. Pursuant to the Distribution In Specie, the adjustment represents the exclusion of the income and expenses of the KSH Group for the six months ended 30 June 2014, which is extracted from the financial information of the KSH Group for the six months ended 30 June 2014 as set out in the section A of Appendix III to this Circular.
3. The adjustment reflects the reinstatement of the intercompany transactions between the Remaining Group and the KSH Group, which should not be eliminated after the completion of the Transactions.
4. The adjustment represents a reduction of finance costs for the six months ended 30 June 2014 as if the bank borrowings with security given by the KSH Group in favour of the Remaining Group had been fully settled as at 1 January 2014.
5. No other adjustment has been made to reflect any trading result or other transaction of the Remaining Group entered into subsequent to 30 June 2014.

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE REMAINING GROUP**

**B. REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE
REMAINING GROUP**

The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Remaining Group's pro forma financial information for the purpose in this Circular.



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

24 December 2014

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF PRO FORMA FINANCIAL INFORMATION**

TO THE DIRECTORS OF KAI SHI CHINA HOLDINGS COMPANY LIMITED

We have completed our assurance engagement to report on the compilation of pro forma financial information of Kai Shi China Holdings Company Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 30 June 2014 and the unaudited pro forma consolidated statement of profit or loss, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and pro forma consolidated cash flow statement for the six months ended 30 June 2014 and related notes as set out on pages IV-1 to IV-8 to the circular dated 24 December 2014 (the "Circular") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on page IV-1 to the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed group reorganisation and distribution in specie (the "Transactions") on the Group's financial position as at 30 June 2014 and the Group's financial performance and cash flows for the six months ended 30 June 2014 as if the Transactions had taken place at 30 June 2014 and 1 January 2014, respectively. As part of this process, information about the Group's financial position as at 30 June 2014 and, financial performance and cash flows for the six months ended 30 June 2014 has been extracted by the Directors from the Group's historical financial information included in the Accountants' Report of the Company as set out in Appendix II to this Circular.

Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("HKSAE") 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on the unadjusted financial information of the Group as if the event had occurred or the transactions had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions at 30 June 2014 or 1 January 2014 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and

APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP
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- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

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

Opinion

In our opinion:

- (a) the pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

KPMG

Certified Public Accountants

Hong Kong

The information set forth in this appendix does not form part of the accountants' reports prepared by KPMG, Certified Public Accountants, Hong Kong, the Company's reporting accountants, as set forth in Appendix II and III to this Circular, and is included herein for illustrative purposes only.

The unaudited pro forma financial information of the KSH Group should be read in conjunction with the accountants' reports set forth in Appendices II and III to this Circular.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE KSH GROUP

Introduction to the unaudited pro forma financial information

The unaudited pro forma financial information presented below is prepared to illustrate (i) the financial position of the KSH Group as at 30 June 2014 as if the proposed Asset Reorganisation and Distribution In Specie (together, the "Transactions") had been completed on 30 June 2014; and (ii) the results and cash flows of the KSH Group for the six months ended 30 June 2014 as if the Transactions had been completed on 1 January 2014. The unaudited pro forma financial information of the KSH Group is prepared based on the combined financial statements of the KSH Group as set out in the Accountant's Report of the KSH Group included in Appendix III to this Circular, after giving effect to the pro forma adjustments described in the notes.

The unaudited pro forma financial information has been prepared by the directors of the Company in accordance with Rules 4.29 and 14.68(2)(a)(ii) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, for the purposes of illustrating the effect of the Transactions, and because of its hypothetical nature, it may not give a true picture of the financial position or results of the KSH Group had the Transactions been completed as of the specified dates or any future date.

Unaudited pro forma combined statement of financial position of the KSH Group as at 30 June 2014

	Combined statement of financial position of the KSH Group as at 30 June 2014					Unaudited pro forma combined statement of financial position of the KSH Group
	RMB'000 Note 1	RMB'000 Note 2	Pro forma adjustments		RMB'000 Note 5	
			RMB'000 Note 3	RMB'000 Note 4		RMB'000
Non-current assets						
Property, plant and equipment	4,369					4,369
Investment properties	<u>182,500</u>					<u>182,500</u>
	<u>186,869</u>					<u>186,869</u>
Current assets						
Properties under development	164,311					164,311
Completed properties held for sale	324,335					324,335
Trade and other receivables, deposits and prepayments	37,175		(605)			36,570
Cash and cash equivalents	52,367			(127)		52,240
Pledged deposit	<u>25,000</u>					<u>25,000</u>
	<u>603,188</u>					<u>602,456</u>
Total assets	<u>790,057</u>					<u>789,325</u>
Current liabilities						
Receipts in advance	966					966
Trade and other payables	267,208			142,641		409,849
Amounts due to the Remaining Group Entities	44,849	44,500		(89,349)		—
Amounts due to the Company	48,619		4,800	(53,419)		—
Current taxation	<u>109,375</u>					<u>109,375</u>
	<u>471,017</u>					<u>520,190</u>
Net current assets	<u>132,171</u>					<u>82,266</u>
Total assets less current liabilities	<u>319,040</u>					<u>269,135</u>
Non-current liabilities						
Deferred tax liabilities	<u>25,967</u>					<u>25,967</u>
Total non-current liabilities	<u>25,967</u>					<u>25,967</u>
Net assets	<u>293,073</u>					<u>243,168</u>
Equity						
Share capital	—				82,956	82,956
Reserves	<u>293,073</u>	(44,500)	(5,405)		(82,956)	<u>160,212</u>
Equity attributable to shareholders of the KSH	<u>293,073</u>					<u>243,168</u>
Total equity	<u>293,073</u>					<u>243,168</u>

Notes:

1. The amounts are extracted from the combined statement of financial position as set out in the Accountants' Report of the KSH Group included in section A of the Appendix III to this Circular.
2. Pursuant to the Asset Reorganisation, the adjustment represents the combined effect of the following equity transfers between the Remaining Group and the KSH Group:
 - (i) The Remaining Group transfers all of its equity interests in Dalian Kai Shi to the KSH Group at a consideration of RMB50,500,000.
 - (ii) The Remaining Group acquires the entire equity interests of Lion Tianjin and KS Engineering from the KSH Group at considerations of RMB4,000,000 and RMB2,000,000 respectively.
3. Pursuant to the Distribution In Specie, the adjustment represents:
 - (i) The declaration of dividend by China Kai Shi to the Company of RMB4,800,000.
 - (ii) The amounts payable of the Company to its Controlling Shareholder of RMB605,000 will be waived by the Controlling Shareholder.
4. Pursuant to the Asset Reorganisation, the KSH Group will settle the amounts payable to the Company and the Remaining Group Entities of RMB53,419,000 and RMB89,349,000 respectively, of which HK\$30,380,000 (equivalent to RMB23,857,000) will be settled by the Company's Controlling Shareholder on behalf of the KSH Group. The KSH Group will settle the remaining balance of RMB118,911,000 to the Remaining Group, which will finance the Remaining Group to repay its bank borrowings of RMB66,116,000 in order to release the security given by the KSH Group in favour of the Remaining Group. The amounts payable to the Company and the Remaining Group Entities will be settled by the KSH Group through:
 - (i) Advances from the Company's Controlling shareholder of RMB94,149,000; and
 - (ii) Transfer of the amounts payable to the Controlling Shareholder by the Remaining Group Entities of RMB24,635,000 to the KSH Group; and
 - (iii) Cash payment of RMB127,000.
5. Pursuant to the Asset Reorganisation, KSH acquired the Distributed Business at a consideration of RMB82,956,000, which represents the carrying value of the Distributed Business as of the date of transfer by issuing 601,999,999 shares amounting to RMB82,956,000.
6. No other adjustment has been made to reflect any trading result or other transaction of the KSH Group entered into subsequent to 30 June 2014.

Unaudited pro forma combined statement of profit or loss of the KSH Group for the six months ended 30 June 2014

	Combined statement of profit or loss of the KSH Group for the six months ended 30 June 2014 <i>RMB'000</i> <i>Note 1</i>	Pro forma adjustments <i>RMB'000</i> <i>Note 2</i>	Unaudited pro forma combined statement of profit or loss of the KSH Group <i>RMB'000</i>
Turnover	13,504		13,504
Cost of sales	<u>(23,623)</u>		<u>(23,623)</u>
Gross loss	(10,119)		(10,119)
Selling and distribution expenses	(1,712)		(1,712)
Administrative expenses	<u>(5,443)</u>		<u>(5,443)</u>
Loss from operations before changes in fair value of investment properties	(17,274)		(17,274)
Decrease in fair value of investment properties	<u>(44,300)</u>		<u>(44,300)</u>
Loss from operations after changes in fair value of investment properties	(61,574)		(61,574)
Finance income	9		9
Finance cost	<u>(12)</u>		<u>(12)</u>
Loss before taxation	(61,577)		(61,577)
Income tax	<u>23,662</u>		<u>23,662</u>
Loss for the period	<u><u>(37,915)</u></u>		<u><u>(37,915)</u></u>
Attributable to:			
Equity shareholders of the KSH	<u><u>(37,915)</u></u>		<u><u>(37,915)</u></u>

Unaudited pro forma combined statement of profit or loss and other comprehensive income of
the KSH Group for the six months ended 30 June 2014

	Combined statement of profit or loss comprehensive income of the KSH Group for the six months ended 30 June 2014 <i>RMB'000</i> <i>Note 1</i>	Pro forma adjustments <i>RMB'000</i> <i>Note 2</i>	Unaudited pro forma combined statement of profit or loss and other comprehensive income of the KSH Group <i>RMB'000</i>
Loss for the period	(37,915)		(37,915)
Other Comprehensive income for the period (after tax and reclassification adjustments):			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of financial statements of overseas subsidiaries	(273)		(273)
Other comprehensive income for the period	<u>(273)</u>		<u>(273)</u>
Total comprehensive income for the period	<u><u>(38,188)</u></u>		<u><u>(38,188)</u></u>
Attributable to:			
Equity shareholders of the KSH	<u><u>(38,188)</u></u>		<u><u>(38,188)</u></u>

Unaudited pro forma combined cash flow statement of the KSH Group for the six months
ended 30 June 2014

	Combined cash flow statement of the KSH Group for the six months ended 30 June 2014 <i>RMB'000</i> <i>Note 1</i>	Pro forma adjustments <i>RMB'000</i> <i>Note 2</i>	Unaudited pro forma consolidated cash flow statement of the KSH Group <i>RMB'000</i>
Loss before taxation	(61,577)		(61,577)
Adjustments for:			
Depreciation	1,063		1,063
Finance costs	12		12
Interest income	(9)		(9)
Increase in fair value of investment properties	44,300		44,300
Write-down of completed properties held for sale	18,500		18,500
Changes in working capital			
Increase in properties under development	(3,395)		(3,395)
Decrease in completed properties held for sale	4,106		4,106
Increase in trade and other receivables, deposits and prepayments	(922)		(922)
Increase in receipts in advance	465		465
Decrease in trade and other payables	(10,341)		(10,341)
Cash (used in)/generated from operations	<u>(7,798)</u>		<u>(7,798)</u>
Income tax paid	<u>(15,736)</u>		<u>(15,736)</u>
Net cash (used in)/generated from operating activities	<u>-----</u> (23,534) <u>-----</u>		<u>-----</u> (23,534) <u>-----</u>

	Combined cash flow statement of the KSH Group for the six months ended 30 June 2014 <i>RMB'000</i> <i>Note 1</i>	Pro forma adjustments <i>RMB'000</i> <i>Note 2</i>	Unaudited pro forma consolidated cash flow statement of the KSH Group <i>RMB'000</i>
Financing activities			
Interest received	9		9
Advances from Controlling Shareholder	64,355	94,149	158,504
Advances from the Company and Remaining Group Entities	15,676		15,676
Repayment to the Company and Remaining Group Entities	—	(94,276)	(94,276)
Repayment of advances from controlling shareholder	<u>(6,798)</u>		<u>(6,798)</u>
Net cash generated from financing activities	<u>73,242</u>		<u>73,115</u>
Net increase in cash and cash equivalents	<u>49,708</u>		<u>49,581</u>
Cash and cash equivalents at 1 January	2,743		2,743
Effect of foreign exchange rate changes	<u>(84)</u>		<u>(84)</u>
Cash and cash equivalents at 30 June 2014	<u>52,367</u>		<u>52,240</u>
Analysis of cash and cash equivalents			
Bank balances and cash	<u>52,367</u>	<u>(127)</u>	<u>52,240</u>

Notes:

1. The amounts are extracted from the combined statement of profit or loss, combined statement of comprehensive income and combined cash flow statement of the KSH Group as set out in the Accountants' Report of the KSH Group included in the Appendix III of the this Circular.
2. Pursuant to the Asset Reorganisation, the KSH Group will pay the Remaining Group Entities of RMB94,276,000, which will finance the Remaining Group to repay its bank borrowings of RMB66,116,000 in order to release the security given by the KSH Group in favour of the Remaining Group. The amount paid by the KSH Group to the Company and the Remaining Group Entities will be financed by advances from the Company's Controlling shareholder of RMB94,149,000 and the remaining balance of RMB127,000 will be paid in cash.
3. No other adjustment has been made to reflect any trading result or other transaction of the KSH Group entered into subsequent to 30 June 2014.

B. REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE KSH GROUP

The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the KSH Group's pro forma financial information for the purpose in this Circular.



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

24 December 2014

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF PRO FORMA FINANCIAL INFORMATION****TO THE DIRECTORS OF KAI SHI CHINA HOLDINGS COMPANY LIMITED**

We have completed our assurance engagement to report on the compilation of pro forma financial information of the Kai Shi Holdings Company Limited and its subsidiaries (the "KSH Group") by the directors of Kai Shi China Holdings Company Limited (the "Company") (the "Directors") for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 30 June 2014 and the unaudited pro forma consolidated statement of profit or loss, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and pro forma consolidated cash flow statement for the six months ended 30 June 2014 and related notes as set out on pages V-1 to V-8 to the circular dated 24 December 2014 (the "Circular") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on page V-1 to the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed group reorganisation and distribution in specie (the "Transactions") on the KSH Group's financial position as at 30 June 2014 and the KSH Group's financial performance and cash flows for the six months ended 30 June 2014 as if the Transactions had taken place at 30 June 2014 and 1 January 2014, respectively. As part of this process, information about the KSH Group's financial position as at 30 June 2014 and, financial performance and cash flows for the six months ended 30 June 2014 has been extracted by the Directors from the KSH Group's historical financial information included in the Accountants' Report of the KSH Group as set out in section A of the Appendix III to this Circular.

Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("HKSAE") 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on the unadjusted financial information of the KSH Group as if the event had occurred or the transactions had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions at 30 June 2014 or 1 January 2014 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and

- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the KSH Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

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

Opinion

In our opinion:

- (a) the pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the KSH Group; and
- (c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

KPMG

Certified Public Accountants

Hong Kong

The following is the text of letter and valuation certificates, prepared for the purpose of incorporation in this circular, received from Grant Sherman Appraisal Limited, an independent property valuer, in connection with their valuation as at 31 October 2014 of the property interests held by the Group in the People's Republic of China.



Unit 1005, 10/F., AXA Centre,
151 Gloucester Road,
Wanchai,
Hong Kong

24 December 2014

The Directors
Kai Shi China Holdings Company Limited
No. 191 Changjiang Road,
Lvshunkou District,
Dalian City, Liaoning Province,
the PRC

Dear Sirs,

In accordance with your instructions for us to value the property interests held by Kai Shi China Holdings Company Limited (hereinafter referred to as the “Company”) and its subsidiaries (hereinafter referred to as the “Group”) in the People’s Republic of China (hereinafter referred to as “the PRC”), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary of providing you with our opinion of the market value of such property interests as at 31 October 2014 (“the Valuation Date”) for the purpose of incorporation into the circular issued by the Company on the date hereof.

Our valuation is our opinion of the market value of the property interest which we would define as intended to mean “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

Market Value is understood as the value of a property estimated without regard to costs of sale or purchase (or transaction) and without offset for any associated taxes or potential taxes.

In valuing the property interests in Group I which are held by the Group for sale in the PRC and the property No. 8 in Group III which is held by the Group for self-occupation purpose, we have adopted the Direct Comparison Approach by assuming sale in the existing state with the benefit of vacant possession and by making reference to comparable sales evidences available in the relevant markets in the PRC.

In valuing the property interests in Group II which are held by the Group for investment in the PRC, we have adopted the Income Approach by taking into account the current rent passing by the property as well as the future benefits from the sale of the property upon lease expiration.

In valuing the property No. 9 and No. 10 in Group IV which is held by the Group for development in the PRC, we have valued the property interest on the basis that the property will be developed and completed in accordance with the Company's latest development proposals provided to us. We have assumed that all necessary approvals for the proposals have been obtained. In arriving at our opinion of value, we have adopted the direct comparison approach by making reference to comparable sales evidences as available in the relevant market and have also taken into account the expended construction costs and the construction costs that will be expended to complete the developments to reflect the quality of the completed development. The "gross development value" represents our opinion of the aggregate selling prices of the saleable units of the development erected on the property assuming that it had been completed and all sold out to independent third parties at their highest selling prices obtained as at the date of valuation.

Our valuation has been made on the assumption that the owner sells the property interests on the market in its existing state without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the values of the property interests. In addition, no forced sale situation in any manner is assumed in our valuation.

No allowance has been made in our valuation for any charge, mortgage or amount owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

In valuing the property interests, we have fully complied with the HKIS Valuation Standards (2012 Edition) published by The Hong Kong Institute of Surveyors (HKIS) and the requirements set out in Chapter 5 of and Practice Note 12 to the Rule Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited.

We have assumed that all consents, approvals and licenses from relevant government authorities for the properties have been granted without any onerous conditions or undue time delay which might affect their values. It is assumed that all applicable zoning and use regulations and restrictions have been complied with unless nonconformity has been stated, defined, and considered in the valuation certificates. Moreover, we have assumed that the utilization of the properties and improvements is within the boundaries of the properties described and that no encroachment or trespass exists, unless noted in the valuation certificates.

We have been provided with copies of extracts of title documents relating to the properties. However, we have not conducted land searches on the properties and we have not inspected the original documents to verify ownership or to verify any amendments which may not appear on the copies handed to us. In undertaking our valuation for the property interests in the PRC, we have relied on the legal opinion (“the PRC legal opinion”) provided by the Group’s PRC legal adviser, Jun He Law Offices.

We have relied to a considerable extent on the information provided by the Company and have accepted advice given to us by the Company on matters such as statutory notices, easements, tenure, occupancy, floor areas, identification of the properties and all other relevant matters. We have no reason to doubt the truth and accuracy of the information provided to us by the Company. We have relied on the Company’s confirmation that no material fact has been omitted from the information so supplied. All documents have been used as reference only. All dimensions, measurements and areas are approximations. No on-site measurement has been taken.

No environmental impact study has been ordered or made. Full compliance with applicable national, provincial and local environmental regulations and laws is assumed unless otherwise stated, defined, and considered in the valuation certificates. It is also assumed that all required licenses, consents, or other legislative or administrative authority from any local, provincial, or national government private entity or organization either have been or can be obtained or renewed for any use which the valuation certificates cover.

We have inspected the exteriors and, where possible, the interiors of the properties in respect of which we have been provided with such information as we have required for the purpose of our valuation. However, no structural survey has been carried out and it was not possible to inspect the wood work and other parts of the structures which were covered, unexposed or inaccessible. We are therefore, unable to report that the properties are free of rot, infestation or any structural defect. No tests have been carried out on any of the building services.

Unless otherwise stated, all sums in our valuation are in Renminbi (RMB). The exchange rate adopted in valuing the property interests in the PRC as at 31 October 2014 was RMB1: HKD1.2704. There has been no significant fluctuation in the exchange rate for this currency against Hong Kong Dollars between that date and the date of this letter.

We enclose herewith the summary of valuation together with the valuation certificates.

Respectfully submitted,
For and on behalf of
GRANT SHERMAN APPRAISAL LIMITED
Lawrence Chan Ka Wah
MRICS MHKIS RPS(GP) MHIREA
Director
Real Estate Group

Note: Mr. Lawrence Chan Ka Wah is a member of the Royal Institution of Chartered Surveyors, a member of the Hong Kong Institute of Surveyors and Registered Professional Surveyors in the General Practice Section, who has over 10 years' experience in the valuation of properties in Hong Kong, Macau, the PRC and the Asian Rim.

SUMMARY OF VALUATION

Properties	Market Value in existing state as at 31 October 2014	Interests attributable to the Group	Market Value attributable to the Group as at 31 October 2014	
Group I — Property interests held by the Group for sale in the PRC				
1	Unsold residential portion of Phase I, Kaishijianian, Changjiang Road, Lvshunkou District, Dalian City, Liaoning Province, the PRC	RMB800,000 equivalent to approximately HKD1,000,000	100% equivalent to approximately HKD1,000,000	RMB800,000 equivalent to approximately HKD1,000,000
2	Unsold residential portion of Phase II, Kaishijianian, Changjiang Road, Lvshunkou District, Dalian City, Liaoning Province, the PRC	RMB125,600,000 equivalent to approximately HKD159,600,000	100% equivalent to approximately HKD159,600,000	RMB125,600,000 equivalent to approximately HKD159,600,000
3	A restaurant, car-parking spaces, garages and retail units of the composite building, Phase II, Kaishijianian, Lvshunkou District, Dalian City, Liaoning Province, the PRC	RMB43,900,000 equivalent to approximately HKD55,800,000	100% equivalent to approximately HKD55,800,000	RMB43,900,000 equivalent to approximately HKD55,800,000

Properties	Market Value in existing state as at 31 October 2014	Interests attributable to the Group	Market Value attributable to the Group as at 31 October 2014
4 Unsold residential and car-parking space portion of Land Lot No. B19, Kaishixijun, Lijiagou Village, Beihai Jiedaoban, Lvshunkou District, Dalian City, Liaoning Province, the PRC	RMB165,700,000 equivalent to approximately HKD210,500,000	100%	RMB165,700,000 equivalent to approximately HKD210,500,000
5 Unsold residential units of Land Lot No. B41, Kaishixijun, Lijiagou Village, Beihai Jiedaoban, Lvshunkou District, Dalian City, Liaoning Province, the PRC	RMB37,200,000 equivalent to approximately HKD47,300,000	100%	RMB37,200,000 equivalent to approximately HKD47,300,000
Sub-total	RMB373,200,000 equivalent to approximately HKD474,200,000		RMB373,200,000 equivalent to approximately HKD474,200,000

Properties	Market Value in existing state as at 31 October 2014	Interests attributable to the Group	Market Value attributable to the Group as at 31 October 2014
Group II — Property interests held by the Group for investment in the PRC			
6	Portion of Level 1, Levels 3 and 4 of the composite building, the car-parking spaces on basement levels 1 and 2 and portion of basement level 2 of Phase I, Kaishijianian, Changjiang Road, Lvshunkou District, Dalian City, Liaoning Province, the PRC	RMB133,000,000 equivalent to approximately HKD169,000,000	100% equivalent to approximately HKD169,000,000
7	Various retail units and a kindergarten, Phase II, Kaishijianian, Changjiang Road, Lvshunkou District, Dalian City, Liaoning Province, the PRC	RMB52,600,000 equivalent to approximately HKD66,800,000	100% equivalent to approximately HKD66,800,000
	Sub-total	RMB185,600,000 equivalent to approximately HKD235,800,000	RMB185,600,000 equivalent to approximately HKD235,800,000

Properties	Market Value in existing state as at 31 October 2014	Interests attributable to the Group	Market Value attributable to the Group as at 31 October 2014
Group III — Property interests held by the Group for self-occupation in the PRC			
8 Portion of the composite building of Phase I, Kaishijianian, Changjiang Road, Lvshunkou District, Dalian City, Liaoning Province, the PRC	RMB52,700,000 equivalent to approximately HKD67,000,000	100%	RMB52,700,000 equivalent to approximately HKD67,000,000
Sub-total	RMB52,700,000 equivalent to approximately HKD67,000,000		RMB52,700,000 equivalent to approximately HKD67,000,000

Properties	Market Value in existing state as at 31 October 2014	Interests attributable to the Group	Market Value attributable to the Group as at 31 October 2014
Group IV — Property interest held by the Group for development in the PRC			
9 Remaining portion of Land Lot No. B41, Kaishixijun, Lijiagou Village, Beihai Jiedaoban, Lvshunkou District, Dalian City, Liaoning Province, the PRC	RMB40,300,000 equivalent to approximately HKD51,200,000	100%	RMB40,300,000 equivalent to approximately HKD51,200,000
10 Land Lot No. B44, Kaishixijun, Lijiagou Village, Beihai Jiedaoban, Lvshunkou District, Dalian City, Liaoning Province, the PRC	No Commercial Value	100%	No Commercial Value
Sub-total	RMB40,300,000 equivalent to approximately HKD51,200,000		RMB40,300,000 equivalent to approximately HKD51,200,000
Grand-total	RMB651,800,000 equivalent to approximately HKD828,200,000		RMB651,800,000 equivalent to approximately HKD828,200,000

VALUATION CERTIFICATE

Group I — Property interests held by the Group for sale in the PRC

Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 31 October 2014
1	<p>Unsold residential portion of Phase I, Kaishijianian, Changjiang Road, Lvshunkou District, Dalian City, Liaoning Province, the PRC</p> <p>The property comprises 5 residential units in multi-storey residential buildings completed in between 2008 and 2009.</p> <p>The total gross floor area of the property is approximately 652.15 sq.m.</p> <p>The land use rights of the property together with properties Nos. 2, 3, 6, 7 and 8 were granted for a term of 70 years expiring on 12 February 2077 for residential use.</p>	The property was vacant as at the Valuation Date.	RMB800,000 equivalent to approximately HKD1,000,000

Notes:

1. Pursuant to two State-owned Land Use Rights Certificates (Document Nos.: Lv Shun Kou Guo Yong (2007) Nos. 0402189 and 0403368), the land use rights of the property together with properties Nos. 2, 3, 6, 7 and 8 with a site area of approximately 159,183.71 sq.m. were granted to Dalian Kai Shi Property Company Limited for a term of 70 years expiring on 12 February 2077 for residential use. The particulars are as follows:

Lot No.	Approximate	
	Site Area (sq.m.)	State-owned Land Use Rights Certificates (Document No.)
3-25-5	97,317.94	Lv Shun Kou Guo Yong (2007) Zi No. 0403368
2-15-2	<u>61,865.77</u>	Lv Shun Kou Guo Yong (2007) Zi No. 0402189
Total	<u>159,183.71</u>	

2. As advised by the Company, the total gross floor area of the property is approximately 652.15 sq.m. as at the Valuation Date. The Company has obtained the Project Completion Approval Permit from the local government for the property. The breakdown of the total gross floor area is listed as below:

Unit	Approximate GFA (sq.m.)
14-2-901 (see Note 3)	191.44
17-1-102 (see Note 4)	118.52
19-2-201	93.00
19-3-302	93.24
20-2-901 (see Note 4)	<u>155.95</u>
Total	<u>652.15</u>

3. In the course of our valuation, we have ascribed no commercial value to the residential unit 14-2-901 in Note 2 due to it is restricted for the use of maintenance fund guarantee unit, and hence it is not entitled to be transferred, leased or mortgaged. For indicative purpose, the market value of unit 14-2-901 is RMB900,000 (equivalent to approximately HKD1,100,000) as at the Valuation Date by assuming it is freely transferrable in the market.
4. In the course of our valuation, we have ascribed no commercial value to the residential units 17-1-102 and 20-2-901 in Note 2 due to they are restricted for the use of property management office units, and hence they are not entitled to transferred, leased or mortgaged. For indicative purpose, the market value of units 17-1-102 and 20-2-901 is RMB1,200,000 (equivalent to approximately HKD1,500,000) as at the Valuation Date by assuming they are freely transferrable in the market.
5. As advised by the Company, Dalian Kai Shi Property Company Limited is a wholly-owned subsidiary of the Company.
6. The property was inspected by Mr. Lawrence Chan Ka Wah (MRICS MHKIS RPS(GP) MHIREA) on 20 October 2014 and 21 October 2014. The external condition of the property was reasonable.
7. The property is situated on Changjiang Road in Lvshunkou District of Dalian City. Various residential communities are found nearby. It is about 50-minute driving distance to Dalian downtown and about 1-hour driving distance to Dalian Zhoushuizi International Airport. The property is accessible by bus and taxi.
8. We have been provided with a legal opinion on the property prepared by the Group's PRC legal adviser, Jun He Law Offices, which contains, *inter alia*, the following information as at the Valuation Date:
 - (a) The property except for the residential units in Notes 3 and 4 is entitled to be transferred, leased and mortgaged;
 - (b) The residential units in Notes 3 and 4 are maintenance fund guarantee unit and property management office units respectively, and they are not entitled to be transferred, leased and mortgaged;
 - (c) The property is free from any mortgage, charges, orders and other legal encumbrances which may cause adverse effects on the ownership of the property; and
 - (d) No further restriction on the use of the property other than notes 1, 3 and 4.

VALUATION CERTIFICATE

Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 31 October 2014
2	<p>Unsold residential portion of Phase II, Kaishijianian, Changjiang Road, Lvshunkou District, Dalian City, Liaoning Province, the PRC</p> <p>The property comprises various villas and high-rise residential units completed in between 2008 and 2009.</p> <p>The total gross floor area of the property is approximately 14,348.80 sq.m.</p> <p>The land use rights of the property together with properties Nos. 1, 3, 6, 7 and 8 were granted for a term of 70 years expiring on 12 February 2077 for residential use.</p>	The property was vacant as at the Valuation Date.	<p>RMB125,600,000</p> <p>equivalent to approximately HKD159,600,000</p>

Notes:

- Pursuant to two State-owned Land Use Rights Certificates (Document Nos.: Lv Shun Kou Guo Yong (2007) Nos. 0402189 and 0403368), the land use rights of the property together with properties Nos. 1, 3, 6, 7 and 8 with a site area of approximately 159,183.71 sq.m. were granted to Dalian Kai Shi Property Company Limited for a term of 70 years expiring on 12 February 2077 for residential use. The particulars are as follows:

Lot No.	Approximate	
	Site Area (sq.m.)	State-owned Land Use Rights Certificates (Document No.)
3-25-5	97,317.94	Lv Shun Kou Guo Yong (2007) Zi No. 0403368
2-15-2	<u>61,865.77</u>	Lv Shun Kou Guo Yong (2007) Zi No. 0402189
Total	<u>159,183.71</u>	

- As advised by the Company, the total gross floor area of the property is approximately 14,348.80 sq.m. as at the Valuation Date. The Company has obtained the Project Completion Approval Permit from the local government for the property.
- In the course of our valuation, we have ascribed no commercial value to the villa 39-2 due to the absence of Building Ownership Certificate as at the Valuation Date, and hence it is not entitled to be transferred, leased or mortgaged. For indicative purpose, the market value of this unit is RMB2,200,000 (equivalent to approximately HKD2,800,000) as at the Valuation Date by assuming it has obtained the Building Ownership Certificate and is freely transferrable in the market.
- As advised by the Company, Dalian Kai Shi Property Company Limited is a wholly-owned subsidiary of the Company.
- The property was inspected by Mr. Lawrence Chan Ka Wah (MRICS MHKIS RPS(GP) MHIREA) on 20 October 2014 and 21 October 2014. The external condition of the property was reasonable.

6. The property is situated on Changjiang Road in Lvshunkou District of Dalian City. Various residential communities are found nearby. It is about 50-minute driving distance to Dalian downtown and about 1-hour driving distance to Dalian Zhoushuizi International Airport. The property is accessible by bus and taxi.
7. We have been provided with a legal opinion on the property prepared by the Group's PRC legal adviser, Jun He Law Offices, which contains, *inter alia*, the following information as at the Valuation Date:
 - (a) The property except for the residential unit in Note 3 is entitled to be transferred, leased and mortgaged;
 - (b) The residential unit in Note 3 is property management office unit, and it is not entitled to be transferred, leased and mortgaged;
 - (c) The property is free from any mortgage, charges, orders and other legal encumbrances which may cause adverse effects on the ownership of the property; and
 - (d) No further restriction on the use of the property other than note 1.

VALUATION CERTIFICATE

Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 31 October 2014
3 A restaurant, car-parking spaces, garages and retail units of the composite building, Phase II, Kaishijianian, Lvshunkou District, Dalian City, Liaoning Province, the PRC	<p>The property comprises 1 restaurant, 294 car-parking spaces, 59 garages and 5 retail units of the composite building completed in around 2011.</p> <p>The total gross floor area of the property is approximately 1,967.68 sq.m. (exclusive of the car-parking spaces and the garages).</p> <p>The land use rights of the property together with properties Nos. 1, 2, 6, 7 and 8 were granted for a term of 70 years expiring on 12 February 2077 for residential use.</p>	The property was vacant as at the Valuation Date.	RMB43,900,000 equivalent to approximately HKD55,800,000

Notes:

- Pursuant to two State-owned Land Use Rights Certificates (Document Nos.: Lv Shun Kou Guo Yong (2007) Nos. 0402189 and 0403368), the land use rights of the property together with properties Nos. 1, 2, 6, 7 and 8 with a site area of approximately 159,183.71 sq.m. were granted to Dalian Kai Shi Property Company Limited for a term of 70 years expiring on 12 February 2077 for residential use. The particulars are as follows:

Lot No.	Approximate	
	Site Area (sq.m.)	State-owned Land Use Rights Certificates (Document No.)
3-25-5	97,317.94	Lv Shun Kou Guo Yong (2007) Zi No. 0403368
2-15-2	<u>61,865.77</u>	Lv Shun Kou Guo Yong (2007) Zi No. 0402189
Total	<u>159,183.71</u>	

2. As advised by the Company, the total gross floor area of the property is approximately 1,967.68 sq.m.(exclusive of the car-parking spaces and the garages) as at the Valuation Date.

Property Portion	Number of Units	Approximate Gross Floor Area (sq.m.)
Retail unit 662-2	1	192.99
Retail unit 662-3	1	290.73
Retail unit 662-4	1	238.68
Retail unit 662-5	1	270.12
Retail unit 692-4	1	286.31
Restaurant	1	688.85
Car-parking spaces	294	N/A
Garages	59	N/A
Total		<u>1,967.68</u>

3. In the course of our valuation, we have ascribed no commercial value to the car parking spaces and garages in Note 2 due to the absence of Building Ownership Certificates as at the Valuation Date, and hence they not entitled to transferred, leased or mortgaged. For indicative purpose, the market value of the car parking spaces and garages is RMB23,500,000 (equivalent to HKD29,900,000) as at the Valuation Date by assuming they have obtained the title documents and are freely transferrable in the market.
4. As advised by the Company, Dalian Kai Shi Property Company Limited is a wholly-owned subsidiary of the Company.
5. The property was inspected by Mr. Lawrence Chan Ka Wah (MRICS MHKIS RPS(GP) MHIREA) on 20 October 2014 and 21 October 2014. The external condition of the property was reasonable.
6. The property is situated on Changjiang Road in Lvshunkou District of Dalian City. Various residential communities are found nearby. It is about 50-minute driving distance to Dalian downtown and about 1-hour driving distance to Dalian Zhoushuizi International Airport. The property is accessible by bus and taxi.
7. We have been provided with a legal opinion on the property prepared by the Group's PRC legal adviser, Jun He Law Offices, which contains, *inter alia*, the following information as at the Valuation Date:
- (a) The property except for the car parking spaces and garages in Note 3 is entitled to be transferred, leased and mortgaged;
 - (b) The car parking spaces and garage in Note 3 have not obtained any title documents and are not entitled to be transferred, leased and mortgaged;
 - (c) The property is free from any mortgage, charges, orders and other legal encumbrances which may cause adverse effects on the ownership of the property; and
 - (d) No further restriction on the use of the property other than note 1.

VALUATION CERTIFICATE

Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 31 October 2014
4 Unsold residential and car-parking space portion of Land Lot No. B19, Kaishixijun, Lijiagou Village, Beihai Jiedaoban, Lvshunkou District, Dalian City, Liaoning Province, the PRC	<p>The property comprises 6 single villas, 40 twin villas, 113 apartments and 93 underground car-parking spaces completed in about 2013.</p> <p>The total gross floor area of the property is approximately 22,137.77 sq.m. (exclusive of the underground car-parking spaces).</p> <p>The land use rights of the property were granted for a term of 70 years expiring on 20th July 2081 for residential use.</p>	The property was vacant as at the Valuation Date.	RMB165,700,000 equivalent to approximately HKD210,500,000

Notes:

- Pursuant to 3 State-owned Land Use Rights Grant Contracts entered into between the State-owned Land Resources and Housing Bureau of Dalian City, Liaoning Province, the PRC (Party A) and Dalian Kai Shi Property Company Limited (Party B) dated 18 July 2011, 18 July 2011 and 21 July 2011 respectively, the land use rights of the property together with Properties Nos. 5, 9 and 10 with a site area of approximately 155,438.71 sq.m. were granted from Party A to Party B for a term of 70 years for residential use at a consideration of RMB165,680,000. The major development constraints set out in the State-owned Land Use Rights Grant Contracts are summarized below:

Permitted Use	Residential and ancillary
Plot Ratio	Not less than 1.0 and not more than 1.02
Site Coverage	Not more than 28%
Green Area Ratio	Not more than 35%
Permitted Gross Floor Area	Approximately 158,548 sq.m.
Area Constraint	The number of residential units with a gross floor area of less than 90 sq.m. must not be less than 70% of the total number of residential units constructed after completion.

- Pursuant to a State-owned Land Use Rights Certificate (Document No.: Lv Shun Kou Guo Yong (2012) No. 080007FZO), the land use rights of the property with a site area of approximately 47,042.3 sq.m. were granted to Dalian Kai Shi Property Company Limited for a term of 70 years expiring on 20 July 2081 for residential use.

3. As advised by the Company, the property comprises 6 single villas, 40 twin villas, 113 apartments and 93 underground car-parking spaces with a total gross floor area of approximately 22,137.77 sq.m. The particulars are listed below:

Property Portion	Number of Units	Approximate Gross Floor Area (sq.m.)
Single Villas	6	2,165.19
Twin Villas	40	9,082.58
Apartments	113	10,890.00
Car-parking Spaces	93	<u>N/A</u>
Total		<u>22,137.77</u>

4. In the course of our valuation, we have ascribed no commercial value to the residential units 31-2-401, 31-2-402 and 31-2-202 in Note 3 due to they are restricted for the use of maintenance fund guarantee units, and hence they are not entitled to transferred, leased or mortgaged. For indicative purpose, the market value of residential units 31-2-401, 31-2-402 and 31-2-202 is RMB1,700,000 (equivalent to approximately HKD2,200,000) as at the Valuation Date by assuming they are freely transferrable in the market.
5. In the course of our valuation, we have ascribed no commercial value to the residential units 31-1-102 and 32-1-201 in Note 3 due to they are restricted for the use of property management office units, and hence they are not entitled to transferred, leased or mortgaged. For indicative purpose, the market value of residential units 31-1-102 and 32-1-201 is RMB1,200,000 (equivalent to approximately HKD1,500,000) as at the Valuation Date by assuming they are freely transferrable in the market.
6. As advised by the Company, Dalian Kai Shi Property Company Limited is a wholly-owned subsidiary of the Company.
7. The property was inspected by Mr. Lawrence Chan Ka Wah (MRICS MHKIS RPS(GP) MHIREA) on 20 October 2014 and 21 October 2014. The external condition of the property was reasonable.
8. The property is situated in Beihai Jiedaoban of Lvshunkou District in Dalian City. Various residential communities are found nearby. It is about 70-minute driving distance to Dalian downtown and about 50-minute driving distance to Dalian Zhoushuizi International Airport. The property is accessible by bus and taxi.
9. We have been provided with a legal opinion on the property prepared by the Group's PRC legal adviser, Jun He Law Offices, which contains, *inter alia*, the following information as at the Valuation Date:
- (a) The property except for the residential units in Notes 4 and 5 is entitled to be transferred, leased and mortgaged;
 - (b) The residential units in Notes 4 and 5 are maintenance fund guarantee units and property management office units respectively, and they are not entitled to be transferred, leased and mortgaged; and
 - (c) The property is free from any mortgage, charges, orders and other legal encumbrances which may cause adverse effects on the ownership of the property; and
 - (d) No further restriction on the use of the property except notes 2, 4 and 5.

VALUATION CERTIFICATE

Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 31 October 2014
5	<p>Unsold residential units of Land Lot No. B41, Kaishixijun, Lijiagou Village, Beihai Jiedaoban, Lvshunkou District, Dalian City, Liaoning Province, the PRC</p> <p>The property comprises 14 twin villas and a commercial unit with a total gross floor area of approximately 4,564.04 sq.m. completed in about 2013.</p> <p>The land use rights of the property were granted for a term of 70 years for residential use. Please refer to Note 2 for more details.</p>	As advised by the Company, the property was vacant as at the Valuation Date.	RMB37,200,000 equivalent to approximately HKD47,300,000

Notes:

- Pursuant to 3 State-owned Land Use Rights Grant Contracts entered into between the State-owned Land Resources and Housing Bureau of Dalian City, Liaoning Province, the PRC (Party A) and Dalian Kai Shi Property Company Limited (Party B) dated 18 July 2011, 18 July 2011 and 21 July 2011 respectively, the land use rights of the property together with properties Nos. 4, 9 and 10 with a site area of approximately 155,438.71 sq.m. were granted from Party A to Party B for a term of 70 years for residential use at a consideration of RMB165,680,000. The major development constraints set out in the State-owned Land Use Rights Grant Contracts are summarized below:

Permitted Use	Residential and ancillary
Plot Ratio	Not less than 1.0 and not more than 1.02
Site Coverage	Not more than 28%
Green Area Ratio	Not more than 35%
Permitted Gross Floor Area	Approximately 158,548 sq.m.
Area Constraint	The number of residential units with a gross floor area of less than 90 sq.m. must not be less than 70% of the total number of residential units after completion.

- Pursuant to a State-owned Land Use Certificate (Document No.: Lv Shun Kou Guo Yong (2012) No. 080072FZC), the land use rights of land parcel of the property with a site area of approximately 63,665.47 sq.m. were granted to Dalian Kai Shi Property Company Limited for a term of 70 years expiring on 17 July 2081 for residential and ancillary uses. The particulars of the land parcel information are listed below:

Lot No.	Approximate Site Area (sq.m.)	Land Lease Expiry Date	State-owned Land Use Certificate (Document No.)
0408084	63,665.47	7 July 2081	Lv Shun Kou Guo Yong (2012) No. 080072FZC

3. As advised by the Company, the property comprises 1 commercial unit and 14 twin villas completed in about 2013 without Building Ownership Certificates. The gross floor area of the property are listed as below:

Property Portion	Approximate Gross Floor Area (sq.m)
Commercial units	1,942.84
Twin villas	<u>2,621.20</u>
Total	<u>4,564.04</u>

4. As advised by the Company, Dalian Kai Shi Property Company Limited is a wholly-owned subsidiary of the Company.
5. The property was inspected by Mr. Lawrence Chan Ka Wah (MRICS MHKIS RPS(GP) MHIREA) on 20 October 2014 and 21 October 2014. The external condition of the property was reasonable.
6. The property is situated in Beihai Jiedaoban of Lvshunkou District in Dalian City. Various residential communities are found nearby. It is about 70-minute driving distance to Dalian downtown and about 50-minute driving distance to Dalian Zhoushuizi International Airport. The property is accessible by bus and taxi.
7. We have been provided with a legal opinion on the property prepared by the Group's PRC legal adviser, Jun He Law Offices, which contains, *inter alia*, the following information as at the Valuation Date:
- (a) The property is entitled to be transferred, leased and mortgaged;
 - (b) The property is free from any mortgage, charges, orders and other legal encumbrances which may cause adverse effects on the ownership of the property; and
 - (c) No further restriction on the use of the property other than note 2.

VALUATION CERTIFICATE

Group II — Property interests held by the Group for investment in the PRC

Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 31 October 2014																		
6	<p>Portion of Level 1, Levels 3 and 4 of the composite building, the car-parking spaces on basement levels 1 and 2 and portion of basement level 2 of Phase I, Kaishijianian, Changjiang Road, Lvshunkou District, Dalian City, Liaoning Province, the PRC</p> <p>The property comprises portion of Level 1, Levels 3 and 4 of a 4-storey composite building (exclusive of a two-storey basement) completed in 2009 and 987 underground car-parking spaces and portion of basement level 2 completed in between 2008 and 2009 of Phase I of Kaishijianian.</p> <p>The gross floor area of the property is summarized as below:</p> <table border="1"> <thead> <tr> <th>Portion of the property</th> <th>Approximate Gross Floor Area (sq.m.)</th> </tr> </thead> <tbody> <tr> <td>Portion of Level 1</td> <td>182</td> </tr> <tr> <td>Level 3 of Composite Building</td> <td>927.5</td> </tr> <tr> <td>Level 4 of Composite Building</td> <td>927.5</td> </tr> <tr> <td>Portion of Basement Level 2</td> <td>915</td> </tr> <tr> <td>Portion of Basement Level 2</td> <td>1,164.8</td> </tr> <tr> <td>987 car-parking spaces</td> <td><u>42,967.2</u></td> </tr> <tr> <td>Total</td> <td>2,037</td> </tr> <tr> <td>(exclusive of the basement and the car-parking spaces)</td> <td><u><u> </u></u></td> </tr> </tbody> </table>	Portion of the property	Approximate Gross Floor Area (sq.m.)	Portion of Level 1	182	Level 3 of Composite Building	927.5	Level 4 of Composite Building	927.5	Portion of Basement Level 2	915	Portion of Basement Level 2	1,164.8	987 car-parking spaces	<u>42,967.2</u>	Total	2,037	(exclusive of the basement and the car-parking spaces)	<u><u> </u></u>	The particulars of occupancy are summarized in Note 4.	RMB133,000,000 equivalent to approximately HKD169,000,000
Portion of the property	Approximate Gross Floor Area (sq.m.)																				
Portion of Level 1	182																				
Level 3 of Composite Building	927.5																				
Level 4 of Composite Building	927.5																				
Portion of Basement Level 2	915																				
Portion of Basement Level 2	1,164.8																				
987 car-parking spaces	<u>42,967.2</u>																				
Total	2,037																				
(exclusive of the basement and the car-parking spaces)	<u><u> </u></u>																				

The land use rights of the property together with properties Nos. 1 2, 3, 7 and 8 were granted for a term of 70 years expiring on 12th February 2077 for residential use.

Notes:

1. Pursuant to two State-owned Land Use Rights Certificates (Document Nos.: Lv Shun Kou Guo Yong (2007) Zi Nos. 0402189 and 0403368), the land use rights of the property together with properties Nos. 1, 2, 3, 7 and 8 with a site area of approximately 159,183.71 sq.m. were granted to Dalian Kai Shi Property Company Limited for a term of 70 years expiring on 12th February 2077 for residential use. The particulars are as follows:

Lot No.	Approximate	
	Site Area (sq.m.)	State-owned Land Use Rights Certificates (Document No.)
3-25-5	97,317.94	Lv Shun Kou Guo Yong (2007) Zi No. 0403368
2-15-2	<u>61,865.77</u>	Lv Shun Kou Guo Yong (2007) Zi No. 0402189
Total	<u><u>159,183.71</u></u>	

2. Pursuant to a Building Ownership Certificate (Document No.: Da Fang Quan Zheng Lv Dan Zi No. 201101113) registered on 3rd March 2011, the ownership of the Composite Building with a total gross floor area of approximately 4,557.86 sq.m. (the total gross floor area above ground is approximately 3,710 sq.m. and the total gross floor area underground is approximately 847.86 sq.m.) is vested in Dalian Kai Shi Property Company Limited.
3. Pursuant to two Building Ownership Certificates (Document Nos.: Da Fang Quan Zheng Lv Dan Zi Nos.: 201106915 and 201106916) issued on 27th September 2011, the ownership of the car-parking spaces on basement levels 1 and 2 and portion of basement level 2 of the property with a total gross floor area of approximately 44,786.75 sq.m. is vested in Dalian Kai Shi Property Company Limited.
4. Pursuant to the information provided by the Group, the particulars of the occupancies of the property are as follow:

Portion of the property	Approximate		Lease Term	Annual Rent
	Gross Floor Area (sq.m.)	Occupancy Status		
987 car-parking spaces	45,047.00	Car-parking spaces	1 January 2014 to 31 December 2014	RMB3,000,000
Portion of Basement Level 2	915	Storage	1 January 2014 to 31 December 2016	RMB338,000
Portion of Basement Level 2	1,164.8	Vacant	Not applicable	Not applicable
Portion of Level 1	182	Vacant	Not applicable	Not applicable
Level 3 of Composite Building	927.5	Vacant	Not applicable	Not applicable
Level 4 of Composite Building	<u>927.5</u>	Vacant	Not applicable	<u>Not applicable</u>
Total	2,037			RMB3,338,000
(exclusive of car-parking spaces and basement)	<u><u> </u></u>			<u><u> </u></u>

5. As advised by the Company, Dalian Kai Shi Property Company Limited is a wholly-owned subsidiary of the Company.
6. The property was inspected by Mr. Lawrence Chan Ka Wah (MRICS MHKIS RPS(GP) MHIREA) on 20 October 2014 and 21 October 2014. The external condition of the property was reasonable.
7. The property is situated on Changjiang Road in Lvshunkou District of Dalian City. Various residential communities are found nearby. It is about 50-minute driving distance to Dalian downtown and about 1-hour driving distance to Dalian Zhoushuizi International Airport. The property is accessible by bus and taxi.
8. According to the information provided by the Company, the tenant of the property is a connected party. The tenant of the property is Tianjin Gangwan Property Management Company Limited, Dalian Branch which is effectively 96.67% owned by the Company.
9. We have been provided with a legal opinion on the property prepared by the Group's PRC legal adviser, Jun He Law Offices, which contains, *inter alia*, the following information as at the Valuation Date:
 - (a) The property except for the composite building portion is entitled to be transferred, leased and mortgaged;
 - (b) The composite building portion of the property is subject to mortgage;
 - (c) The remaining portion of the property is free from any mortgage, charges, orders and other legal encumbrances which may cause adverse effects on the ownership of the property;
 - (d) The content of the tenancy agreements of the property are valid and legally effective. However, the tenancy agreements were not registered in the relevant government organisations. According to the "Administrative Measures for Commodity House Leasing", effective from 1 February 2011, parties to a lease agreement are required to file the lease agreements for registration and obtain property leasing filing certificates for their leases. Failure to do so might lead to third party challenging the Company's interests in the respective leased properties. The relevant government authorities have the right to require the Company to file the lease agreements for registration. If the Company fails to do so within the prescribed time limit, it may be subject to a fine for non-registration ranging from RMB1,000 to RMB10,000 per lease agreement. However, the failure to register the lease agreements does not affect the validity of the lease agreements under the PRC laws and regulations; and
 - (e) No further restriction on the use of the property other than note 1.

VALUATION CERTIFICATE

Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 31 October 2014
7 Various retail units and a kindergarten, Phase II, Kaishijianian, Changjiang Road, Lvshunkou District, Dalian City, Liaoning Province, the PRC	<p>The property comprises 7 retail units and a 2-storey kindergarten completed in about 2012.</p> <p>The total gross floor area of the property is approximately 2,773.57 sq.m.</p> <p>The land use rights of the property together with properties Nos. 1 2, 3, 6 and 8 were granted for a term of 70 years expiring on 12 February 2077 for residential use.</p>	<p>Portion of the property was subject to tenancies and occupied for retail and catering purpose and portion of the property is was vacant, the total annual rent is RMB1,250,864 and the latest expiry date is 31 August 2022.</p>	<p>RMB52,600,000 equivalent to approximately HKD66,800,000</p>

Notes:

- Pursuant to a State-owned Land Use Certificate (Document No.: Lv Shun Kou Guo Yong (2007) Zi No. 0402189 and 0403368), the land use rights of the property together with properties Nos. 1 2, 3, 6, 7 and 8 with a site area of approximately 159,183.71 sq.m. were granted to Dalian Kai Shi Property Company Limited for a term of 70 years expiring on 12 February 2077 for residential use. The particulars are as follows:

Lot No.	Approximate	
	Site Area (sq.m.)	State-owned Land Use Rights Certificates (Document No.)
3-25-5	97,317.94	Lv Shun Kou Guo Yong (2007) Zi No. 0403368
2-15-2	<u>61,865.77</u>	Lv Shun Kou Guo Yong (2007) Zi No. 0402189
Total	<u>159,183.71</u>	

- According to the information provided, the property comprises 7 retail units and a 2-storey kindergarten with a total gross floor area of approximately 2,773.57 sq.m.. The particulars are listed as below:

Property Portion	Approximate Gross Floor Area (sq.m.)
492-1-1	304.52
492-2, 492-3, 492-4	937.61
692-5	241.38
662-1	190.02
492-1-2	150
Kindergarten	<u>950.04</u>
Total	<u>2,773.57</u>

- As advised by the Company, Dalian Kai Shi Property Company Limited is a wholly-owned subsidiary of the Company.

4. The property was inspected by Mr. Lawrence Chan Ka Wah (MRICS MHKIS RPS(GP) MHIREA) on 20 October 2014 and 21 October 2014. The external condition of the property was reasonable.
5. The property is situated on Changjiang Road in Lvshunkou District of Dalian City. Various residential communities are found nearby. It is about 50-minute driving distance to Dalian downtown and about 1-hour driving distance to Dalian Zhoushuizi International Airport. The property is accessible by bus and taxi.
6. According to the information provided by the Company, the tenants of the property are independent third parties, which are not connected with, and are independent of any of the directors of the Company.
7. We have been provided with a legal opinion on the property prepared by the Group's PRC legal adviser, Jun He Law Offices, which contains, *inter alia*, the following information as at the Valuation Date:
 - (a) The property is entitled to be transferred, leased and mortgaged;
 - (b) The property is free from any mortgage, charges, orders and other legal encumbrances which may cause adverse effects on the ownership of the property;
 - (c) The content of the tenancy agreements of the property are valid and legally effective. However, the tenancy agreements were not registered in the relevant government organisations. According to the "Administrative Measure for Commodity House Leasing", effective from 1 February 2011, parties to a lease agreement are required to file the lease agreements for registration and obtain property leasing filing certificates for their leases. Failure to do so might lead to third party challenging the Company's interests in the respective leased properties. The relevant government authorities have the right to require the Company to file the lease agreements for registration. If the Company fails to do so within the prescribed time limit, it may be subject to a fine for non-registration ranging from RMB1,000 to RMB10,000 per lease agreement. However, the failure to register the lease agreements does not affect the validity of the lease agreements under the PRC laws and regulations; and
 - (d) No further restriction on the use of the property other than note 1.

VALUATION CERTIFICATE

Group III — Property interests held by the Group for self-occupation in the PRC

Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 31 October 2014
8	<p>Portion of the composite building of Phase I, Kaishijianian, Changjiang Road, Lvshunkou District, Dalian City, Liaoning Province, the PRC</p> <p>The property comprises portion of Level 1, the whole of Level 2 and Basement Level 1 of a 4-storey composite building (exclusive of a two-storey basement) completed in 2009 and 987 underground car-parking spaces and portion of basement level 2 completed in between 2008 and 2009 of Phase I of Kaishijianian.</p> <p>The gross floor area of the property is approximately 2,520.86 sq.m.(exclusive of basement).</p> <p>The land use rights of the property together with properties Nos. 1, 2, 3, 6 and 7 were granted for a term of 70 years expiring on 12th February 2077 for residential use.</p>	<p>The property was occupied by the Group for office, restaurant, administrative and ancillary uses as at the Valuation Date.</p>	<p>RMB52,700,000</p> <p>equivalent to approximately HKD67,000,000</p>

Notes:

- Pursuant to two State-owned Land Use Rights Certificates (Document Nos.: Lv Shun Kou Guo Yong (2007) Zi Nos. 0402189 and 0403368), the land use rights of the property together with properties Nos. 1, 2, 3, 6 and 7 with a site area of approximately 159,183.71 sq.m. were granted to Dalian Kai Shi Property Company Limited for a term of 70 years expiring on 12th February 2077 for residential use. The particulars are listed as follows:

Lot No.	Approximate	
	Site Area (sq.m.)	State-owned Land Use Rights Certificates (Document No.)
3-25-5	97,317.94	Lv Shun Kou Guo Yong (2007) Zi No. 0403368
2-15-2	<u>61,865.77</u>	Lv Shun Kou Guo Yong (2007) Zi No. 0402189
Total	<u>159,183.71</u>	

- Pursuant to a Building Ownership Certificate (Document No.: Da Fang Quan Zheng Lv Dan Zi No. 201101113) registered on 3rd March 2011, the ownership of the composite building with a total gross floor area of approximately 4,557.86 sq.m. (the total gross floor area above ground is approximately 3,710 sq.m. and the total gross floor area underground is approximately 847.86 sq.m.) is vested in Dalian Kai Shi Property Company Limited.

3. Pursuant to the information provided by the Company, the total gross floor area of the property is approximately 2,520.86 sq.m. The particulars are listed as below:

Portion of the property	Approximate Gross Floor Area (sq.m.)
Portion of Level 1	745.50
Whole of Level 2	927.50
Whole of Basement Level 1	<u>847.86</u>
Total (exclusive of basement)	<u><u>2,520.86</u></u>

4. As advised by the Company, Dalian Kai Shi Property Company Limited is a wholly-owned subsidiary of the Company.
5. The property was inspected by Mr. Lawrence Chan Ka Wah (MRICS MHKIS RPS(GP) MHIREA) on 20 October 2014 and 21 October 2014. The external condition of the property was reasonable.
6. The property is situated on Changjiang Road in Lvshunkou District of Dalian City. Various residential communities are found nearby. It is about 50-minute driving distance to Dalian downtown and about 1-hour driving distance to Dalian Zhoushuizi International Airport. The property is accessible by bus and taxi.
7. We have been provided with a legal opinion on the property prepared by the Group's PRC legal adviser, Jun He Law Offices, which contains, *inter alia*, the following information as at the Valuation Date:
- (a) The property except for the composite building portion is entitled to be transferred, leased and mortgaged;
 - (b) The composite building portion of the property is subject to mortgage;
 - (c) The remaining portion of the property is free from any mortgage, charges, orders and other legal encumbrances which may cause adverse effects on the ownership of the property; and
 - (d) No further restriction on the use of the property other than note 1.

VALUATION CERTIFICATE

Group IV — Property interests held by the Group for development in the PRC

Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 31 October 2014
9	<p>Remaining portion of Land Lot No. B41, Kaishixijun, Lijiagou Village, Beihai Jiedaoban, Lvshunkou District, Dalian City, Liaoning Province, the PRC</p> <p>The property comprises a parcel of land with a site area of approximately 63,665.47 sq.m.</p> <p>As advised by the Company, the property is planned to be developed into a complex residential and commercial project. The total gross floor area after completion is expected to be approximately 46,411.61 sq.m. (exclusive of carparking spaces). Please refer to Note 3 for more details.</p> <p>The total site area of the property is approximately 63,665.47 sq.m. The land use rights of the property together with property No. 5 were granted for a term of 70 years for residential use. Please refer to Note 2 for more details.</p>	<p>As advised by the Company, the property was under construction as at the Valuation Date.</p> <p>The property is expected to be completed in October 2015.</p>	<p>RMB40,300,000</p> <p>equivalent to approximately HKD51,200,000</p>

Notes:

- Pursuant to 3 State-owned Land Use Rights Grant Contracts entered into between the State-owned Land Resources and Housing Bureau of Dalian City, Liaoning Province, the PRC (Party A) and Dalian Kai Shi Property Company Limited (大連市開世地產有限公司) (Party B) dated 18 July 2011, 18 July 2011 and 21 July 2011 respectively, the land use rights of the property together with properties Nos. 4, 5 and 10 with a site area of approximately 155,438.71 sq.m. were granted from Party A to Party B for a term of 70 years for residential use at a consideration of RMB 165,680,000. The major development constraints set out in the State-owned Land Use Rights Grant Contracts are summarized below:

Permitted Use	Residential and ancillary
Plot Ratio	Not less than 1.0 and not more than 1.02
Site Coverage	Not more than 28%
Green Area Ratio	Not more than 35%
Permitted Gross Floor Area	Approximately 158,548 sq.m.
Area Constraint	The number of residential units with a gross floor area of less than 90 sq.m. must not be less than 70% of the total number of residential units after completion.

2. Pursuant to a State-owned Land Use Certificate (Document No.: Lv Shun Kou Guo Yong (2012) No. 080072FZC), the land use rights of the property with a site area of approximately 63,665.47 sq.m. were granted to Dalian Kai Shi Property Company Limited for a term of 70 years expiring on 17 July 2081 for residential and ancillary uses.

The particulars of the land parcel information are listed below:

Lot No.	Approximate Site Area (sq.m.)	Land Lease Expiry Date	State-owned Land Use Certificate (Document No.)
0408084	63,665.47	7 July 2081	Lv Shun Kou Guo Yong (2012) No. 080072FZC

3. As advised by the Company, the property (including property No. 5) was planned to be developed into a complex residential and commercial project. The total gross floor area after completion is expected to be approximately 46,411.61 sq.m. The particulars are listed below:

Property Portion	Number of Units	Approximate Gross Floor Area (sq.m.)
High-rise buildings	N/A	46,411.61
Car-parking spaces	294	N/A
Total		<u>46,411.61</u>

4. As advised by the Company, Dalian Kai Shi Property Company Limited is a wholly-owned subsidiary of the Company.
5. The property was inspected by Mr. Lawrence Chan Ka Wah (MRICS MHKIS RPS(GP) MHIREA) on 20 October 2014 and 21 October 2014. The external condition of the property was reasonable.
6. The property is situated in Beihai Jiedaoban of Lvshunkou District in Dalian City. Various residential communities are found nearby. It is about 70-minute driving distance to Dalian downtown and about 50-minute driving distance to Dalian Zhoushuizi International Airport. The property is accessible by bus and taxi.
7. We have been provided with a legal opinion on the property prepared by the Group's PRC legal adviser, Jun He Law Offices, which contains, *inter alia*, the following information:
- The property is entitled to be occupied, transferred, leased and mortgaged;
 - The property is free from any mortgage, charges, orders and other legal encumbrances which may cause adverse effects on the ownership of the property; and
 - No further restriction on the use of the property other than note 2.

VALUATION CERTIFICATE

Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 31 October 2014
10 Land Lot No. B44, Kaishixijun, Lijiagou Village, Beihai Jiedaoban, Lvshunkou District, Dalian City, Liaoning Province, the PRC	<p>The property comprises a parcel of land with a site area of approximately 44,730.94 sq.m.</p> <p>As advised by the Company, the property is planned to be developed into a complex residential and commercial project. The total gross floor area after completion is expected to be approximately 76,213.45 sq.m. (exclusive of carparking spaces). Please refer to Note 3 for more details.</p> <p>The total site area of the property is approximately 44,730.94 sq.m. The land use rights of the property together with property No. 5 were granted for a term of 70 years for residential use. Please refer to Notes 1 and 2 for more details.</p>	<p>As advised by the Company, the property was under construction as at the Valuation Date.</p> <p>The property is expected to be completed in October 2015.</p>	No Commercial Value

Notes:

- Pursuant to 3 State-owned Land Use Rights Grant Contracts entered into between the State-owned Land Resources and Housing Bureau of Dalian City, Liaoning Province, the PRC (Party A) and Dalian Kai Shi Property Company Limited (Party B) dated 18 July 2011, 18 July 2011 and 21 July 2011 respectively, the land use rights of the property together with properties Nos. 4, 5 and 9 with a site area of approximately 155,438.71 sq.m. were granted from Party A to Party B for a term of 70 years for residential use at a consideration of RMB 165,680,000. The major development constraints set out in the State-owned Land Use Rights Grant Contracts are summarized below:

Permitted Use	Residential and ancillary
Plot Ratio	Not less than 1.0 and not more than 1.02
Site Coverage	Not more than 28%
Green Area Ratio	Not more than 35%
Permitted Gross Floor Area	Approximately 158,548 sq.m.
Area Constraint	The number of residential units with a gross floor area of less than 90 sq.m. must not be less than 70% of the total number of residential units after completion.

2. As advised by the Company, the property has not obtained the State-owned Land Use Certificate.

The particulars of the land parcel information are listed below:

Lot No.	Approximate Site Area (sq.m.)	Land Lease Expiry Date	State-owned Land Use Certificate (Document No.)
B44	<u>44,730.94</u>	N/A	N/A
Total	<u>44,730.94</u>		

3. As advised by the Company, the property was planned to be developed into a complex residential and commercial project. The total gross floor area after completion is expected to be approximately 76,213.45 sq.m. The particulars are listed below:

Property Portion	Number of Units	Approximate Gross Floor Area (sq.m.)
High-rise buildings	N/A	75,107.50
Commercial	N/A	1,105.95
Car-parking spaces	483	<u>N/A</u>
Total		<u>76,213.45</u>

4. As advised by the Company, Dalian Kai Shi Property Company Limited is a wholly-owned subsidiary of the Company.
5. The property was inspected by Mr. Lawrence Chan Ka Wah (MRICS MHKIS RPS(GP) MHIREA) on 20 October 2014 and 21 October 2014. The external condition of the property was reasonable.
6. The property is situated in Beihai Jiedaoban of Lvshunkou District in Dalian City. Various residential communities are found nearby. It is about 70-minute driving distance to Dalian downtown and about 50-minute driving distance to Dalian Zhoushuizi International Airport. The property is accessible by bus and taxi.
7. In the course of our valuation, we have ascribed no commercial value to the property due to the absence of the State-owned Land Use Certificate, and hence it is not entitled to be transferred, leased, and mortgaged in the market. For indicative propose, the market value of the property is RMB65,100,000 (equivalent to approximately HKD 82,700,000) as at the Valuation Date by assuming it has obtained the relevant legal title document and is freely transferrable in the market.
8. We have been provided with a legal opinion on the property prepared by the Group's PRC legal adviser, Jun He Law Offices, which contains, *inter alia*, the following information:
- The property has not obtained the State-owned Land Use Certificate, and it is not entitled to be occupied, transferred, leased and mortgaged;
 - The property is free from any mortgage, charges, orders and other legal encumbrances which may cause adverse effects on the ownership of the property; and
 - No further restriction on the use of the property other than note 1.

Kai Shi Holdings Company Limited (開世控股有限公司) (“KSH”) was incorporated in the British Virgin Islands (the “BVI”) as a business company limited by shares under the BVI Business Companies Act, 2004 (as amended) (the “BVI BC Act”) and is subject to BVI law.

Set out below is a summary of (i) certain provisions of the memorandum of association (the “Memorandum”) and articles of association (the “Articles”) of KSH which will be adopted on or before completion of the Distribution In Specie and (ii) certain aspects of BVI company law. This summary does not purport to contain all applicable qualifications and exemptions and does not purport to be a complete review of all matters of BVI company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

SUMMARY OF THE CONSTITUTION OF KSH

1. MEMORANDUM

The Memorandum provides, *inter alia*, that the liability of shareholders of KSH is limited, that the objects for which KSH is established are unrestricted and that KSH shall have full rights, powers and privileges to carry out any object not prohibited by the BVI BC Act or any other law of the BVI.

(a) Classes of Shares

KSH is authorised to issue a maximum of 800,000,000 shares of no par value in a single class.

2. ARTICLES

(a) Directors

i. *Power to allot and issue shares*

Subject to the provisions of the BVI BC Act, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting or otherwise, as KSH may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that upon the happening of a specified event or upon a given date and either at the option of KSH or the holder thereof, they are liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of KSH on such terms as it may from time to time determine. Where warrants are issued to bearer, no certificate thereof shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate thereof has been destroyed and KSH has received an indemnity in such form as the Board shall think fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the BVI BC Act, the Articles and, where applicable, the Listing Rules and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in KSH shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit.

Neither KSH nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to shareholders or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no shareholder affected as a result of the foregoing shall be, or be deemed to be, a separate class of shareholders for any purpose whatsoever.

ii. *Power to dispose of the assets of KSH or any subsidiary*

While there are no specific provisions in the Articles relating to the disposal of the assets of KSH or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by KSH and which are not required by the Articles or the BVI BC Act to be exercised or done by KSH in general meeting, but if such power or act is regulated by KSH in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

iii. *Compensation or payment for loss of office*

Payment to any director or past director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the director is contractually or statutorily entitled) must first be approved by KSH in general meeting.

iv. *Loans and provisions of security for loans to directors*

KSH shall not directly or indirectly make a loan to a director or a director of any holding company of KSH or any of their respective associates, enter into any guarantee or provide any security in connection with a loan made by any person to a director or a director of any holding company of KSH or any of their respective associates, or if any one or more of the directors hold (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

v. *Disclosure of interest in contracts with KSH or with any of its subsidiaries*

With the exception of the office of auditor of KSH, a director may hold any other office or place of profit with KSH in conjunction with his office of director for such period and, upon such terms as the Board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A director may be or become a director or other officer or shareholder of any other company in which KSH may be interested, and shall not be liable to account to KSH or the shareholders for any remuneration or other benefits received by him as a director, officer or shareholder of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by KSH to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the directors or any of them to be directors or officers of such other company.

No director or intended director shall be disqualified by his office from contracting with KSH, either as vendor, purchaser or otherwise, nor shall any such contract or any other contract or arrangement in which any director is in any way interested be liable to be avoided, nor shall any director so contracting or being so interested be liable to account to KSH for any profit realised by any such contract or arrangement by reason only of such director holding that office or the fiduciary relationship thereby established. A director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with KSH shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any Share by reason that the person or persons who are interested directly or indirectly therein have failed to disclose their interests to KSH.

A director shall not vote (nor shall he be counted in the quorum) on any resolution of the Board in respect of any contract or arrangement or other proposal in which he or his associate(s) is/are materially interested, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters namely:

- (aa) the giving of any security or indemnity to the director or his associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of KSH or any of its subsidiaries;
- (bb) the giving of any security or indemnity to a third party in respect of a debt or obligation of KSH or any of its subsidiaries for which the director or his associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any proposal concerning an offer of shares or debentures or other securities of or by KSH or any other company which KSH may promote or be interested in for subscription or purchase, where the director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any proposal concerning any other company in which the director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the director or his associate(s) is/are beneficially interested in shares of that company, provided that the director and any of his associates are not in aggregate beneficially interested in 5% or more of the issued shares of any class of such company (or of any third company through which his interest or that of his associate(s) is derived) or of the voting rights;
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to directors, his associate(s) and employees of KSH or of any of its subsidiaries and does not provide in respect of any director, or his associate(s), as such any privilege or advantage not generally accorded to the employees to which such scheme or fund relates; or
- (ff) any contract or arrangement in which the director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of KSH by virtue only of his/their interest in shares or debentures or other securities of KSH.

vi. Remuneration

The directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board, or KSH in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the directors in such proportions and in such manner as they may agree or failing agreement, equally, except that in such event any director holding office for only a portion of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he has held office. The directors shall also be entitled to be repaid all travelling, hotel and other expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as directors. Such remuneration shall be in addition to any other remuneration to which a director who holds any salaried employment or office in KSH may be entitled by reason of such employment or office.

Any director who, at the request of KSH performs services which in the opinion of the Board go beyond the ordinary duties of a director may be paid such special or extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a director. An executive director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a director.

vii. Appointment, retirement and removal

At any time or from time to time, the Board shall have the power to appoint any person as a director either to fill a casual vacancy on the Board or as an additional director to the existing Board subject to any maximum number of directors, if any, as may be determined by the shareholders in general meeting. Any director so appointed shall hold office only until the next general meeting of KSH and shall then be eligible for re-election. There is no shareholding qualification for directors.

At each annual general meeting, one third of the directors for the time being will retire from office by rotation. However, if the number of directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring directors. The directors who shall retire in each year will be those who have been longest in the office since their last re-election or appointment but as between persons who become or were last re-elected directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

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 such notices will commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and end no later than 7 days prior to the date of such meeting and the minimum length of the period during which such notices to KSH may be given must be at least 7 days.

A director is not required to hold any shares in KSH by way of qualification nor is there any specified upper or lower age limit for directors either for accession to the Board or retirement therefrom.

A director may be removed by an ordinary resolution of KSH before the expiration of his term of office (but without prejudice to any claim which such director may have for damages for any breach of any contract between him and KSH) and KSH may by ordinary resolution appoint another in his place. Unless otherwise determined by KSH in general meeting, the number of directors shall not be less than two.

In addition to the foregoing, the office of a director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to KSH at the registered office or head office of KSH for the time being or tendered at a meeting of the Board;
- (bb) if he dies or becomes of unsound mind as determined pursuant to an order made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Board resolves that his office be vacated;
- (cc) if, without special leave, he is absent from meetings of the Board for six (6) consecutive months, and the Board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles;
- (gg) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the directors (including himself) then in office.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with KSH for such period and upon such terms as the Board may determine and the Board may revoke or terminate any of such appointments.

The Board may also delegate any of its powers to committees consisting of such director or directors and other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

The Board has no power to delegate to a committee of directors any of the following powers:

- (aa) to amend the Memorandum of Association of KSH or the Articles;
- (bb) to designate committees of directors;
- (cc) to delegate powers to a committee of directors;
- (dd) to appoint directors;
- (ee) to appoint an agent;
- (ff) to approve a plan of merger, consolidation or arrangement; or
- (gg) to make a declaration of solvency or to approve a liquidation plan.

viii. *Borrowing powers*

Pursuant to the Articles, the Board may exercise all the powers of KSH to raise or borrow money, to mortgage or charge all or any part of the undertaking and property of KSH and, subject to the BVI BC Act, to issue debentures, debenture stock, bonds and other securities of KSH, whether outright or as collateral security for any debt, liability or obligation of KSH or of any third party.

ix. *Proceedings of the Board*

Subject to the Articles, the Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

(b) Alteration to constitutional documents

To the extent that the same is permissible under BVI law and subject to the Articles, the Memorandum and Articles of KSH may only be altered or amended, and the name of KSH may only be changed by KSH by special resolution.

(c) Variation of rights of existing shares or classes of shares

Subject to the BVI BC Act, if at any time the shares of KSH are divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in number of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings shall mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or in the case of a shareholder being a corporation, by its duly authorised representative) or representing by proxy not less than one-third in number of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(d) Alteration of Capital

KSH may, by an ordinary resolution of its shareholders, (a) change the maximum number of shares that KSH is authorised to issue, or to authorise KSH to issue an unlimited number of shares; (b) increase the classes of shares which KSH is authorised to issue and, without prejudice to any special rights previously conferred on the holders of existing class of shares, attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or such restrictions which in the absence of any such determination by KSH in general meeting, as the directors may determine provided always that where KSH issues shares which do not carry voting rights, the words “non voting” shall appear in the designation of such shares and where shares with different voting rights, the designation of each class of shares, other than those with the most favourable voting rights, must include the words “restricted voting” or “limited voting; (c) divide its shares, including issued shares, into a larger number of shares or combine its shares, including issued shares, into a smaller number of shares; and (d) make provision for the issue and allotment of shares which do not carry any voting rights.

(e) Special resolution — majority required

In accordance with the Articles, a special resolution of KSH must be passed by a majority of not less than three-fourths of the votes cast by such shareholders as, being entitled so to do, vote in person or by proxy or, in the case of shareholders which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. However, except in the case of an annual general meeting, if it is so agreed by a majority in number of the shareholders having a right to attend and vote at such meeting, being a majority together holding not less than 95% in number of the shares giving that right and, in the case of an annual general meeting, if so agreed by all shareholders entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 clear days' notice has been given.

An "ordinary resolution", by contrast, is defined in the Articles to mean a resolution passed by a simple majority of the votes of such shareholders of KSH as, being entitled to do so, vote in person or, in the case of shareholders which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than fourteen clear days' notice has been given and held in accordance with the Articles. A resolution in writing signed by or on behalf of all shareholders shall be treated as an ordinary resolution duly passed at a general meeting of KSH duly convened and held, and where relevant as a special resolution so passed.

(f) Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting on a show of hands, every shareholder who is present in person or by proxy or being a corporation, is present by its duly authorised representative shall have one vote, and on a poll every shareholder present in person or by proxy or, in the case of a shareholder being a corporation, by its duly authorised representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of shareholders of KSH but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purpose as paid up on the share. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a shareholder which is a Clearing House (as defined in the Articles) (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a shareholder entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded or otherwise required under the Listing Rules. A poll may be demanded by:

- (i) the chairman of the meeting; or
- (ii) at least two shareholders present in person or, in the case of a shareholder being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (iii) any shareholder or shareholders present in person or, in the case of a shareholder being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the shareholders having the right to vote at the meeting; or
- (iv) a shareholder or shareholders present in person or, in the case of a shareholder being a corporation, by its duly authorised representative or by proxy and holding shares in KSH conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s), be a shareholder of KSH, such person or persons may be authorised as it thinks fit to act as its representative(s) at any meeting of KSH or at any meeting of any class of shareholders of KSH provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised in accordance with this provision shall be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s), as if such person were an individual shareholder including the right to vote individually on a show of hands.

Where KSH has knowledge that any shareholder is, under the Listing Rules, required to abstain from voting on any particular resolution of KSH or restricted to voting only for or only against any particular resolution of KSH, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Annual general meetings

Other than the year of KSH's adoption of the Articles, KSH must hold an annual general meeting each year. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Listing Rules (if any) at such time and place as may be determined by the Board.

(h) Accounts and audit

The Board shall cause proper books of account to be kept of the sums of money received and expended by KSH, and the matters in respect of which such receipt and expenditure take place, and of the assets and liabilities of KSH and of all other matters required by the BVI BC Act necessary to give a true and fair view of the state of KSH's affairs and to show and explain its transactions.

The books of accounts of KSH shall be kept at the head office of KSH or at such other place or places as the Board decides and shall always be open to inspection by any director. No shareholder (other than a director) or other person shall have any right to inspect any account or book or document of KSH except as conferred by the BVI BC Act or ordered by a court of competent jurisdiction or authorised by the Board or KSH in general meeting.

The Board shall from time to time cause to be prepared and laid before KSH at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be comprised therein or annexed thereto), together with a copy of the directors' report and a copy of the auditors' report, not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of KSH under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the Listing Rules, KSH may send summarized financial statements to shareholders who have, in accordance with the Listing Rules, consented and elected to receive summarized financial statements instead of the full financial statements. The summarized financial statements must be accompanied by any other documents as may be required under the Listing Rules, and must be sent to the shareholders not less than twenty-one days before the general meeting to those shareholders that have consented and elected to receive the summarized financial statements.

KSH shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by KSH in general meeting or by the Board if authority is so delegated by the shareholders.

The auditors shall audit the financial statements of KSH in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Listing Rules.

(i) Notice of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution must be called by at least 21 days' notice in writing, and any other extraordinary general meeting shall be called by at least 14 days' notice in writing. The notice

shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting, and particulars of the resolution(s) to be considered at that meeting, and, in the case of special business, the general nature of that business.

Although a meeting of KSH may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all shareholders of KSH entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the shareholders having a right to attend and vote at the meeting, being a majority together holding not less than 95% in number of the issued shares giving that right.

All business transacted at an extraordinary general meeting shall be deemed special business and all business shall also be deemed special business where it is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the Board to offer, allot, grant options over, or otherwise dispose of the unissued shares of KSH representing not more than 20% in number of its existing issued shares and the number of any securities repurchased by KSH since the granting of such mandate; and
- (gg) the granting of any mandate or authority to the Board to repurchase securities in KSH.

(j) Transfer of Shares

Subject to the BVI BC Act, all transfers of shares shall be effected by an instrument of transfer in the usual or common form and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers in any case in which it in its discretion thinks fit to do so, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of shareholders of KSH in respect thereof.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share option scheme upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which KSH has a lien.

The Board may decline to recognize any instrument of transfer unless, among others, a fee of such sum as the Board may from time to time require has been paid to KSH in respect thereof, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended when the register is closed at such times and for such periods as the Board may determine. The register of shareholders shall not be closed for periods exceeding in the whole 30 days in any year.

Fully paid shares shall be free from any restriction with respect to the right of the holder thereof to transfer such shares (except when permitted by the Listing Rules) and shall also be free from all liens.

(k) Power of KSH to purchase its own Shares

KSH may purchase, redeem or otherwise acquire and hold its own shares save that KSH may not purchase, redeem or otherwise acquire its own shares without the consent of shareholders whose shares are to be purchased, redeemed or otherwise acquired unless KSH is permitted by the Act or any other provision in the Memorandum or the Articles to purchase, redeem or otherwise acquire the shares without their consent. KSH may only offer to acquire shares if at the relevant time the Board determines that immediately after the acquisition the value of KSH's assets will exceed its liabilities and KSH will be able to pay its debts as they fall due.

(l) Power of any subsidiary of KSH to own Shares

There are no provisions in the Articles relating to the ownership of shares in KSH by a subsidiary.

(m) Dividends and other methods of distributions

The Board may, subject to approval by a special resolution of the shareholders, authorise a distribution by KSH at such time and of such amount as they think fit. KSH in general meeting may by special resolution also authorize a distribution to shareholders but no distribution shall exceed the amount recommended by the Board. No distribution shall be authorized or made unless the Board is satisfied, on reasonable grounds, that, immediately after the distribution, the value of KSH's assets will exceed its liabilities and KSH will be able to pay its debts as they fall due.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

- (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share; and
- (ii) all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Board may deduct from any dividend or other monies payable to any shareholder all sums of money (if any) presently payable by him to KSH on account of calls, instalments or otherwise.

Where the Board or KSH in general meeting has resolved that a dividend should be paid or declared, the Board may resolve:

- (aa) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or
- (bb) that the shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board KSH may by ordinary resolution in respect of any one particular dividend of KSH determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, but in the case of joint holders, shall be addressed to the holder whose name stands first in the register of shareholders of KSH in respect of the shares at his address as appearing in the register, or addressed to such person and at such address as the holder or joint holders may in writing so direct. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to KSH. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or KSH in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any shareholder willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the moneys so advanced may pay interest at such rate (if any) not exceeding 20% per annum, as the Board may decide, but a payment in advance of a call shall not entitle the shareholder to receive any dividend or to exercise any other rights or privileges as a shareholder in respect of the share or the due portion of the shares upon which payment has been advanced by such shareholder before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise made use of by the Board for the benefit of KSH until claimed and KSH shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to KSH.

No dividend or other monies payable by KSH on or in respect of any share shall bear interest against KSH.

KSH may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

(n) Proxies

Any shareholder of KSH entitled to attend and vote at a meeting of KSH is entitled to appoint another person as his proxy to attend and vote instead of him. A shareholder who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of KSH or at a class meeting. A proxy need not be a shareholder of KSH and shall be entitled to exercise the same powers on behalf of a shareholder who is an individual and for whom he acts as proxy as such shareholder could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a shareholder which is a corporation and for which he acts as proxy as such shareholder could exercise if it were an individual shareholder. On a poll or on a show of hands, votes may be given either personally (or, in the case of a shareholder being a corporation, by its duly authorised representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that any form issued to a shareholder for use by him for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the shareholder, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

(o) Calls on Shares and forfeiture of Shares

The Board may from time to time make such calls as it may think fit upon the shareholders in respect of any monies unpaid on the shares held by them respectively and not by the conditions of allotment thereof made payable at fixed times. A call may be made

payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Board shall fix from the day appointed for the payment thereof to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any shareholder willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced KSH may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a shareholder fails to pay any call or instalment of a call on the day appointed for payment thereof, the Board may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice will name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and it shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a shareholder in respect of the forfeited shares but shall, nevertheless, remain liable to pay to KSH all moneys which, at the date of forfeiture, were payable by him to KSH in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20 per cent per annum as the Board may prescribe.

(p) Inspection of corporate records

The Articles provide that any shareholder may inspect any register of members of KSH (except when the register of shareholder is closed) without charge and require the provision to him of copies or extracts thereof in all respects.

Subject to the provisions of the BVI BC Act, if the Board considers it necessary or appropriate, KSH may establish and maintain a principal or branch register of shareholders at such location as the Board thinks fit.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two shareholders present in person (or in the case of a shareholder being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in number of the issued shares of that class.

(r) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles concerning the rights of minority shareholders in relation to fraud or oppression.

(s) Procedures on liquidation

A resolution that KSH be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares, if KSH shall be wound up, the surplus assets remaining after payment to all creditors shall be divided among the shareholders in proportion to the amount paid up on the shares held by them respectively.

(t) Untraceable shareholders

KSH may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

In accordance with the Articles, KSH is entitled to sell any of the shares of a shareholder who is untraceable if:

- (i) all cheques or warrants, being not less than three in total number, for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years;
- (ii) upon the expiry of the 12 years and 3 months period (being the 3 months notice period referred to in sub-paragraph (iii)), KSH has not during that time received any indication of the existence of the shareholder; and
- (iii) KSH has caused an advertisement to be published giving notice of its intention to sell such shares and a period of three months has elapsed since the date of such advertisement. The net proceeds of any such sale shall belong to KSH and upon receipt by KSH of such net proceeds, it shall become indebted to the former shareholder of KSH for an amount equal to such net proceeds.

SUMMARY OF BRITISH VIRGIN ISLANDS COMPANY LAW

(A) SHARES

There is no concept of authorised share capital, or of share capital, under the BVI BC Act. The memorandum of association of a company limited by shares must set out:

- (i) either the maximum number of shares the company is authorised to issue or state that the company is authorised to issue an unlimited number of shares; and
- (ii) the classes of shares that the company is authorised to issue, and, if the company is authorised to issue two or more classes, the rights, privileges, restrictions and conditions attaching to each class of shares.

The BVI BC Act provides that, subject to the memorandum and articles of association of a company, a share may be issued with or without a par value. Where a company issues shares with par value, the consideration for a share shall not be less than the par value of the share. A share may be issued for consideration in any form, including money, a promissory note, or other written obligation to contribute money or property, real property, personal property (including goodwill and know-how), services rendered or a contract for future services.

Subject to the memorandum and articles of association of a company, its directors have the power to issue shares of the company from time to time.

Subject to the BVI BC Act and to a company's memorandum of association or the articles, shares may be issued, and options to acquire shares in a company granted, at such times, to such persons, for such consideration and on such terms as the directors may determine.

The issue by a company of a share that (i) increases a liability of a person, or (ii) imposes a new liability on a person to the company, is void if that person, or an authorised agent of that person, does not agree in writing to becoming the holder of that share. A share is deemed issued when the name of the shareholder is entered in the company's register of members.

A company may, subject to its memorandum and articles of association, (a) divide its shares, including issued shares, into a larger number of shares; or (b) combine its shares, including issued shares, into a smaller number of shares. A division or combination of shares, including issued shares, of a class or series shall be for a larger or smaller number, as the case may be, of shares in the same class or series. Where shares are divided or combined, the aggregate par value of the new shares must be equal to the aggregate par value of the original shares. A company shall not divide its shares if it would cause the maximum number of shares that the company is authorised to issue by its memorandum to be exceeded.

(B) MEMBERSHIP

Under the BVI BC Act, the entry of the name of a person in the register of members as a holder of a share in a company is prima facie evidence that legal title in the share vests in that person. A company may treat the holder of a registered share as the only person entitled to: (a) exercise any voting rights attaching to the share; (b) receive notices; (c) receive a distribution in respect of the share; and (d) exercise other rights and powers attaching to the share.

(C) PURCHASE OF SHARES AND WARRANTS BY A COMPANY AND ITS SUBSIDIARIES

A BVI business company may purchase, redeem or otherwise acquire its own shares in accordance with either the provisions of the BVI BC Act or its memorandum or articles of association.

A company may not purchase, redeem or otherwise acquire its own shares without the consent of the member whose shares are to be purchased, redeemed or otherwise acquired, unless the company is permitted by the BVI BC Act or any provision of its memorandum or articles of association to purchase, redeem or otherwise acquire the shares without that consent.

No purchase, redemption or other acquisition of a company's own shares may be made unless the directors are satisfied on reasonable grounds that the company will, immediately after the purchase, redemption or acquisition, satisfy the solvency test. A company satisfies the solvency test if: (i) the value of its assets exceeds its liabilities; and (ii) the company is able to pay its debts as they fall due. The BVI BC Act provides for certain situations where this solvency test is not mandatory prior to repurchase, redemption or acquisition being permitted. These are where: (a) the company redeems the shares under and in accordance with section 62 of the BVI BC Act; (b) the company redeems the shares pursuant to a right of a member to have his shares redeemed or to

have his shares exchanged for money or other property of the company; or (c) the company purchases, redeems or otherwise acquires the share or shares by virtue of the provisions of section 179 of the BVI BC Act.

The directors of a company may make an offer to purchase, redeem or otherwise acquire shares issued by the company, if the offer is:

- (a) an offer to all members to purchase, redeem or otherwise acquire shares issued by the company that:
 - (i) would, if accepted, leave the relative voting and distribution rights of the members unaffected; and
 - (ii) affords each member a reasonable opportunity to accept the offer; or
- (b) an offer to one or more members to purchase, redeem or otherwise acquire shares:
 - (i) to which all members have consented in writing; or
 - (ii) that is permitted by the memorandum or articles and is made in accordance with section 61 of the BVI BC Act.

Shares that are purchased, redeemed or otherwise acquired may be cancelled or held as treasury shares. A company may hold shares that have been purchased, redeemed or otherwise acquired as treasury shares if (i) the memorandum or articles of the company do not prohibit it from holding treasury shares; (ii) the directors resolve that shares to be purchased, redeemed or otherwise acquired shall be held as treasury shares; and (iii) the number of shares purchased, redeemed or otherwise acquired, when aggregated with shares of the same class already held by the company as treasury shares, does not exceed 50% of the shares of that class previously issued by the company, excluding shares that have been cancelled. All the rights and obligations attaching to a treasury share are suspended and shall not be exercised by or against the company while it holds the share as a treasury share.

(D) DIVIDENDS AND DISTRIBUTIONS

Subject to the BVI BC Act and its memorandum and articles of association, the directors of the company may by resolution, authorize a distribution or dividend by the company to its members if the directors are satisfied, on reasonable grounds, that immediately after the distribution or dividend satisfy the solvency test, that is: (a) the company will be able to pay its debts as they fall due; and (b) the value of its assets exceeds its liabilities.

A distribution or dividend made to a member at a time when the company did not, immediately after the distribution, satisfy the aforesaid solvency test may be recovered by the company from the member unless (a) the member received the distribution in good faith and

without knowledge of the company's failure to satisfy the solvency test; (b) the member has altered his position in reliance on the validity of the distribution; and (c) it would be unfair to require repayment in full or at all.

If, after a distribution or dividend is authorised and before it is made, the directors cease to be satisfied on reasonable grounds that the company will, immediately after the distribution is made, satisfy the solvency test, any distribution or dividend made by the company is deemed not to have been authorised. A director is personally liable to the company to repay to the company so much of the distribution as is not able to be recovered from members if the director (a) ceased, after authorization but before the making of the distribution, to be satisfied on reasonable grounds for believing that the company would satisfy the solvency test immediately after the distribution is made; and (b) failed to take reasonable steps to prevent the distribution being made.

(E) PROTECTION OF MINORITIES

The BVI BC Act provides that if a company or a director of a company engages in, or proposes to engage in, conduct that contravenes the BVI BC Act or the memorandum or articles of association of the company, the BVI High Court may, on the application of a member or a director of the company, make an order directing the company or director to comply with, or restraining the company or director from engaging in conduct that contravenes, the BVI BC Act or the memorandum or articles of association.

The BVI BC Act also contains provisions allowing the court, on the application of a member of a company, to grant leave to the member to (a) bring proceedings in the name and on behalf of that company; or (b) intervene in proceedings to which the company is a party for the purpose of continuing, defending or discontinuing the proceedings on behalf of the company. No proceedings brought by a member or in which a member intervenes with the leave of the court may be settled or compromised or discontinued without the approval of the court. Under the BVI BC Act, a member of a company may bring an action against the company for breach of a duty owed by the company to him as a member.

In the case where a member of a company brings proceedings against the company and other members that have the same or substantially the same interest in relation to the proceedings, the BVI High Court may appoint that member to represent all or some of the members having the same interest and may, for that purpose, make such order as it thinks fit, including an order (a) as to the control and conduct of the proceedings; (b) as to the costs of the proceedings; and (c) directing the distribution of any amount ordered to be paid by a defendant in the proceedings among the members represented.

The BVI BC Act provides that a member of a company who considers that the affairs of the company have been, are being or are likely to be, conducted in a manner that is, or any act or acts of the company have been, or are, likely to be oppressive, unfairly discriminatory, or unfairly prejudicial to him in that capacity, may make an application to the BVI High Court. If the court considers that it is just and equitable to do so, it may make such order as it thinks fit, including,

without limiting the generality of this subsection, one or more of the following orders: (a) in the case of a member, requiring the company or any other person to acquire the shareholder's shares; (b) requiring the company or any other person to pay compensation to the member; (c) regulating the future conduct of the company's affairs; (d) amending the memorandum or articles of the company; (e) appointing a receiver of the company; (f) appointing a liquidator of the company under section 159(1) of the BVI Insolvency Act on the grounds specified in section 162(1)(b) of that Act; (g) directing the rectification of the records of the company; or (h) setting aside any decision made or action taken by the company or its directors in breach of the BVI BC Act or the memorandum or articles of the company. None of the foregoing orders may be made against the company or any other person unless the company or that person is a party to the proceedings in which the application is made.

A member or the Registrar of Corporate Affairs may apply to the BVI High Court *ex parte* or upon such notice as the court may require, for an order directing that an investigation be made of the company and any of its affiliated companies. If, upon such an application, it appears to the court that: (a) the business of the company or any of its affiliates is or has been carried on with intent to defraud any person; (b) the company or any of its affiliates was formed for a fraudulent or unlawful purpose or is to be dissolved for a fraudulent or unlawful purpose; or (c) persons concerned with the incorporation, business or affairs of the company or any of its affiliates have in connection therewith acted fraudulently or dishonestly, the court may make any order it thinks fit with respect to an investigation of the company and any of its affiliated companies by an inspector, who may be the Registrar of Corporate Affairs.

The BVI BC Act provides that a member of a company is entitled to payment of the fair value of his shares upon dissenting from any of the following:

- (1) a merger, if the company is a constituent company, unless the company is the surviving company and the member continues to hold the same or similar shares;
- (2) a consolidation, if the company is a constituent company;
- (3) any sale, transfer, lease, exchange or other disposition of more than 50% in value of the assets or business of the company, if not made in the usual or regular course of the business carried on by the company, but not including:
 - (i) a disposition pursuant to an order of the Court having jurisdiction in the matter,
 - (ii) a disposition for money on terms requiring all or substantially all net proceeds to be distributed to the members in accordance with their respective interests within one year after the date of disposition, or
 - (iii) a transfer pursuant to the power described in section 28(2) of the BVI BC Act;

- (4) a redemption of his shares by the company pursuant to section 176 of the BVI BC Act; and
- (5) an arrangement, if permitted by the BVI High Court.

(F) MANAGEMENT

The BVI BC Act provides that, subject to the memorandum or articles of association of a company, any sale, transfer, lease, exchange or other disposition, other than a mortgage, charge or other encumbrance of the enforcement thereof, of more than 50% in value of the assets of the company (other than a transfer pursuant to a power described in section 28(3) of the BVI BC Act), if not made in the usual or regular course of business carried on by the company, must be approved by a resolution of members and in the manner provided in section 175 of the BVI BC Act.

A director of a company, in exercising his powers or performing his duties, shall act honestly and in good faith and in what the director believes to be in the best interests of the company. A director shall exercise his powers as a director for a proper purpose and shall not act, or agree to the company acting, in a manner that contravenes the BVI BC Act or the memorandum or articles of association of the company. A director of a company, when exercising powers or performing duties as a director, shall exercise the care, diligence and skill that a reasonable director would exercise in the same circumstances taking into account, but without limitation, (a) the nature of the company; (b) the nature of the decision; and (c) the position of the director and the nature of the responsibilities undertaken by him.

(G) ACCOUNTING AND AUDITING REQUIREMENTS

A BVI business company is required by the BVI BC Act to keep records that: (a) are sufficient to show and explain its transactions; and (b) will, at any time, enable the financial position of the company to be determined with reasonable accuracy.

(H) TAXATION IN THE BVI

A BVI business company is exempt from all provisions of the Income Tax Ordinance of the BVI (including with respect to all dividends, interests, rents, royalties, compensations and other amounts payable by the company to persons who are not resident in the BVI). Capital gains realized with respect to any shares, debt obligations or other securities of the company by persons who are not resident in the BVI are also exempt from all provisions of the Income Tax Ordinance of the BVI.

No estate, inheritance, succession or gift tax is payable by persons who are not resident in the BVI with respect to any shares, debt obligations or other securities of the company, save for interest payable to or for the benefit of an individual resident in the European Union.

(I) STAMP DUTY ON TRANSFER

No stamp duty is payable in the BVI on a transfer of shares, debt obligations or other securities in a BVI business company which is not a land owning company. A company is a land owning company if it, or any of its subsidiaries, has an interest in any land in the BVI.

(J) INSPECTION OF CORPORATE RECORDS

A member of a company is entitled, on giving written notice to the company, to inspect the memorandum and articles, the register of members, the register of directors, and minutes of meetings and resolutions of members and of those classes of members of which he is a member, and to make copies of or take extracts from the documents and records maintained at the office of the registered agent of the company. Subject to the memorandum and articles of association of the company, its directors may, if they are satisfied that it would be contrary to the company's interests to allow the member to inspect the register of members, register of directors or minutes/resolutions of members or part of any such documents, refuse to permit the member to inspect the document or limit the inspection of the document, including limiting the making of copies or the taking of extracts from the records. The directors are required, as soon as reasonably practicable, to notify the member concerned. Where a company fails or refuses to permit a member to inspect a document or permits a member to inspect a document subject to limitations, that member may apply to the BVI High Court for an order that he should be permitted to inspect the document or to inspect the document without limitation.

The BVI BC Act requires a business company to keep minutes of all meetings of directors, members, committees of directors and committees of members and copies of all resolutions consented to by directors, members, committees of directors, committees of officers and committees of members. The minutes of meetings and resolutions of members and of classes of members, and the minutes of meeting of directors and committees of directors are required by the BVI BC Act to be kept at the office of the company's registered agent or at such other places, within or outside the BVI, as the directors may determine. A company shall keep at the office of its registered agent the memorandum and articles of association of the company, the register of members (or a copy thereof), the register of directors (or a copy thereof) and copies of all notices and other documents filed by the company in the previous ten years. The BVI BC Act requires a company to have a common seal and an imprint of the seal shall be kept at the office of its registered agent.

A business company is required to keep a register of members containing the names and addresses of the persons who hold registered shares in the company, the number of each class and series of registered shares held by each shareholder, the date on which the name of each member was entered in the register of members and the date on which any person ceased to be a member. The register of members may be in such form as the directors may approve but if it is in magnetic, electronic or other data storage form, the company must be able to produce legible evidence of its contents. The entry of the name of a person in the register of members as a holder of a share in a company is prima facie evidence that legal title in the share vests in that person.

The BVI BC Act requires a business company to keep a register known as a register of directors containing, *inter alia*, the names and addresses of the persons who are directors of the company or who have been nominated as reserve directors of the company, the date on which each person whose name is entered in the register was appointed as a director or nominated as a reserve director of the company, the date on which each person named as a director ceased to be a director of the company and the date on which the nomination of any person nominated as a reserve director ceased to have effect. The register of directors may be in such form as the directors approve, but if it is in magnetic, electronic or other data storage form, the company must be able to produce legible evidence of its contents. The register of directors is prima facie evidence of any matters directed or authorised by the BVI BC Act to be contained therein.

(K) LIQUIDATION

(i) Where the business company is solvent

Where it is proposed to liquidate a solvent business company (that is, the company either has no liabilities or it is able to pay its debts as they fall due), the directors of the company shall (a) make a declaration of solvency in the approved form stating that, in their opinion, the company is and will continue to be able to discharge, pay or provide for its debts as they fall due, and (b) approve a liquidation plan specifying: (i) the reasons for the liquidation of the company, (ii) their estimate of the time required to liquidate the company, (iii) whether the liquidator is authorised to carry on the business of the company if he determines that to do so would be necessary or in the best interests of the creditors or members of the company, (iv) the name and address of each individual to be appointed as liquidator and the remuneration proposed to be paid to each liquidator, and (v) whether the liquidator is required to send to all members a statement of account prepared or caused to be prepared by the liquidator in respect of his actions or transactions. In accordance with the memorandum and articles of association of the company, the directors and/or the members of the company will pass a resolution to appoint a voluntary liquidator and will give notice to the selected liquidator of his appointment. The liquidation of a company commences at the time of appointment of a voluntary liquidator.

Within 14 days of the commencement of the liquidation, the voluntary liquidator is required to file a notice of his appointment in an approved form, a copy of the declaration of solvency made by the directors and a copy of the liquidation plan, with the Registrar. He is also required, within 30 days of the commencement of the liquidation, to advertise notice of his appointment in the manner prescribed.

With effect from the commencement of the voluntary liquidation of a company, the voluntary liquidator has custody and control of the assets of the company.

However, the right of a secured creditor to take possession of and realize or otherwise deal with assets of the company over which the creditor has a security interest will not be affected.

The directors of the company remain in office but they cease to have any powers, functions or duties other than those required or permitted under Part XII of the BVI BC Act.

The directors, after the commencement of the voluntary liquidation, may authorize the liquidator to carry on the business of the company if the liquidator determines that to do so would be necessary or in the best interests of the creditors or members of the company where the liquidation plan does not give the liquidator such authorization, and exercise such powers as the liquidator, by written notice, may authorize them to exercise.

The BVI High Court may, at any time after the appointment of a voluntary liquidator, on application by a director, member or creditor of the company, make an order terminating the liquidation if it is satisfied that it would be just and equitable to do so. Where such an order is made, the company ceases to be in voluntary liquidation and the voluntary liquidator ceases to hold office with effect from the date of the order or such later date as may be specified in the order.

A voluntary liquidator shall, upon completion of a voluntary liquidation, file a statement that the liquidation has been completed and upon receiving the statement, the Registrar of Corporate Affairs shall strike the company off the Register of Companies and issue a certificate of dissolution in the approved form certifying that the company has been dissolved. The dissolution of the company is effective from the date of the issue of the certificate.

Immediately following the issue by the Registrar of Corporate Affairs of a certificate of dissolution, the person who, immediately prior to the dissolution, was the voluntary liquidator of the company shall cause to be published in the Gazette, a notice that the company has been struck off the Register of Companies and dissolved.

(ii) Where the business company is insolvent

If at any time the voluntary liquidator of a company in voluntary liquidation is of the opinion that the company is insolvent (that is to say, either the value of the company's liabilities exceeds, or will exceed, its assets or, the company is, or will be, unable to pay its debts as they fall due), he shall forthwith send a written notice to the Official Receiver in the approved form.

The voluntary liquidator shall then call a meeting of creditors of the company to be held within twenty one days of the date of the aforesaid notice to the Official Receiver. The said creditors meeting shall be treated as if it were the first meeting of the creditors of a company called under section 179 of the BVI Insolvency Act by a liquidator appointed by the members of a company and, sections 179 and 180 of the BVI Insolvency Act shall apply to the calling and holding of such a meeting.

Where a voluntary liquidator is not an eligible licensed insolvency practitioner with respect to the company, the Official Receiver may apply to the BVI High Court ex parte for the appointment of himself or an eligible licensed insolvency practitioner as the liquidator of the company and the court may make the appointment subject to such conditions as it considers appropriate.

From the time that an appointed liquidator first becomes aware that the company is not, or will not be, able to pay its debts he shall conduct the liquidation as if he had been appointed liquidator under the BVI Insolvency Act.

The BVI Insolvency Act will apply to the liquidation of the company subject to such modifications as are appropriate and the liquidation of the company shall be deemed to have commenced on the date of the appointment of the voluntary liquidator.

(L) RECONSTRUCTION

There are statutory provisions which facilitate arrangements which involve a plan of arrangement being approved by a resolution of directors of the company and application being made to the BVI High Court for approval of the proposed arrangement. Upon approval by the court, the directors of the company, if they are still desirous of executing the plan, shall confirm the plan of arrangement as approved by the court whether or not the court has directed any amendments to be made thereto and give notice to the persons whom the order of court requires notice to be given and submit the plan of arrangement to those persons for such approval, if any, as the court order requires.

After the plan of arrangement has been so approved, articles of arrangement shall be executed by the company. The articles of arrangement shall contain the plan of arrangement, the order of the court approving the plan of arrangement and the manner in which the plan of arrangement was approved (if approval was required by the order of the court). The articles of arrangement shall be filed with the Registrar of Corporate Affairs who shall register them. Upon registration of the articles of arrangement, the Registrar shall issue a certificate in the approved form certifying that the articles of arrangement have been registered.

An arrangement is effective on the date the articles of arrangement are registered by the Registrar of Corporate Affairs or on such date subsequent thereto, not exceeding 30 days, as is stated in the articles of arrangement.

(M) COMPULSORY ACQUISITION

Subject to the memorandum or articles of association of a company, members of the company holding 90% of the votes of the outstanding shares entitled to vote on a merger or consolidation, and members of the company holding 90% of the votes of the outstanding shares of each class of shares entitled to vote as a class, may give a written instruction to the company directing the company to redeem the shares held by the remaining members. Upon receipt of the written

instruction, the company shall redeem the shares specified in the written instruction irrespective of whether or not the shares are by their terms redeemable. The company shall give written notice to each member whose shares are to be redeemed stating the redemption price and the manner in which the redemption is to be effected.

(N) INDEMNIFICATION

Section 132 of the BVI BC Act provides that subject to the memorandum or articles of association of a company, the company may indemnify against all expenses, including legal fees, and against all judgments, fines and amounts paid in settlement and reasonably incurred in connection with legal, administrative or investigative proceedings any person who (a) is or was a party or is threatened to be made a party to any threatened, pending or completed proceedings, whether civil, criminal, administrative or investigative, by reason of the fact that the person is or was a director of the company, or (b) is or was, at the request of the company, serving as a director of, or in any other capacity is or was acting for, another body corporate or a partnership, joint venture, trust or other enterprise, provided that the said person had acted honestly and in good faith and in what he believed to be in the best interests of the company and, in the case of criminal proceedings, the person had no reasonable cause to believe that his conduct was unlawful. Any indemnity given in breach of the foregoing proviso is void and of no effect.

Expenses, including legal fees, incurred by a director or a former director in defending any legal, administrative or investigative proceedings may be paid by the company in advance of the final disposition of such proceedings upon receipt of an undertaking by or on behalf of the director or the former director, as the case may be, to repay the amount if it shall ultimately be determined that the director is not entitled to be indemnified by the company. In the case of a former director, the undertaking to be furnished by such former director may also include such other terms and conditions as the company deems appropriate.

A company may purchase and maintain insurance in relation to any person who is or was a director of the company, or who at the request of the company is or was serving as a director of, or in any other capacity is or was acting for, another body corporate or a partnership, joint venture, trust or other enterprise, against any liability asserted against the person and incurred by the person in that capacity, whether or not the company has or would have had the power to indemnify the person against the liability under section 132 of the BVI BC Act.

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

All Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in the circular misleading.

DIRECTORS' INTERESTS**Interests of Directors in the Company**

As at the Latest Practicable Date, the interests and short positions of each Director and the chief executive of the Company in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) 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 interests and short positions which he was taken or deemed to have under such provisions of the SFO); or (b) were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein; or (c) were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(i) Long Position in the Shares

Name	Capacity	Number of Shares held	Approximate percentage of Shareholding
Mr. Kai	Interest in controlled corporation (<i>Note 1</i>)	450,000,000	74.75%
	Beneficial owner	340,000	0.06%
	Interest of spouse (<i>Note 2</i>)	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 owns the entire issued share capital of Yi Ming Jia Lin, which owns 74.75% shareholding in the Company. Therefore, Mr. Kai 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 is the sole director of Yi Ming Jia Lin.
2. Ms. Hu Shicui owns 260,000 Shares. Mr. Kai is the spouse of Ms. Hu Shicui. Therefore Mr. Kai 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	Name of associated corporation	Capacity	Number of shares held	Approximate percentage of Shareholding
Mr. Kai	Yi Ming Jia Lin	Beneficial owner	10,000	100%

(iii) Long Position in the Underlying Shares

Name	Capacity	Number of Underlying Shares held (Note 1)	Approximate percentage of Shareholding
Mr. Kai	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.
2. Mr. Kai is the spouse of Ms. Hu Shicui. Therefore, Mr. Kai 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 the Latest Practicable Date, none of the Directors or any chief executive of the Company had an interest or short position in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short

positions which he was taken or deemed to have under such provisions of the SFO); or which was required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules to be notified to the Company and the Stock Exchange.

Interests in assets

As at the Latest Practicable Date, none of the Directors has any direct or indirect interest in any assets acquired or disposed of by or leased to any member of the Group or is proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2013, being the date to which the latest published audited accounts of the Company were made up.

Interests in contract or arrangement

As at the Latest Practicable Date, none of the Directors was materially interested in contract or arrangement subsisting which is significant in relation to the business of the Group.

Competing business

As at the Latest Practicable Date, to the best knowledge and belief of the Directors after having made all reasonable enquiries, none of the Directors and their respective associates were considered to have any interest in business which competed or were likely, either directly or indirectly, with the business of the Group.

SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as is known to the Directors, the following persons, other than a Director or chief executive of the Company, had an interest or short position in the Shares and 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 were 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	Number of Shares held	Approximate percentage of Shareholding
Yi Ming Jia Lin	Beneficial owner (<i>Note 1</i>)	450,000,000	74.75%
Ms. Hu Shicui	Interest of spouse (<i>Note 2</i>)	450,340,000	74.81%
	Beneficial owner	260,000	0.04%
Longevity	Beneficial owner (<i>Note 3</i>)	450,900,000	74.90%

Notes:

1. Yi Ming Jia Lin is wholly and beneficially owned by Mr. Kai.
2. Ms. Hu Shicui is the spouse of Mr. Kai. Therefore, Ms. Hu Shicui is deemed or taken to be interested in all the Shares which are interested by Mr. Kai for the purpose of the SFO.
3. Pursuant to the Share Sale Agreement, Longevity as purchaser will conditionally acquire 450,900,000 Shares from the Vendors. Longevity is wholly and beneficially owned by Mr. Wei, who is deemed or taken to be interested in all the Shares which are interested by Longevity.

(ii) Long Position in the Underlying Shares

Name	Capacity	Number of Underlying Shares held (<i>Note 1</i>)	Approximate percentage of Shareholding
Ms. Hu Shicui	Beneficial owner	1,040,000	0.17%
	Interest of spouse (<i>Note</i>)	4,660,000	0.77%

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

Save as disclosed in this circular, as at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company, there was no other person who had an interest or short position in the Shares, underlying Shares and debentures of the Company 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 were 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.

DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered or proposed to enter into a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

LITIGATION

As at the Latest Practicable Date, the Directors are not aware of any litigation or claims of material importance pending or threatened against any member of the Group.

INDEBTEDNESS STATEMENT**Indebtedness**

At the close of business on 31 October 2014, being the latest practicable date for the purpose of preparing this indebtedness statement prior to the printing of this circular, the Group had total outstanding borrowings of approximately RMB102.1 million, comprising secured bank loans of approximately RMB102.1 million.

As at 31 October 2014, the bank loans were secured by the Group's pledged deposit of RMB25.0 million, property, plant and equipment with carrying value of RMB2.2 million, investment properties with carrying value of RMB20.0 million and certain properties owned by a related party controlled by the Company's Controlling Shareholder.

General

Save as aforesaid or as otherwise disclosed herein and apart from intra-group liabilities, at the close of business on 31 October 2014, the Group did not have any outstanding debt securities and loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness (whether guaranteed, unguaranteed, secured or unsecured), mortgages, charges or debentures, guarantees or other material contingent liabilities.

The Directors have confirmed that there has not been any other material change in the indebtedness and contingent liabilities of the Group since 31 October 2014 and up to the date of this Circular except for repayment of bank loan of HK\$30,380,000 in November 2014.

MATERIAL ADVERSE CHANGE

The Directors have confirmed that they were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2013, being the date to which the latest published audited accounts of the Group were made up to.

WORKING CAPITAL

The Directors are of the opinion that, after taking into account of the effect of the Asset Reorganisation, Distribution in Specie, and the present available internal financial resources, the Group will have sufficient working capital to satisfy its present requirements, that is, for at least the next twelve months from the date of this circular in the absence of unforeseen circumstances.

MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this circular and are or may be material:

- (a) the joint venture agreement entered into between Dalian Kai Shi Property Company Limited (大連市開世地產有限公司) and Dalian Urban-Rural Integration Construction and Development Fund (Limited Partnership) (大連城鄉一體化建設發展基金(有限合伙)) dated 10 April 2014 in respect of the establishment of Dalian Kai Shi Urban-Rural Investment and Construction Company Limited (大連開世城鄉投資建設有限公司);
- (b) the asset transfer agreement (“Asset Transfer Agreement”) entered into between Lion Tianjin and Tianjin Baoshui District Investment Company Limited (天津保稅區投資有限公司) dated 5 June 2013 in respect of the acquisition of a piece of land situated at industrial lot 04-23-2 in the Airport Economic Zone, Tianjin, the PRC and the existing plant erected thereon at a consideration of RMB16,500,200; and
- (c) the supplemental agreement entered into between Lion Tianjin and Tianjin Baoshui District Investment Company Limited (天津保稅區投資有限公司) dated 5 June 2013 in respect of the Asset Transfer Agreement.

QUALIFICATIONS AND CONSENTS OF EXPERTS

The following are the qualifications of the professional advisers who have given opinion or advice contained in this circular:

Name	Qualification
Quam Capital Limited	a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO
KPMG	Certified public accountants
Grant Sherman Appraisal Limited	professional property valuer
Appleby	BVI attorneys

Each of above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its reports and references to its name in the form and context in which it appears.

As at the Latest Practicable Date, none of above experts had any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, none of above experts had any direct or indirect interest in any assets which have been, since 31 December 2013, the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

GENERAL

- (a) The registered office of the Company is located at Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman, KY1-1108, Cayman Islands.
- (b) The principal place of business of the Company in Hong Kong is at Office E, 10th Floor, China Overseas Building, No. 139 Hennessy Road, Wanchai, Hong Kong.
- (c) The Hong Kong branch share registrar and transfer office of the Company is Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (d) The company secretary of the Company is Ms. Mok Ming Wai. She is an associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administration in United Kingdom.
- (e) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business in Hong Kong at Office E, 10th Floor, China Overseas Building, No. 139 Hennessy Road, Wan Chai, Hong Kong up to and including the date of the EGM:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the annual reports of the Company for the last two financial year ended 31 December 2013;
- (c) the interim report of the Company for the six month period ended 30 June 2014;
- (d) the memorandum of association and articles and association of KSH;
- (e) the letter from the Independent Board Committee, the text of which is set out on page 50 of this circular;
- (f) the letter from Quam Capital Limited, the text of which is set out on pages 51 to 73 of this circular;
- (g) the accountants' report of the Group for the three years ended 31 December 2013 and six months ended 30 June 2014, the text of which is set out in Appendix II to this circular;
- (h) the accountants' report of the KSH Group for the three years ended 31 December 2013 and six months ended 30 June 2014, the text of which is set out in Appendix III to this circular;

- (i) the report on unaudited pro forma financial information of the Remaining Group, the text of which is set out in Part B of Appendix IV to this circular;
- (j) the report on unaudited pro forma financial information of the KSH Group, the text of which is set out in Part B of Appendix V to this circular;
- (k) the letter from Appleby as referred to in Appendix VII to this circular summarising certain aspects of BVI company law, together with a copy of the BVI Business Companies Act, 2004, as amended;
- (l) the property valuation report issued by the Grant Sherman Appraisal Limited, the text of which is set out in Appendix VI to this circular;
- (m) the material contracts referred to in the section headed “Material Contracts” of this appendix;
- (n) the letters of consent referred to in the section headed “Qualifications and Consents of Experts” in this appendix;
- (o) this circular.

NOTICE OF EGM



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)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “Meeting”) of Kai Shi China Holdings Company Limited (the “Company”) will be held at Office E, 10th Floor, China Overseas Building, No. 139 Hennessy Road, Wan Chai, Hong Kong on Friday, 16 January 2015 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution as an ordinary resolution:

ORDINARY RESOLUTION

1. **“THAT**

- (i) subject to the Share Sale Completion (as defined in the circular of the Company dated 24 December 2014 (the “Circular”, a copy of which has been produced to the Meeting marked “A” and signed by the chairman of the Meeting for the purpose of identification), the Distribution In Specie (as defined in the Circular) be and is hereby approved; and
- (ii) any of the directors of the Company be and is hereby authorised to do all such acts and things, to sign and execute (under the common seal of the Company, where necessary) all documents and to take such steps as they consider necessary, desirable or expedient to give effect to or in connection with the Distribution In Specie or any of the transactions contemplated thereunder.”

By order of the Board
Kai Chenglian
Chairman

Hong Kong, 24 December 2014

NOTICE OF EGM

Registered Office:

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

Principal Place of Business in Hong Kong:

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

Notes:

1. A shareholder entitled to attend and vote at the Meeting may appoint one or more than one proxies to attend and to vote on a poll in his stead. On a poll, votes may be given either personally (or in the case of a shareholder being a corporation, by its duly authorised representative) or by proxy. A proxy need not be a shareholder of the Company.
2. Where there are joint registered holders of any share, any one of such persons may vote at the Meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders are present at the Meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.
3. In order to be valid, the form of proxy duly completed and signed in accordance with the instructions printed thereon together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof must be delivered to the office of the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof.
4. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the Meeting if shareholders so wish.
5. The resolution set out in this notice of extraordinary general meeting will be put to shareholders to vote taken by way of a poll.