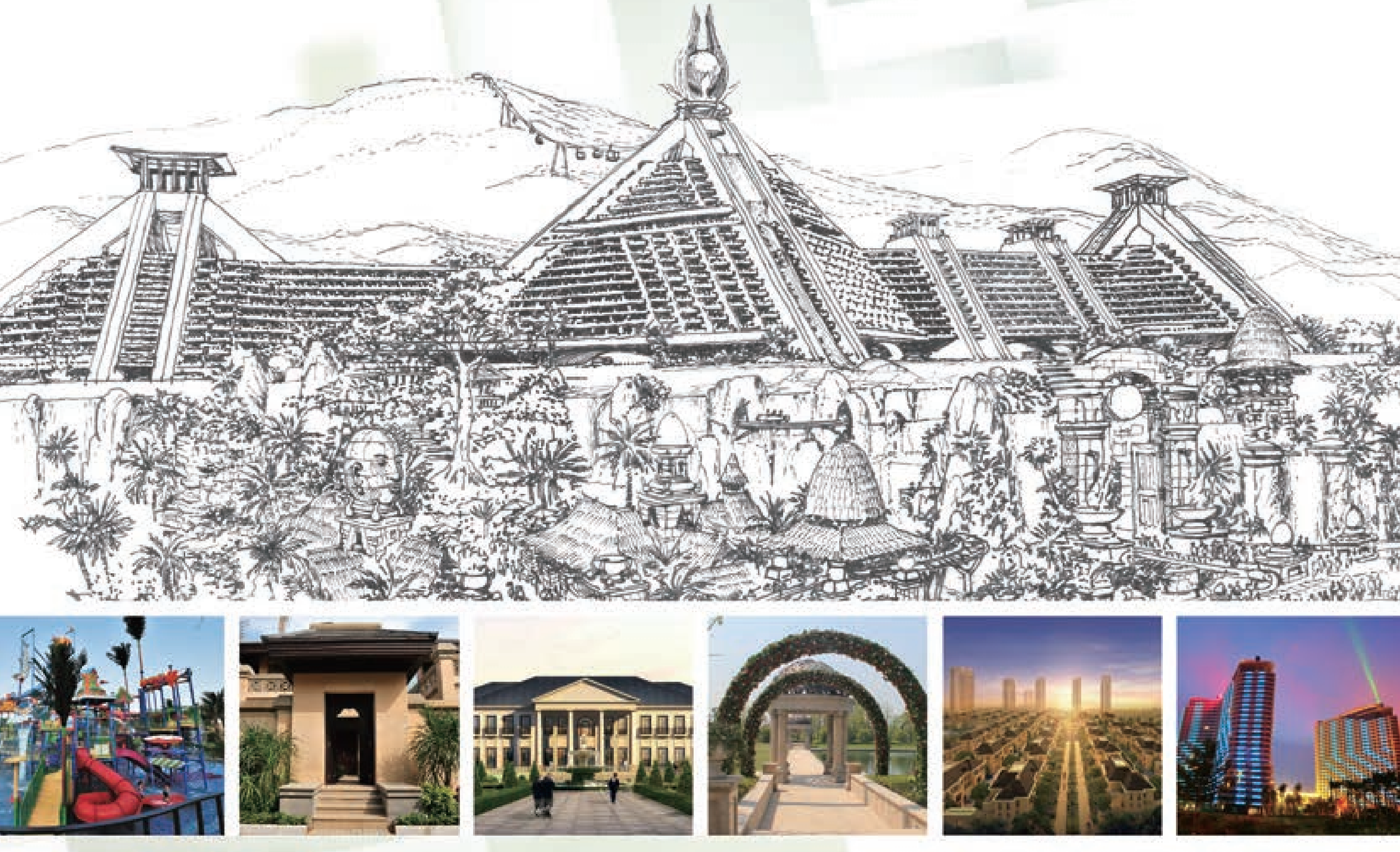
卡森國際控股有限公司

KASEN INTERNATIONAL HOLDINGS LIMITED

(an exempted company incorporated in the Cayman Islands with limited liability)

stock code : 496

Annual Report 2013



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

ZHU Zhangjin, Kasen
(Chairman & Chief Executive Officer)
ZHOU Xiaosong
ZHANG Mingfa, Michael

Non-Executive Director

QIU Jian Ping (appointed on February 22, 2013)

Independent Non-Executive Directors

ZHOU Lingqiang
SUN Steve Xiaodi
ZHANG Yuchuan

COMPANY SECRETARY

YIU Hoi Yan, Kate

STOCK CODE

0496.HK

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Building 1, 236 Haizhou Road West
Haining City
Zhejiang Province 314400
China

PLACE OF BUSINESS IN HONG KONG

Room 1605
Tai Tung Building
8 Fleming Road
Wanchai
Hong Kong

PRINCIPAL BANKERS

Industrial and Commercial Bank of China,
Zhejiang Province Branch
China Construction Bank, Haining Sub branch
Bank of China, Haining Sub branch
Agricultural Bank of China, Haining Sub branch
Communication Bank of China, Haining Sub branch
Agricultural Development Bank of China,
Haining Sub branch
Export – Import Bank of China, Zhejiang Branch
China Mingsheng Banking Corporation Ltd.,
Yuhang Sub branch
Hongkong and Shanghai Banking Corporation Limited

LEGAL ADVISORS

As to Hong Kong law
Sidley Austin

As to Cayman Islands law
Conyers Dill & Pearman

PRINCIPAL SHARE REGISTRAR

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

AUDITORS

Deloitte Touche Tohmatsu
35th Floor, One Pacific Place
88 Queensway
Hong Kong

AUTHORISED REPRESENTATIVES

ZHANG Mingfa, Michael
YIU Hoi Yan, Kate

COMPANY WEBSITE

http://www.kasen.com.cn
http://www.irasia.com/listco/hk/kasen/index.htm

FINANCIAL HIGHLIGHTS

RESULTS

	For the year ended December 31,				
	2013	2012	2011	2010	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**3,439,200**	3,094,552	2,241,475	2,318,480	2,398,974
Profit before taxation	**339,182**	400,360	458,627	79,270	211,839
Profit attributable to owners of the Company	**173,422**	203,399	300,491	35,378	132,675

FINANCIAL POSITION

	At December 31,				
	2013	2012	2011	2010	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cash and cash equivalents	**560,147**	560,928	370,744	745,347	461,882
Total borrowings	**1,938,214**	1,286,546	1,430,889	1,486,861	1,281,932
Total assets	**9,133,894**	8,200,968	6,985,990	5,656,795	4,319,874
Total liabilities	**5,715,690**	5,289,229	4,394,483	3,337,005	2,264,679
Equity attributable to owners of the Company	**3,261,417**	2,815,064	2,518,987	2,294,187	2,052,289

FINANCIAL AND OPERATING RATIOS

	At December 31,				
	2013	2012	2011	2010	2009
Dividend payout ratio (%)[1]	**5.3%**	–	9.5%	–	–
Debt to equity ratio (%)[2]	**56.7%**	44.2%	55.2%	64.1%	62.4%
Net debt to equity ratio (%)[3]	**40.3%**	24.9%	40.9%	32.0%	39.9%
Trade receivable turnover days[4]	**78**	88	89	84	82
Inventory turnover days[5]	**98**	100	85	91	110
Current ratio[6]	**149.4%**	134.0%	128.3%	115.5%	142.0%
Earning per share (RMB)					
Basic	**0.15**	0.18	0.26	0.03	0.11
Diluted	**0.15**	0.17	0.26	0.03	0.11

Notes:

1. The dividend per ordinary share divided by the profit (loss) attributable to owners of the Company per ordinary share.
2. Interest-bearing debt divided by total equity as at the end of the year.
3. Interest-bearing debt minus bank balances and cash divided by the total equity as at the end of each year.
4. Trade receivables as at the end of the year divided by turnover and multiplied by 365 days.
5. Inventories as at the end of the year divided by cost of sales and multiplied by 365 days.
6. Current assets divided by current liabilities as at the end of each year.
7. The adoption of new accounting standards in 2013 has no material impact on the Group.

DIRECTORS AND MANAGEMENT PROFILES

EXECUTIVE DIRECTORS

ZHU Zhangjin, Kasen (**朱張金**), aged 48, is the founder of the Group and the chairman of the Company. Mr. Zhu is also an executive director of the Company (the "Director") and the chief executive officer of the Company. Before founding the Group in 1995, Mr. Zhu was involved in several business ventures in the areas of textile, leather processing, garment, trading, etc. With over 26 years of experience in the leather manufacturing industry, Mr. Zhu has extensive knowledge in the upholstered furniture industry in the People's Republic of China (the "PRC") and has been a successful entrepreneur in leather manufacturing related businesses. Mr. Zhu is also the vice chairman of the China Leather Association. In recognition of his contribution to promote the development of the leather manufacturing industry, Mr. Zhu was awarded the "Top Ten Businessmen in Zhejiang" in 2004. In 2006, Mr. Zhu was one of the 10 recipients of the prestigious "National May 4th Youth Award (全國五四青年獎章)". In 2007, Mr. Zhu received the National May Day Award.

ZHOU Xiaosong (**周小松**), aged 58, joined the Group on June 12, 1995 and is an executive Director. He is also the vice president and co-general manager of the Group's Leather Manufacturing Division. Mr. Zhou has spent more than 24 years in the leather manufacturing industry. He is now the director of the Group's research and development center. Mr. Zhou obtained a diploma in Economics and Management from the Adult College of Hangzhou University in 1999. In 2005, Mr. Zhou was appointed as an arbitrator by the China International Economic and Trade Arbitration Commission.

ZHANG Mingfa, Michael (**張明發**), aged 53, joined Zhejiang Kasen Industrial Group Co., Ltd., a subsidiary of the Company, on October 1, 1997 as the vice president of the Import and Export Division and co-general manager of the Group's Leather Manufacturing Division. Mr. Zhang Mingfa, Michael was appointed as an executive Director with effect from November 10, 2008. He has more than 33 years of experience in the leather manufacturing industry. Mr. Zhang is the director of the Logistics Department of Zhejiang Kasen Industrial Group Co., Ltd. Mr. Zhang is a qualified international business engineer and obtained the qualification certificate approved by the Ministry of Commerce of the PRC in 1995. In 1984, Mr. Zhang obtained a diploma in leather industry from Chengdu University of Technology. Mr. Zhang also obtained a diploma in Business Administration from Zhejiang University of Technology in 1989.

NON-EXECUTIVE DIRECTOR

QIU Jian Ping (**仇建平**), aged 52, was appointed as a non-executive Director with effect from February 22, 2013. He obtained a bachelor degree in mechanical engineering from University of Science and Technology Beijing (北京科技大學) in 1982 and a master degree in Mechanical Engineering from Xi'an Jiaotong University (西安交通大學) in 1985. From 1987 to 1992, he served as a business operator of Zhejiang Machinery & Equipment Import & Export Co., Ltd. (浙江省機械進出口公司). From 1992 to 2001, Mr. Qiu served as the chairman of Hangzhou Greatstar Tools Co., Ltd (杭州巨星工具有限公司). Since 2001 and up to present, Mr. Qiu has been serving as the chairman and president of Hangzhou Great Star Industrial Co., Ltd. (杭州巨星科技股份有限公司), a company the shares of which are listed on the Shenzhen Stock Exchange and as the chairman of Hangzhou Great Star Investment Holdings Co., Ltd. (杭州巨星投資控股有限公司).

INDEPENDENT NON-EXECUTIVE DIRECTORS

ZHOU Lingqiang (周玲強), aged 50, joined the Company as an independent non-executive Director on June 1, 2011. Mr. Zhou obtained a bachelor degree in economics from Hangzhou University in 1986, a master degree in economics from Hangzhou University in 1998 and a doctoral degree in management from Zhejiang University in 2005. Mr. Zhou has been working at Zhejiang University since 1986. Mr. Zhou is now the faculty dean of the Faculty of Tourism of Zhejiang University and the Head of the Tourism Research Institute of Zhejiang University. From 2006 to 2007, Mr. Zhou was appointed by the PRC government to serve as the vice president of the Faculty of Tourism and Foreign Language of University of Tibet. Apart from his professional career, Mr. Zhou serves as a member of the Consultant Committee for Master's Degree Education for National Tourism Management under the State Council Academic Degrees Committee, the vice president of the Education Branch of China Tourism Association, the vice president of Zhejiang Tourism Association, the vice president and secretary of Zhejiang Recreation Academy and executive member of the World Leisure Organisation, China branch. Mr. Zhou is also a committee member of the Zhejiang Tourism Standardisation of Technology Committee, Hangzhou Economic Zone Tourism Cooperation and Development Coordination Section, Hangzhou Government Decisionmaking Advisory Committee and Hangzhou Tourism Branding and Marketing Committee. Mr. Zhou has acted as the consultant in relation to the tourism-related matters in various districts in Zhejiang Province and has acted as a government consultant in various districts within the Tibet Autonomous Region.

ZHANG Yuchuan (張玉川), aged 55, joined the Company as an independent non-executive Director on March 1, 2012. Mr. Zhang obtained a bachelor degree in information management from The School of Information Management, Wuhan University in 1982. From 1982 to 1985, Mr. Zhang worked at the Ministry of Education. From 1985 to 1986, he served as a finance journalist of the China Economic Press. From 1986 to 1987, Mr. Zhang served as an assistant researcher at the China Association for Science and Technology. From 1988 to 1994, Mr. Zhang served as the division chief of The Development Research Centre of the State Council and was later appointed as the deputy chief executive of the centre in 1994 till 2002. Since 1998 up to present, Mr. Zhang has been serving as the director of the Beijing Owen Institute of Public Affairs, responsible for finance public affairs related matters. From 2001 to 2006, Mr. Zhang served as an independent director of Hubei Guangji Pharmaceutical Co., Ltd. From 2001 to 2008, Mr. Zhang served as an independent non-executive director of Shenzhen Mingwah Aohan High Technology Corporation Limited, a company listed on The Stock Exchange of Hong Kong Limited (Stock Code: 8301). Furthermore, Mr. Zhang is an independent non-executive director of Tiandi Science and Technology Co., Ltd., a company listed on the Shanghai Stock Exchange. Apart from his professional career, Mr. Zhang also serves as the vice chairman of China Electronic Commerce Association.

DIRECTORS AND MANAGEMENT PROFILES

SUN Steve Xiaodi (孫曉鏑), aged 53, joined the Company as an independent non-executive Director on June 1, 2011. Mr. Sun obtained a bachelor degree in mathematics from Heilongjiang University. He also obtained a master degree in operational research from Xidian University and a master degree in business administration from the University of Chicago. From 1997 to 2000, Mr. Sun served as an executive vice president of AE Capital Markets Inc., an investment bank based in New York. From 2004 to 2005, Mr. Sun served as the chief operating officer of Sunshine 100 Real Estate Group, a real estate company based in Beijing. From 2006 to 2008, Mr. Sun served as a director and the president of Aohua Medical Services Ltd. In 2007, Mr. Sun co-founded Concord Medical Services Holdings Limited, a company listed on the New York Stock Exchange and has served as its director from 2007 to 2013, co-chairman of its board of directors from 2008 to 2011, chief financial officer from 2009 to 2011 and chairman of its investment decision committee from 2009 to 2013. Since 2011, Mr. Sun has been a member of the Global Advisory Boards of the University of Chicago, Booth School of Business. In November 2013, Mr. Sun has also been appointed as the chief operating officer of FAB Universal Corp., a company of which shares are listed on the New York Stock Exchange.

SENIOR MANAGEMENT

ZHONG Jian (鍾劍), aged 43, joined the Company as the vice president in August 2007 and took up the position of chief financial officer in September 2007. Mr. Zhong received a bachelor of finance degree from the Central University of Finance and Economics in 1992, a master in international finance from Renmin University of China in 2002 and Executive Master of Business Administration degree from Chinese Europe International Business School in 2008. Mr. Zhong was the vice president and the chief financial officer of Zhejiang Sunbridge Industrial Group Company Limited from July 2004 to July 2007. He also worked as the director of corporate finance department in Export and Import Bank of China from 1995 to 2004.

CHEN Wei (陳維), aged 48, joined the Group in July 2010 as the vice president in charge of the Group's property development business. Mr. Chen graduated from the Department of Architecture of Shanghai Tongji University in 1993 and received a master degree in urban design. From 1993 to 1996, Mr. Chen held the position of the principal architect and the director of Hangzhou Urban Construction Design Institute. Mr. Chen received the title of senior architect and National First Class Registered Architect in 1996; from 1997 to 2002, he was the director, vice general manager and chief engineer of Zhongda Real Estate Group. From 2003 to 2007, he took the position of executive general manager of Greentown Real Estate Group. Before joining the Group, Mr. Chen was the president of Zhongda Real Estate Group from 2008 to 2010.

YU Guanlin (余關林), aged 51, joined the Group in 1995 and is the production manager and deputy general manager of the Group. He is currently the general manager of the Group's Cut-and-sew Operations Division. Before joining the Group, Mr. Yu founded a garment company and was responsible for its design and production. Mr. Yu has extensive knowledge and experience in the upholstered furniture manufacturing industry.

ZHOU Xiaohong (周小紅), aged 45, joined the Group in 1995 and was the cashier and treasury manager of the Group. She is currently the vice president of the Group in charge of internal auditing. Ms. Zhou obtained a diploma in management from China University of Geosciences in 2003.

PAN Yougen (潘幼根), aged 50, is the general manager of Zhejiang Kasen Property Development Co., Ltd. After joining the Company in 2008, Mr. Pan has been serving as the general manager of Yancheng Sujia Real Estate Development Co., Ltd. Mr. Pan received a bachelor of engineering degree from Southwest Jiaotong University in July 1985 and a master degree from Tongji University in Shanghai in 1988. Before joining the Company, Mr. Pan worked as the vice dean of Jiaxing Zhongfang Design Institute and the chairman and general manager of Zhejiang Jingjian Project Management Co., Ltd.

SHI Juntao (史軍濤), aged 42, joined the Company as vice president and the General Manager in charge of the Group's sale of both domestic and international furniture business in March 2013. Mr. Shi was graduated from Xinjiang Normal University in 1996 and worked as a teacher in Xinjiang University upon graduation. Before joining the Company, he has serviced as vice president of Markor International Furniture Co., Ltd from 1997 to 2008, as well as chairman and chief executive officer of Xinjiang Rooms to Life Furniture Co., Ltd from 2008 to 2013.

CAO Ying (曹纓), aged 47, joined the Company as assistant chief executive officer in November 2013. Ms. Cao is in charge of purchasing cowhides, the primary raw materials of the Company. She received a Bachelor of Physics degree from Shanghai Technology and Science University in 1990. Before joining the Company, Ms. Cao worked as Business Development Manager, Project Manager and other key positions in IKEA Trading (HK) Ltd Shanghai Representative Office from 1997 to 2013.

ZENG Sheng (曾勝), aged 43, joined the Company as vice president in September 2013, and is responsible for the Company's sofa fabrics products. In 1993, Ms. Zeng was graduated from Guizhou Normal University, majoring in English. She has serviced as operation manager in Pacific Market International Co., Ltd from 1993 to 1998, and worked as vice president in Outlook International Co., Ltd from 1998 to 2013.

HU Han (胡晗), aged 42, joined the Company in October 2009 as assistant chief executive officer and director of investor relation. Ms. Hu received a Bachelor of Economics degree in 1993 and a Master of Economics degree in 2000 respectively from the Central University of Finance and Economics and also obtained a Executive Master of Business Administration degree from Chinese Europe International Business School in 2010. Ms. Hu is a senior finance manager certified by International Facility Management Association and Hong Kong Securities and Futures Commission asset management business licensee (Type 9). Before joining the Group, Ms. Hu worked as the director of investment in Shanghai Linnai Industrial Investment Co., Ltd. from 2007 to October 2009. She was the director in Hong Kong Huijin Asset Management Company from 2006 to 2008. From 1993 to 2001, Ms. Hu worked as secretary of the budget committee in China Everbright Group and as financial manager in China Everbright Limited.

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

YIU Hoi Yan, Kate (姚凱欣), aged 41, joined the Company as an accountant in April 2004 and was later promoted as the company secretary and finance manager of the Company. She has over 18 years of experience in auditing and accounting. She is a member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Ms. Yiu obtained a Bachelor of Arts (Honors) in Accountancy from the City University of Hong Kong in 1995.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Kasen International Holdings Limited (the "Company"), it is my pleasure to present the annual results of the Company and its subsidiaries (the "Group") for the year ended December 31, 2013.

The economic data of the United States (the "U.S."), which is the Group's biggest original equipment manufacturer ("OEM") export market, achieved modest growth in the past year. Due to the Group's major business partners in the U.S. are still facing hard time and the overall consumption for the furniture products remained weak, the Group encountered a declined sale in the upholstery furniture OEM business. Also, the Group's financial performance in OEM manufacturing business is significantly affected by the continuing appreciation of Renminbi ("RMB") and rising labor cost. Thanks to the favorable business environment in the automobile industry in China, the Group's manufacturing of automotive leather achieved a year-on-year growth of more than 10%. The Group will expand its customer base to Japanese automakers by acquiring a Japan-based automotive leather company and further strengthen its leading role in the automotive leather business in China. For the property development business, the Group achieved a steady growth in sale during the year under review. After six years of effort and development by the Group, the property development business of the Group accounts for approximately 50% of the Group's total revenue.

For the year of 2013, the Group's total turnover was RMB3,439.2 million, representing an increase of 11.1% as compared to the same period in 2012. Profit attributable to the shareholders was RMB173.4 million, representing a decrease of 14.7% as compared to RMB203.4 million in the year of 2012.

The manufacturing business of the Group, including automotive leather, furniture leather and upholstered furniture, recorded a total turnover of RMB1,851.9 million and accounted for 53.8% of the Group's total revenue. The automotive leather division accounted for the biggest part of the revenue in the manufacturing business, which is RMB1,137.4 million, compared to RMB1,020.3 million of 2012.

In 2013, the Group's revenue from property business segment was RMB1,468.1 million and accounted for 42.7% of the Group's total turnover. The Group has seven projects in different stages of development in the mainland of China. The total land bank is around 3.2 million square meters ("sq.m.").

With the revival of the global economy and steady growth of U.S. furniture market, the Group is optimistic about the performance of OEM export business. Also, the Group will try to expand the domestic market in China and launch a branding and promotion plan to meet the demand from customers in the mainland of China. A new brand "Kasen Helpdeco" (卡森海派名家) has been introduced to the domestic market. The Group will put great effort into raising brand recognition and increasing the sale channel in the coming years.

As for the property development business, including residential and tourism property development, the Group is cautiously optimistic about the turnover and profit generated from the division. The urbanization and increase of household income are the top goals of Chinese government. The Group will seize the opportunities to implement its long-term strategic vision. In respect of tourism property, the water park of Sanya project in Hainan has commenced construction. The Group has now established comprehensive tourism facilities spread across some of the major tourism destinations in China, including 4 resort hotels, hotspring resort, water park and performance centers. These facilities will serve our customers under the brand name of "Allblue Vacation Club", and we are confident that such facilities will distinguish us from the peers in the tourism property business and bring satisfactory result to the Group.

As a whole, we are confident that our business transition and diversification strategy will further increase our shareholders' value. On behalf of the Board, I would like to express my sincere appreciation to my fellow directors, management team, and employees for their contribution and dedication to the Group and my deep gratitude to our shareholders, customers, suppliers and business partners for their continuing support.

ZHU Zhangjin, Kasen
Chairman

The PRC, March 27, 2014

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OVERVIEW

Financial Review

For the year ended December 31, 2013, the Group recorded a consolidated turnover of RMB3,439.2 million, representing an increase of 11.1% as compared to RMB3,094.6 million for the year ended December 31, 2012.

The Group's gross profit for the year 2013 was RMB677.4 million, representing an increase of 6.3% as compared to RMB637.4 million in the year 2012 and the Group's gross profit margin in 2013 remained at 19.7%, compared to 20.6% in the year 2012.

During the year under review, the net profit attributable to owners of the Company was RMB173.4 million, representing a decrease of 14.7% as compared to RMB203.4 million in the year 2012.

Review by Business Segments

The Group's reportable business segments principally consist of manufacturing, property development, retail business and others (comprising mainly provisions of property management service business, hot spring resort operation and provision of travel-related services).

The table below shows the total turnover of the Group by business segments for the year ended December 31, 2013 together with the comparative figures for the corresponding period of year 2012:

	2013		2012		**Y-O-Y Change**
	RMB'Million	**%**	*RMB'Million*	%	%
Manufacturing	**1,851.9**	**53.8**	1,715.9	55.4	7.9
Automotive Leather	***1,137.4***	***33.1***	*1,020.3*	*33.0*	*11.5*
Upholstered Furniture	***459.1***	***13.3***	*495.6*	*16.0*	*-7.4*
Furniture Leather	***255.4***	***7.4***	*200.0*	*6.4*	*27.7*
Property Development	**1,468.1**	**42.7**	1,268.0	41.0	15.8
Retail business	**16.0**	**0.5**	20.9	0.7	-23.4
Others	**103.2**	**3.0**	89.8	2.9	15.0
Total	**3,439.2**	**100.0**	3,094.6	100.0	11.1

Manufacturing Business

During the year under review, the Group's manufacturing business, comprising of manufacturing of upholstered furniture, furniture leather and automotive leather, recorded a total turnover of RMB1,851.9 million, representing an increase of 7.9% as compared to RMB1,715.9 million in 2012.

During the year under review, this segment recorded an operating loss of RMB4.1 million, as compared to an operating profit of RMB45.5 million in 2012. A brief discussion of the performance of the three operating divisions is as follows:

Automotive Leather

Due to the fast annual growth rate of China's automobile industry in the past few years and the strong cooperation relationships with the major automobile manufacturers, the Group successfully maintained a year-on-year growth of more than 10% in its automotive leather business. During the year under review, the turnover from automotive leather division still accounted for the biggest part in the revenue of the Group's manufacturing business. Revenue generated from this division was RMB1,137.4 million, representing an increase of 11.5% compared to RMB1,020.3 million in the year of 2012.

During the year under review, the Group acquired all the existing shares of Melx Co., Ltd. ("Melx"), a company established in Japan in 1911, which is principally engaged in sale and manufacturing of automotive leather to Japanese automakers. With the acquisition, the Group added a leather production base established by Melx in Foshan, Guangdong Province, China to its existing production facilities. With this new addition, the Group owns three plants located in Jiangsu, Zhejiang and Guangdong which will help the Group to meet the growing demands from customers and implement its market expansion plan.

Upholstered Furniture

Sale of upholstered furniture included finished sofa and sofa cut-and-sew. Turnover generated from this division was RMB459.1 million in the year 2013 as compared to RMB495.6 million in 2012, representing a decrease of 7.4%. The performance of upholstered furniture is still in the downturn period due to the weak demand from U.S. market, the biggest OEM export market for the Group.

In the domestic market, the Group established its branded division and introduced "Kasen Helpdeco" (卡森海派名家) brand to the domestic customers. The new brand will focus on internet sale and provide our customers with more options to choose high quality furniture with affordable price.

Furniture Leather

During the year under review, the Group successfully strengthened the cooperation relationship with domestic big customers and the orders for furniture leather kept increasing. The Group's sale of furniture leather recorded sale of RMB255.4 million in 2013, as compared to RMB200.0 million in 2012.

Property Development Business

As of December 31, 2013, the Group has seven projects at various stages of development spread around various places in the PRC. The turnover from the property development segment was RMB1,468.1 million in 2013 representing an increase of 15.8%, as compared to RMB1,268.0 million in 2012. The revenue from the property development section has accounted for 42.7% of the Group's total turnover of 2013. An operating profit generated from this segment in 2013 was RMB222.4 million, as compared to an operating profit of RMB193.8 million in 2012.

Group Property Project Portfolio as at December 31, 2013

No.	Project Name	Location	Interests Attributable to the Group	Total Site Area (sq.m.)	Status
1	Asia Bay	Boao, Hainan	92%	590,165	Under development
2	Sanya Project	Sanya, Hainan	77%	1,423,987	Pre-development
3	Qianjiang Continent	Yancheng, Jiangsu	100%	335,822	Under development
4	Kingdom Garden	Haining, Zhejiang	100%	444,326	Under development
5	Changbai Paradise	Changbai Mountain, Jilin	89%	291,662	Under development
6	Qianjiang Oasis	Yancheng, Jiangsu	60%	108,138	Under development
7	Jing Xiang Yuan	Haining, Zhejiang	100%	18,870	Under development
Total				3,212,970	

Analysis of Properties Under Development

No.	Project Name	Total GFA (sq.m.)	GFA under development (sq.m.)	Total Saleable GFA (sq.m.)	GFA sold as at December 31, 2013 (sq.m.)	GFA delivered as at December 31, 2013 (sq.m.)	Average Selling Price (RMB/sq.m.)
1	Asia Bay	718,665	245,917	590,165	67,602	58,237	19,622
2	Qianjiang Continent	775,292	775,292	672,213	634,259	555,644	5,556
3	Kingdom Garden	1,021,631	556,167	687,606	76,828	6,139	6,232
4	Changbai Paradise	179,077	179,077	110,330	18,198	–	–
5	Jing Xiang Yuan	39,004	39,004	28,951	25,210	–	–
6	Qianjiang Oasis	335,301	55,556	266,206	–	–	–
Total		3,068,970	1,851,013	2,355,471	822,097	620,020	

Projects Overview

Asia Bay in Boao of Hainan

Asia Bay is the flagship project of the Group in tourism property development field. Based on the design concept of "six islands and six buildings", Asia Bay mainly consists of six groups of island villas, six buildings of wave-shape apartments and seaview villas. Prime geographical location at seaside tourism district in Boao, enjoys magnificent sea views and other natural resources. A performance center is built to provide residents an array of services and programs. Asia Bay has won several outstanding awards including "2010 Top Five Properties of Living Environment in Hainan" (二零一零年海南五大最佳人居環境樓盤) and "2010 The Most Expected Property in Hainan" (二零一零年海南最值得期待樓盤).

During the year under review, the delivered gross floor area ("GFA") totaled 16,521 sq.m. and brought a recognized sale (before deducting the related tax charges) of RMB328.7 million to the Group.

The contracted sale in GFA was 11,425 sq.m. with the amount of RMB248.4 million during the year under review.

In the year of 2013, the Boao Asia Bay Resort Hotel (博鰲亞洲灣度假酒店) which is operated by the Group and the performance center attracted tourists to the site of Asia Bay. The Group believes that the combination of property sale and tourism services will be the unique advantage of the Group in the property market in Hainan.

Qianjiang Continent in Yancheng of Jiangsu

Qianjiang Continent is the Group's first residential property project, strategically located at the intersection of new town and old town of Yancheng, Jiangsu. It mainly consists of multi-storey and high-rise apartments well-equipped with mature amenities, strong transportation network, and a variety of commercial facilities to provide residents a high quality care home. Qianjiang Continent won the award of "National Demonstration Project" (國家康居示範工程).

During the year under review, the recognized GFA sold in this project was 172,120 sq.m. and the recognized sale (before deducting the related tax charges) amounted to RMB1,102.6 million as compared to RMB733.9 million in the year of 2012. A total of 1,097 units, including both commercial and residential units were delivered and the average selling price was RMB6,406 per sq.m..

The contracted sale in GFA totaled 73,235 sq.m. with the amount of RMB492.6 million during the year under review.

Kingdom Garden in Haining of Zhejiang

Kingdom Garden is primely located in Xieqiao County, Haining, south of Xiaxie Road and west of Dingtu Road, which is a major focal point for Haining city development. The project spans a total site area of approximately 444,326 sq.m. to be taken up by neoclassical style high-rise apartments and townhouses. Well-connected to public transport facilities, a wide variety of commercial goods and services ranging from neighborhood commercial facilities, community-shopping facilities, specialized commercial centers and medical facilities offer residents a caring place to live. A club house with size of approximately 3,000 sq.m. is built to provide an ideal environment to cater for the individual needs of our residents.

During the year under review, the recognized GFA sold in this project was 6,139 sq.m. and brought a recognized sale (before deducting the related tax charges) of RMB38.2 million to the Group.

During the year under review, townhouses and apartments in the southern area are in pre-sale and the contracted sale in GFA was 32,359 sq.m. with the amount of RMB197.8 million.

During the year of 2013, the construction of premises located in the northern area commenced and will be ready for pre-sale in the year of 2014.

Changbai Paradise in Changbai Mountain of Jilin

Changbai Paradise is located in the Changbai Mountain Protection and Development Zone with a total site area of about 291,662 sq.m., which is designed to be an icy town featured with Scandinavian style residence and commercial facilities, a five-star hot spring hotel, a shopping plaza, and a performance center.

During the year under review, the apartments are under construction; however, parts of the premises are in pre-sale. The contracted sale in GFA totaled 5,210 sq.m. with the amount of RMB16.2 million.

After several years of development and promotion, the Changbai Mountain was gradually accepted by domestic tourists as a suitable tour destination in summer and winter. The Group is confident about the performance of this project in the following years.

Other projects

The Group's property projects in Sanya of Hainan Province and Qianjiang Oasis in Yancheng of Jiangsu Province were under development during the year under review. No contribution was made from these projects with respect to turnover and profit of the Group in the year of 2013.

Operating Expense, Taxation and Profit Attributable to Owners

The selling and distribution costs during the year under review increased to approximately RMB151.8 million, as compared to approximately RMB126.9 million in 2012, mainly due to (1) the increase of net selling expenses (an increase in salary, marketing and related expenses, offset by a decrease in depreciation and lease rentals) of approximately RMB12.1 million incurred by the subsidiaries which operated hot spring resort, Asia Bay project and Sanya project, and (2) the increase in sale commission of approximately RMB15.0 million mainly from the automotive leather business as the sales in this business operation increased. As a result, the Group's selling and distribution costs to turnover in 2013 increased to 4.4% as compared to 4.1% in 2012.

The administrative costs in 2013 was approximately RMB180.3 million, representing an increase of approximately RMB38.1 million as compared to approximately RMB142.2 million in 2012. The increase was mainly due to (1) the increase of staff recruited in our expanding business in hot spring resort, travel-related services (such as hotels and restaurants) and a number of new subsidiaries set up within the year under review, which brought to an increase in staff salary and welfare expenses of approximately RMB9.9 million, and (2) the increase in depreciation charge of approximately RMB14.4 million arised from the hot spring resort, Sanya project and restaurant business. Apart from these main changes, all other administrative expenses were steadily increased at a slight extent.

The Group's finance cost in 2013 was approximately RMB40.6 million, representing a slight increase of approximately RMB2.4 million, as compared to approximately RMB38.2 million in 2012, mainly due to (1) the increase of loan interests from the corporate bond newly issued in last June 2012 by approximately RMB6.5 million in 2013, offset by (2) the decrease in bank borrowing interests by approximately RMB10.4 million because of the increase in capitalisation of interests charged in the bank loans used for financing the Group's property development projects during 2013.

The Group's other gains and losses in 2013 recorded at a net loss of approximately RMB12.0 million, representing a decrease of approximately RMB39.0 million, as compared to a net gain of approximately RMB27.0 million in 2012. For details, please refer to note 7 to the consolidated financial statements.

The Group's income tax in 2013 was approximately RMB170.0 million, representing a decrease of approximately RMB22.8 million, as compared to approximately RMB192.8 million in 2012. The decrease resulted from (1) an increase in deferred taxation credit of approximately RMB43.0 million, offset by (2) an increase in PRC land appreciation tax of approximately RMB3.2 million from the property development projects together with (3) an increase in PRC income tax of approximately RMB16.9 million mainly due to an increase in taxable profits generated by the property development business at a subsidiary level.

With the reasons mentioned above, profit attributable to owners of the Company for the year 2013 decreased by approximately 14.7% to RMB173.4 million (2012: RMB203.4 million).

CAPITAL EXPENDITURES

Capital expenditure (excluding assets acquired through acquisition of subsidiaries during the year) in 2013 decreased to approximately RMB88.3 million from approximately RMB134.5 million in 2012. The capital expenditure mainly comprised the amount of approximately RMB87.8 million spent on the purchase of property, plant and equipment for operational purpose.

FINANCIAL RESOURCES AND LIQUIDITY

Bank and Other Borrowings

As at December 31, 2013, the Group's bank and other borrowings amounted to approximately RMB1,938.2 million, representing a 50.7% increase from approximately RMB1,286.5 million as at December 31, 2012. Besides, a wholly-owned subsidiary issued corporate bonds in the PRC on June 14, 2012 at the issue size of RMB150 million, with a term of three years. For details, please refer to notes 25 and 27 to the consolidated financial statements and the announcement of the Company dated June 14, 2012.

Turnover Period, Liquidity and Gearing

The Group's existing inventory primarily comprised leather crust used for production, accounted for approximately 37.2% of the total inventory of approximately RMB459.5 million in 2013 (2012: approximately RMB426.9 million). In 2013, the inventory turnover period decreased to 98 days (2012: 100 days).

In 2013, the Group continued to maintain a strict credit policy. The account receivables turnover days of the Group's manufacturing and retail segments reduced to 78 days in 2013 (2012: 88 days).

The accounts payable turnover days of the Group's manufacturing and retail segments decreased to 67 days in 2013 (2012: 71 days).

As at December 31, 2013, the Group's current ratio was 1.49 (December 31, 2012: 1.34). The Group's cash and cash equivalent balance was approximately RMB560.1 million as at December 31, 2013 (December 31, 2012: approximately RMB560.9 million). This represents a gearing ratio of 59.3% as at December 31, 2013 (December 31, 2012: 45.5%) and a net debt-to-equity ratio of 42.1% as at December 31, 2013 (December 31, 2012: 25.6%). The gearing ratio is based on bank borrowings to shareholders' equity and the net debt-to-equity ratio is based on bank borrowings net of cash and cash equivalent to shareholders' equity. In 2013, the Group's credit facilities were renewed on an on-going basis, which provided sufficient cash to finance the Group's working capital requirement during the year under review.

MATERIAL ACQUISITION AND DISPOSAL

On January 28, 2013, the Group acquired 100% interest in Melx for the consideration of JPY100,000,000, pursuant to the terms of the reconstruction plan as part of its civil rehabilitation in Japan. For further detail regarding the acquisition of Melx, please refer to note 31 to the consolidated financial statements.

On November 12, 2009, the Group entered into an agreement with Zhejiang Zhongyu Development Co., Ltd (浙江中宇經貿發展有限公司) ("Zhongyu"), an independent third party and two other independent parties to acquire 51% equity interest in Hainan Hejia Property Development Co., Ltd. (海南合甲置業有限公司) ("Hainan Hejia"). Given that the substantial procedures to obtain the title of the land acquired by Hainan Hejia were completed during the year ended December 31, 2013, the Company commenced to consolidate Hainan Hejia's accounts into the Group's financial statements for the year ended December 31, 2013. For further details, please refer to note 31 to the consolidated financial statements and the announcement of the Company dated November 12, 2009.

Save as disclosed above, the Group did not have any material acquisitions or disposals during the year ended December 31, 2013.

CONTINGENT LIABILITIES

As at December 31, 2013, the Group had certain contingent liabilities. For details, please refer to note 38 to the consolidated financial statements.

PLEDGE OF ASSETS

Some of the Group's assets have been pledged to secure the bank borrowings and the bank facilities granted to the Group. For details, please refer to note 35 to the consolidated financial statements.

CAPITAL COMMITMENTS

As at December 31, 2013, the Group had contracted, but not provided for, a total capital expenditure of RMB1,344.6 million (2012: RMB1,024.7 million), in which an amount of RMB1,167.7 million (2012: RMB1,012.0 million) was in respect of properties under development.

FOREIGN EXCHANGE EXPOSURE

The Group is principally engaged in export-related business, and transactions (including sale and procurements) were mainly denominated in US dollars, and most of the trade receivables was exposed to exchange rate fluctuation.

EMPLOYEES AND EMOLUMENTS POLICIES

As at December 31, 2013, the Group employed a total of approximately 4,600 full time employees (December 31, 2012: approximately 4,000), including management staff, technicians, salespersons and workers. In 2013, the Group's total expense on the remuneration of employees was approximately RMB208.9 million (2012: approximately RMB150.6 million), representing 6.1% (2012: 4.9%) of the operating revenue of the Group. The Group's emolument policies for employees are formulated on the performance of individual employees, which are reviewed regularly every year. Apart from the provident fund scheme (according to the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees), state-managed retirement pension scheme (for the PRC employees) and medical insurance, discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance.

The Group's emolument policies of the employees are formulated by the Board with reference to their respective qualification and experience, responsibilities undertaken, contribution to the Group, and the prevailing market level of remuneration for executives of similar position. The emoluments of the Directors are decided by the Board and the remuneration committee of the Company (the "Remuneration Committee"), who are authorized by the shareholders of the Company (the "Shareholders") in the annual general meeting (the "AGM"), having regard to the Group's operating results, individual performance and comparable market statistics.

FUTURE PLANS AND PROSPECTS

Manufacturing business

The automotive leather business will be the priority in the development of manufacturing business. The acquisition of Melx is only the first step to expand our customer base. Relying on our leading advantages in technology, human resources and production management, the Group will try to cooperate with local Chinese-brand automobile companies to diversify our product portfolio. The three leather production bases in the mainland of China will provide strong support to fulfill the demand from customers.

Due to the intense market competition, the Group will concentrate on reforming measures to improve the OEM business performance. The Group has reformed its sale teams and implemented new strategies to improve both sale and profit. We will introduce new products, improve the efficiency of existing production lines and consolidate the relationship with major customers.

The domestic furniture market in China is full of opportunities due to the favourable government policy of urbanization and the Group will launch a branding and promotion plan to improve our market presence. A new brand "Kasen Helpdeco" (卡森海派名家) has been introduced to domestic customers. The innovation in "on-line sale, off-line experience" strategy will help the Group to capture the strong demand from middle-class buyers and bring better results in the long run.

Residential and Tourism Property Development and Services

Looking ahead, the urbanization and increase of household income are the top goals of Chinese government in the five-year scheme. The Group believes that the property industry will continue to be a pillar industry in China and is optimistic about the performance of our existing projects. The Group will seize the opportunities to implement its long-term strategic vision and build our trusted brand. In the coming year of 2014, the Group will also seek chances to expand the investments to optimize the geographical diversification.

The Group continues to the strategy of establishing a comprehensive tourism facilities in famous tourist districts, not only in the mainland of China but also abroad. In the year of 2014, the resort hotel in Changbai Mountain and water park in Sanya will be put into operation. Along with our existing tourism resources, such as horse farm, hotspring and performance centers, the Group is confident in expanding our market presence and achieving remarkable results.

DIRECTORS' REPORT

The Directors present the annual report and the audited consolidated financial statements of the Company for the year ended December 31, 2013.

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") with effect from October 20, 2005.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in (i) manufacturing of upholstered furniture, furniture leather and automotive leather; (ii) property development; and (iii) retail business.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2013 are set out in the consolidated statement of profit or loss and other comprehensive income on page 39.

FINAL DIVIDENDS

The directors recommend the payment of a final dividend of HK1.00 cent (equivalent to approximately RMB0.79 cent) per ordinary share for the year ended December 31, 2013, subject to approval by the Shareholders at the AGM to be held on May 30, 2014. The final dividend will be payable in Hong Kong Dollars based on the official exchange rate of Renminbi against Hong Kong Dollars as quoted by the People's Bank of China on March 27, 2014. Subject to the approval by the Shareholders, the proposed final dividend is expected to be paid on or about July 8, 2014 to the Shareholders whose names are on the registers of members of the Company on June 10, 2014.

CLOSURE OF REGISTER OF MEMBERS FOR AGM

For the purpose of determining the rights to attend and vote at the AGM, the register of members of the Company will be closed from May 28, 2014 to May 30, 2014 (both days inclusive), during which period no transfer of shares of the Company will be effected. In order to be entitled to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrars in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on May 27, 2014.

CLOSURE OF REGISTER OF MEMBERS FOR PROPOSED FINAL DIVIDEND

The payment of the proposed final dividend is subject to the approval of the Shareholders at the AGM. For the purpose of determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from June 9, 2014 to June 10, 2014 (both days inclusive), during which period no transfer of shares of the Company will be effected. In order to be entitled to the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrars in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on June 6, 2014.

DISTRIBUTABLE RESERVES OF THE COMPANY

The amount of the Company's reserves available for distribution to Shareholders as at December 31, 2013, calculated in accordance with International Financial Reporting Standards, was approximately RMB869.6 million.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past financial periods is set out on page 3.

PROPERTY, PLANT AND EQUIPMENT

During the year of 2013, the Group had acquired property, plant and equipment of approximately RMB87.8 million for the purpose of expanding its production capacity.

Details of these and other movements in the property, plant and equipment of the Group during the year of 2013 are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of the Company's share capital are set out in note 28 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year of 2013, the aggregate sale attributable to the Group's five largest customers comprised approximately 63.6% of the Group's manufacturing and retail segments sale and the sale attributable to the Group's largest customer were approximately 26.4% of the Group's manufacturing and retail segments sale.

The aggregate purchases during the year of 2013 attributable to the Group's five largest suppliers were approximately 80.5% of the Group's manufacturing and retail segments purchases and the purchases attributable to the Group's largest supplier were approximately 46.2% of the Group's manufacturing and retail segments purchases.

None of the Directors, their associates or any Shareholders who, to the knowledge of the Directors, owned more than 5% of the Company's issued share capital had any interest in the share capital of any of the five largest customers and suppliers of the Group.

DIRECTORS

The Directors during the year of 2013 and up to the date of this report are:

Executive Directors

ZHU Zhangjin, Kasen *(Chairman)*
ZHOU Xiaosong
ZHANG Mingfa, Michael

Non-executive Director

QIU Jian Ping (appointed on February 22, 2013)

Independent Non-executive Directors

SUN Steve Xiaodi
ZHOU Lingqiang
ZHANG Yuchuan

In accordance with article 87 of the Company's articles of association (the "Articles"), Mr. Zhou Xiaosong and Mr. Sun Steve Xiaodi will retire from the office of Directors by rotation and, being eligible, will offer themselves for re-election at the forthcoming AGM.

None of the Directors being proposed for re-election at the forthcoming AGM has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

BRIEF DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief details of Directors and senior management are set out on pages 4 to 7.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at December 31, 2013, the interests of the Directors and the chief executives and their associates in the shares of the Company (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as contained in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") are as follows:

(1) Long Positions in Shares of the Company

	Number of shares held, capacity and nature of interest			
Name of Directors	**Directly beneficially owned**	**Through controlled corporation**	**Total number of shares interested**	**Percentage of the Company's issued share capital**
Zhu Zhangjin ("Mr. Zhu")	12,360,000	514,798,635 *(Note)*	527,158,635	45.35%
Zhou Xiaosong	8,173,912	–	8,173,912	0.70%
Zhang Mingfa, Michael	1,980,000	–	1,980,000	0.17%

Notes: 514,798,635 shares are beneficially owned by Joyview Enterprises Limited ("Joyview"), a company wholly and beneficially owned by Mr. Zhu.

(2) Long Positions in Underlying Shares of the Company

Long positions in underlying shares of the Company are separately disclosed in the section "Share Option Scheme" below.

Save as disclosed herein, none of the Directors nor the chief executives of the Company has any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as at December 31, 2013.

SHARE OPTION SCHEME

Particulars of the Company's share option scheme are set out in note 29 to the consolidated financial statements.

A share option scheme was adopted by the Company pursuant to a board resolution passed on September 26, 2005 (the "Scheme") for the primary purpose of providing incentives to Directors, eligible employees and third party service providers such as consultant. The Scheme became effective on October 20, 2005 and the options issued pursuant to the Scheme will expire no later than 10 years from the date of grant of the option. Under the Scheme, the Board may grant options to any employees of the Company or any of its subsidiaries to subscribe shares of the Company.

For any options granted to Directors, chief executives or substantial Shareholders of the Company, options to be granted shall be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the proposed grantee of options).

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company on October 20, 2005 (representing 101,404,536 shares of the Company) without prior approval from the Shareholders. The number of shares issued and to be issued in respect of options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the total shares of the Company in issue at any point in time, without prior approval from the Shareholders.

The amount payable on acceptance of an option is HK$1.00. In relation to any options granted under the Scheme, the exercise price is determined by the Directors, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

The Scheme does not contain any minimum period(s) for which an option must be held before it can be exercised. However, at the time of granting of the options, the Company may specify any such minimum period(s).

Unless otherwise terminated by the Board or the Shareholders in general meeting in accordance with the terms of the Scheme, the Scheme shall be valid and effective for a period of 10 years from the date on which it becomes unconditional which was October 10, 2005, after which no further options will be granted or offered but the provisions of the Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting options granted prior to the expiry of the 10-years period or otherwise as may be required in accordance with the provisions of the Scheme.

Details of the share options granted, pursuant to the Scheme on March 9, 2006 and May 5, 2008 respectively, during the year ended December 31, 2013 were as follows:

		Number of share options					
Name of Director	Exercise price *HK$*	Outstanding as at January 1, 2013	Lapsed from January 1, 2013 to December 31, 2013	Outstanding as at December 31, 2013	Percentage of total issued share capital	Exercisable period	Notes
Zhu Zhangjin	2.38	1,000,000	–	1,000,000	0.09%	1/1/2007 to 8/3/2016	1,5,6
	2.38	1,000,000	–	1,000,000	0.09%	1/1/2008 to 8/3/2016	2,5,6
Zhou Xiaosong	2.38	1,000,000	–	1,000,000	0.09%	1/1/2007 to 8/3/2016	1,5,6
	2.38	1,000,000	–	1,000,000	0.09%	1/1/2008 to 8/3/2016	2,5,6
	1.18	500,000	–	500,000	0.04%	1/1/2009 to 4/5/2018	3,5,6
	1.18	500,000	–	500,000	0.04%	1/1/2010 to 4/5/2018	4,5,6
Zhang Mingfa, Michael	2.38	500,000	–	500,000	0.04%	1/1/2007 to 8/3/2016	1,5,6
	2.38	500,000	–	500,000	0.04%	1/1/2008 to 8/3/2016	2,5,6
	1.18	250,000	–	250,000	0.02%	1/1/2009 to 4/5/2018	3,5,6
	1.18	250,000	–	250,000	0.02%	1/1/2010 to 4/5/2018	4,5,6
		6,500,000	–	6,500,000	0.56%		
Other employees in aggregate	2.38	5,600,000	–	5,600,000	0.48%	1/1/2007 to 8/3/2016	1,5,6
	2.38	5,600,000	–	5,600,000	0.48%	1/1/2008 to 8/3/2016	2,5,6
	1.18	2,650,000	–	2,650,000	0.23%	1/1/2009 to 4/5/2018	3,5,6
	1.18	2,650,000	–	2,650,000	0.23%	1/1/2010 to 4/5/2018	4,5,6
		23,000,000	–	23,000,000	1.98%		

Notes:

1. Pursuant to the Scheme, these share options were granted on March 9, 2006 and are exercisable at HK$2.38 per Share from January 1, 2007 to March 8, 2016.

2. These share options were granted pursuant to the Scheme on March 9, 2006 and are exercisable at HK$2.38 per Share from January 1, 2008 to March 8, 2016.

3. These share options were granted pursuant to the Scheme on May 5, 2008 and are exercisable at HK$1.18 per Share from January 1, 2009 to May 4, 2018.

4. These share options were granted pursuant to the Scheme on May 5, 2008 and are exercisable at HK$1.18 per Share from January 1, 2010 to May 4, 2018.

5. These share options represent personal interest held by the relevant participants as beneficial owner.

6. Up to December 31, 2013, none of these share options were cancelled, lapsed and exercised.

SUBSTANTIAL SHAREHOLDERS

As at December 31, 2013, the following persons (other than Directors or chief executives of the Company stated in "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures") had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Shareholder	Capacity	Short position	Long position	Number of issued shares held	Percentage of the Company's issued share capital
Joyview [1]	Beneficial owner	–	514,798,635	514,798,635	44.29%
Hangzhou Great Star Industrial Co., Ltd.[2]	Interest of controlled corporation	–	235,134,057	235,134,057	20.23%
Hongkong Greatstar International Co., Ltd.[2]	Beneficial owner	–	235,134,057	235,134,057	20.23%

Notes:

1. Joyview is a company wholly and beneficially owned by Mr. Zhu Zhangjin. Mr. Zhu Zhangjin is the director of Joyview.

2. Hongkong Greatstar International Co., Ltd. is a wholly-owned subsidiary of Hangzhou Great Star Industrial Co., Ltd., a company the shares of which are listed on the Shenzhen Stock Exchange.

Save as disclosed herein, the Company has not been notified of any other person (other than a Director or a chief executive of the Company) who had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at December 31, 2013.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Other than the Scheme disclosed in the section "Share Option Scheme", at no time during the year of 2013 was the Company or any of its subsidiaries a party to any arrangements which enables the Directors of the Company acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

CONNECTED TRANSACTIONS

During the year ended December 31, 2013, the Group did not enter into any transactions with its connected persons.

CONTINUING CONNECTED TRANSACTIONS

During the year ended December 31, 2013, the Group entered into the following transactions with its connected persons. The transactions constituted "continuing connected transactions" for the Company under the Listing Rules, details of which are disclosed in compliance with the requirement of Chapter 14A of the Listing Rules.

(1) Agreement for Sale of Production Wastes to Haining Yujie Material Recycling Co., Ltd. ("Yujie")

On December 8, 2010, Yujie entered into a renewal agreement with the Group which will expire on December 31, 2013 and, subject to compliance with the Listing Rules requirements regarding connected transactions, is renewable for a term of 3 years thereafter. Yujie is a subsidiary of Zhejiang Sunbridge Industrial Group Co., Ltd. ("Sunbridge") and Sunbridge is a company in which Mr. Zhu Zhangjin indirectly controls 30% of the voting power at its general meetings. The pricing under this agreement was determined with reference to: (i) a comparable market price based on the type of waste involved, in the case of cowhides, whether the cowhides are processed or not; or (ii) by agreement between the parties based on prices no less favourable to/from third parties or reasonably agreed between the parties, if no comparable market price can be taken as a reference. Details of this agreement have been set out in the Company's announcement dated December 8, 2010.

Pursuant to this renewal agreement, the Company agreed to sell certain production wastes (including materials such as residue leather, used tubs, hair and fat) to Yujie ("Haining Yujie Transactions"). Yujie is one of the largest recycling companies in Haining and is located near many of the Group's production facilities (all within approximately 10 km). The Company believes that by selling wastes to Yujie, the Group will achieve an efficient management of disposal logistics and an effective supervision of its employees in its sale of wastes. Besides, the scrapped leather and other production wastes need special process to handle, and Yujie can handle this process. We cannot obtain the comparable price from the market. Therefore regarding the pricing procedures, we agreed the price with Yujie with reference to Yujie's price from collecting similar production waste from the third parties. Since Haining Yujie Transactions have been made for many years, we always regularly check with Yujie for any price movement. During the year under review, the aggregate amount of the transactions under this renewal agreement was approximately RMB4,110,000 and the annual cap amount granted by the Stock Exchange was RMB8,000,000.

(2) Agreement for Sale of Upholstered Furniture to Sunbridge

On December 19, 2011, Sunbridge entered into an agreement with the Group which will expire on December 31, 2013 and, subject to compliance with Listing Rules requirements regarding connected transactions, is renewable for a term of 2 years thereafter. The pricing under this agreement was determined in accordance with: (i) a comparable market price; or (ii) by agreement between the parties based on prices no less favourable to/from third parties or reasonably agreed between the parties, if no comparable market price can be taken as a reference. Details of this agreement have been set out in the announcement dated December 19, 2011. Pursuant to this agreement, the Group agreed to sell upholstered furniture to Sunbridge. Sunbridge is principally engaged, through its various subsidiaries, in hardwood furniture manufacturing in the PRC and furniture retailing. Sunbridge has three production bases in the PRC. As the Sunbridge Group's furniture manufacturing business is growing rapidly, its demand for upholstered furniture is continuous. Regarding the pricing procedures, we determine the selling price for upholstered furniture sold to Sunbridge with reference to our Group's standard selling price being sold to our external customers. During the year under review, the aggregate value of the transaction under this agreement was approximately RMB1,147,000 and the annual cap amount granted by the Stock Exchange was RMB20,000,000.

(3) Agreement for Sale of Leather to Sunbridge

On December 19, 2011, Sunbridge entered into an agreement with the Group which will expire on December 31, 2013 and, subject to compliance with the Listing Rules requirements regarding connected transactions, is renewable for a term of 2 years thereafter. The pricing under this agreement was determined with reference to: (i) a comparable market price; or (ii) by agreement between the parties based on prices no less favourable than that to/from third parties or as reasonably agreed between the parties, if no comparable market price may be taken as a reference. Details of this agreement have been set out in the Company's announcement dated December 19, 2011.

Pursuant to this agreement, the Group agreed to supply leather to Sunbridge ("Sunbridge Purchases"). The Group is a leading upholstered furniture and leather products manufacturer based in the PRC. It manufactures upholstered furniture products in accordance with the designs of its customers. Sunbridge is principally engaged, through its various subsidiaries, in hardwood furniture manufacturing in the PRC and furniture retailing. Sunbridge has three production bases in the PRC. As the Sunbridge Group's furniture manufacturing business is growing rapidly, its demand for upholstered furniture and leather imported from the PRC is continuous. Regarding the pricing procedures, we determine the selling price for leather sold to Sunbridge with reference to our Group's standard selling price being sold to our external customers. During the year under review, the aggregate value of the Sunbridge Purchases under this agreement was approximately RMB341,000 and the annual cap amount granted by the Stock Exchange was RMB3,000,000.

(4) Agreement for Purchase of Wooden Products from Sunbridge

On December 8, 2010, Sunbridge entered into an agreement with the Group which will expire on December 31, 2013 and, subject to compliance with Listing Rules requirements regarding connected transactions, is renewable for a term of 3 years thereafter. The pricing under this agreement was determined in accordance with: (i) a comparable market price; or (ii) by agreement between the parties based on prices no less favourable to/from third parties or reasonably agreed between the parties, if no comparable market price can be taken as a reference. In general, the Company would compare the quotations obtained from various potential suppliers and determine the price after taking into consideration the quality of the wooden products to be supplied by the relevant suppliers. Details of this agreement have been set out in the Company's announcement dated December 8, 2010.

Pursuant to this agreement, the Group agreed to purchase wooden products from Sunbridge and its subsidiaries. Sunbridge is principally engaged, through its various subsidiaries, in hardwood furniture manufacturing in China and furniture retailing. Sunbridge has three production bases in the PRC. As the Company's property development business is growing rapidly, it is anticipated that the demand for wooden products, which are widely used in the development of residential projects and tourism-related properties, will increase substantially. Regarding the pricing procedures, we obtain the quotation from Sunbridge and quotations of similar products from two external suppliers for comparison. During the year under review, the aggregate value of the transaction under this agreement was approximately RMB37,271,000 and the annual cap amount granted by the Stock Exchange was RMB74,000,000.

Pursuant to Rule 14A.38 of the Listing Rules, the Board engaged the auditor of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditor has reported their factual findings on these procedures to the Board that:

a. nothing has come to the auditor's attention that causes the auditor to believe that the disclosed continuing connected transactions have not been approved by the Board;

b. for transactions involving the provision of goods by the Group, nothing has come to the auditor's attention that causes the auditor to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company;

c. nothing has come to the auditor's attention that causes the auditor to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

d. with respect to the aggregate amount of each of the continuing connected transactions set out as above, nothing has come to the auditor's attention that causes the auditor to believe that the disclosed continuing connected transactions have exceeded the maximum aggregate annual value disclosed in the previous announcements dated December 8, 2010 and December 19, 2011 made by the Company in respect of each of the disclosed continuing connected transactions.

The independent non-executive Directors have reviewed the continuing connected transactions and the report of the auditor.

In the opinion of the independent non-executive Directors, the continuing connected transactions entered into by the Group were:

(i) in the ordinary and usual course of business of the Group;

(ii) either (a) on normal commercial terms; or (b) where there is no available comparison, on terms that are no less favorable to the Group than terms to or from independent third parties; and

(iii) in accordance with the agreements governing the transactions on terms that are fair and reasonable so far as the shareholders.

Other than disclosed above, there was no other transaction which needs to be disclosed as connected transaction in accordance with the requirements of the Listing Rules during the year ended December 31, 2013.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Save as disclosed under the sections headed "Connected Transaction" and "Continuing Connected Transactions", there were no contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly and indirectly, subsisted at the end of the year or at any time during the year ended December 31, 2013.

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

At no time during the year under review, did the Company nor any of its subsidiaries purchase, sell or redeem any of the Company's listed securities.

SUFFICIENCY OF PUBLIC FLOAT

Based on information available to the Company and within the knowledge of its Directors, the Company has maintained sufficient public float as required under the Listing Rules throughout the year ended December 31, 2013.

DIRECTOR'S INTERESTS IN COMPETING BUSINESS

None of the Directors held any interests in any competing business against the Company or any of its jointly controlled entities and subsidiaries for the year ended December 31, 2013.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION OF INDEPENDENCE

The Company has received, from each of its independent non-executive Directors, namely Mr. Sun Steve Xiaodi, Mr. Zhou Lingqiang and Mr. Zhang Yuchuan a confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of its independent non-executive Directors are independent.

AUDIT COMMITTEE

An audit committee of the Company (the "Audit Committee") was established by the Company to review and monitor the Company's financial reporting and internal control. The Audit Committee comprises all the independent non-executive Directors. Mr. SUN Steve Xiaodi is the chairman of the Audit Committee.

The annual results of the Company for the year ended December 31, 2013 have been reviewed by the Audit Committee.

REMUNERATION COMMITTEE

A Remuneration Committee was established by the Company to establish policies, review and determine the remuneration of the Directors and the senior management of the Company. The Remuneration Committee comprises two independent non-executive Directors and an executive Director. Mr. ZHOU Lingqiang is the chairman of the Remuneration Committee.

AUDITOR

A resolution will be proposed at the AGM of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

ZHU Zhangjin, Kasen
Director

The PRC, March 27, 2014

CORPORATE GOVERNANCE REPORT

The Board and the management team of the Company are committed to maintain a high standard of corporate governance, holding the beliefs of transparency, independence, honesty and accountability. The Company believes that effective corporate governance is an essential factor to create more value for its Shareholders. Therefore the Company continuously review and improve its corporate governance standards to ensure maximum compliance with the relevant laws and codes.

The Company has complied with code provisions ("CG Code Provisions") set out in the Code on Corporate Governance Practices and Corporate Governance Code (the "CG Code") as stated in Appendix 14 of the Listing Rules throughout the year ended December 31, 2013, except for the following deviation:

CODE PROVISION A.2.1

Under CG Code Provision A.2.1, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. The Company does not at present separate the roles of chairman and chief executive officer. Mr. Zhu Zhangjin, Kasen is the chairman and chief executive officer of the Company responsible for overseeing the operations of the Group. The Company is still considering appointing a new chief executive officer to replace Mr. Zhu if a candidate with suitable leadership, knowledge, skills and experience can be identified within or outside the Group. However, due to the nature and extent of the Group's operations, in particular in the PRC and the in-depth knowledge and experience in the leather and upholstered furniture market required for the position of chief executive officer, the Company is unable to determine as to when the appointment of a chief executive officer for the Company can be effected.

The Board will keep this matter under review. Following sustained development and growth of the Company, the Company will continue to monitor and revise the Company's corporate governance policies in order to ensure that such policies can meet the general rules and standards required by the Stock Exchange.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Specific enquiries have been made with all Directors, who have confirmed that, during the year ended December 31, 2013, each of them has complied with the provisions with the required standards as set out in the Model Code.

BOARD OF DIRECTORS

The primary responsibilities of the Board are to establish long term strategies, administrate and oversee the operations and financial policies and set up and regularly review the Company's performance. As at the year ended December 31, 2013, the Board comprised seven members, including three executive Directors, one non-executive Director and three independent non-executive Directors. The Board members for the year ended December 31, 2013 and up to the date of this annual report are shown below:

Executive Directors

ZHU Zhangjin, Kasen *(Chairman and Chief Executive Officer)*
ZHOU Xiaosong
ZHANG Mingfa, Michael

Non-executive Director

QIU Jian Ping (appointed on February 22, 2013)

Independent Non-executive Directors

SUN Steve Xiaodi
ZHOU Lingqiang
ZHANG Yuchuan

The biographical details of all Directors and the relationships between them are set out in the "Directors and Management Profiles" section on pages 4 to 7 of this annual report, the Company's website: http://www.kasen.com.cn, and http://www.irasia.com/listco/hk/kasen/index.htm. None of the Directors has any financial, business, family or other material or relevant relationships among members of the Board.

The Company has received an annual confirmation of independence from each of its independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules. Based on such confirmations, the Company considers that the three independent non-executive Directors are independent and that they have met the specific independence guidelines as set out in Rule 3.13 of the Listing Rules.

The independent non-executive Directors have brought a wide range of business and financial expertise, experiences and independent judgement to the Board. Through active participation in the Board meetings and serving on various Board committees, all independent non-executive Directors have made various contributions to the Company.

During the year under review, the Company has purchased Directors & Officers Liability and Company Reimbursement Insurance for all its Directors and some of its senior management.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Zhu Zhangjin is the chairman and chief executive officer of the Company responsible for overseeing the operations of the Group. The Board believes that the appointment of Mr. Zhu Zhangjin as the chairman and chief executive officer of the Company will not impair the balance of power and authority between the Board and the management of the Company, and is most beneficial to the Company's interest at present.

NON-EXECUTIVE DIRECTOR

The existing non-executive Directors (including the independent non-executive Directors) were appointed for a term of three years commencing from January 1, 2012, March 1, 2012 and February 22, 2013 and are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Articles.

INDUCTION AND CONTINUING DEVELOPMENT OF DIRECTORS

Each newly appointed Director will receive formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors are continually updated on the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. Continuing briefing and professional development for Directors will be arranged where necessary.

The Company has put in place an on-going training and professional development programme for Directors. During the year ended December 31, 2013, all Directors of the Company namely, Mr. Zhu Zhangjin, Mr. Zhou Xiaosong, Mr. Zhang Mingfa, Michael, Mr. Qiu Jian Ping, Mr. Sun Steve Xiaodi, Mr. Zhou Lingqiang and Mr. Zhang Yuchuan received regular briefings and updates on the Group's business, operations, risk management and corporate governance matters. Furthermore, all of the Directors attended in-house seminars conducted which covers the topics of disclosure requirements under the Listing Rules and SFO during the year under review. All Directors are requested to provide the Company with their respective training records pursuant to the CG Code.

BOARD COMMITTEES

As an integral part of good corporate governance, the following committees have been set up:

Audit Committee

The Audit Committee comprises all the independent non-executive Directors:

Mr. SUN Steve Xiaodi *(Chairman of the Audit Committee)*
Mr. ZHOU Lingqiang
Mr. ZHANG Yuchuan

The Audit Committee was set up in compliance with Rules 3.21 and 3.22 of the Listing Rules with written terms of reference prepared based on "A Guide for Effective Audit Committees" published by the Hong Kong Institute of Certified Public Accountants and the CG Code adopted. The primary duties of the Audit Committee are to review and monitor the Company's financial reporting and internal control principles of the Company and to assist the Board to fulfill its responsibilities over audit. The members of the Audit Committee meet regularly with the external auditors and the Company's senior management to review, supervise and discuss the Company's financial reporting and internal control procedures and to make recommendations to improve the Company's internal control, and to ensure that management has discharged its duty to have an effective internal control system.

The written terms of reference of the Audit Committee are available on the websites of the Stock Exchange and the Company.

During the year ended December 31, 2013, the Audit Committee performed the following Company's corporate governance functions:

1. to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

2. to review and monitor the training and continuous professional development of Directors and senior management of the Company;

3. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

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

5. to review the Company's compliance with the code and disclosure in the Corporate Governance Report of the Company.

During the year ended December 31, 2013, the Audit Committee held two meetings to review the annual and interim results, and to make recommendations to improve the Company's internal control. The chief financial officer, internal audit officer and representatives of the external auditors attended the meetings.

Remuneration Committee

The Remuneration Committee comprises three members, the majority of which are independent non-executive Directors:

Mr. ZHOU Lingqiang *(Chairman of the Remuneration Committee)*
Mr. ZHOU Xiaosong
Mr. ZHANG Yuchuan

The Remuneration Committee has adopted written terms of reference prepared by reference to the suggested terms of reference stated under the CG Code Provision B.1.3.

The written terms of reference of the Remuneration Committee are available on the websites of the Stock Exchange and the Company.

The Remuneration Committee has been delegated with the powers and authorities to implement the share option scheme of the Company and to deal with all compensation matters regarding the Directors and senior management of the Company in accordance with the terms and conditions of their respective agreement/contract with the relevant member of the Group.

During the year ended December 31, 2013, the Remuneration Committee held one meeting to review and approve the remuneration package of the Board members and the senior management.

Pursuant to paragraph B.1.5 of the CG Code, the remuneration of Directors and the members of the senior management by band for the year ended December 31, 2013 is set out below:

Remuneration band	Number of individuals
Nil to HK$1,000,000	16
HK$1,000,001 – HK$1,500,000	1
HK$2,000,001 – HK$2,500,000	Nil

Further particulars regarding Directors' emoluments and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in note 10 to the consolidated financial statements.

Nomination Committee

The nomination committee of the Company (the "Nomination Committee"), comprises of three members, the majority of which are independent non-executive Directors:

Mr. SUN Steve Xiaodi *(Chairman of the Nomination Committee)*
Mr. ZHOU Lingqiang
Mr. ZHANG Mingfa, Michael

The Nomination Committee is responsible for making recommendations to the Board on nominations, appointment or reappointment of Directors and Board succession. The principal duties of the Nomination Committee include reviewing the structure, size and composition (including the skills, knowledge, diversity and experience) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy, identifying individuals suitably qualified to become Board members and accessing the independence of independent non-executive Director. The terms of reference of the Nomination Committee are available on the websites of the Stock Exchange and the Company.

The Nomination Committee adopted the "Board Diversity Policy" in relation to the nomination and appointment of new directors. The Nomination Committee selects board candidates based on a range of diversity perspectives with reference to the Company's business model and specific needs, including but not limited to gender, age, race, language, cultural background, educational background, industry experience and professional experience.

During the year ended December 31, 2013, the Nomination Committee held one meeting to discuss about the appointment of Mr. Qiu Jian Ping as the Company's non-executive Director.

NUMBER OF MEETINGS AND DIRECTORS' ATTENDANCE

The individual attendance record of each Director at the meetings of the Board, Remuneration Committee, Audit Committee and Nomination Committee as well as general meeting of the Company during the year ended December 31, 2013 is set out below:

	Attendance/Number of Meetings				
Name of Directors	**Board Meeting**	**Remuneration Committee Meeting**	**Audit Committee Meeting**	**Nomination Committee Meeting**	**Annual General Meeting held on May 31, 2013**
Executive Directors					
Mr. ZHU Zhangjin, Kasen *(Chairman)*	4/4	N/A	N/A	N/A	1/1
Mr. ZHOU Xiaosong *(Member of Remuneration Committee)*	4/4	1/1	N/A	N/A	1/1
Mr. ZHANG Mingfa, Michael *(Member of Nomination Committee)*	4/4	N/A	N/A	1/1	1/1
Non-executive Director					
Mr. QIU Jian Ping (appointed on February 22, 2013)	4/4	N/A	N/A	N/A	1/1
Independent Non-executive Directors					
Mr. SUN Steve Xiaodi *(Chairman of Audit Committee, and Chairman of Nomination Committee)*	4/4	N/A	2/2	1/1	1/1
Mr. ZHOU Lingqiang *(Member of Audit Committee, Member of Nomination Committee and Chairman of Remuneration Committee)*	4/4	1/1	2/2	1/1	1/1
Mr. ZHANG Yuchuan *(Member of Audit Committee and Remuneration Committee)*	4/4	1/1	2/2	N/A	1/1

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price sensitive information announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended December 31, 2013.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report".

AUDITORS' REMUNERATION

The remuneration paid to the external auditors of the Company in respect of audit services and non-audit services for the year ended December 31, 2013 amounted to approximately RMB3.1 million and RMB0.7 million, respectively.

INTERNAL CONTROL

The Company endeavors to implement a sound risk management and internal control system. The Board is responsible for maintaining an adequate internal control system to safeguard Shareholders' investments and Company's assets, and reviewing the effectiveness of such system on an annual basis, as well as through the Audit Committee. The Audit Committee reports to the Board on any material issues and makes recommendations to the Board.

SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

Any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company (the "Eligible Shareholder(s)") shall at all times have the right, by written requisition to the Board or the company secretary of the Company (the "Company Secretary"), to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition, including making proposals or moving a resolution at an extraordinary general meeting. Eligible Shareholders who wish to convene an extraordinary general meeting for the purpose of making proposals or moving a resolution at an extraordinary general meeting must deposit a written requisition (the "Requisition") and signed by the Eligible Shareholder(s) concerned to the principal place of business of the Company in Hong Kong, such Requisition should state clearly the name of the Eligible Shareholder(s) concerned, his/her/their shareholding in the Company, the reason(s) to convene an extraordinary general meeting and the proposed agenda.

The rights of Shareholders and the procedures for them to demand a poll on resolutions at shareholders' meetings are contained in the Articles. Details of such rights to demand a poll and the poll procedures are included in all circulars to Shareholders prior to December 31, 2013 and will be explained during the proceedings of meetings. Poll results, if any, will be posted on both the websites of the Stock Exchange and the Company no later than 30 minutes before the earlier of the morning session or any pre-opening session on the next business day of the shareholders' meeting.

The general meetings of the Company provide a platform for communication between the Shareholders and the Board. The chairman of the Board as well as chairman of the Remuneration Committee and Audit Committee or if, in their absence, other members of the respective committees, and where applicable, the independent board committee, are available to answer questions at the shareholders' meetings. The Company continues to enhance communications and relationships with its investors. Enquiries from investors are dealt with in an informative and timely manner.

There has been no changes in the Articles during the year ended December 31, 2013.

Taking advantages of various resources, the Company keeps communicating with its Shareholders regularly and properly to ensure that Shareholders are adequately aware of any important issues during the course of the Company's operation, and then exercise their rights as shareholders with sufficient knowledge. In addition, the Company regularly meets with institutional investors, financial analysts and financial media, and promptly releases information related to any significant progress of the Company, so as to promote the development of the Company through mutual and efficient communications. Shareholders may send their enquiries and concern and investors are welcome to write directly to the Company at its place of business in Hong Kong for any inquiries through the following means:

Telephone number:	(852) 2359 9329
By post:	Room 1605, 16/F., Tai Tung Building, 8 Fleming Road, Wanchai, Hong Kong
Attention:	Investor Relations Manager
By email:	kasen@kasen.imsbiz.com.hk

Deloitte.
德勤

TO THE MEMBERS OF KASEN INTERNATIONAL HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Kasen International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 39 to 114, which comprise the consolidated statement of financial position as at December 31, 2013, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

OPINION

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
March 27, 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2013

	NOTES	2013 RMB'000	2012 RMB'000
Turnover	5	**3,439,200**	3,094,552
Cost of sales		**(2,761,776)**	(2,457,175)
Gross profit		**677,424**	637,377
Other income	6	**50,784**	55,327
Selling and distribution costs		**(151,803)**	(126,941)
Administrative expenses		**(180,315)**	(142,254)
Other gains and losses	7	**(12,002)**	27,039
Share of losses of associates		**(4,253)**	(11,947)
Finance costs	8	**(40,653)**	(38,241)
Profit before tax	9	**339,182**	400,360
Income tax expenses	11	**(169,967)**	(192,806)
Profit for the year		**169,215**	207,554
Other comprehensive income (loss)			
Items that may be subsequently reclassified to profit or loss:			
Fair value gain on available-for-sale investments		**364,216**	123,570
Income tax on fair value change of available-for-sale investments		**(91,054)**	(30,892)
Exchange difference arising on translation		**(231)**	–
		272,931	92,678
Total comprehensive income for the year		**442,146**	300,232
Profit (loss) for the year attributable to:			
Owners of the Company		**173,422**	203,399
Non-controlling interests		**(4,207)**	4,155
		169,215	207,554
Total comprehensive income (loss) attributable to:			
Owners of the Company		**446,353**	296,077
Non-controlling interests		**(4,207)**	4,155
		442,146	300,232
Earnings per share	13		
Basic		**RMB14.92 cents**	RMB17.50 cents
Diluted		**RMB14.90 cents**	RMB17.49 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2013

	NOTES	2013 RMB'000	2012 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**752,721**	512,794
Prepaid lease payments – non-current portion	15	**67,362**	70,052
Intangible assets	16	**1,162**	605
Interests in associates	17	**–**	4,253
Available-for-sale investments	18	**859,213**	494,366
Deferred tax assets	19	**91,602**	48,910
Deposit paid for acquisition of a subsidiary	31	**–**	212,581
Advances for acquisition of land for development	31	**–**	279,430
Deposits paid for acquisition of land use rights		**20,000**	20,000
Other long term assets		**620**	–
		1,792,680	1,642,991
CURRENT ASSETS			
Inventories	20	**459,541**	426,905
Properties under development	21	**3,355,805**	3,862,066
Properties held for sale	21	**1,140,048**	519,735
Trade, bills and other receivables	22	**1,528,423**	847,166
Prepaid lease payments – current portion	15	**2,129**	1,568
Tax recoverable		**13,987**	44,032
Prepaid land appreciation tax		**52,491**	48,505
Pledged bank deposits	23	**199,028**	240,815
Restricted bank deposits for property development business	23	**29,615**	6,257
Bank balances and cash	23	**560,147**	560,928
		7,341,214	6,557,977
CURRENT LIABILITIES			
Trade, bills and other payables	24	**1,896,980**	1,794,886
Deposits received in respect of pre-sale of properties		**1,023,479**	1,542,080
Bank and other borrowings – due within one year	25	**1,480,098**	1,280,978
Tax payable		**253,849**	172,347
Amount due to non-controlling interests of subsidiaries	26	**114,374**	103,001
Other long-term liabilities – current portion	27	**145,345**	–
		4,914,125	4,893,292
NET CURRENT ASSETS		**2,427,089**	1,664,685
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,219,769**	3,307,676

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2013

	NOTES	2013 RMB'000	2012 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	19	**326,289**	247,527
Bank and other borrowings – due after one year	25	**458,116**	5,568
Other long-term liabilities	27	**17,160**	142,842
		801,565	395,937
NET ASSETS		**3,418,204**	2,911,739
CAPITAL AND RESERVES			
Share capital	28	**1,400**	1,400
Reserves		**3,260,017**	2,813,664
Equity attributable to owners of the Company		**3,261,417**	2,815,064
Non-controlling interests		**156,787**	96,675
TOTAL EQUITY		**3,418,204**	2,911,739

The consolidated financial statements on pages 39 to 114 were approved and authorized for issue by the Board of Directors on March 27, 2014 and are signed on its behalf by:

Zhu Zhangjin, Kasen
DIRECTOR

Zhang Mingfa, Michael
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2013

	Attributable to owners of the Company											
	Share capital *RMB'000*	Share premium *RMB'000*	Statutory reserve *RMB'000* *(note 30)*	Special reserve *RMB'000* *(note 30)*	Share option reserve *RMB'000*	Other reserve *RMB'000* *(note 30)*	Available-for-sale investments revaluation reserve *RMB'000*	Translation reserve *RMB'000*	Retained earnings *RMB'000*	Sub-total *RMB'000*	Non-controlling interests *RMB'000*	Total *RMB'000*
At January 1, 2012	1,400	1,317,487	191,693	168,659	16,840	(41,703)	245,637	–	618,974	2,518,987	72,520	2,591,507
Profit for the year	–	–	–	–	–	–	–	–	203,399	203,399	4,155	207,554
Total other comprehensive income	–	–	–	–	–	–	92,678	–	–	92,678	–	92,678
Total comprehensive income for the year	–	–	–	–	–	–	92,678	–	203,399	296,077	4,155	300,232
Release upon lapse of share options	–	–	–	–	(2,802)	–	–	–	2,802	–	–	–
Transfer upon disposal of a wholly-owned subsidiary	–	–	(2,384)	(676)	–	–	–	–	3,060	–	–	–
Acquisition of a subsidiary *(note 31)*	–	–	–	–	–	–	–	–	–	–	20,000	20,000
At December 31, 2012	1,400	1,317,487	189,309	167,983	14,038	(41,703)	338,315	–	828,235	2,815,064	96,675	2,911,739
Profit (loss) for the year	–	–	–	–	–	–	–	–	173,422	173,422	(4,207)	169,215
Total other comprehensive income (loss)	–	–	–	–	–	–	273,162	(231)	–	272,931	–	272,931
Total comprehensive income (loss) for the year	–	–	–	–	–	–	273,162	(231)	173,422	446,353	(4,207)	442,146
Acquisition of a subsidiary *(note 31)*	–	–	–	–	–	–	–	–	–	–	63,499	63,499
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	–	820	820
At December 31, 2013	**1,400**	**1,317,487**	**189,309**	**167,983**	**14,038**	**(41,703)**	**611,477**	**(231)**	**1,001,657**	**3,261,417**	**156,787**	**3,418,204**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2013

	NOTES	**2013**	2012
		RMB'000	*RMB'000*
OPERATING ACTIVITIES			
Profit before tax		**339,182**	400,360
Adjustments for:			
Allowance for inventories		**7,303**	3,675
Reversal of impairment loss recognized in respect of trade and other receivables		**(5,756)**	(11,260)
Amortization of intangible assets		**436**	372
Release of prepaid lease payments		**2,129**	805
Depreciation of property, plant and equipment		**56,290**	41,186
Finance costs		**40,653**	38,241
Loss on fair value change on derivative financial instruments		**–**	338
Reversal of impairment loss recognized in respect of property, plant and equipment		**–**	(13,084)
Impairment loss recognized in respect of trade and other receivables		**6,392**	6,518
Imputed interest of receivable from disposal of assets		**–**	(2,470)
Dividend income from available-for-sale investments		**(5,985)**	(5,163)
Interest income		**(19,007)**	(18,836)
(Gain) loss on disposal of property, plant and equipment		**(400)**	8
Share of losses of associates		**4,253**	11,947
Gain on bargain purchase of a subsidiary		**(4,849)**	–
Gain on loss of control of a subsidiary		**–**	(17,871)
Others		**34**	1,092
Operating cash flows before movements in working capital		**420,675**	435,858
Decrease (increase) in inventories		**9,622**	(72,996)
Increase in properties under development and held for sale		**(75,199)**	(683,342)
Decrease (increase) in trade, bills and other receivables		**284,092**	(43,998)
(Decrease) increase in trade, bills and other payables		**(435,934)**	592,942
(Decrease) increase in deposits received in respect of pre-sale properties		**(518,601)**	6,828
(Increase) decrease in restricted bank deposits		**(23,358)**	2,935
Decrease in amounts due to non-controlling interests of subsidiaries		**(65,315)**	–
Settlement of derivative financial instruments		**–**	159
Cash (used in) generated from operations		**(404,018)**	238,386
Land Appreciation Tax ("LAT") paid		**(52,423)**	(57,827)
Income taxes paid		**(65,101)**	(44,647)
NET CASH (USED IN) GENERATED FROM OPERATING ACTIVITIES		**(521,542)**	135,912

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2013

	NOTES	2013 RMB'000	2012 RMB'000
INVESTING ACTIVITIES			
Gross proceeds from disposal of prepaid lease payments		–	273,418
Release of pledged bank deposits		**738,391**	176,580
Deposit refund for acquisition of a property		–	40,000
Loss of control of a subsidiary		–	30,641
Interest received		**19,007**	18,836
Proceeds from disposal of available-for-sale investments		**440**	10,000
Dividend income from available-for-sale investments		**5,299**	5,163
Proceeds from disposal of property, plant and equipment		**251**	1,858
Addition to pledged bank deposits		**(696,604)**	(232,215)
Purchase of property, plant and equipment		**(87,759)**	(134,272)
Acquisition of subsidiaries	*31*	**1,323**	(27,680)
Addition to prepaid lease payments		–	(20,600)
Deposits paid for acquisition of land use rights		–	(20,000)
Purchase of intangible assets		**(588)**	(275)
Proceeds from disposal of investment in associates		**10**	–
Proceed from sale of assets held for sale	*7*	**1,883**	–
NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES		**(18,347)**	121,454

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2013

	NOTES	2013 RMB'000	2012 RMB'000
FINANCING ACTIVITIES			
Repayment of bank and other borrowings		**(2,439,255)**	(2,269,630)
Interest paid		**(109,083)**	(83,886)
Repayment to related parties		**(290)**	(3,453)
Underwriting fee paid in relation to issuance of corporate bonds by a subsidiary		**(3,700)**	(2,000)
Bank and other borrowings raised		**3,074,247**	2,125,287
Proceeds from issuance of corporate bonds by a subsidiary		**–**	150,000
Advance from a related party		**16,600**	16,500
Capital contribution from non-controlling interests of subsidiaries		**820**	-
NET CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES		**539,339**	(67,182)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(550)**	190,184
Effect of changes in exchange rates		**(231)**	–
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**560,928**	370,744
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**560,147**	560,928
Represented by:			
Bank balances and cash		**560,147**	560,928

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2013

1. GENERAL

The Company is an exempted company incorporated in the Cayman Islands with limited liability and its shares are listed on the Stock Exchange of Hong Kong Limited ("Stock Exchange") since October 20, 2005. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information attached to the annual report.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

The Company is an investment holding company. Its subsidiaries are principally engaged in (i) manufacturing of upholstered furniture, furniture leather and automotive leather; (ii) properties development; and (iii) retail of furniture.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

In the current year, the Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board ("IASB").

Amendments to IFRSs	Annual Improvements to IFRSs 2009-2011 Cycle
Amendments to IFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
IAS 19 (as revised in 2011)	Employee Benefits
IAS 27 (as revised in 2011)	Separate Financial Statements
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine

Except as described below, the application of the new and revised IFRS in the current year had no material impact on the Group's financial performance and positions for the current and prior years and/or the disclosures set out in these consolidated financial statements.

IFRS 13 Fair Value Measurement

The Group has applied IFRS 13 for the first time in the current year. IFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements, and replaces those requirements previously included in various IFRSs. The scope of IFRS 13 is broad, and applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, subject to a few exceptions. IFRS 13 contains a new definition for 'fair value' and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement and disclosure requirements prospectively. Disclosures of fair value information are set out in note 32(c).

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") (cont'd)

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and an income statement is renamed as a statement of profit or loss. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements.

However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the existing option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

The Group has not early applied the following new and revised standards, amendments or interpretation that have been issued but are not yet effective.

Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities[1]
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions[2]
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures[3]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities[1]
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets[1]
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2010-2012 Cycle[4]
Amendments to IFRSs	Annual Improvements to IFRSs 2011-2013 Cycle[2]
IFRS 9	Financial Instruments[3]
IFRS 14	Regulatory Deferral Accounts[5]
IFRIC 21	Levies[1]

[1] Effective for annual periods beginning on or after January 1, 2014.
[2] Effective for annual periods beginning on or after July 1, 2014.
[3] Available for application – the mandatory effective date will be determined when the outstanding phases of IFRS 9 are finalized.
[4] Effective for annual periods beginning on or after July 1, 2014, with limited exceptions.
[5] Effective for first annual IFRS financial statements beginning on or after January 1, 2016.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 Inventories or value in use in IAS 36 Impairment of Assets.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Basis of consolidation (cont'd)

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Company loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Company had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognized in profit or loss as incurred. At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value with certain exceptions.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another IFRS.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Interest in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with IAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of sales related taxes.

Revenue from the sale of goods is recognized when the goods are delivered and the title has been passed, at which time, all of the following are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from sale of properties in the ordinary course of business is recognized when the respective properties have been completed and delivered to buyers. Deposits and installments received from the purchasers prior to meeting the above criteria for revenue recognition are disclosed as deposits received in respect of pre-sale of properties and are included in the consolidated statement of financial position under current liabilities.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Revenue from provision of travel packages and other related services is recognized when the services are rendered.

Revenue from the operation of resort and provision of property management services are recognized when services are rendered.

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant leases.

Dividend income from investments is recognized when the shareholders' rights to receive payment have been established.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognized so as to write off the cost of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction in progress for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is included in profit or loss.

Properties under development and held for sale

Properties under development represent leasehold land and building which are developed for future sale in the ordinary course of business. Properties under development are transferred to properties held for sale upon completion of development. Properties under properties held for sale are stated at the lower of cost and net realizable value. Cost includes the cost of land use rights, development expenditures, borrowing costs capitalized and other direct attributable expenses.

Cost is determined by apportionment of the total land and development costs attributable to the unsold properties.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Leasing (cont'd)

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is released over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which cases, the exchange differences are also recognized directly in other comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rate prevailing at the end of the reporting period. Income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity under the heading of the translation reserve.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Foreign currencies (cont'd)

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e. partial disposals of associates that do not result in the Group losing significant influence), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

Retirement benefits costs

Payments to defined contribution retirement benefits schemes, including mandatory provident fund scheme and state-managed retirement benefit scheme, are recognized as expenses when employees have rendered service entitling them to the contributions.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Share-based payments transactions

Equity-settled share-based payments transactions

Share options granted to employees

The fair value of services received determined by reference to the fair value of the share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognized in profit or loss such that the cumulative expenses reflects the revised estimate with a corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognized in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in share option reserve will be transferred to retained earnings.

Share options granted to consultants

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognized as expenses, with a corresponding increase in equity (share option reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Taxation (cont'd)

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effective of any changes in estimate being accounted for on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the assets and is included in profit or loss in the period when the asset is derecognized.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognized separately from goodwill and are initially recognized at their fair values at the acquisition date (which is regarded as their cost).

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the assets and is included in profit or loss in the period when the asset is derecognized.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs are determined on the weighted average cost method. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Impairment of tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs 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 the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately.

Financial instruments

Financial assets and financial liabilities are recognized in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

The Group's financial assets are classified into loans and receivables and available-for-sale investments. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place. The accounting policies adopted in respect of each category of financial assets are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (cont'd)

Financial assets (cont'd)

Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instruments and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognized on an effective interest basis for debt instruments.

Loan and receivables

Loans and receivables, including trade receivables, bill receivables and other receivables, are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortized cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale investments

Available-for-sale investments are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Equity and debt securities held by the Group that are classified as available-for-sale investments are measured at fair value at the end of each reporting period. Changes in the carrying amount of available-for-sale investments monetary financial assets relating to interest income calculated using the effective interest method and dividends on available-for-sale investments equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and accumulated under the heading of available-for-sale investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

Dividends on available-for-sale investments equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (cont'd)

Financial assets (cont'd)

Impairment of financial assets (cont'd)

For other financial asset, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of an impairment loss is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a trade or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Impairment losses on available-for-sale equity investments will not be reversed through profit or loss. Any increase in fair value subsequent to impairment loss is recognized directly in other comprehensive income and accumulated in available-for-sale investments revaluation reserve.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (cont'd)

Financial liabilities and equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

The Group's financial liabilities are generally classified into other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognized on an effective interest basis for debt instruments.

Trade, bills and other payables, bank and other borrowings, amount due to non-controlling interests of subsidiaries and other long-term liabilities

The above financial liabilities are subsequently measured at amortized cost, using the effective interest method.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognized in profit and loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit and loss depends on the nature of the hedge relationship.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognized in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (cont'd)

Derecognition

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognize the asset to the extent of its continuing involvement and recognizes an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Allowance for inventories

Management of the Group reviews the inventories at the end of the reporting period and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. Management estimates the net realizable value for such items based primarily on the latest invoices prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of the reporting period. Where there is obsolete or the net realizable value is lower than its carrying amount in such items, a material impairment loss may arise. As at December 31, 2013, the carrying amount of inventories is approximately RMB459,541,000 (2012: RMB426,905,000) (net of allowance for inventories of RMB11,365,000 (2012: RMB10,348,000)).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (cont'd)

Estimated impairment of properties under development and held for sale

Net realizable value for properties under development is determined by reference to management estimates of the selling price based on prevailing market conditions, less applicable variable selling expenses and the anticipated costs to completion. Net realizable value for properties held for sale is determined by reference to management estimates of the selling price based on prevailing market conditions, less applicable variable selling expenses. During the course of their assessment, management may make reference to property valuations conducted by independent qualified professional valuers based on comparable market prices. Management will revise these estimates if there is a change in market condition or demand. If actual market conditions are less favorable than those projected by management, additional adjustments to the value of properties under development and properties held for sale may be required. In the opinion of the management, no impairment indicators on property under development and held for sale were identified as at December 31, 2013 and 2012. As at December 31, 2013, the aggregate carrying amount of properties under development and held for sale is approximately RMB4,495,853,000 (2012: RMB4,381,801,000).

Estimated impairment of trade and other receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at December 31, 2013, the aggregate carrying amount of trade and other receivables is RMB442,895,000 (2012: RMB459,260,000) (net of allowance for doubtful debts of RMB130,926,000 (2012: RMB130,290,000)).

5. SEGMENT INFORMATION AND REVENUE

(a) Segment information

The Group's operating segments, based on information reported to the executive directors, who are the chief operating decision maker (the "CODM") for the purpose of resource allocation and performance assessment, are as follows:

– Manufacturing of upholstered furniture, furniture leather and automotive leather ("Manufacturing");

– Properties development;

– Retailing of furniture ("Retail"); and

– Others, comprising mainly provision of property management service, hot spring resort operation and provision of travel-related services ("Others").

5. SEGMENT INFORMATION AND REVENUE (cont'd)

(a) Segment information (cont'd)

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segments:

Revenue

For the year ended December 31, 2013

	Manufacturing	Properties development	Retail	Others	Segment total	Eliminations	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
TURNOVER							
External sales	**1,851,864**	**1,468,074**	**16,041**	**103,221**	**3,439,200**	**–**	**3,439,200**
Inter-segment sales	**2,820**	**–**	**–**	**15,696**	**18,516**	**(18,516)**	**–**
Total	**1,854,684**	**1,468,074**	**16,041**	**118,917**	**3,457,716**	**(18,516)**	**3,439,200**

For the year ended December 31, 2012

	Manufacturing	Properties development	Retail	Others	Segment total	Eliminations	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
TURNOVER							
External sales	1,715,874	1,268,049	20,851	89,778	3,094,552	–	3,094,552
Inter-segment sales	4,438	–	–	5,667	10,105	(10,105)	–
Total	1,720,312	1,268,049	20,851	95,445	3,104,657	(10,105)	3,094,552

5. SEGMENT INFORMATION AND REVENUE (cont'd)

(a) Segment information (cont'd)

Segment revenues and results (cont'd)

Results

	2013 RMB'000	2012 RMB'000
Segment results		
– Manufacturing	**(4,142)**	45,456
– Properties development	**222,403**	193,757
– Retail	**(9,725)**	(6,387)
– Others	**(38,366)**	(34,749)
	170,170	198,077
Unallocated corporate expenses	**(4,080)**	(8,065)
Unallocated other gains and losses	**(1,724)**	(329)
Gain on loss of control of a subsidiary	**–**	17,871
Gain on bargain purchase of a subsidiary	**4,849**	–
Profit for the year	**169,215**	207,554

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit (loss) mainly represents the profit earned by (loss from) each segment without allocation of central administration costs, directors' salaries and exchange gain (loss). This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

5. SEGMENT INFORMATION AND REVENUE (cont'd)

(a) Segment information (cont'd)

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segments:

Segment assets

	2013	2012
	RMB'000	*RMB'000*
		(Restated)
Manufacturing	**2,712,444**	2,520,706
Properties development	**6,050,348**	5,432,957
Retail	**10,929**	11,450
Others	**302,303**	219,601
Total segment assets	**9,076,024**	8,184,714
Unallocated	**57,870**	16,254
Consolidated assets	**9,133,894**	8,200,968

Segment liabilities

	2013	2012
	RMB'000	*RMB'000*
		(Restated)
Manufacturing	**2,522,182**	2,303,590
Properties development	**3,098,222**	2,916,833
Retail	**17,921**	13,709
Others	**67,668**	41,814
Total segment liabilities	**5,705,993**	5,275,946
Unallocated	**9,697**	13,283
Consolidated liabilities	**5,715,690**	5,289,229

For the purposes of monitoring segment performances and allocating resources between segments:

– all assets are allocated to operating segments other than head office assets;

– all liabilities are allocated to operating segments other than head office liabilities; and

– all intergroup balances and investment costs have been eliminated in internal reports starting year 2013 when presenting segment assets and liabilities to CODM, prior year numbers has been restated as a result.

5. SEGMENT INFORMATION AND REVENUE (cont'd)

(a) Segment information (cont'd)

Geographical information

The Group's operations are substantively located in the People's Republic of China ("PRC").

The Group's revenue analysis are basically based on the locations of external customers except for revenue from sales of properties and provision of property management services, which are based on location of properties.

The Group's revenue from external customers and information about its non-current assets (excluding financial assets and deferred tax assets) by geographical location of the assets are detailed below:

	Revenue from external customers Year ended December 31,		**Non-current assets At December 31,**	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
United States	**234,574**	295,267	**–**	–
PRC, including Hong Kong	**3,062,840**	2,683,429	**840,474**	1,099,715
Europe	**92,068**	69,165	**–**	–
Japan	**37,308**	–	**1,391**	–
Others	**12,410**	46,691	**–**	–
	3,439,200	3,094,552	**841,865**	1,099,715

Information about major customers

The following table summarizes revenue and trade receivable for customers which accounted for 10% or more of gross accounts receivable and net sales:

	Revenue Year ended December 31,		**Trade receivable At December 31,**	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Customer A[1]	**492,443**	384,666	**92,620**	160,238
Customer B[1]	**486,813**	514,286	**165,466**	148,383

1 Revenue from Manufacturing

5. SEGMENT INFORMATION AND REVENUE (cont'd)

(b) Revenue

Revenue represents the aggregate of the net amounts received and receivable from third parties for the year.

The following is an analysis of the Group's revenue for the year:

	2013	2012
	RMB'000	*RMB'000*
Sale of goods		
Manufacturing		
Upholstered furniture	**459,128**	495,595
Furniture leather	**255,359**	200,030
Automotive leather	**1,137,377**	1,020,249
Residential properties	**1,468,074**	1,268,049
Retail of upholstered furniture	**16,041**	20,851
	3,335,979	3,004,774
Provision of services		
Others *(note)*	**103,221**	89,778
Total	**3,439,200**	3,094,552

Note: Amounts mainly included income from provision of property management services, hot spring resort operation and provision of travel-related services.

6. OTHER INCOME

Details of other income are as follows:

	2013	2012
	RMB'000	*RMB'000*
Government grants *(note)*	**11,939**	7,759
Income from sales of scrap materials	**4,645**	3,133
Interest income	**19,007**	18,836
Dividend income from available-for-sale investments	**5,985**	5,163
Rental income	**4,401**	3,848
Imputed interest of receivable from disposal of assets	**–**	2,470
Others	**4,807**	14,118
	50,784	55,327

Note: Government grants represent various incentives received from government for business development.

7. OTHER GAINS AND LOSSES

	2013 **RMB'000**	2012 *RMB'000*
Reversal of impairment loss recognized in respect of trade and other receivables	**5,756**	11,260
Loss on fair value change on derivative financial instruments	**–**	(338)
Gain (loss) on disposal of property, plant and equipment	**400**	(8)
Net foreign exchange loss	**(2,962)**	(246)
Impairment loss recognized in respect of trade and other receivables	**(6,392)**	(6,518)
Reversal of impairment recognized in respect of property, plant and equipment	**–**	13,084
Donation	**(1,482)**	(709)
Penalty (i)	**(9,571)**	(529)
Gain on bargain purchase of a subsidiary *(note 31)*	**4,849**	–
Gain on loss of control of a subsidiary	**–**	17,871
Gain on disposal of an associate *(note 17)*	**10**	–
Loss on sale of assets held for sale *(ii)*	**(44)**	–
Other	**(2,566)**	(6,828)
	(12,002)	27,039

Notes:

(i) In May 2013, the Group terminated the rental contract in advance for the retail store in Shanghai and paid RMB7.8 million penalty. Other penalties are the tax penalty for late payment.

(ii) After acquisition of MELX Co., Ltd. ("MELX") in January 2013 (see note 31 for details), the directors of the Company resolved to dispose of the land and building located in Japan, which is not indispensable in future business development. The land and buildings were classified as assets held for sale at an amount of RMB1,927,000 at inception.

In October 2013, the land and building was sold for a total consideration of RMB1,883,000 and the Company recorded a loss of RMB44,000.

8. FINANCE COSTS

	2013 **RMB'000**	2012 *RMB'000*
Interest on:		
Bank borrowings wholly repayable within five years	**94,899**	83,691
Corporate bonds wholly repayable within five years	**14,653**	8,149
Other borrowings not wholly repayable within five years	**6,840**	195
Total borrowing costs	**116,392**	92,035
Less: Amounts capitalized in respect of properties under development *(note 21)*	**(75,739)**	(53,794)
	40,653	38,241

The capitalized borrowing costs represent the borrowing costs incurred by the entities on borrowings whose funds were specifically used in the properties during the year.

9. PROFIT BEFORE TAX

	2013 RMB'000	2012 RMB'000
Profit before tax has been arrived at after charging:		
Amortization of intangible assets	**436**	372
Depreciation of property, plant and equipment	**56,290**	41,186
Total depreciation and amortization	**56,726**	41,558
Release of prepaid lease payments	**2,129**	805
Auditor's remuneration	**3,100**	4,534
Cost of inventories recognized as expenses (including allowance of inventories of RMB7,303,000 (2012: RMB3,675,000))	**1,697,933**	1,537,759
Cost of properties recognized as cost of sale	**994,224**	837,271
Operating lease rentals in respect of land and buildings	**25,190**	31,905
Total employee benefit expenses (including directors' emoluments)	**208,860**	150,587

10. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

The emoluments paid or payable to the directors were as follows:

2013

	Zhu Zhangjin, Kasen ("Mr. Zhu") RMB'000 (note i)	Zhou Xiaosong RMB'000	Zhang Mingfa, Michael RMB'000	Sun Steve Xiaodi RMB'000	Zhou Lingqiang RMB'000	Zhang Yuchuan RMB'000 (note ii)	Qiu Jian Ping RMB'000 (note iii)	Total RMB'000
Fees	–	–	–	143	143	143	–	429
Other emoluments								
Salaries and other benefits	800	420	420	–	–	–	–	1,640
Contributions to retirement benefits schemes	15	15	15	–	–	–	–	45
Total emoluments	815	435	435	143	143	143	–	2,114

10. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (cont'd)

2012

	Mr. Zhu RMB'000 (note i)	Zhou Xiaosong RMB'000	Zhang Mingfa, Michael RMB'000	Li Qingyuan RMB'000 (note ii)	Sun Steve Xiaodi RMB'000	Zhou Lingqiang RMB'000	Zhang Yuchuan RMB'000 (note ii)	Total RMB'000
Fees	–	–	–	24	147	147	122	440
Other emoluments								
Salaries and other benefits	420	280	280	–	–	–	–	980
Contributions to retirement benefits schemes	8	8	8	–	–	–	–	24
Total emoluments	428	288	288	24	147	147	122	1,444

Notes:

(i) Mr. Zhu is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

(ii) Dr. Li Qingyuan resigned as a director on March 1, 2012. Mr. Zhang Yuchuan was appointed as a director on March 1, 2012.

(iii) Mr. Qiu Jian Ping was appointed as a non-executive director on February 22, 2013.

Two (2012: One) of the five individuals with the highest emoluments in the Group were director of the Company whose emoluments are included in the disclosures as above. The emoluments of the remaining three (2012: four) individuals were as follows:

	2013 ***RMB'000***	2012 *RMB'000*
Basic salaries and other benefits	**1,590**	1,578
Contributions to retirement benefits schemes	**71**	39
	1,661	1,617

Their emoluments were within the following bands:

	2013	2012
Nil to HK$1,000,000	**3**	4

During the year, no emoluments were paid by the Group to the directors and five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2012: Nil). None of the directors has waived any emoluments during the year (2012: Nil).

11. INCOME TAX EXPENSES

	2013	2012
	RMB'000	*RMB'000*
Current year		
– PRC enterprise income tax	**131,468**	118,391
– Japan	**91**	–
	131,559	118,391
Underprovision of income tax in previous years		
– PRC enterprise income tax	**3,876**	187
PRC Land appreciation tax ("LAT")	**89,516**	86,291
Deferred tax *(note 19)*	**(54,984)**	(12,063)
	169,967	192,806

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

Taxation arising in Japan is calculated at the tax rate 36.8% prevailing in Japan.

Haining Schinder Tanning Co., Ltd, one subsidiary of the Group obtained a High and New Technology Enterprise status for the periods from January 1, 2010 to December 31, 2012 and for the periods from January 1, 2013 to December 31, 2013, respectively, and entitled to a preferential tax rate of 15% for the years ended December 31, 2013 and 2012.

According to the requirements of the Provisional Regulations of the PRC on LAT (中華人民共和國土地增值稅暫行條例) effective from January 1994, and the Detailed Implementation Rules on the Provisional Regulations of the PRC on LAT (中華人民共和國土地增值稅暫行條例實施細則) effective from January 27, 1995, all income from the sale or transfer of land use rights, buildings and their attached facilities in the PRC is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation value.

11. INCOME TAX EXPENSES (cont'd)

The tax charge for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2013	2012
	RMB'000	*RMB'000*
Profit before tax	**339,182**	400,360
Tax rate applicable to the major operation of the Group	**25%**	25%
Tax at the domestic income tax rate	**84,796**	100,090
Tax effect of share of result of associates	**1,063**	2,987
Tax effect of disposal share of an associate	**(3,748)**	–
Tax effect of expenses not deductible for tax purpose	**34,207**	49,838
Tax effect of income not taxable for tax purpose	**(13,320)**	(10,624)
Tax effect of deductible temporary differences not recognized	**3,424**	2,548
Utilization of deductible temporary differences previously not recognized	**(3,010)**	(23,520)
PRC LAT	**89,516**	86,291
Tax effect of PRC LAT	**(22,379)**	(21,573)
Tax effect of tax losses not recognized	**20,873**	20,709
Utilization of tax losses previously not recognized	**(23,407)**	(8,879)
Tax effect of tax preference	**(1,924)**	(5,248)
Underprovision in previous years	**3,876**	187
Taxation for the year	**169,967**	192,806

12. DIVIDENDS

No dividend was paid, declared or proposed during 2013 and 2012.

Subsequent to the end of the reporting period, a final dividend in respect of the year ended December 31, 2013 of HK 1.00 cent (equivalent to approximately RMB0.79 cent) (2012: nil) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming general meeting.

13. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company are based on the following data:

Profit for the year

	2013	2012
	RMB'000	*RMB'000*
Profit for the purposes of basic and diluted earnings per share, being profit attributable to owners of the Company	**173,422**	203,399

Number of shares

	2013	2012
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,162,322,985**	1,162,322,985
Effect of dilutive potential ordinary shares – share options	**1,544,806**	317,752
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,163,867,791**	1,162,640,737

The computation of diluted earnings per share does not assume the exercise of certain of the Company's options because the exercise prices of those options were higher than the average market price of shares in 2013 and 2012.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and equipment	Motor vehicles	Furniture, fixtures and equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST						
At January 1, 2012	348,172	241,268	45,513	28,957	63,366	727,276
Additions	27,524	11,595	5,882	6,726	82,545	134,272
Acquired on acquisition of subsidiaries *(note 31)*	–	–	265	–	–	265
Disposal	–	(2,987)	(317)	(834)	–	(4,138)
Transfers	66,859	160	–	–	(67,019)	–
At December 31, 2012	442,555	250,036	51,343	34,849	78,892	857,675
Additions	13,325	33,274	5,330	4,637	31,193	87,759
Acquired on acquisition of subsidiaries *(note 31)*	–	–	539	194	77,809	78,542
Disposal	–	(11)	(524)	(26)	–	(561)
Transfers	94,137	164	–	–	(94,301)	–
Transfers from property under development *(note 21)*	129,963	–	–	–	–	129,963
At December 31, 2013	**679,980**	**283,463**	**56,688**	**39,654**	**93,593**	**1,153,378**
DEPRECIATION AND IMPAIRMENT						
At January 1, 2012	104,795	165,355	25,750	23,151	–	319,051
Provided for the year	18,940	13,729	2,213	6,304	–	41,186
Eliminated on disposal	–	(1,364)	(196)	(712)	–	(2,272)
Reversal of impairment loss recognized	–	(12,962)	(122)	–	–	(13,084)
At December 31, 2012	123,735	164,758	27,645	28,743	–	344,881
Provided for the year	30,594	16,870	2,134	6,692	–	56,290
Eliminated on disposal	–	(4)	(490)	(20)	–	(514)
At December 31, 2013	**154,329**	**181,624**	**29,289**	**35,415**	**–**	**400,657**
CARRYING AMOUNTS						
At December 31, 2013	**525,651**	**101,839**	**27,399**	**4,239**	**93,593**	**752,721**
At December 31, 2012	318,820	85,278	23,698	6,106	78,892	512,794

14. PROPERTY, PLANT AND EQUIPMENT (cont'd)

The above items, other than construction in progress, are depreciated on a straight-line basis after consideration of residual value at the following rates, per annum:

Buildings	20 years
Plant and equipment	10 – 15 years
Motor vehicles	4 – 5 years
Furniture, fixtures and equipment	5 – 10 years

The buildings are located on the land leased under medium-term land use rights in the PRC.

As at December 31, 2013, the title deeds of buildings with carrying amount of RMB168,935,000 (2012: RMB150,498,000) has not been obtained. The directors believe that the relevant title deeds will be granted in the due course and the absence of official certificate does not impair the value of the relevant properties of the Group.

15. PREPAID LEASE PAYMENTS

The prepaid lease payments made by the Group are payment for land use rights under medium-term lease in the PRC.

	2013 ***RMB'000***	2012 *RMB'000*
Analyzed for reporting purposes as:		
Non-current assets	**67,362**	70,052
Current assets	**2,129**	1,568
	69,491	71,620

16. INTANGIBLE ASSETS

	Computer software *RMB'000*
COST	
At January 1, 2012	4,333
Additions	275
At December 31, 2012	4,608
Additions	588
Acquisition of subsidiary *(note 31)*	405
At December 31, 2013	**5,601**
ACCUMULATED AMORTIZATION	
At January 1, 2012	3,631
Provided for the year	372
At December 31, 2012	4,003
Provided for the year	436
At December 31, 2013	**4,439**
CARRYING VALUES	
At December 31, 2013	**1,162**
At December 31, 2012	605

All the Group's computer software were amortised on a straight-line basis over five years.

17. INTERESTS IN ASSOCIATES

	2013	2012
	RMB'000	*RMB'000*
Cost of investment in associates, unlisted	**24,962**	39,962
Share of post-acquisition losses	**(24,962)**	(35,709)
	–	4,253

Particulars of the associates indirectly held by the Company at December 31, 2013 and 2012 are as follows:

Name of associate	Place of registration	Registered capital	Proportion of registered capital indirectly held by the Company		Principal activities
			2013	2012	
			%	%	
Zhejiang Liema Furniture Co. Ltd. ("Liema Furniture") 浙江獵馬傢俬有限公司	PRC	USD7,000,000	**45.5**	45.5	Production and sales of upholstered furniture
Zhejiang Youge Kitchen Appliances Co. Ltd. ("Youge") 浙江優格廚電有限公司 *(Note)*	PRC	RMB50,000,000	**–**	30	Trading of kitchen utensils

Note:

On October 17, 2013, the Group disposed all its shares in Youge for an amount of RMB10,000.

17. INTERESTS IN ASSOCIATES (cont'd)

The summarized unaudited financial information relating to the Group's associates is set out below:

	2013	2012
	RMB'000	*RMB'000*
Total assets	**151,051**	213,334
Total liabilities	**(155,234)**	(210,363)
Net assets	**(4,183)**	2,971
Group's share of net assets of associates	**–**	4,253
Revenue	**86,461**	96,033
Loss for the year	**(31,732)**	(40,068)
Group's share of loss of associates for the year	**(4,253)**	(11,947)

The Group has discontinued recognition of its share of loss of an associate. The amounts of unrecognized share of the associate, both for the year and cumulatively, are as follows:

	2013	2012
	RMB'000	*RMB'000*
Unrecognized share of loss of an associate for the year	**3,193**	2,242
Accumulated unrecognized share of losses of an associate	**3,193**	2,242

18. AVAILABLE-FOR-SALE INVESTMENTS

	2013	2012
	RMB'000	*RMB'000*
Listed investments:		
– 3.69% (2012: 3.69%) equity interest in Haining China Leather Market Co., Ltd ("HCLM")	**858,272**	494,056
Unlisted investments		
– Equity securities	**941**	310
	859,213	494,366

The principal activity of HCLM is the operation of department stores in the PRC. The shares of HCLM are listed in the Shenzhen Stock Exchange.

The equity securities RMB941,000 do not have a quoted market price in an active market and whose fair value cannot be reliably measured and therefore has been measured at cost method.

19. DEFERRED TAXATION

The following are the major deferred tax (liabilities) assets recognized and movements thereon during the current and prior years:

	Income on relocation of manufacturing plant	Unrealized profit on intra-group transactions	Fair value available-for-sale investments	LAT provision	Tax losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At January 1, 2012	(119,994)	19,228	(83,372)	4,350	–	(179,788)
Charge to other comprehensive income	–	–	(30,892)	–	–	(30,892)
Credit to profit or loss	–	1,772	1,492	8,799	–	12,063
At December 31, 2012	(119,994)	21,000	(112,772)	13,149	–	(198,617)
Charge to other comprehensive income	–	–	(91,054)	–	–	(91,054)
Credit to profit or loss	29,114	5,734	–	12,657	7,479	54,984
At December 31, 2013	**(90,880)**	**26,734**	**(203,826)**	**25,806**	**7,479**	**(234,687)**

19. DEFERRED TAXATION (cont'd)

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2013	2012
	RMB'000	*RMB'000*
Deferred tax assets	**91,602**	48,910
Deferred tax liabilities	**(326,289)**	(247,527)
	(234,687)	(198,617)

Details of other deductible temporary differences not recognized at the end of the reporting period are as follows:

	2013	2012
	RMB'000	*RMB'000*
Impairment of property, plant and equipment	**10,908**	10,908
Allowance for bad and doubtful debts	**130,926**	130,290
Allowance for inventories	**11,365**	10,348
	153,199	151,546

No deferred tax asset has been recognized in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilized.

Under the EIT Law and Implementation Regulations, PRC withholding income tax is applicable to interest and dividends payable to investors that are "non-tax resident enterprises", which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such interest or dividends have their sources within the PRC. Under such circumstances, dividends distributed from the PRC subsidiaries to off-shore group entities shall be subject to the withholding tax at 10% or a lower treaty rate. Under tax treaty, withholding tax rate on distributions to Hong Kong resident companies is 5%. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB1,392,203,000 (2012: RMB1,093,385,000).

As described in note 12, subsequent to the end of the reporting period, a final dividend in respect of the year ended December 31, 2013 of HK1.00 cent (equivalent to approximately RMB0.79 cent) (2012: nil) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming general meeting. The directors of the Company represent that the remaining undistributed earnings of the PRC subsidiaries as of December 31, 2013 will be set aside for expansion of operations, and therefore the Group has not provided for the deferred tax liabilities in respect of withholding tax on the remaining undistributed earnings of the Group's PRC entities as the Group is able to control the timing of the reversal of such temporary differences and it is probable that such temporary differences would not be reversed in foreseeable future.

19. DEFERRED TAXATION (cont'd)

At the end of the reporting period, the Group has unused tax losses of RMB248,437,000 (2012: RMB240,149,000) available for offset against future profits. A deferred tax asset has been recognized in respect of RMB29,917,000 (2012: nil) of such losses. No deferred tax asset has been recognized in respect of the remaining RMB218,520,000 (2012: RMB240,149,000) due to the unpredictability of future profit streams. Included in unrecognized tax losses are losses of RMB23,037,000 (2012: RMB20,881,000) can be carried forward indefinitely. The remaining RMB195,483,000 (2012: RMB219,268,000) expires in the following years:

	2013	2012
	RMB'000	*RMB'000*
2013	**–**	35,819
2014	**10,503**	40,598
2015	**9**	32,698
2016	**28,462**	34,057
2017	**73,019**	76,096
2018	**83,490**	–
	195,483	219,268

20. INVENTORIES

	2013	2012
	RMB'000	*RMB'000*
Raw materials	**100,386**	87,266
Work in progress	**205,359**	223,984
Finished goods	**153,796**	115,655
Total, net of allowance for inventories	**459,541**	426,905

21. PROPERTIES UNDER DEVELOPMENT AND HELD FOR SALE

	RMB'000
At January 1, 2012	3,494,290
Addition of development expenditure	1,574,407
Acquired on acquisition of subsidiaries	150,375
Sales of properties held for sales	(837,271)
At December 31, 2012	4,381,801
Addition of development expenditure	1,145,162
Acquired on acquisition of subsidiaries *(note 31)*	93,077
Sales of properties held for sales	(994,224)
Transfer to property, plant and equipment	(129,963)
At December 31, 2013	**4,495,853**

The carrying values are presented as:

	2013	2012
	RMB'000	*RMB'000*
Properties under development	**3,355,805**	3,862,066
Properties held for sales	**1,140,048**	519,735
	4,495,853	4,381,801

During the year, interest capitalized in the properties under development was an amount of RMB75,739,000 (2012: RMB53,794,000). The properties under development and property held for sales are located in the PRC and are held under medium term land use rights.

22. TRADE, BILLS AND OTHER RECEIVABLES

	2013	2012
	RMB'000	*RMB'000*
Trade receivables	**513,689**	533,330
Less: Allowance for doubtful debts	**(108,312)**	(109,937)
	405,377	423,393
Bills receivables	**31,178**	17,970
Deposits paid for acquisition of land use rights *(Note a)*	**756,861**	41,014
Advance payment for purchase of inventory *(Note b)*	**28,017**	12,807
Deposit and prepayments	**81,128**	26,218
Prepaid other taxes	**77,076**	90,995
Prepaid land demolishing expenses *(Note c)*	**111,268**	148,398
Interest receivable	**–**	50,504
Other receivables	**60,132**	56,220
Less: allowance for doubtful debts for other receivables	**(22,614)**	(20,353)
	1,528,423	847,166

Notes:

(a) The Group had made some deposits in respect of proposed acquisition of certain land use rights for property development for sale. The amount is refundable if the Group does not proceed with the acquisition. The amount included RMB636,856,000 as deposits for the land acquisition through Hainan Hejia Property Development Co., Ltd. (海南合甲置業有限公司) ("Hainan Hejia"), a 77% owned subsidiary of the Group, at the end of 2013. Please see note 31 for details.

(b) The Group had made advance payment for purchase of inventory to secure the inventory supply.

(c) The Group has proposed to acquire certain land and had prepaid expenses to the local government for demolishing the buildings located on the land. The amount is refundable if the Group does not proceed with the acquisition. During the year ended December 31, 2013, approximately RMB37,130,000 (2012: RMB168,737,000) is transferred to properties under development and held for sale.

22. TRADE, BILLS AND OTHER RECEIVABLES (cont'd)

The Group grants a credit period ranging from 30 days to 120 days to their manufacturing trade customers. The aging analysis of trade and bills receivables (net of allowance for doubtful debts) presented based on the invoice date at the end of reporting period is as follows:

	2013	2012
	RMB'000	*RMB'000*
Aged:		
Within 60 days	**341,865**	279,818
61 – 90 days	**72,433**	127,456
91 – 180 days	**15,141**	22,330
181 – 365 days	**3,881**	9,213
Over 1 year	**3,235**	2,546
	436,555	441,363

The Group's trade receivable balances included debtors which are related parties, details of which are set out in note 40(b).

Before accepting any new customers under the manufacturing segment, the Group reviews the credit quality and defines credit limits by customer. Limits attributed to customers are reviewed once a year. The Group maintains a defined credit policy to assess the credit quality of the trade customers. The collection is closely monitored to minimize any credit risk associated with these trade debtors. There has not been significant change in credit quality of the debtors. 94% (2012: 90%) of the debts are neither past due nor impaired. Those customers are mainly engaged in manufacturing of automotive leather in the PRC with good repayment history.

Included in the Group's trade receivable balances are debtors with aggregate carrying amount of RMB23,452,000 (2012: RMB42,237,000) which are past due but not impaired at the end of the reporting period.

Aging of trade receivables which are past due but not impaired:

	2013	2012
	RMB'000	*RMB'000*
Aged:		
Within 60 days	**1,030**	–
61 – 90 days	**7,569**	8,148
91 – 180 days	**7,738**	22,330
181 – 365 days	**3,881**	9,213
Over 1 year	**3,234**	2,546
	23,452	42,237

The directors of the Company assessed the credit quality of those trade debtors that the balances are past due by reviewing their financial position, the past repayment record and the experience on any recent history of default. The amounts are considered recoverable. The Group does not hold any collateral over these balances.

22. TRADE, BILLS AND OTHER RECEIVABLES (cont'd)

Movement in the allowance for doubtful debts for trade and other receivables:

	2013	2012
	RMB'000	*RMB'000*
Balance at beginning of the year	**130,290**	194,530
Amounts written off during the year	**–**	(59,498)
Impairment loss recognized in profit or loss	**6,392**	6,518
Reversal of impairment loss recognized in prior years	**(5,756)**	(11,260)
Balance at end of the year	**130,926**	130,290

The Group has provided fully for all receivables over 2 years because historical experience is such that receivables that are past due beyond 2 years are generally not recoverable. In addition, for those debtors that delayed in making settlements to the Group or in severe financial difficulties, the Group had made impairment loss based on the expected present value of the estimated future cash flows.

23. PLEDGED BANK DEPOSITS/RESTRICTED BANK DEPOSITS FOR PROPERTY DEVELOPMENT BUSINESS/BANK BALANCES AND CASH

(a) Pledged bank deposits

The amount mainly represents deposits pledged to banks to secure the bills payable issued by the Group and the short-term bank facilities granted to the Group.

The deposits carry a fixed interest rate range from 2.6% to 3% (2012: 2.6% to 3%) per annum. The pledged bank deposits will be released upon the settlement of relevant bill payables and bank borrowings.

(b) Restricted bank deposits for property development business

The amount represents deposits collected from customer in respect of pre-sale properties and restricted for settlement of construction costs.

The deposits carry variable interest rates of 0.35% (2012: 0.35%) per annum.

(c) Bank balances and cash

Bank balances and cash comprised of bank deposits with short maturity at prevailing deposit interest rate of 0.35% (2012: 0.35%) per annum and cash on hand.

24. TRADE, BILLS AND OTHER PAYABLES

	2013	2012
	RMB'000	*RMB'000*
Trade payables	**1,419,727**	1,309,091
Bills payables	**146,000**	220,000
Other payables *(Note)*	**179,110**	119,660
Deposit received for partial disposal of interests in subsidiaries	**25,000**	25,000
Advance from a director *(note 40(b))*	**9,370**	9,660
Advance from a related company *(note 40(b))*	**36,532**	16,500
Other tax payable	**29,426**	17,785
Accruals	**51,815**	77,190
	1,896,980	1,794,886

Note: Other payables mainly included guarantee deposit from the constructors and advance from customers.

The aging analysis of trade and bills payables presented based on the invoice date at the end of the reporting period is as follows:

	2013	2012
	RMB'000	*RMB'000*
Within 60 days	**1,287,422**	1,103,530
61 – 90 days	**131,351**	36,088
91 – 180 days	**38,332**	254,133
181 – 365 days	**39,184**	82,453
1 – 2 years	**43,345**	38,454
Over 2 years	**26,093**	14,433
	1,565,727	1,529,091

The average credit period on purchases of goods is 60 days.

In prior year, the Group received deposits from independent third parties, amounting to RMB25 million in relation to the disposal of 2% equity interests in Hainan Boao Kasen Property Development Co., Ltd ("Hainan Boao"), a wholly owned subsidiary. The considerations of the disposals of Hainan Boao were approximately RMB43,910,000. The disposal of Hainan Boao was not yet completed at December 31, 2013.

25. BANK AND OTHER BORROWINGS

	2013	2012
	RMB'000	*RMB'000*
Bank borrowings	**1,933,592**	1,280,978
Other borrowings	**4,622**	5,568
Total	**1,938,214**	1,286,546
Analyzed as:		
Secured	**1,406,690**	957,729
Unsecured	**531,524**	328,817
	1,938,214	1,286,546
Denominated in United States Dollars (foreign currency)	**125,899**	144,478
Denominated in Renminbi	**1,778,898**	1,142,068
Denominated in Euro (foreign currency)	**17,078**	–
Denominated in Japanese Yen (foreign currency)	**16,339**	–
	1,938,214	1,286,546

Carrying amount repayable*:

	2013	2012
	RMB'000	*RMB'000*
Within one year	**1,480,098**	1,280,978
One to five years	**458,116**	–
After five years	**–**	5,568
	1,938,214	1,286,546
Less: Amount due within one year shown under current liabilities	**(1,480,098)**	(1,280,978)
Amount due after one year	**458,116**	5,568

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

Bank borrowings are fixed-rate borrowings and carry interests ranging from 1.16% to 12.5% (2012: 1.26% to 8.20%) per annum.

Other borrowings represent loans advanced by independent third parties and carry fixed interest rate of 3% (2012: 3%) per annum. The amount is repayable in full in 2018.

25. BANK AND OTHER BORROWINGS (cont'd)

Included in unsecured bank borrowings are borrowings guaranteed by Mr. Zhu, the chief executive officer and a controlling shareholder of the Company, and a related company in which Mr. Zhu has significant influence and beneficial interests. The total guarantee amount is RMB654,500,000 (2012: RMB615,000,000). An amount of RMB73,500,000 (2012: RMB45,000,000) were guaranteed by certain independent third parties.

Certain borrowings were also secured by the assets owned by the Group and details of the assets set out in note 35.

26. AMOUNT DUE TO NON-CONTROLLING INTERESTS OF SUBSIDIARIES

The amounts are unsecured, interest-free and repayable on demand.

27. OTHER LONG TERM LIABILITIES

Haining Schinder Tanning Co., Ltd. ("Haining Schinder Tanning"), a wholly-owned subsidiary of the Company established in the PRC, issued and completed the registration of corporate bonds (the "Corporate Bonds") with Shenzhen Stock Exchange on June 14, 2012. The principal amount of the Corporate Bonds was RMB150,000,000, with a term of three years. The coupon rate of the Corporate Bonds for the first two years is fixed at 8.10% per annum, and the coupon rate of the Corporate Bonds for the third year is subject to adjustment at the discretion of Haining Schinder Tanning which would not be lower than 1-year fixed deposit market interest rate and would not be higher than that allowed by the relevant regulation in PRC, which is three times of the lending rate published by the People's Bank of China at the end of second year of the Corporate Bonds. The coupon interest of the Corporate Bonds is paid annually in arrears.

At the end of the second year from the issue of the Corporate Bonds, eligible investors have the right to put the Corporate Bonds held by them, in whole or in part, back to Haining Schinder Tanning at a total consideration equivalent to the total face value of the corresponding Corporate Bonds. As a result, the Corporate Bonds with carrying value of RMB145,345,000 has been reclassified as current liability as of December 31, 2013.

The directors of the Company considered the fair value of the embedded derivatives embedded in the Corporate Bonds is insignificant because it is highly likely that the coupon rate of the Corporate Bonds for the third year will not significantly deviate from the market interest rate after the initial 2-year term if the investors do not exercise their right to sell the Corporate Bonds at the end of the second year term.

The issue of the Corporate Bonds was guaranteed by the Company, Zhejiang Kasen Industrial Group Co., Limited, a wholly-owned subsidiary of the Company, and Mr. Zhu.

The issuing costs amounted to RMB8,550,000, of which RMB3,700,000 (2012: RMB2,000,000) was paid during the year.

The effective interest rate of the Corporate Bonds for the initial 2-year period is 10.41% per annum.

Other long term liabilities as of December 31, 2013 amounting to RMB17,160,000 are the provision for retirement benefits and other long term debts from rehabilitation plan of Melx Co., Ltd.

28. SHARE CAPITAL

	Number of ordinary shares at US$0.00015 each	*US$'000*
Authorized share capital of the Company:		
At January 1, 2012, December 31, 2012 and December 31, 2013	266,666,666,666	40,000

	Number of ordinary shares	*US$*	Equivalent to *RMB'000*
Issued and fully paid ordinary shares of the Company			
At January 1, 2012, December 31, 2012 and December 31, 2013	1,162,322,985	174,348	1,400

29. SHARE OPTION

A share option scheme was adopted by the Company pursuant to a board resolution passed on September 26, 2005 (the "Scheme") for the primary purpose of providing incentives to directors, eligible employees and third party service providers of the Company. The Scheme became effective on October 20, 2005 and the option issued pursuant to the Scheme will expire with no later than 10 years from the date of grant of the option. Under the Scheme, the board of directors of the Company may grant options to any employees of the Company or any of its subsidiaries to subscribe shares of the Company.

At December 31, 2013, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 23,000,000 (2012: 23,000,000), representing 1.98% (2012: 1.98%) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company on October 20, 2005 (representing 101,404,536 shares of the Company), without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the total shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share. The exercise period should expire in any event not later than ten years from date of adoption of the Scheme.

29. SHARE OPTION (cont'd)

No share-based payment expense has been recorded during the year ended December 31, 2013 (2012: nil) as the share options granted by the Company were fully vested in prior years.

The following tables disclose details of the Company's share options held by the directors and eligible employees of the Company. The tables disclose movements in such holdings during the years ended December 31, 2012 and 2013:

Exercise price *HK$*	**Date of grant**	**Vesting period**	**Exercisable period**	**Outstanding at January 1, 2012**	**Lapsed during the year ended December 31, 2012**	**Outstanding at December 31, 2012, January 1, 2013 and December 31, 2013**
2.38	March 9, 2006	9.3.2006 – 31.12.2006	1.1.2007 – 8.3.2016	9,250,000	(1,150,000)	8,100,000
2.38	March 9, 2006	9.3.2006 – 31.12.2007	1.1.2008 – 8.3.2016	9,250,000	(1,150,000)	8,100,000
				18,500,000	(2,300,000)	16,200,000
1.18	May 5, 2008	5.5.2008 – 31.12.2008	1.1.2009 – 4.5.2018	3,650,000	(250,000)	3,400,000
1.18	May 5, 2008	5.5.2008 – 31.12.2009	1.1.2010 – 4.5.2018	3,650,000	(250,000)	3,400,000
				7,300,000	(500,000)	6,800,000
1.60	October 12, 2009	12.10.2009 – 30.9.2010	1.10.2010 – 11.10.2019	500,000	(500,000)	–
1.60	October 12, 2009	12.10.2009 – 30.9.2011	1.10.2011 – 11.10.2019	500,000	(500,000)	–
				1,000,000	(1,000,000)	–
Total				26,800,000	(3,800,000)	23,000,000
Exercisable at the end of the reporting period				26,800,000		23,000,000
Weighted average exercise price (HK$)				2.02		2.03

29. SHARE OPTION (cont'd)

Details of the share options held by the directors included in the above table are as follows:

Exercise price *HK$*	Date of grant	Vesting period	Exercisable period	Outstanding at January 1, 2012	Lapsed during the year ended December 31, 2012	Outstanding at December 31, 2012, January 1, 2013 and December 31, 2013
2.38	March 9, 2006	9.3.2006 – 31.12.2006	1.1.2007 – 8.3.2016	2,500,000	–	2,500,000
2.38	March 9, 2006	9.3.2006 – 31.12.2007	1.1.2008 – 8.3.2016	2,500,000	–	2,500,000
1.18	May 5, 2008	5.5.2008 – 31.12.2008	1.1.2009 – 4.5.2018	750,000	–	750,000
1.18	May 5, 2008	5.5.2008 – 31.12.2009	1.1.2010 – 4.5.2018	750,000	–	750,000
1.60	October 12, 2009	12.10.2009 – 30.9.2010	1.10.2010 – 11.10.2019	500,000	(500,000)	–
1.60	October 12, 2009	12.10.2009 – 30.9.2011	1.10.2011 – 11.10.2019	500,000	(500,000)	–

The above table includes the share options held by the directors appointed and resigned during the year ended December 31, 2012 and no variation in 2013.

30. RESERVES

(a) The statutory reserve represents amounts appropriated from the profits after tax of certain subsidiaries of the Company established in the PRC to comply with the PRC laws and regulations.

(b) The special reserve arose from the reorganization completed in 2004.

(c) Other reserve represents reserve on acquisition, reserve on acquisition/disposal of interest in subsidiaries without change of control.

The reserve on acquisition represents the difference between the fair value and the carrying amount of the underlying assets and liabilities attributable to the additional interests in subsidiaries acquired by the Group.

The reserve on acquisition/disposal of interest in subsidiaries without change of control represents the difference between the consideration paid/received and the carrying amount of the share of net assets acquired/disposed of.

31. ACQUISITION OF ASSETS THROUGH ACQUISITION OF SUBSIDIARIES/ ACQUISITION OF SUBSIDIARIES

(a) On January 28, 2013, the Group acquired 100% interest in Melx Co., Ltd. ("MELX"), a company in the process of civil rehabilitation in Japan, through Cardina International Company Limited ("Cardina"), an indirect wholly owned subsidiary of the Group. MELX is a company established in Japan and it is principally engaged in the sale and manufacturing of leather products including shoe leather, furniture leather, car seat leather and other leather products.

MELX is a company whose shares were listed on the Tokyo Stock Exchange until June 2011. Subsequent to the delisting on June 11, 2012, MELX applied to the Tokyo District Court for the commencement of its civil rehabilitation pursuant to the Civil Rehabilitation Law of Japan. A rehabilitation plan was subsequently submitted to the Tokyo District Court on October 16, 2012 and the rehabilitation plan was approved by the Tokyo District Court on December 12, 2012. The rehabilitation plan became effective on January 9, 2013. As part of the rehabilitation plan of MELX, MELX will not be required to repay 90% of its debts and liabilities (including trade creditors and borrowings), being in the sum of approximately JPY1,820,117,891 (equivalent to RMB125,216,000), upon completion of its rehabilitation plan.

MELX has agreed to issue to Cardina and Cardina has agreed to subscribe from MELX, the issue shares, representing a 100% interest in MELX, pursuant to the terms of the rehabilitation plan as part of its civil rehabilitation. Pursuant to the rehabilitation plan of MELX, MELX shall repurchase all of its existing shares in issue prior to the issue of the issue shares to Cardina in accordance with the terms of the subscription agreement. Upon completion of the acquisition, MELX is wholly owned by Cardina and the financial results of MELX is consolidated into the financial statements of the Group and MELX is accounted for as an indirect wholly owned subsidiary of the Company.

It is expected that the Group will continue expanding its leather manufacturing business. The directors also believe that the acquisition will further strengthen the Group's position as a leading automotive leather supplier in the PRC since the Group will be able to make use of the existing production facilities of MELX to increase its production capacity of automotive leather products. It will also create a new platform and business opportunities for the Group's existing operations, expand the Group's research and development capabilities and large-scale production capabilities, and enhance its international presence.

31. ACQUISITION OF ASSETS THROUGH ACQUISITION OF SUBSIDIARIES/ ACQUISITION OF SUBSIDIARIES (cont'd)

Consideration transferred

	RMB'000
Cash	6,880

Acquisition-related costs amounting to RMB827,000 have been recognized as administrative expenses for the year ended December 31, 2013.

Fair value of assets and liabilities recognized at the date of acquisition

	RMB'000
Net assets acquired:	
Bank balances and cash	5,130
Trade, bills and other receivables	24,087
Inventories	49,561
Available-for-sale investments	470
Assets held for sale	1,927
Intangible assets	405
Other long-term assets	964
Trade and other payables	(24,126)
Bank and other borrowings – due within one year	(26,756)
Tax payable	(133)
Other long-term liabilities	(19,800)
Net assets	11,729

The fair value of trade and other receivables at the date of acquisition amounted to RMB24,087,000. The gross contractual amounts of those trade and other receivables acquired amounted to RMB24,101,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to RMB14,000.

Gain on bargain purchase

	RMB'000
Consideration transferred	6,880
Less: identifiable net assets acquired (100%)	(11,729)
Gain on bargain purchase arising on acquisition	(4,849)

31. ACQUISITION OF ASSETS THROUGH ACQUISITION OF SUBSIDIARIES/ ACQUISITION OF SUBSIDIARIES (cont'd)

Net cash outflow arising on acquisition

	RMB'000
Consideration paid in cash	6,880
Less: cash and cash equivalent balances acquired on acquisition	(5,130)
	1,750

Impact of acquisition on the results of the Group

Included in the profit for the year ended December 31, 2013 is a loss of RMB20,542,000 attributable to MELX. Revenue for the current year includes RMB62,904,000 attributable to MELX.

Had the acquisition of MELX been effected at the beginning of 2013, the total amount of the revenue and profit of the Group for the 12 months ended December 31, 2013 would not have been materially different from the amounts as reported as the acquisition date is close to the beginning of the year.

(b) In late 2009, the Group entered into an agreement with Zhejiang Zhongyu Development Co., Ltd. (浙江中宇經貿發展有限公司) ("Zhongyu"), an independent third party and two other independent parties ("Selling Shareholders"). In accordance with the agreement, the Group shall acquire 51% equity interest in Hainan Hejia, for a total consideration of RMB140,801,000, while Zhongyu shall acquire the remaining 49% equity interest in Hainan Hejia from the Selling Shareholders, respectively. In February 2010, the Group entered into an agreement with Zhongyu to acquire additional 26% equity interest in Hainan Hejia for a total consideration of RMB71,780,000. The Group had paid the amounts in full in 2010. The principal activity of Hainan Hejia is property development in Hainan Province of the PRC. At that time, Hainan Hejia has signed an agreement for acquisition of a piece of land in Hainan Province of the PRC (the "Land") and no other material assets and liabilities was owned by Hainan Hejia.

According to the agreements for acquisition of equity interests in Hainan Hejia, the total consideration paid is refundable together with damages by the Selling Shareholders if Hainan Hejia failed to obtain the land use right of the Land and the equity purchase agreement will be terminated automatically. In prior periods, the Group had advanced to Hainan Hejia an amount of approximately RMB636,856,000 for the land acquisition purpose.

During the year ended December 31, 2013, the substantial procedures to obtain the title of the land has been completed and the management considered the Group is now in a position to exercise control over Hainan Hejia and has the ability to use its power to affect its returns, therefore, the Company commenced to consolidate Hainan Hejia in 2013.

31. ACQUISITION OF ASSETS THROUGH ACQUISITION OF SUBSIDIARIES/ ACQUISITION OF SUBSIDIARIES (cont'd)

Fair value of assets and liabilities recognized at the date of acquisition:

	RMB'000
Net assets acquired:	
Property under development	93,077
Property, plant and equipment	78,542
Bank balances and cash	3,073
Deposits paid for land use rights	636,856
Deposits and prepayments	25,040
Other receivables	572
Other payables	(561,080)
Net assets	276,080
Less: capital contribution from non-controlling interests	(63,499)
	212,581
Satisfied by:	
Consideration paid and recorded as deposit paid for acquisition of a subsidiary in prior year	212,581
Net cash outflow arising on acquisition:	
Consideration paid in cash	–
Less: Bank balances and cash acquired	(3,073)
	(3,073)

31. ACQUISITION OF ASSETS THROUGH ACQUISITION OF SUBSIDIARIES/ ACQUISITION OF SUBSIDIARIES (cont'd)

(c) On December 11, 2012, the Group completed the acquisition of the entire equity interest of Jiangsu Kasen Property Development Company Limited (江蘇卡森置業有限公司) through a 60% owned subsidiary for a consideration of RMB30,000,000. This transaction has been accounted for as an acquisition of assets as the acquisition does not meet the definition of a business combination.

Fair value of assets and liabilities recognized at the date of acquisition:

	RMB'000
Net assets acquired:	
Property under development	150,375
Property, plant and equipment	265
Bank balances and cash	2,320
Other receivables	41
Amount due to a shareholder	(103,001)
Net assets	50,000
Less: Capital contribution from non-controlling interests	(20,000)
Consideration	30,000
Net cash outflow arising on acquisition:	
Consideration paid in cash	30,000
Less: Bank balances and cash acquired	(2,320)
	27,680

32. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2013 **_RMB'000_**	2012 *RMB'000*
Financial assets		
Loans and receivables (including cash and cash equivalents)	**1,374,131**	1,484,132
Available-for-sale investments	**859,213**	494,366
Financial liabilities		
Amortized cost	**3,988,672**	3,207,300

32. FINANCIAL INSTRUMENTS (cont'd)

(b) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, trade, bills and other receivables, bank balances and cash, pledged and restricted bank deposits, trade, bills and other payables, amounts due to non-controlling interests of subsidiaries, bank and other borrowings and other long-term liabilities. Details of these financial instruments are disclosed in respective notes. The Group's activities expose it to a variety of financial risks: market risk (including interest rate risk, foreign currency risk and other price risk), credit risk and liquidity risk.

There has been no significant change to the Group's exposure to financial risks or the manner in which it manages and measures the risk.

The policies on how to mitigate these risks are summarized below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to the fixed rate pledged bank deposits, bank and other borrowings, and other long term liabilities as set out in notes 23, 25 and 27 respectively. It is the Group's policy to keep its borrowings at fixed rate of interest so as to minimize the cash flow interest rate risk.

The Group is also exposed to cash flow interest rate risk in relation to restricted bank deposits and bank balances because these balances carry interest at prevailing deposit interest rates and they are of short maturity.

In order to mitigate the interest rate risk, the Group entered into fixed-rates borrowings with a short maturity date with different contractual terms. The position is regularly monitored and evaluated by reference of anticipated changes in market interest rate.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

32. FINANCIAL INSTRUMENTS (cont'd)

(b) Financial risk management objectives and policies (cont'd)

Market risk (cont'd)

Interest rate risk (cont'd)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point (2012: 50 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2012: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended December 31, 2013 would increase/decrease by RMB2,958,000 (2012: increase/decrease by RMB2,103,000). This is mainly attributable to the Group's exposure to interest rates on its bank balances and restricted bank balances variable-rate.

Foreign currency risk

The functional currency of the Company and majority of its subsidiaries is RMB since the majority of the revenue of the companies are derived from operations in the PRC.

The Group's exposure to foreign currency risk related primarily to the sales and purchases that are denominated in US dollars and Euro and such related bank balances and cash, trade, bills and other receivables and trade, bills and other payables arising from time to time. In addition, the Group has short term bank and other borrowings denominated in US dollars and Euro.

The carrying amounts of the Group's foreign currency denominated non-derivative monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		**Liabilities**	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
USD	**186,123**	39,806	**174,315**	144,478
HKD	**399**	242	**321**	–
GBP	**1,134**	–	**–**	–
EURO	**–**	–	**17,084**	–

32. FINANCIAL INSTRUMENTS (cont'd)

(b) Financial risk management objectives and policies (cont'd)

Market risk (cont'd)

Foreign currency risk (cont'd)

Sensitivity analysis

The Group is mainly exposed to currency of USD and Euro.

5% (2012: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates.

As at December 31, 2013, if the functional currency of the entities had been strengthened by 5% against USD and Euro, profit for the year would have been increased by RMB443,000 (2012: decreased by RMB3,926,000) and decreased by RMB641,000 (2012: no effect) respectively, and there would be equal and opposite impact on profit for the year if the functional currency of the entities has been weakened by 5% against USD and Euro. It is mainly as a result of foreign exchange losses on translation of USD and Euro denominated trade, bills and other receivables and bank balances and cash cannot be compensated by foreign exchange gains on translation of USD and Euro denominated trade, bills and other payables and bank and other borrowings.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Other price risk

The Group is exposed to equity price risk mainly through its investment in listed equity securities classified as available-for-sale financial assets. The Group would closely monitor the investment for any change in value.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the end of the reporting period. A 5% increase or decrease is used and represents management assessment of the reasonably possible change in equity prices.

If the price of the listed equity instrument had been 5% higher/lower, available-for-sale investments valuation reserve would increase/decrease by RMB32,185,000 (2012: RMB18,527,000) for the Group as a result of the changes in fair value of available-for-sale investments.

32. FINANCIAL INSTRUMENTS (cont'd)

(b) Financial risk management objectives and policies (cont'd)

Credit risk

As at December 31, 2013, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties and financial guarantees provided by the Group is arising from the carrying amount of the respective recognized financial assets as stated in the consolidated statement of financial position and the amount of contingent liabilities in relation to financial guarantee issued by the Group as disclosed in note 38.

In order to minimize the credit risk of receivables, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of receivables to ensure that adequate impairment losses are made for irrecoverable amounts. In addition, the Group maintained export credit insurance of major overseas customers to protect the Group against the risk that the overseas customers may default settlement.

The credit risk on financial guarantee provided to the customers in respect of mortgage loan is limited because the related properties can be resold in the market if the customers fail to repay the mortgage loans.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the trade receivables due from the two largest customers disclosed in note 5, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers, spread across geographical areas.

Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its current obligations when they fall due.

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilization of bank borrowings and ensure compliance with loan covenants.

Other than continuously monitoring the actual cash flows by management, the Group also relies on bank and other borrowings as a significant source of liquidity. As at December 31, 2013, the Group has available unutilized short-term bank loan facilities of approximately RMB455,541,000 (2012: RMB779,022,000) as a liquidity management resource.

32. FINANCIAL INSTRUMENTS (cont'd)

(b) Financial risk management objectives and policies (cont'd)

Liquidity risk (cont'd)

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms or the earliest date on which the Group can be required to pay. The table has been drawn up based on the undiscounted cash flows of financial liabilities and include both interest and principal cash flows. For the contractual maturity details of the derivative instruments, the effect is not significant to the Group and not presented below.

	Weighted average effective interest rate	**0 – 60 days**	**61 – 90 days**	**91 – 365 days**	**1 – 2 years**	**Over 2 years**	**Total undiscounted cash flow**	**Carrying amount at December 31, 2013**
	%	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
2013								
Non-derivative financial liabilities								
Trade, bills and other payables	**–**	**1,790,739**	**–**	**–**	**–**	**–**	**1,790,739**	**1,790,739**
Bank and other borrowings	**6.11**	**126,755**	**255,793**	**1,209,855**	**177,355**	**326,528**	**2,096,286**	**1,938,214**
Amounts due to non-controlling interests of subsidiaries	**–**	**114,374**	**–**	**–**	**–**	**–**	**114,374**	**114,374**
Other long-term liabilities	**8.1**	**–**	**–**	**162,150**	**–**	**–**	**162,150**	**145,345**
Total		**2,031,868**	**255,793**	**1,372,005**	**177,355**	**326,528**	**4,163,549**	**3,988,672**

	Weighted average effective interest rate	0 – 60 days	61 – 90 days	91 – 365 days	1 – 2 years	Over 2 years	Total undiscounted cash flow	Carrying amount at December 31, 2012
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2012								
Non-derivative financial liabilities								
Trade, bills and other payables	–	1,674,911	–	–	–	–	1,674,911	1,674,911
Bank and other borrowings	6.31	244,221	427,148	689,961	167	6,501	1,367,998	1,286,546
Amounts due to non-controlling interests of subsidiaries	–	103,001	–	–	–	–	103,001	103,001
Other long-term liabilities	8.1	–	–	12,150	156,075	–	168,225	142,842
Total		2,022,133	427,148	702,111	156,242	6,501	3,314,135	3,207,300

32. FINANCIAL INSTRUMENTS (cont'd)

(c) Fair-value

The fair value of financial assets and financial liabilities at amortised cost is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the consolidated financial statements approximate their fair values.

Fair value measurements recognized in the statement of financial position

The following table provides an analysis of financial instruments that are measured at fair value on a recurring basis subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. There is no transfer between level 1 and level 2 in the year ended December 31, 2013.

– Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

– Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

– Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

32. FINANCIAL INSTRUMENTS (cont'd)

(c) Fair-value (cont'd)

Fair value measurements recognized in the statement of financial position (cont'd)

Financial assets	Fair value as at 12/31/2013 *RMB'000*	Fair value hierarchy	Valuation technique and key input
Available for sale investments (AFS) listed in a stock exchange	858,272	Level 1	Quoted bid prices in an active market

33. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to equity holders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debts, which includes the bank and other borrowings disclosed in note 25, advances from a director and a related company disclosed in note 40(b), other long-term liabilities disclosed in note 27 and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. The directors of the Company considered the Group's credit facilities were able to renew on an on-going basis, which provide sufficient cash to finance the Group's working capital and balance its overall capital structure.

34. RETIREMENT BENEFITS PLAN

The Group contributes to a local municipal government retirement scheme for all qualifying employees in the PRC. The employer and its employees are each required to make contributions to the scheme at the rates specified in the scheme's rules. The only obligation of the Group with respect to the retirement scheme is to make the required contributions under the scheme.

In addition, the Group operates a Mandatory Provident Fund ("MPF") Scheme for its qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes at the lower of HK$1,250 (HK$1,000 before June 2012) or 5% of relevant payroll costs monthly to the MPF Scheme, which contribution is matched by employees.

The total cost charged to profit or loss of approximately RMB10,167,000 (2012: RMB6,307,000) represents contributions paid and payable to the above schemes by the Group in respect of the current accounting period.

35. PLEDGE OF ASSETS

At the end of the reporting period, certain of the Group's assets have been pledged to secure the borrowings and the general banking facilities of the Group. The aggregate carrying amounts of the pledged assets of the Group at the end of the reporting period is as follows:

	2013	2012
	RMB'000	*RMB'000*
Buildings	**117,010**	124,568
Prepaid lease payments	**24,800**	25,108
Pledged bank deposits	**199,028**	240,815
Properties under development and held for sale	**2,347,584**	533,175
	2,688,422	923,666

36. LEASE COMMITMENT

As lessee

At the end of the reporting period, the Group had outstanding commitments for future minimum lease payments under non-cancelable operating leases, which fall due as follows:

	2013	2012
	RMB'000	*RMB'000*
Within one year	**20,902**	20,649
In the second to fifth year inclusive	**39,019**	31,040
Over five years	**16,630**	19,956
	76,551	71,645

The lease payments represent rentals payable by the Group for its retail stores and certain of its office properties. The lease terms ranged from one year to fourteen years.

37. CAPITAL AND OTHER COMMITMENTS

At the end of the reporting period, the Group had capital and other commitments as follows:

	2013	2012
	RMB'000	*RMB'000*
Expenditure contracted for but not provided in the consolidated financial statements in respect of		
– Acquisition of property, plant and equipment	**120,720**	12,635
– Properties under development	**1,167,650**	1,012,040
Expenditure authorized but not contracted in respect of		
– Acquisition of land use right	**56,236**	–
	1,344,606	1,024,675

38. CONTINGENT LIABILITIES

The Group provided guarantees of RMB328,718,000 (2012: RMB295,248,000) at December 31, 2013 to banks in favour of its customers in respect of the mortgage loans provided by the banks to those customers for the purchase of the Group's properties. These guarantees provided by the Group to the banks will be released upon receiving the building ownership certificate of the respective properties by the banks from the customers as a pledge for security to the mortgage loans granted. The directors consider that the fair value of the above guarantees is insignificant on initial recognition and at the report dates as it is not probable that an outflow in settlement will be required.

39. INFORMATION OF FINANCIAL POSITION OF THE COMPANY

The information of financial position of the Company as at December 31, 2013 is as follows:

	Note	**2013**	2012
		RMB'000	*RMB'000*
ASSETS			
Long term equity investments in subsidiaries		**851,702**	920,449
Other receivables		**254**	295
Amounts due from subsidiaries		**19,757**	1,934
Bank balances and cash		**599**	993
		872,312	923,671
LIABILITIES			
Other payables		**1,321**	41,907
		1,321	41,907
NET ASSETS		**870,991**	881,764
CAPITAL AND RESERVES			
Share capital		**1,400**	1,400
Reserves	*(a)*	**869,591**	880,364
TOTAL EQUITY		**870,991**	881,764

Note:

(a) Reserve of the Company

	The Company				
	Share premium	**Special reserve**	**Share option reserve**	**Accumulated losses**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at January 1, 2012	1,317,487	168,659	16,840	(615,099)	887,887
Release upon lapse of share options	–	–	(2,802)	984	(1,818)
Loss for the year	–	–	–	(5,705)	(5,705)
As at December 31, 2012	1,317,487	168,659	14,038	(619,820)	880,364
Loss for the year	–	–	–	(10,773)	(10,773)
As at December 31, 2013	**1,317,487**	**168,659**	**14,038**	**(630,593)**	**869,591**

40. CONNECTED AND RELATED PARTY DISCLOSURES

Transactions between group companies have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties which also constitute connected persons of the Group as defined under Chapter 14A of the Listing Rules, are disclosed below.

(a) The Group had the following significant transactions with the connected and related parties during the year:

Connected persons and related parties	*Notes*	**Nature of transactions**	**2013** *RMB'000*	2012 *RMB'000*
Haining Yujie Material Recycling Co., Ltd. ("Yujie") 海寧宇潔物資回收有限公司	*(i)*	Sales of scrap materials by the Group	**4,110**	3,288
Starcorp Corporation Pty., Ltd. ("Starcorp")	*(i)*	Sales of upholstered furniture by the Group	**338**	1,952
Haining Xingying Furniture Co., Ltd. ("Haining Xingying") 海寧星瑩傢俱有限公司	*(i)*	Sales of leather by the Group	**341**	371
		Sales of upholstered furniture by the Group	**809**	–
		Purchase of wooden products by the Group	**26,463**	4,671
Zhejiang Sunbridge Industrial Group Company Limited ("Sunbridge")	*(i)*	Purchase of wooden products by the Group	**10,808**	7,491
Related parties				
Liema Furniture	*(ii)*	Sales of leather	**5,036**	1,321
		Rental expenses	**1,733**	2,600
		Utilities expenses	**314**	453
		Purchase of wooden furniture	**56**	–
Youge	*(ii)*	Purchase of kitchen utensils furniture	**2,331**	2,051
		Sales of upholstered furniture	**–**	38

Notes:

(i) Mr. Zhu, controlling shareholder and director of the Company, indirectly controls more than 30% of the voting power at Sunbridge's general meeting. Mr. Zhu has significant influence and beneficial interests in Yujie, Starcorp and Haining Xingying through Sunbridge. The directors of the Company confirmed the transactions are in accordance to the Chapter 14A of the Listing Rules.

(ii) Liema Furniture and Youge are associates of the Group.

40. CONNECTED AND RELATED PARTY DISCLOSURES (cont'd)

(b) Details of the amounts due from (to) related parties are as follows:

Name of related parties	*Notes*	Amount due from related parties		Amount due to related parties	
		2013	2012	**2013**	2012
		RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade in nature					
Haining Xingying	*(i)*	**1,004**	49	**39,697**	37,266
Liema Furniture	*(i)*	**4,389**	441	**–**	29
Starcorp	*(i)*	**1,388**	1,792	**–**	–
Bedding Concepts	*(i)*	**–**	196	**–**	–
Yujie	*(i)*	**1,094**	1,450	**–**	–
Youge	*(i)*	**–**	–	**4,843**	5,235
Sunbridge	*(i)*	**38**	38	**23,591**	16,873
		7,913	3,966	**68,131**	59,403
Non-trade in nature					
Baiyin Kasen Property Co., Ltd 白銀卡森置業有限公司	*(ii)*	**24**	–	**–**	–
Hangzhou Great Star Industrial Co., Ltd 杭州巨星科技股份有限公司	*(ii)*	**–**	–	**33,100**	–
Mr. Zhu	*(ii)*	**–**	–	**9,370**	9,660
		24	–	**42,470**	9,660
		7,937	3,966	**110,601**	69,063

Note: The maximum non-trade in nature amounts outstanding during the year were same as the amounts at December 31, 2013.

Represented by:

	2013 ***RMB'000***	2012 *RMB'000*
Amounts due from related companies, included in trade receivables under current assets	**7,367**	3,966
Amounts due from related companies, included in other receivables under current assets	**570**	–
Amounts due to related companies, included in trade payables under current liabilities	**(64,699)**	(42,903)
Advance from a related company, included in other payables under current liabilities	**(36,532)**	(16,500)
Advance from a director, included in other payables under current liabilities	**(9,370)**	(9,660)
	(102,664)	(65,097)

Notes:

(i) The amounts are trade in nature and unsecured, interest-free and repayable according to credit terms.

(ii) The amount is unsecured, interest-free and repayable on demand.

(c) Details of the outstanding share options granted to the directors are set out in note 29.

(d) The remuneration of the key management personnel of the Group (representing all directors) were disclosed in note 10.

(e) Detail of the financial guarantees granted by a related party are set out in note 25.

41. PRINCIPAL SUBSIDIARIES

The following table lists major subsidiaries of the Company as at December 31, 2013 and 2012 which, in the opinion of the directors, principally affected the results or net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Name of the company	Country of establishment and operations	Issued and fully paid share capital/ registered capital	Proportion of ownership interest and voting power held by the Company		Principal activities
			2013	2012	
			%	%	
Haining Kasen Real Estate Co., Ltd. 海寧卡森地產有限公司 *(note a)*	PRC	RMB60,000,000	**100**	100	Property development
Haining Hainix Sofa Co., Ltd. 海寧漢林沙發有限公司 *(note b)*	PRC	US$6,000,000	**100**	100	Production and sale of sofas, dining chairs and other furniture products
Haining Hengsen Furniture Co., Ltd. 海寧恒森傢俱有限公司 *(note a)*	PRC	RMB50,000,000	**100**	100	Production of furniture and glass fiber reinforced plastic products; wood processing
Haining Hidea Furniture Co., Ltd. 海寧慧達傢俱有限公司 *(note b)*	PRC	US$7,800,000	**100**	100	Production and sale of sofas, dining chairs and other furniture products
Haining Kareno Furniture Co., Ltd. 海寧卡雷諾傢俬有限公司 *(note b)*	PRC	US$3,600,000	**100**	100	Production and sale of upholstered furniture
Haining Kasen Leather Co., Ltd. 海寧卡森皮革有限公司 *(note b)*	PRC	US$3,000,000	**100**	100	Production and sale of upholstered furniture
Haining Schinder Tanning Co., Ltd. 海寧森德皮革有限公司 *(note b)*	PRC	US$30,155,000	**100**	100	Production and sale of automotive leather
Hainan Boao Kasen Property Development Co., Ltd. ("Hainan Boao") 海南博鰲卡森置業有限公司 *(note a)*	PRC	RMB100,000,000	**92**	92	Property development
Yancheng Sujia Real Estate Development Co. Ltd. 鹽城市蘇嘉房地產開發有限公司 *(note b)*	PRC	RMB97,750,000	**100**	100	Property development
Zhejiang Kasen Industrial Group Co., Limited 浙江卡森實業集團有限公司 *(note b)*	PRC	RMB896,240,000	**100**	100	Research, development, production and sales of furniture leather

41. PRINCIPAL SUBSIDIARIES (cont'd)

Name of the company	Country of establishment and operations	Issued and fully paid share capital/ registered capital	Proportion of ownership interest and voting power held by the Company 2013 %	2012 %	Principal activities
Zhejiang Kasen Property Development Co., Ltd. 浙江卡森置業有限公司 *(note a)*	PRC	RMB400,000,000	**100**	100	Investment holding
Changbai Mountain Protection Development Zone Kasen Property Development Co., Ltd. 長白山保護開發區卡森置業有限公司 *(note a)*	PRC	RMB100,000,000	**89**	89	Property development
Jiangsu Kasen Property Development Co., Ltd. 江蘇卡森置業有限公司 *(note a)*	PRC	RMB50,000,000	**60**	60	Property development
Hangzhou Xinanjiang Hot Spring Resort Development Co., Ltd. ("Xinanjiang") 杭州新安江溫泉度假村開發有限公司	PRC	RMB100,000,000	**55**	55	Operation of resort
Dafeng Huasheng Leather Co.,Ltd. 大豐華盛皮業有限公司 *(note a)*	PRC	RMB60,000,000	**100**	100	Production and processing of leather and tailored products
Melx Co., Ltd.	Japan	JPY100,000,000	**100**	–	Production and sale of automotive leather
Foshan Melx Leather Co.,Ltd. 佛山美如可思皮革有限公司 *(note c)*	PRC	JPY169,970,000	**100**	–	Production and sale of automotive leather
Hainan Sanya Kasen Property Development Co., Ltd. ("Hainan Sanya") 海南三亞卡森置業有限公司 *(note a)*	PRC	RMB20,000,000	**77**	–	Property development

Notes:

(a) The companies are limited liability companies.

(b) The companies are Sino-foreign owned enterprises.

(c) The companies are foreign owned enterprises.

None of the subsidiaries had issued any debt securities at the end of the year except for Haining Schinder Tanning which has issued RMB150 million corporate bonds in 2012, in which the Group has no interest.

42. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiaries	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Profit (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		2013	2012	**2013**	2012	**2013**	2012
		%	%	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Hainan Boao	PRC	**8**	8	**5,105**	7,241	**26,653**	21,548
Xinanjiang	PRC	**45**	45	**(5,069)**	(3,271)	**38,158**	43,227
Hainan Hejia	PRC	**23**	*(note)*	**–**	–	**63,499**	–
Individual immaterial subsidiaries with non-controlling interests				**(4,243)**	185	**28,477**	31,900
Total				**(4,207)**	4,155	**156,787**	96,675

Note: As disclosed in note 31, Hainan Hejia became the Group's subsidiary during the year ended December 31, 2013.

Summarized financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarized financial information below represents amounts before intragroup eliminations.

Hainan Boao

	2013	2012
	RMB'000	*RMB'000*
Current assets	**1,623,172**	1,541,563
Non-current assets	**106,123**	3,255
Current liabilities	**(1,181,641)**	(1,275,465)
Non-current liabilities	**(214,494)**	–
Equity attributable to owners of the Company	**306,507**	247,805
Non-controlling interests	**26,653**	21,548

42. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS (cont'd)

Hainan Boao (cont'd)

	2013	2012
	RMB'000	*RMB'000*
Revenue	**348,347**	565,330
Expenses	**(284,540)**	(474,819)
Profit and total comprehensive income attributable to the owner of the Company	**58,702**	83,270
Profit and total comprehensive income attributable to non-controlling interests	**5,105**	7,241
Profit and total comprehensive income for the year	**63,807**	90,511
Net cash inflow (outflow) from operating activities	**13,583**	(37,944)
Net cash outflow from investing activities	**(899)**	(416)
Net cash inflow from financing activities	**36,721**	76,579
Net cash inflow	**49,405**	38,219

Xinanjiang

	2013	2012
	RMB'000	*RMB'000*
Current assets	**74,003**	43,122
Non-current assets	**138,722**	123,406
Current liabilities	**(127,929)**	(70,467)
Equity attributable to owners of the Company	**46,638**	52,834
Non-controlling interests	**38,158**	43,227

42. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS (cont'd)

Xinanjiang (cont'd)

	2013 *RMB'000*	2012 *RMB'000*
Revenue	**15,855**	5,860
Expenses	**(27,120)**	(13,130)
Loss and total comprehensive expense attributable to the owner of the Company	**(6,196)**	(3,999)
Loss and total comprehensive expense attributable to non-controlling interests	**(5,069)**	(3,271)
Loss and total comprehensive income for the year	**(11,265)**	(7,270)
Net cash inflow (outflow) from operating activities	**1,307**	(9,050)
Net cash outflow from investing activities	**(21,544)**	(61,993)
Net cash inflow from financing activities	**16,600**	32,082
Net cash outflow	**(3,637)**	(38,961)

As disclosed in note 31, Hainan Hejia became the Group's subsidiary on December 31, 2013, the summarized financial position of Hainan Hejia is set out below.

Hainan Hejia

	2013 *RMB'000*
Current assets	**758,618**
Non-current assets	**78,542**
Current liabilities	**(561,080)**
Equity attributable to owners of the Company	**212,581**
Non-controlling interests	**63,499**