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 2009

Contents

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-Executive Directors

CHOW Joseph
GU Mingchao
LI Qingyuan

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

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

259 Qianjiang 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
China Mingsheng Banking Corporation Ltd.,
Yuhang Sub branch
Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank (Hong Kong) Limited

LEGAL ADVISORS

As to Hong Kong law
Sidley Austin

As to Cayman Islands law
Conyers Dill & Pearman

PRINCIPAL SHARE REGISTRAR

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman KY1-1107
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,				
	2009	2008	2007	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**2,398,974**	1,893,990	3,310,727	3,916,513	3,475,457
Profit (loss) before taxation	**211,839**	(271,991)	(175,440)	105,134	278,665
Profit (loss) attributable to owners of the Company	**132,675**	(273,804)	(194,149)	64,143	265,699

FINANCIAL POSITION

	At December 31,				
	2009	2008	2007	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cash and cash equivalents	**461,882**	389,647	508,850	380,973	372,278
Total borrowings	**1,281,932**	1,442,557	1,580,864	1,257,089	1,291,738
Total assets	**4,319,874**	4,379,745	4,139,450	4,074,528	4,441,690
Total liabilities	**2,264,679**	2,444,183	2,169,604	1,891,551	2,143,824
Equity attributable to owners of the Company	**2,052,289**	1,854,058	1,917,154	2,108,865	2,199,560

FINANCIAL AND OPERATING RATIOS

	At December 31,				
	2009	2008	2007	2006	2005
Dividend payout ratio (%)[1]	**–**	–	–	54.5%	30.0%
Debt to equity ratio (%)[2]	**62.4%**	74.5%	80.3%	57.6%	56.2%
Net debt to equity ratio (%)[3]	**39.9%**	54.4%	54.4%	40.1%	40.0%
Trade receivable turnover days[4]	**82**	48	46	46	54
Inventory turnover days[5]	**110**	147	146	139	172
Current ratio[6]	**142.0%**	110.9%	118.7%	135.4%	138.3%
Earning (loss) per share (RMB)					
Basic	**0.11**	(0.26)	(0.20)	0.06	0.41
Diluted	**0.11**	(0.26)	(0.20)	0.06	0.34

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 2009 has no material impact to the Group.

DIRECTORS AND MANAGEMENT PROFILES

EXECUTIVE DIRECTORS

ZHU Zhangjin, Kasen (朱張金), aged 44, 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 22 years of experience in the leather manufacturing industry, Mr. Zhu has extensive knowledge in the upholstered furniture industry in 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 54, joined the Group on June 12, 1995 and is an executive Director. He is also the vice president and general manager of the Group's Leather Manufacturing Division. Mr. Zhou has spent more than 20 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 (CIETAC).

ZHANG Mingfa, Michael (張明發), aged 49, joined Zhejiang Kasen Industrial Co., Ltd., a subsidiary of the Company, on October 1, 1997 as vice president of the Import and Export Division. Mr. Zhang Mingfa, Michael was appointed an executive Director with effect from November 10, 2008. He has more than 29 years of experience in the leather manufacturing industry. Mr. Zhang is the director of the Logistics Department of Zhejiang Kasen Industrial 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

LU Yungang, Ken (陸運剛), aged 47, joined the Company as an independent non-executive Director on June 17, 2005 and resigned on October 1, 2009. Mr. Lu is the founder and the managing director of APAC Capital Advisors Limited ("APAC"), a Hong Kong based investment management company that specializes in Greater China equities, as well as an independent non-executive director of Enerchina Holdings Ltd., and a director of AsiaInfo Holdings, Inc. Prior to setting up APAC, Mr. Lu has worked for a number of financial institutions including Credit Suisse First Boston, JP Morgan Securities Asia Inc. and Schroders Asia Limited, holding various posts including Head of China Research when he was with Credit Suisse First Boston. Mr. Lu obtained his Bachelor of Science degree from the Beijing University in July 1985 and his Master of Science degree from the Brigham Young University, Provo, Utah in 1991. He obtained a Ph.D. in Management from the University of California in September 1998.

CHOW Joseph (周凡), aged 47, joined the Company as an independent non-executive Director on July 11, 2005. Mr. Chow is currently an independent non-executive director of Intime Department Store (Group) Co. Ltd. He has been managing director of Goldman Sachs (Asia) LLC, and has held senior managerial positions in various companies, including as chief financial officer of Harbour Networks Limited, as chief financial officer of China Netcom (Holdings) Company Limited, as the director of strategic planning of Bombardier Capital Inc., as vice president of international operations of Citigroup and as the corporate auditor of GE Capital. Mr. Chow obtained a Bachelor of Arts degree in Political Science from Nanjing Institute of International Relations in 1984 and a MBA from the University of Maryland at College Park in 1993.

DIRECTORS AND MANAGEMENT PROFILES

Gu Mingchao (**顧鳴超**), aged 66, retired. Mr. Gu joined the Company as an independent non-executive Director on October 1, 2008. Mr. Gu is currently an independent non-executive director of the Bank of Communications Co., Limited. From September 1979 to May 1994, Mr. Gu worked for the Bank of China, serving successively as deputy section chief of the International Settlement Section of Lianyungang Branch, head of Lianyungang Branch, director of the General Office, chief of Personnel Division, deputy head and head of Jiangsu Branch, and head of Zhejiang Branch. From June 1994 to June 2000, Mr. Gu served as the vice president and executive director of The Export-Import Bank of China. Between July 2000 and July 2003, Mr. Gu served as the chairman of the Board of Supervisors of China Galaxy Securities Company Limited, designated by the State Council. Mr. Gu also served as the chairman of the Board of Supervisors of the Bank of Communications, designated by the State Council, from August 2003 to August 2004. From September 2004 to April 2007, Mr. Gu served as the chairman of the Board of Supervisors of Agricultural Bank of China, designated by the State Council. Mr. Gu graduated from Shanghai Foreign Trade Institute in 1968.

Dr. LI Qingyuan (**李青原**), aged 60 and retired. Dr. Li joined the Company as an independent non-executive Director on October 1, 2009. Dr. Li obtained a Master of English from Beijing Foreign Languages Institute in 1976 and her Ph.D. of Economics from Renmin University of China in 1990. She studied in Manchester University in 1977 and was a visiting scholar at Columbia University in 1987. From 1989 to 1993, Dr. Li was the Deputy Director of the Macro-Economy Department at the State Commission for Restructuring the Economics Systems of China. From 1994 to 1996, Dr. Li was the chief representative, executive director of the investment banking division at Goldman Sachs (China) LLC and served as China policy advisor at the Hong Kong Securities and Futures Commission between 1997 and 1999. From 1999 to 2002, Dr. Li served as an international advisor of Goldman Sachs (Asia) LLC. Between 2002 and 2006, Dr. Li was appointed the director-general of the research center of China Securities Regulatory Commission.

SENIOR MANAGEMENT

ZHONG Jian (**鍾劍**), aged 39, joined the Company as vice president on August 1, 2007 and took up the position of chief financial officer on September 30, 2007. Mr. Zhong received a Bachelor of Finance degree from the Central University of Finance and Economics in 1992, a Master of International Finance from Renmin University of China in 2002 and EMBA 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 (浙江聖邦實業集團有限公司(原名：浙江森橋實業集團有限公司)) 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.

YU Guanlin (**余關林**), aged 47, joined the Group in 1995 and is the production manager and deputy general manager of the Group. He is currently the general manager for 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.

DIRECTORS AND MANAGEMENT PROFILES

ZHANG Guming (張顧明), aged 44, joined the Group in 2003 and is the general manager of the Group's sofa manufacturing subsidiaries. He is currently the vice president and Director of the Group's Sofas Production Division. Before joining the Group, Mr. Zhang was the executive deputy general manager of Haining Dunnu Fashion Co., Ltd from May 2000 to February 2003. Prior to that, Mr. Zhang had been responsible for production management in several local companies that manufactured leather, footwear and textile. Mr. Zhang has extensive knowledge and experience in corporate management and the leather industry. In 2001, he received a MBA from a joint program organized by the Shanghai University of Finance and Economics and the Webster University of the US.

ZHOU Xiaohong (周小紅), aged 41, joined the Group in 1995 and is 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.

SUN Guilong (孫桂龍), aged 53, joined the Company in July 2008 and is the chairman of the board committee of Zhejiang Kasen Property Development Co., Ltd. Before joining the Company, Mr. Sun had served in the local government for 30 years. Mr. Sun was the governor of Guodian Town Government, Haining and the secretary of Guodian Town Communist Committee from November 1996 to October 2001, and was the director of Haining Planning and Construction Bureau from November 2001 to March 2007, and then he was the vice director of Haining Lianhang Economic Zone from April 2007 to July 2008.

HU Han (胡晗), aged 38, joined the Company in October 2009 as assistant CEO 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 is taking EMBA courses in Chinese Europe International Business School from 2008. Ms. Hu is a senior finance manager certified by IFMA and Hong Kong SFC asset management business licensee (Type 9). Prior to joining the Group, Ms. Hu worked as director of investment in Shanghai Linnai Industrial Investment Co., Ltd. from 2007 to October 2009. She was a 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 37, joined the Company as an accountant on April 29, 2004 and was later promoted as the company secretary and finance and administrative manager of the Company. She has over 14 years of experience in auditing and accounting. She is a member of the ACCA 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 of Directors (the "Board"), I am pleased to present the annual results of the Company and its subsidiaries (the "Group") for the year ended December 31, 2009.

BUSINESS REVIEW

In the year of 2009, we are glad to see the sign of global economic resurgence after policies carried out by governments around the world to stimulate economic growth. Through a series of steps of reforming measures including cost-saving, management optimization, business units reconstruction and incentive schemes, we successfully grasped the opportunity to expand and develop our business rapidly. In 2009, the Group's turnover was approximately RMB2,399.0 million, representing an increase of 26.7% as compared to the same period in 2008 and the profit attributable to the shareholders was approximately RMB132.7 million. The Board did not recommend the payment of a final dividend for the year ended December 31, 2009.

After several years of efforts, the Group has become the leading automotive leather supplier in China. The revenue generated in automotive leather segment was approximately RMB384.6 million in 2009, representing a significant increase of 125.8% compared to the year of 2008.

In order to capitalize the Group's expertise in furniture manufacturing and the fine quality of its products, the Group has entered into the furniture retail market both in China and the UK. At present, the Group owns two large sized furniture stores in China and recorded sales of approximately RMB9.9 million in 2009. During the year under review, the Group acquired Sofas UK Plc. ("Sofas UK"), a UK based furniture retailer with 27 stores and the sales generated from UK was approximately RMB147.5 million.

CHAIRMAN'S STATEMENT

From the year of 2007, the Group has gradually started its business of property development in China. At the end of year 2009, the Group owned land located in Hainan, Zhejiang and Jiangsu, PRC. The revenue from property development arrived to approximately RMB709.0 million in 2009, representing an increase of approximately RMB709.0 million compared to the year of 2008 and accounted for 29.6% of the Group's total revenue.

PROSPECTS AND FUTURE PLANS

The Group has entered into property development business since 2007 and turnover from this segment has taken an important part of our total revenue in the year of 2009. After assessing our resources on hand and potential, the Group has strong confidence in the promising future of property development business and believes that it will create more value to our shareholders. Besides, the Group will also seek for more better opportunities to improve its investment.

Restructuring of manufacturing business

More reform measures, including asset restructuring and transfer of business will be carried out in the manufacturing business in the following one to two years. During the restructuring period, the Group will focus on the research and production of mid to high end leather to increase profit margins. The Group will make aggressive expansion in the automotive leather market and build up strong cooperation relationships with major customers. The Group will also keep committed to improve its performance in upholstered furniture.

Expansion of retail business

It is estimated that the PRC government will maintain its incentive policies in domestic consumption and the furniture demand from local customers will show a steady growth in the coming years. Under the brand name of "Kasen Home Furnishings", the Group now owns two stores in Shanghai and Hangzhou, To expand our distribution channel, the Group will attract more franchisers to join our domestic sales program and believe it will be critical to improve the market share, sales revenue and brand popularity.

Through the acquisition of Sofas UK, a company principally engaged in the sale of home furniture in the UK, the Group successfully entered into the retail market in developed countries. We currently own 27 retail stores in the UK trading under the brand name of "Easyliving Furniture". In the future, we will open more stores and provide the customers with higher grade furniture at competitive price. The Group will keep monitoring the possibilities of overseas acquisitions in retail business in the future.

CHAIRMAN'S STATEMENT

Emphasis on property development

Property development is now a pillar industry in China. The Group's investment in property market in Hainan and Jiangsu began to show an ideal return. After assessing the Group's resources in property development segment, we will focus on the tourism-related property development in the coming years. The Group is looking for more investment opportunities in other famous tourism resorts and providing high quality products to the market by focusing on the development process, from project selection, planning, landscaping, construction to property management. The Group's target is to become an unique and leading tourism-related property developer in China.

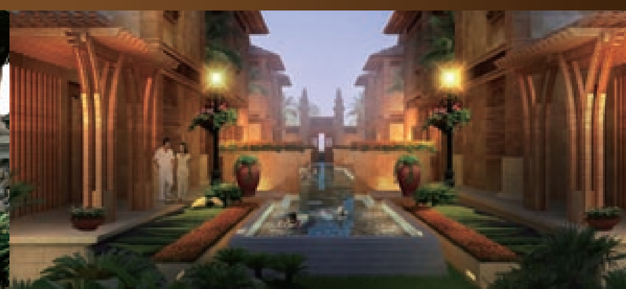
I would like to express my sincere appreciation to my fellow directors, management team and employees for their contribution and dedication to the Group and deep thanks to our shareholders, customers, suppliers and business partners for their continuing support.

ZHU Zhangjin, Kasen
Chairman

The PRC, April 23, 2010

Our Properties

ASIA BAY
博鰲 • 亞洲灣



QIANJIANG ARK
鹽城 • 錢江方洲

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OVERVIEW

For the year ended December 31, 2009, the Group recorded a consolidated turnover of approximately RMB2,399.0 million, representing an increase of 26.7% compared with approximately RMB1,894.0 million for year 2008.

The Group's gross profit margin in 2009 was 13.9%, representing an increase of 9.3 percentage points as compared to 2008. The net profit attributable to owners of the Company was approximately RMB132.7 million in 2009, representing an increase of 148.5% turnaround profit over the net loss of approximately RMB273.8 million in 2008.

During the year under review, the global economy showed a strong sign of recovery from the financial crisis, while Chinese economy recorded a remarkable growth. Through a series of reforming measures including cost-saving, management optimization, business units reconstruction and incentive schemes, we successfully grasped the opportunity to expand and develop our business rapidly. In the year of 2009, the turnover of the Group was further diversified and property development became one of the Group's reportable segments. The sales from property development accounted for 29.6% of the Group's total turnover in 2009.

The results reflect the mixed performance across the Group's three major business segments (manufacturing, property development and retail business) in the challenging economic conditions.

Review by Business Segments

The Group's reportable segments under IFRS 8 are now changed to manufacturing, property development, retail business and others (comprising mainly property management service business).

The table below shows the total turnover by product category for the year ended December 31, 2009:

	2009		2008		**Y-O-Y Change**
	RMB'Million	*%*	*RMB'Million*	*%*	*%*
Manufacturing	**1,530.7**	**63.8%**	1,888.0	99.7%	-18.9%
Upholstered Furniture	***793.6***	***33.1%***	*1,239.6*	*65.5%*	*-36.0%*
Furniture Leather	***352.5***	***14.7%***	*478.1*	*25.2%*	*-26.3%*
Automotive Leather	***384.6***	***16.0%***	*170.3*	*9.0%*	*125.8%*
Property Development	**709.0**	**29.6%**	–	–	N.M.
Retail business	**157.4**	**6.5%**	5.9	0.3%	2,567.8%
Others	**1.9**	**0.1%**	0.1	0%	1,800.0%
Total	**2,399.0**	**100.0%**	1,894.0	100.0%	26.7%

N.M. – not meaningful

Manufacturing Business

During the year under review, manufacturing business was still a core segment of the Group. This business segment, including three major operating divisions: upholstered furniture, furniture leather and automotive leather, recorded a total turnover of approximately RMB1,530.7 million for the year of 2009 (2008: approximately RMB1,888.0 million) and gained an operating profit of approximately RMB285.2 million (2008: an operating loss of approximately RMB195.8 million). Below is a brief discussion of the sales of the three operating divisions.

Upholstered Furniture

Sales of upholstered furniture including finished sofa and sofa cut-and-sew accounted for 33.1% of the Group's total turnover. Facing a fluctuating demand from overseas and rising costs, the Group shifted its strategy from volume-oriented to profit-oriented, and put more priority on the production and promotion of products with higher profit margin. In 2009, the Group conducted a big structure reorganization. Manufacturing facilities were consolidated and excess capacities were minimized. As a result, the Group's upholstered furniture sales decreased from approximately RMB1,239.6 million in 2008 to approximately RMB793.6 million in 2009. Although the Group's reform measures resulted in a decline in sales, the profit margin was improved.

Furniture Leather

The Group's priority in furniture leather production is to meet the internal leather requirement of its upholstered furniture division. Due to the decline in the production of upholstered furniture, the Group's sales of furniture leather decreased by 26.3%, from approximately RMB478.1 million in 2008 to approximately RMB352.5 million in 2009.

Automotive Leather

In order to leverage on the rapid growth of China's automobile industry, the Group allocated more resources in the development of automotive leather. After several years of research and business development, the Group has become one of the largest domestic automotive leather suppliers in China. Revenue generated in automotive leather operating division was approximately RMB384.6 million in 2009, representing a significant increase of 125.8% as compared to the year of 2008.

Property Development Business

The turnover in the property development business amounted to approximately RMB709.0 million in the year of 2009.

As delivery of the Phase 1 units of the residential buildings in Yancheng of Jiangsu province ("Yancheng Project") took place during the year under review, the Group recorded a turnover of approximately RMB709.0 million from the Yancheng Project. However, the average selling price of Phase 1 units was relatively low, resulting in an operating loss of approximately RMB52.3 million (2008: approximately RMB57.9 million) during the year of 2009. It is expected that the average selling price of Phases 2 and 3 units will be higher than that of Phase 1.

As the Group's other property projects were still under development during the year under review, no material contribution was made in respect of such property projects to the turnover and profit of the Group in 2009.

Retail Business

In order to capitalize on the Group's expertise in furniture manufacturing and the fine quality of its products, the Group has entered into the furniture retail market both in China and the United Kingdom. The total turnover from retail business recorded an increase of 2,567.8% from approximately RMB5.9 million in 2008 to approximately RMB157.4 million in 2009. As a result of the Group's new investment in the UK retail business market during the year under review, a total operating loss of RMB88.0 million was recorded in this business segment during the year of 2009.

The Group stepped into the domestic furniture retail market in 2007. At present, the Group owns two large sized furniture stores in China and recorded sales of approximately RMB9.9 million in 2009.

The Group entered into the UK furniture retail market in early March 2009 through the acquisition of all the existing shares of Sofas UK, a UK based furniture retailer. In 2009, sales from Sofas UK was approximately RMB147.5 million.

MANAGEMENT DISCUSSION AND ANALYSIS

Review by Region

The table below shows the total turnover by geographic market for the year ended December 31, 2009:

	2009		2008		**Y-O-Y Change**
	RMB'Million	*%*	*RMB'Million*	*%*	*%*
USA	**586.7**	**24.4%**	802.8	42.4%	-26.9%
PRC, including HK	**1,536.8**	**64.1%**	788.5	41.6%	94.9%
Europe	**215.2**	**9.0%**	259.2	13.7%	-17.0%
Australia	**48.2**	**2.0%**	13.7	0.7%	251.8%
Others	**12.1**	**0.5%**	29.8	1.6%	-59.4%
Total	**2,399.0**	**100.0%**	1,894.0	100.0%	26.7%

During the year under review, the Group's sales to the US market declined by 26.9% as compared to 2008 and the percentage of US sales to the Group's total turnover reduced to 24.4%. Such decrease was caused primarily by the weak demand from the US furniture market as the US economy is yet to recover from the economic downturn.

The Group's expansion into the European market is still undergoing. In 2009, this segment recorded a sales of approximately RMB215.2 million, a decrease of 17.0% as compared to approximately RMB259.2 million in 2008. During the year under review, the Group acquired Sofas UK, a UK based furniture retail chain. The Group believes that the acquisition will offer a good opportunity for it to extend its home furniture retail business in the UK.

The Group's sales to the PRC domestic market showed a significant increase in the year of 2009. The turnover of the sales to the PRC domestic market was approximately RMB1,536.8 million, increased by 94.9%, as compared to approximately RMB788.5 million in the year of 2008. The significant increase was mainly due to the newly generated revenue from the delivery of some of the residential building units in Yancheng of Jiangsu province, and the strong growth in the sales of automotive leather.

Operating Expense, Taxation and Profit Attributable to Owners

The Group's selling and distribution costs during the year under review increased to approximately RMB192.8 million, as compared to approximately RMB69.2 million in 2008, mainly due to (1) an increase of approximately RMB55.6 million in operating lease rentals and government rates for the UK stores newly operated by the Group starting from March 2009, (2) an increase of approximately RMB30.3 million in staff costs for salesperson of the Group's UK stores, and (3) an increase of approximately RMB25.6 million in sales commission and marketing expenses paid, which included approximately RMB9.7 million incurred by the Group's UK stores and approximately RMB12.2 million increased sales commission due to increased sales in automotive leather division. As a result, the selling and distribution costs to turnover in 2009 increased to 8.0% as compared to 3.7% in 2008.

The administrative costs in 2009 was approximately RMB120.0 million, with an increase of approximately RMB3.0 million as compared to approximately RMB117.0 million in 2008. All administrative expenses kept at same level as in 2008.

The Group's finance cost in 2009 was approximately RMB62.8 million, with a decrease of approximately RMB45.7 million, as compared to approximately RMB108.5 million in 2008, due to the reduction of bank lending rate, and also the decrease in the level of outstanding amounts of bank borrowings of the Group during the year under review.

Other expenses in 2009 were approximately RMB33.1 million, as compared to approximately RMB30.2 million in 2008. All other expenses remained at same level as in 2008.

During the year under review, the Group has recognized a gain of approximately RMB277,289,000 on disposal of 9 parcels of land for the use of leather production located in Haining, Zhejiang province.

The Group's income tax in 2009 was approximately RMB77.2 million, with an increase of approximately RMB71.0 million, as compared to approximately RMB6.2 million in 2008, mainly due to (1) an increase in PRC income tax of approximately RMB34.4 million as a result of the increase in taxable operating profits generated from (a) the delivery of some of the residential building units in Yancheng of Jiangsu province and (b) the increased sales of automotive leather division at subsidiary level, (2) the PRC land appreciation tax of approximately RMB7.5 million from the Yancheng project, and (3) the deferred tax of approximately RMB29.1 million charged for the income on relocation of manufacturing plant in Haining, Zhejiang province.

For reasons mentioned above, the Group has made a successful turnaround in its business and became profitable in 2009. Profit attributable to owners of the Company was approximately RMB132.7 million in 2009, as compared to a loss of approximately RMB273.8 million in 2008.

CAPITAL EXPENDITURES

Capital expenditure (excluding assets acquired through acquisition of subsidiaries during the year) in 2009 decreased to approximately RMB58.6 million from approximately RMB74.4 million in 2008. The capital expenditure comprised mainly an amount of approximately RMB43.7 million spent on the purchase of property, plant and equipment for operational purpose, and a payment of approximately RMB14.9 million development cost in Hainan Boao project.

FINANCIAL RESOURCES AND LIQUIDITY

Bank and Other Borrowings

As at December 31, 2009, the Group's bank and other borrowings amounted to approximately RMB1,281.9 million, accounted for a 11.1% decrease from approximately RMB1,442.6 million as at December 31, 2008. For details, please refer to note 30 to the Consolidated Financial Statements.

Turnover Period, Liquidity and Gearing

The Group's inventory now primarily represented leather crust (2008: raw cowhides and wet blues) used for production, accounted for approximately 27% of the total inventory of approximately RMB409.2 million in 2009 (2008: approximately RMB727.1 million). In 2009, the inventory turnover period decreased to 110 days (2008: 147 days) due to a shorter production cycle and decrease in inventories resulting from streamlined leather production.

In 2009, the Group continued to maintain a strict credit policy. Many of the Group's customers are also in their difficult time and also a general longer credit term (up to 90 days) granted to customers in automotive leather division, resulting in an increase in account receivables turnover days to 82 days in 2009 (2008: 48 days).

The accounts payable turnover days increased to 51 days in 2009 (2008: 25 days).

As at December 31, 2009, the Group's current ratio increased to 1.42 (December 31, 2008: 1.11) and quick ratio increased to 1.21 (December 31, 2008: 0.81), respectively. The Group's cash and cash equivalent balance was approximately RMB461.9 million as at December 31, 2009 (December 31, 2008: approximately RMB389.6 million). This represents a gearing ratio of 62.1% as at December 31, 2009 (December 31, 2008: 72.3%) and a net debt-to-equity ratio of 39.5% as at December 31, 2009 (December 31, 2008: 51.3%). 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 2009, 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 requirement during the year under review.

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL ACQUISITION AND DISPOSAL

During the year under review, the Group acquired 1) the 100% equity interest in Sofas UK; and 2) the 51% equity interest in Hainan Hejia Property Development Co., Ltd. For details, please refer to notes 22 and 36 to the Consolidated Financial Statements.

The Group disposed of 1) 9 parcels of land for the use of leather production located in Haining, Zhejiang province, for details, please refer to note 27 to the Consolidated Financial Statements; 2) a parcel of land located at Changsha City, Hunan province pursuant to a conditional sale and purchase agreement dated April 10, 2009 by Hunan Kasen Property Company Limited to an independent third party at a consideration of approximately RMB287,143,000; and 3) all equity interests in the dissolution of Haining Leather Industry Investment and Development Co., Ltd., a non-wholly owned subsidiary.

CONTINGENT LIABILITIES

As at December 31, 2009, the Group had no contingent liabilities.

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 41 to the Consolidated Financial Statements.

FOREIGN EXCHANGE EXPOSURE

The Group is principally engaged in export-related business, and transactions (including sales and procurements) were mainly denominated in US dollars, and most of the trade receivables was exposed to fluctuation. In 2009, the Group used forward contract and some other financial instruments to hedge foreign exchange risk, and recorded a gain of approximately RMB207,000.

On the other hand, the Group's exposure to foreign currency in retail segment has increased during the year under review. It was mainly due to the reason that the functional currency in respect of the acquisition of Sofas UK is in GBP while the majority of the purchase of Sofas UK is in USD. However, Sofas UK's foreign exchange risk of GBP against USD is minimised partly by reason of an arrangement reached between Sofas UK and a supplier to fix the settlement rate of payable in its own functional currency. The payable under such arrangement amounted to approximately RMB47,527,000 as at December 31, 2009.

EMPLOYEES AND EMOLUMENTS POLICIES

As at December 31, 2009, the Group employed a total of approximately 4,500 full time employees (December 31, 2008: approximately 5,400), including management staff, technicians, salespersons and workers. In 2009, the Group's total expense on the remuneration of employees was approximately RMB166.0 million (2008: approximately RMB188.0 million), representing 6.92% (2008: 9.93%) 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) or state National Insurance scheme (for the UK employees) and medical insurance, discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance.

MANAGEMENT DISCUSSION AND ANALYSIS

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, who are authorized by the shareholders of the Company (the "Shareholders") in the annual general meeting, having regard to the Group's operating results, individual performance and comparable market statistics.

FUTURE PLANS AND PROSPECTS

The Group's entry into the domestic property development business has proven to be a successful move with a promising start. Going forward, the property development will be the core business of the Group. To capture the huge potentials in this business segment, the Group will take active strategy to expand the tourism-related property market and build up our reputation in this area. Besides, the Group will also seek for better opportunities to improve its investment.

Restructuring of manufacturing business

A series of restructuring plans in this business segment will be completed during the next one to two years. During the transitional period, the Group will put more emphasis on the research and production of mid to high end leather and in-house product design to improve its competitiveness and profit margins. In addition to the continued development of its customer base in the US and Europe, which are the traditional strongholds of the Group, the Group will extend its business to Asian market, such as Korea and Malaysia. In the automotive leather business, the Group will take active measures to strengthen its leading role in domestic market, In addition to the seat leather covers, the Group will search for other cooperation opportunities in automotive interior furnishings with other automobile factories in China.

Expansion of Retail Business

Domestic Market

The Group currently owns two stores in Shanghai and Hangzhou respectively trading under the brand name of “Kasen Home Furnishings”. In these stores, the Group provides domestic customers with quality furniture at affordable price. The Group has strong confidence that its domestic retail business will achieve a steady growth in the coming years. To expand its distribution channel and to improve its market share, the Group will bring in more franchisers to join our domestic sales program. Meanwhile, the Group will implement more effective promotion measures, such as co-operation relationships with property developers and network marketing.

Overseas Market

Through the acquisition of Sofas UK, the Group successfully entered into the retail market in developed countries. The Group currently owns 27 retail stores in the UK trading under the brand name of “Easyliving Furniture”. In the future, the Group will open more stores and provide the customers with high quality furniture at competitive price.

Property Development

In Jiangsu province, the Group’s investment is poised to make a promising return. During the year under review, the sales from Yancheng Project accounted for a major part of the Group’s total turnover. It is estimated that steady income will be generated in the coming years upon the sales in the next phases of this project.

In Hainan province, the Group has two large scale property development projects located in Boao and Sanya, two major tourist destinations, respectively. In January 2010, the PRC government officially approved the “International Tourism Island Strategy of Hainan” which has become an important catalyst to the property development sector in Hainan. The project in Boao is currently under development with a total construction area of approximately 600,000 square meters for residential and commercial purposes. The construction of the first phase started in December 2009 and sales are planned to commence in mid 2010. In Sanya, the Group has a land reserve of more than 1,000,000 square meters and construction will commence in the year of 2011.

The strategy to become a leading provider of tourism-related property distinguished the Group from most property developers in the PRC. In addition to the two large scale projects in Hainan province, the Group is searching for more investment opportunities in other famous tourism resorts. To meet the growing market demands, our products in tourism-related property business will not only include houses, but also property management, tourism services and vacation arrangement.



DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements for the year ended December 31, 2009.

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

PRINCIPAL ACTIVITIES

The Company is as 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, 2009 are set out in the consolidated statement of comprehensive income on page 37.

The Directors did not recommend the payment of any final dividend for the year ended December 31, 2009 and proposed that profit for the year be retained.

DISTRIBUTABLE RESERVES OF THE COMPANY

The amount of the Company's reserves available for distribution to shareholders as at December 31, 2009, calculated in accordance with International Financial Reporting Standards, was approximately RMB974.1 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 2009, the Group had acquired property, plant and equipment of approximately RMB43.7 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 2009 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 32 to the consolidated financial statements.

During the year under review, the Company repurchased certain of its own shares through the Stock Exchange and the shares were cancelled on January 6, 2010. Details of which are set out in note 32 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year of 2009, the aggregate sales attributable to the Group's five largest customers comprised approximately 39.8% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 14.8% of the Group's total sales.

The aggregate purchases during the year of 2009 attributable to the Group's five largest suppliers were approximately 46.0% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 39.5% of the Group's total purchases.

DIRECTORS' REPORT

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 2009 and up to the date of this report are:

Executive Directors

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

Independent Non-executive Directors

CHOW Joseph
GU Mingchao
LI Qingyuan *(appointed on October 1, 2009)*
LU Yungang, Ken *(resigned on October 1, 2009 to pursue other interests)*

In accordance with provision 87 of the Company's articles of association (the "Articles"), Mr. Zhou Xiaosong and Mr. Chow Joseph will retire from the office of Directors by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. Dr. Li Qingyuan will only hold office as Director until the forthcoming annual general meeting and, being eligible, will offer herself for re-election at such meeting.

None of the Directors being proposed for re-election at the forthcoming annual general meeting 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 6.

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

As at December 31, 2009, 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 *(Note 1)*
Zhu Zhangjin ("Mr Zhu")	7,854,000	503,292,635 *(Note 2)*	511,146,635	43.91%
Zhou Xiaosong	8,173,912	–	8,173,912	0.70%
Zhang Mingfa, Michael	1,980,000	–	1,980,000	0.17%

Notes:

(1) The Company's issued share capital was amounting to 1,163,956,985 shares as at December 31, 2009, which included 1,730,000 shares repurchased but not yet cancelled up to December 31, 2009.

(2) 503,292,635 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, 2009.

DIRECTORS' REPORT

SHARE OPTION SCHEME

Particulars of the Company's share option scheme are set out in note 33 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, May 5, 2008, May 13, 2009 and October 12, 2009 respectively, during the year ended December 31, 2009 were as follows:

		Number of share options							
Name of Director	Exercise price HK$	Outstanding as at January 1, 2009	Granted from January 1, 2009 to December 31, 2009	Lapsed from January 1, 2009 to December 31, 2009	Exercised from January 1, 2009 to December 31, 2009	Outstanding as at December 31, 2009	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	1,9,10
	2.38	1,000,000	–	–	–	1,000,000	0.09%	1/1/2008 to 8/3/2016	2,9,10
Zhou Xiaosong	2.38	1,000,000	–	–	–	1,000,000	0.09%	1/1/2007 to 8/3/2016	1,9,10
	2.38	1,000,000	–	–	–	1,000,000	0.09%	1/1/2008 to 8/3/2016	2,9,10
	1.18	500,000	–	–	–	500,000	0.04%	1/1/2009 to 4/5/2018	3,9,10
	1.18	500,000	–	–	–	500,000	0.04%	1/1/2010 to 4/5/2018	4,9,10
Zhang Mingfa, Michael	2.38	500,000	–	–	–	500,000	0.04%	1/1/2007 to 8/3/2016	1,9,10
	2.38	500,000	–	–	–	500,000	0.04%	1/1/2008 to 8/3/2016	2,9,10
	1.18	250,000	–	–	–	250,000	0.02%	1/1/2009 to 4/5/2018	3,9,10
	1.18	250,000	–	–	–	250,000	0.02%	1/1/2010 to 4/5/2018	4,9,10
Chow Joseph	2.38	200,000	–	–	–	200,000	0.02%	1/1/2007 to 8/3/2016	1,9,10
	2.38	200,000	–	–	–	200,000	0.02%	1/1/2008 to 8/3/2016	2,9,10
	1.18	300,000	–	–	–	300,000	0.02%	1/1/2009 to 4/5/2018	3,9,10
	1.18	300,000	–	–	–	300,000	0.02%	1/1/2010 to 4/5/2018	4,9,10
Gu Mingchao	1.60	–	500,000	–	–	500,000	0.04%	1/10/2010 to 11/10/2019	7,9,10
	1.60	–	500,000	–	–	500,000	0.04%	1/10/2011 to 11/10/2019	8,9,10
Li Qingyuan *(Note 12)*	1.60	–	500,000	–	–	500,000	0.04%	1/10/2010 to 11/10/2019	7,9,10
	1.60	–	500,000	–	–	500,000	0.04%	1/10/2011 to 11/10/2019	8,9,10
Lu Yungang *(Note 12)*	2.38	200,000	–	(200,000)	–	–	–	1/1/2007 to 8/3/2016	1,9,10
	2.38	200,000	–	(200,000)	–	–	–	1/1/2008 to 8/3/2016	2,9,10
	1.18	300,000	–	–	(300,000)	–	–	1/1/2009 to 4/5/2018	3,9,10
	1.18	300,000	–	(300,000)	–	–	–	1/1/2010 to 4/5/2018	4,9,10
		8,500,000	2,000,000	(700,000)	(300,000)	9,500,000	0.80%		
Other employees in aggregate	2.38	7,650,000	–	(450,000)	–	7,200,000	0.62%	1/1/2007 to 8/3/2016	1,9,10
	2.38	7,650,000	–	(450,000)	–	7,200,000	0.62%	1/1/2008 to 8/3/2016	2,9,10
	1.18	2,900,000	–	–	–	2,900,000	0.25%	1/1/2009 to 4/5/2018	3,9,10
	1.18	2,900,000	–	–	–	2,900,000	0.25%	1/1/2010 to 4/5/2018	4,9,10
One consultant	0.53	–	5,000,000	–	–	5,000,000	0.43%	1/1/2010 to 12/5/2019	5,9,10,11
	0.53	–	5,000,000	–	–	5,000,000	0.43%	1/1/2011 to 12/5/2019	6,9,10,11
		29,600,000	12,000,000	(1,600,000)	(300,000)	39,700,000	3.40%		

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 were granted pursuant to the Scheme on May 13, 2009 and are exercisable at HK$0.53 per Share from January 1, 2010 to May 12, 2019.

6. These share options were granted pursuant to the Scheme on May 13, 2009 and are exercisable at HK$0.53 per Share from January 1, 2011 to May 12, 2019.

7. These share options were granted pursuant to the Scheme on October 12, 2009 and are exercisable at HK$1.60 per Share from October 1, 2010 to October 11, 2019.

8. These share options were granted pursuant to the Scheme on October 12, 2009 and are exercisable at HK$1.60 per Share from October 1, 2011 to October 11, 2019.

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

10. Except the lapsed and exercised share option stated above, up to December 31, 2009, none of these share options were cancelled.

11. The Company granted 10,000,000 share options to an independent consultant of the Company on May 13, 2009. The exercise price of the options is HK$0.53.

12. On October 1, 2009, Mr. Lu Yungang resigned as an independent non-executive Director. On October 1, 2009, Dr. Li Qingyuan was appointed as independent non-executive Director.

SUBSTANTIAL SHAREHOLDERS

As at December 31, 2009, 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 *(Note 3)*
Joyview [2]	Beneficial owner	–	503,292,635	503,292,635	43.24%
Warburg Pincus & Co. [1]	Interest of controlled corporation	–	135,989,966	135,989,966	11.68%
Warburg Pincus Partners LLC [1]	Interest of controlled corporation	–	135,989,966	135,989,966	11.68%
Warburg Pincus Private Equity VIII L.P. [1]	Beneficial owner	–	65,893,488	65,893,488	5.66%
Warburg Pincus International Partners L.P. [1]	Beneficial owner	–	65,174,811	65,174,811	5.60%

Notes:

1. Warburg Pincus International Partners, L.P., and Warburg Pincus Private Equity VIII L.P. are part of the Warburg Pincus Funds. The general partner of the Warburg Pincus Funds is Warburg Pincus Partners LLC, which is a subsidiary of Warburg Pincus & Co. Each of Warburg Pincus Partners LLC and Warburg Pincus & Co. is therefore deemed to be interested in the shares held by the Warburg Pincus Funds, which includes Warburg Pincus International Partners, L.P. and Warburg Pincus Private Equity VIII L.P. as well as four other funds consisted in the Warburg Pincus Funds.

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

3. The Company's issued share capital was amounting to 1,163,956,985 shares as at December 31, 2009, which included 1,730,000 shares repurchased but not yet cancelled up to December 31, 2009.

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, 2009.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Other than the share option scheme disclosed in the section "Share Option Scheme", at no time during the year of 2009 was the Company or any of its subsidiaries, a party to any arrangements to enable the Directors of the Company to 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, 2009, the Group did not enter into any transactions (which constitute one-off connected transactions for the Company under Chapter 14A of the Listing Rules and are subject to reporting and announcement requirements as well as independent shareholders' approval requirements under the Listing Rules) with its connected persons.

CONTINUING CONNECTED TRANSACTIONS

During the year ended December 31, 2009, the Group entered into the following continuing 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 Yujie

On December 17, 2007, Haining Yujie Material Recycling Co., Ltd. ("Yujie") entered into a renewal agreement with the Group which will expire on December 31, 2010 and, subject to compliance with the Listing Rules requirements regarding connected transactions, is renewable for a term of 3 years thereafter. Yujie is a 80% owned subsidiary of Zhejiang Sunbridge Industrial (Group) Co., Ltd. (浙江聖邦實業集團有限公司(原名：浙江森橋實業集團有限公司)) ("Sunbridge") and Sunbridge is a company in which Mr. Zhu Zhangjin indirectly controls more than 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 17, 2007.

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. During the year under review, the aggregate amount of the transactions under this renewal agreement was approximately RMB5,091,000 and the annual cap amount granted by the Stock Exchange was RMB19,500,000.

(2) Agreement for Purchase of Wet Blues from Kezilesu Xinrong, Yili Horgos and Baiyin Kasen

On December 17, 2007, Kezilesu Xinrong Leather Co., Ltd. ("Kezilesu Xinrong"), Yili Horgos Leather Co., Ltd. ("Yili Horgos") and Baiyin Kasen Leather Co., Ltd. ("Baiyin Kasen") entered into an agreement with the Group which will expire on December 31, 2010 and, subject to compliance with the Listing Rules requirements regarding connected transactions, is renewable for a term of 3 years thereafter. Each of Kezilesu Xinrong, Yili Horgos and Baiyin Kasen is a subsidiary of Sunbridge and Sunbridge is a company in which Mr. Zhu Zhangjin indirectly controls more than 30% of the voting power at its general meetings. 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 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 wet blues to be supplied by the relevant suppliers. Details of this agreement have been set out in the Company's circular dated January 7, 2008.

Pursuant to this renewal agreement, the Group agreed to purchase wet blues from Kezilesu Xinrong, Yili Horgos and Baiyin Kasen. Kezilesu Xinrong, Yili Horgos and Baiyin Kasen are the largest importers of raw cowhides purchased from Xinjiang, Gansu and Qinghai of Northwest China or neighboring countries, such as Kazakhstan, Tajikistan, Uzbekistan and Kyrgyzstan, and process such raw cowhides into wet blues. Although the Group possesses wet blues processing capacity, its tannery facility in Haining does not produce sufficient wet blues for its production needs. As a result, the Group had to source wet blues externally from time to time. Further, it would also save transportation and handling costs if the processing and enhancement of raw cowhides into wet blues were carried out near the place of origin of the raw cowhides. During the year under review, the aggregate amount of the transactions under this agreement was approximately RMB15,190,000 and the annual cap amount granted by the Stock Exchange was RMB212,000,000.

(3) Agreement for Sale of Upholstered Furniture to Starcorp

On December 31, 2008, Starcorp Corporation Pty. Ltd. ("Starcorp") entered into an agreement with the Group which will expire on December 31, 2011 and, subject to compliance with Listing Rules requirements regarding connected transactions, renewable for a term of 3 years thereafter. Starcorp is a 70% owned subsidiary of Sunbridge and Sunbridge is a company in which Mr. Zhu Zhangjin indirectly controls more than 30% of the voting power at its general meetings. The pricing under this agreement was determined in accordance with: (1) a comparable market price; or (2) 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 circular dated January 21, 2009. Pursuant to this agreement, the Group agreed to sell upholstered furniture to Starcorp. Starcorp's core business is retail sales of wooden and other upholstered furniture in Australia and the Company considers that this provides a good opportunity for the Group to increase its sales of the upholstered furniture in the Australian market. During the year under review, the aggregate value of the transaction under this agreement was approximately RMB6,091,000 and the annual cap amount granted by the Stock Exchange was RMB30,000,000.

(4) Agreement for Sale of Upholstered Furniture to Bedding Concepts

On December 17, 2007, Furniture and Bedding Concepts Ltd. (formerly known as Sleep City Holdings Limited) ("Bedding Concepts") entered into an agreement with the Group which will expire on December 31, 2010 and, subject to compliance with the Listing Rules requirements regarding connected transactions, is renewable for a term of 3 years thereafter. Bedding Concepts is a 85% (2008: 35%) owned subsidiary of Sunbridge and Sunbridge is a company in which Mr. Zhu Zhangjin indirectly controls more than 30% of the voting power at its general meetings. The pricing under this agreement was determined with reference to: (i) a comparable market price where the normal cost of billing of the furniture concerned will be taken into account; 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 circular dated January 7, 2008.

Pursuant to this agreement, the Group agreed to sell upholstered furniture to Bedding Concepts. Bedding Concepts and its subsidiaries are principally engaged in retail sales of upholstered furniture in Australia. Bedding Concepts is one of the Australia's largest privately owned companies of specialty bedding stores and it is expanding its business to upholstered furnitures. Its demand for upholstered furnitures imported from China is big and continuous. The Directors consider that the transactions with the Bedding Concepts Group as contemplated under this agreement are in the interest of the Company and the shareholders as a whole as it would render regular sales to one of the largest privately owned companies of specialty bedding stores in Australia. During the year under review, the aggregate value of the transactions under this agreement was approximately US$6,174,000 (equivalent to approximately RMB42,046,000) and the annual cap amount granted by the Stock Exchange was US$12,000,000.

(5) Agreement for Purchase of Wooden Furniture from Starcorp and Sale of Leather to Starcorp

On March 9, 2009, Starcorp Corporation Pty. Ltd. ("Starcorp") entered into an agreement with the Group which will expire on December 31, 2011 and, subject to compliance with the Listing Rules requirements regarding connected transactions, is renewable for a term of 3 years thereafter. Starcorp is a 70% owned subsidiary of Sunbridge and Sunbridge is a company in which Mr. Zhu Zhangjin indirectly controls more than 30% of the voting power at its general meetings. 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 circular dated March 26, 2009.

Pursuant to this agreement, the Group agreed to purchase wooden furniture from Starcorp ("Starcorp Sales") and the Group in turn agreed to supply leather to Starcorp ("Starcorp 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. Starcorp's core business is manufacture of wooden furniture, and retail sales of wooden and other upholstered furniture in Australia. Its demand for leather imported from the PRC is big and continuous. The Directors consider that the Continuing Connected Transactions with Starcorp are in the interests of the Shareholders as it would guarantee a stable source of supply of wooden furniture from Australia and regular sales of leather to Australia, through Starcorp. During the year under review, the aggregate value of the Starcorp Sales and Starcorp Purchases under this agreement were approximately RMB28,015,000 and approximately RMB2,099,000 respectively, and the annual cap amounts granted by the Stock Exchange were RMB119,000,000 and RMB5,000,000 respectively.

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. 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, 2009.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Save as disclosed under the headings "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, 2009.

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

Pursuant to the general mandate granted by the shareholders of the Company, the Board of Directors resolved on December 27, 2009 to repurchase the Company's shares of up to 10% of the issued shares of the Company as at the date of May 29, 2009. As at December 31, 2009, the Company had repurchased 1,730,000 ordinary shares on the Stock Exchange at an aggregate consideration of HK$2,928,200. All of such shares have been subsequently cancelled in early January 2010. Details of this share repurchase are set out in note 32 to the financial statements. Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended December 31, 2009.

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, 2009.

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, 2009.

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 Messrs. CHOW Joseph, GU Mingchao and Dr. Li Qingyuan 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.

EVENT AFTER REPORTING PERIOD

(1) Pursuant to the general mandate granted by the shareholders of the Company, the Board of Directors resolved on December 27, 2009 to repurchase the Company's shares of up to 10% of the issued shares of the Company as at the date of May 29, 2009. The Company had repurchased 3,010,000 ordinary shares on the Stock Exchange at an aggregate consideration of HK$5,189,170. All of such shares have been subsequently cancelled on January 6 and January 25, 2010.

(2) Pursuant to a sale and purchase agreement dated February 1, 2010, Haining Gaosheng Industrial Co., Ltd. (海寧高盛實業有限公司), a wholly-owned subsidiary of the Company, was agreed to acquire from Haining Bureau of Land and Resources (海寧市國土資源局), an independent third party, the six parcels of land which are in close proximity with each other with a total site area of approximately 93,578 square metres for an aggregate consideration of approximately RMB151,780,000.

(3) Pursuant to an equity transfer agreement dated February 24, 2010, Zhejiang Kasen Property Development Co., Ltd. was agreed to acquire from Zhejiang Zhongyu Trading Investment Development Co., Ltd. ("Zhejiang Zhongyu"), a connected person of the Company under the Listing Rules, for a 26% interest in Hainan Hejia Property Development Co., Ltd., at a consideration of approximately RMB71,780,000, which is held as to 51% by Zhejiang Kasen Property Development Co., Ltd. and as to 49% by Zhejiang Zhongyu prior to the completion of the acquisition.

    Pursuant to an equity transfer agreement entered on the same day, Haining Kasen Leather Co., Ltd. ("Haining Kasen") agreed to dispose 2% interest in Hainan Boao Kasen Property Development Co., Ltd. to Zhejiang Zhongyu at a consideration of approximately RMB43,910,000, which is held as to 92% by Haining Kasen and as to 8% by Hangzhou Anwei Industrial and Investment Co., Ltd. prior to the completion of the disposal.

AUDIT COMMITTEE

An Audit Committee was established by the Company to review and supervise the Company's financial reporting process and internal controls. The Audit Committee comprises all the independent non-executive Directors. Mr. CHOW Joseph is the chairman of the Audit Committee.

The annual results of the Company have been reviewed by the Audit Committee.

DIRECTORS' REPORT

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. GU Mingchao is the chairman of the Remuneration Committee.

AUDITOR

A resolution will be approved at the annual general meeting 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, April 23, 2010

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. We believe that effective corporate governance is an essential factor to create more value for our shareholders. Therefore we continuously review and improve our corporate governance standards to ensure maximum compliance with the relevant laws and codes.

The Company has complied with the "Code on Corporate Governance Practices" (the "CG Code") as set out in Appendix 14 of the Listing Rules throughout the year ended December 31, 2009, except for the following deviations:

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 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 Mainland China and the in-depth knowledge and experience in the leather and upholstery furniture market is 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.

CODE PROVISION A.4.1

Under CG Code Provision A.4.1, non-executive Directors should be appointed for a specific term and subject to re-election. The current independent non-executive Directors, namely Mr. Chow Joseph, Mr. Gu Mingchao and Dr. Li Qingyuan are not appointed for specific terms, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Articles which has provided that at every annual general meeting, one-third of the Directors for the time being or, if their number is not a multiple of three, the number nearest to but not less than one-third, shall retire from office by rotation. Given the provisions stipulated under the Articles, the Company considers that appropriate measures have been taken by the Company regarding its corporate governance practices. The Board will keep these matters under review and 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.

The Board will keep these matters under review. Following sustained development and growth of the Company, we 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") 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 period under review, they were in compliance with the provisions of the Model Code. All Directors declared that they have complied with the Model Code for the year ended December 31, 2009.

CORPORATE GOVERNANCE REPORT

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. The Board comprises six members, including three executive Directors and three independent non-executive Directors. The Board members for the year ended December 31, 2009 were:

Executive Directors

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

Independent Non-executive Directors

CHOW Joseph
GU Mingchao
LI Qingyuan *(appointed on October 1, 2009)*
LU Yungang, Ken *(resigned on October 1, 2009 to pursue other interests)*

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 6 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 the contents of such confirmation, 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.

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 Director is not appointed for specific terms, but is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Articles.

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. CHOW Joseph *(Chairman of the Audit Committee)*
Mr. GU Mingchao
Dr. LI Qingyuan *(appointed on October 1, 2009)*
Mr. LU Yungang, Ken *(resigned on October 1, 2009)*

The audit committee was set up 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 the Company’s annual reports and accounts and interim reports and results announcements and to provide advice and comments thereon to the Directors. The members meet regularly with the external auditors and the Company’s senior management for the review, supervision and discussion of the Company’s financial reporting and internal control procedures and ensure that management has discharged its duty to have an effective internal control system.

During the year ended December 31, 2009, 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. GU Mingchao *(Chairman of the Remuneration Committee)*
Mr. ZHOU Xiaosong
Dr. LI Qingyuan *(appointed on October 1, 2009)*
Mr. LU Yungang, Ken *(resigned on October 1, 2009)*

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 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, 2009, the remuneration committee held one meeting to review the remuneration package of the Board members and the senior management.

NUMBER OF MEETINGS AND DIRECTORS' ATTENDANCE

The individual attendance record of each director at the meetings of the Board, remuneration committee and audit committee during the year ended December 31, 2009 is set out below:

	Attendance/Number of Meetings		
Name of Directors	**Board**	**Remuneration Committee**	**Audit Committee**
Executive Directors			
Mr. ZHU Zhangjin, Kasen *(Chairman)*	4/4	N/A	N/A
Mr. ZHOU Xiaosong *(Member of Remuneration Committee)*	4/4	1/1	N/A
Mr. ZHANG Mingfa, Michael	4/4	N/A	N/A
Independent Non-executive Directors			
Mr. CHOW Joseph *(Chairman of Audit Committee)*	4/4	N/A	2/2
Mr. GU Mingchao *(Member of Audit Committee and Chairman of Remuneration Committee)*	4/4	1/1	2/2
Dr. LI Qingyuan *(appointed on October 1, 2009)* *(Member of Audit Committee and Remuneration Committee, all appointed on October 1, 2009)*	1/4	0/1	0/2
Mr. LU Yungang, Ken *(resigned on October 1, 2009)* *(Member of Audit Committee and Remuneration Committee, all resigned on October 1, 2009)*	3/4	1/1	2/2

NOMINATION OF DIRECTORS

The Company believes that it is not necessary to establish a separate nomination committee to nominate Directors. The task of nominating Directors is vested with the Board. The Board reviews the structure and the composition of the Board regularly, then identifies and nominates qualified individuals to be appointed as new Directors of the Company.

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, 2009.

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 for the year ended December 31, 2009 amounted to approximately RMB5.3 million.

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 shareholder 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

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, 2009 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.

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. Investors are welcome to write directly to the Company at its place of business in Hong Kong for any inquiries.

INDEPENDENT AUDITOR'S REPORT

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 37 to 112, which comprise the consolidated statement of financial position as at December 31, 2009, and the consolidated statement of 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 notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 engagements, 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 as to 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 and true and fair presentation of the consolidated financial statements 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, 2009 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
April 23, 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2009

	Notes	2009 RMB'000	2008 RMB'000
Turnover	5	**2,398,974**	1,893,990
Cost of sales		**(2,065,075)**	(1,806,760)
Gross profit		**333,899**	87,230
Other income	6	**34,234**	47,525
Distribution costs		**(192,827)**	(69,224)
Administrative expenses		**(119,967)**	(117,038)
Other expenses	7	**(33,103)**	(30,167)
Gain on disposal of interest in an associate		**21,300**	305
Gain on disposal of properties for development		**4,431**	–
Discount on acquisition of additional interest in a subsidiary		**839**	–
Gain on fair value change on derivative financial instruments		**207**	1,646
Impairment loss recognized in respect of property, plant and equipment		**(34,110)**	(30,791)
Impairment loss recognized in respect of trade and other receivables		**(13,763)**	(45,538)
Impairment loss of goodwill		**(4,139)**	–
Share of profits (losses) of associates		**192**	(7,439)
Share of profit of a jointly controlled entity		**121**	–
Gain on disposal of assets classified as held for sale	27	**277,289**	–
Finance costs	8	**(62,764)**	(108,500)
Profit (loss) before tax	9	**211,839**	(271,991)
Income tax expenses	11	**(77,215)**	(6,192)
Profit (loss) for the year		**134,624**	(278,183)
Other comprehensive income (expense)			
Fair value gain on available-for-sale investments		**96,635**	–
Deferred tax liability on fair value change of available-for-sale investments		**(24,159)**	–
Exchange differences arising on translation		**(8,152)**	–
		64,324	–
Total comprehensive income (expense) for the year		**198,948**	(278,183)
Profit (loss) for the year attributable to:			
Owners of the Company		**132,675**	(273,804)
Minority interests		**1,949**	(4,379)
		134,624	(278,183)
Total comprehensive income (expense) attributable to:			
Owners of the Company		**196,999**	(273,804)
Minority interests		**1,949**	(4,379)
		198,948	(278,183)
Earnings (loss) per share	13		
Basic		**RMB11.40 cents**	RMB(25.61) cents
Diluted		**RMB11.38 cents**	RMB(25.61) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 2009

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**498,268**	572,078
Prepaid lease payments – non-current portion	15	**60,028**	61,031
Properties for development	16	**519,780**	948,919
Intangible assets	17	**3,469**	1,870
Interests in associates	18	**50,426**	49,634
Investment in a jointly controlled entity	19	**2,735**	2,614
Available-for-sale investments	20	**139,913**	43,278
Deferred tax assets	21	**7,761**	5,916
Deposit paid for acquisition of a subsidiary	22	**70,000**	–
Advance	22	**165,060**	–
		1,517,440	1,685,340
CURRENT ASSETS			
Inventories	23	**409,167**	727,128
Properties under development and held for sale	24	**593,702**	747,936
Trade, bills and other receivables	25	**763,726**	463,382
Receivable from disposal of assets classified as held for sale	27	**486,774**	–
Prepaid lease payments – current portion	15	**1,406**	1,949
Prepaid land appreciation tax		**244**	5,938
Tax recoverable		**9,441**	22,943
Pledged bank deposits	26	**76,092**	120,997
Bank balances and cash	26	**461,882**	389,647
		2,802,434	2,479,920
Assets classified as held for sale	27	**–**	214,485
		2,802,434	2,694,405
CURRENT LIABILITIES			
Trade, bills and other payables	28	**576,674**	376,421
Deposits received in respect of pre-sale of properties		**289,232**	617,516
Derivative financial instruments	29	**537**	627
Bank and other borrowings – due within one year	30	**1,083,528**	1,429,002
Tax payable		**18,361**	7,062
Other current liabilities	31	**4,973**	–
		1,973,305	2,430,628
NET CURRENT ASSETS		**829,129**	263,777
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,346,569**	1,949,117

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 2009

	Notes	**2009** **RMB'000**	2008 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*21*	**55,156**	–
Bank and other borrowings – due after one year	*30*	**198,404**	13,555
Other long-term liabilities	*31*	**37,814**	–
		291,374	13,555
NET ASSETS		**2,055,195**	1,935,562
CAPITAL AND RESERVES			
Share capital	*32*	**1,404**	1,404
Reserves		**2,050,885**	1,852,654
Equity attributable to owners of the Company		**2,052,289**	1,854,058
Minority interests		**2,906**	81,504
Total equity		**2,055,195**	1,935,562

The consolidated financial statements on pages 37 to 112 were approved and authorized for issue by the Board of Directors on April 23, 2010 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, 2009

	Attributable to owners of the Company											
	Share capital *RMB'000*	**Share premium** *RMB'000*	**Statutory reserve** *RMB'000* *(note 34a)*	**Special reserve** *RMB'000* *(note 34b)*	**Share option reserve** *RMB'000*	**Reserve on acquisition** *RMB'000* *(note 34c)*	**Available-for-sale investments revaluation reserve** *RMB'000*	**Translation reserve** *RMB'000*	**Retained earnings** *RMB'000*	**Sub-total** *RMB'000*	**Minority interests** *RMB'000*	**Total** *RMB'000*
At January 1, 2008	1,227	1,121,546	191,693	168,659	17,924	(30,968)	–	–	447,073	1,917,154	52,692	1,969,846
Loss and total comprehensive expense for the year	–	–	–	–	–	–	–	–	(273,804)	(273,804)	(4,379)	(278,183)
Issue of new shares *(note 35b)*	178	208,824	–	–	–	–	–	–	–	209,002	–	209,002
Release upon lapse of share options	–	–	–	–	(2,976)	–	–	–	2,976	–	–	–
Recognition of equity-settled share-based payments *(note 33)*	–	–	–	–	2,237	–	–	–	–	2,237	–	2,237
Shares repurchased and cancelled	(1)	(530)	–	–	–	–	–	–	–	(531)	–	(531)
Acquired on acquisition of subsidiaries *(note 35a)*	–	–	–	–	–	–	–	–	–	–	1,011	1,011
Disposal of subsidiaries *(note 37)*	–	–	–	–	–	–	–	–	–	–	(47,160)	(47,160)
Capital contribution from minority shareholders	–	–	–	–	–	–	–	–	–	–	80,000	80,000
Dividend paid to minority shareholders	–	–	–	–	–	–	–	–	–	–	(660)	(660)
At December 31, 2008	1,404	1,329,840	191,693	168,659	17,185	(30,968)	–	–	176,245	1,854,058	81,504	1,935,562
Profit for the year	–	–	–	–	–	–	–	–	132,675	132,675	1,949	134,624
Fair value gain on available-for-sale investments	–	–	–	–	–	–	96,635	–	–	96,635	–	96,635
Deferred tax liability on fair value change of available-for-sales investments	–	–	–	–	–	–	(24,159)	–	–	(24,159)	–	(24,159)
Exchange difference arising on translation	–	–	–	–	–	–	–	(8,152)	–	(8,152)	–	(8,152)
Total comprehensive income (expense) for the year	–	–	–	–	–	–	72,476	(8,152)	132,675	196,999	1,949	198,948
Recognition of equity-settled share-based payments *(note 33)*	–	–	–	–	2,893	–	–	–	–	2,893	–	2,893
Issue of shares under share option scheme	–	416	–	–	(104)	–	–	–	–	312	–	312
Release upon lapse of share options	–	–	–	–	(1,025)	–	–	–	1,025	–	–	–
Return of share capital to a minority shareholder	–	–	–	–	–	–	–	–	–	–	(77,890)	(77,890)
Acquisition of additional interests in subsidiaries from minority shareholders	–	–	–	–	–	(1,973)	–	–	–	(1,973)	(2,357)	(4,330)
Dividend paid to minority shareholders	–	–	–	–	–	–	–	–	–	–	(300)	(300)
At December 31, 2009	**1,404**	**1,330,256**	**191,693**	**168,659**	**18,949**	**(32,941)**	**72,476**	**(8,152)**	**309,945**	**2,052,289**	**2,906**	**2,055,195**

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2009

	2009 RMB'000	2008 RMB'000
OPERATING ACTIVITIES		
Profit (loss) before tax	**211,839**	(271,991)
Adjustments for:		
Allowance for inventories	**21,782**	86,384
Amortization of intangible assets	**801**	559
Release of prepaid lease payments	**1,546**	1,473
Amortization of properties for development	**9,666**	8,824
Compensation for cancellation of grant of land	**–**	(21,430)
Depreciation of property, plant and equipment	**63,447**	84,253
Finance costs	**62,764**	108,500
Gain on disposal of interest in an associate	**(21,300)**	(305)
Gain on disposals of interest in subsidiaries	**–**	(2,399)
Gain on fair value change on derivative financial instruments	**(207)**	(1,646)
Impairment loss recognized in respect of property, plant and equipment	**34,110**	30,791
Impairment loss of goodwill	**4,139**	–
Impairment loss recognized in respect of trade and other receivables	**13,763**	45,538
Discount on acquisition of additional interest in a subsidiary	**(839)**	–
Gain on disposal of assets classified as held for sale	**(277,289)**	–
Gain on disposal of properties for development	**(4,431)**	–
Dividend income from available-for-sale investments	**(11)**	(48)
Interest income	**(11,630)**	(7,465)
Loss on disposal of property, plant and equipment	**4,993**	656
Share-based payment expense	**2,893**	2,237
Share of (profits) losses of associates	**(192)**	7,439
Share of profit of a jointly controlled entity	**(121)**	–
Operating cash flows before movements in working capital	**115,723**	71,370
Decrease in inventories	**342,526**	278,661
Decrease (increase) in properties under development and held for sale	**313,284**	(91,464)
(Increase) decrease in trade, bills and other receivables	**(297,713)**	146,249
Increase (decrease) in trade, bills and other payables	**157,612**	(182,546)
(Decrease) increase in deposits received in respect of pre-sale properties	**(328,284)**	58,556
Change in derivative financial instruments	**117**	18,424
Increase in other long-term liabilities	**17,584**	–
Cash generated from operations	**320,849**	299,250
Income taxes paid	**(17,568)**	(11,343)
NET CASH FROM OPERATING ACTIVITIES	**303,281**	287,907

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2009

	Notes	2009 RMB'000	2008 RMB'000
INVESTING ACTIVITIES			
Proceeds from disposal of properties for development		**287,143**	–
Decrease (increase) in pledged bank deposits		**44,905**	(71,075)
Proceed from disposal of investment in an associate		**35,700**	7,880
Proceeds from disposal of property, plant and equipment		**31,118**	3,779
Refund on deposit paid for acquisition of land use rights		**25,000**	–
Acquisition of subsidiaries	35 & 36	**8,875**	(118,115)
Interest received		**5,522**	7,465
Proceeds from disposal of assets classified as held for sale	27	**5,000**	–
Compensation for cancellation of grant of land received		**–**	21,430
Dividend income from available-for-sale investments		**11**	48
Advance		**(165,060)**	–
Deposit paid for acquisition of a subsidiary		**(70,000)**	(37,818)
Purchase of property, plant and equipment		**(43,652)**	(30,062)
Increase in properties for development		**(14,912)**	(26,781)
Acquisition of investment in an associate		**(10,000)**	(29,700)
Increase in deposit paid for acquisition of land use rights		**(5,000)**	–
Payment for acquisition of additional interests in subsidiaries		**(3,491)**	–
Purchase of intangible assets		**(70)**	(1,114)
Disposal of subsidiaries	37	**–**	9,630
Decrease in other long term assets		**–**	3,260
NET CASH FROM (USED IN) INVESTING ACTIVITIES		**131,089**	(261,173)
FINANCING ACTIVITIES			
Repayment of bank and other borrowings		**(2,031,662)**	(2,373,200)
Return of share capital to a minority shareholder		**(77,890)**	–
Interest paid		**(68,669)**	(109,648)
(Repayment to) advance from related parties		**(33,000)**	27,000
Repayment to advance from a director		**(20,513)**	–
Shares repurchased		**(1,450)**	(531)
Dividends paid to minority shareholders		**(300)**	(660)
Bank and other borrowings raised		**1,871,037**	2,231,102
Proceeds from issue of shares		**312**	–
Capital contribution from minority shareholders		**–**	80,000
NET CASH USED IN FINANCING ACTIVITIES		**(362,135)**	(145,937)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**72,235**	(119,203)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**389,647**	508,850
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		**461,882**	389,647

1. GENERAL

The Company is a public limited company incorporated in the Cayman Islands 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 new and revised Standards, Amendments and Interpretations ("new and revised IFRSs") issued by the International Accounting Standards Board.

IAS 1 (Revised 2007)	Presentation of Financial Statements
IAS 23 (Revised 2007)	Borrowing Costs
IAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
IFRS 1 & IAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
IFRS 2 (Amendment)	Vesting Conditions and Cancellations
IFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
IFRS 8	Operating Segments
IFRIC 9 & IAS 39 (Amendments)	Embedded Derivatives
IFRIC 13	Customer Loyalty Programmes
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRIC 18	Transfers of Assets from Customers
IFRSs (Amendments)	Improvements to IFRSs issued in 2008, except for the amendment to IFRS 5 that is effective for annual periods beginning on or after July 1, 2009
IFRSs (Amendments)	Improvements to IFRSs issued in 2009 in relation to the amendment of IAS 39

Except as described below, the adoption of the new and revised IFRSs had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

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

New and revised IFRSs affecting presentation and disclosure only

IAS 1 (Revised 2007) Presentation of Financial Statements

IAS 1 (Revised 2007) has introduced a number of terminology changes, including revised titles for the consolidated financial statements and changes in the format and content of the consolidated financial statements.

IFRS 8 Operating Segments

IFRS 8 is a disclosure standard that has resulted in a redesignation of the Group's reporting segments and change in the basis of measurement of segment profit or loss, segment assets and segment liabilities (see note 5).

Improving Disclosures about Financial Instruments

(Amendments to IFRS 7 Financial Instruments: Disclosures)

The amendments to IFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

The Group has not early applied the following new and revised Standards, Amendments or Interpretations that have been issued but are not yet effective.

IFRSs (Amendments)	Amendment to IFRS 5 as part of Improvements to IFRSs 2008[1]
IFRSs (Amendments)	Improvements to IFRSs 2009[2]
IAS 24 (Revised)	Related Party Disclosures[5]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
IAS 32 (Amendment)	Classification of Rights Issues[4]
IAS 39 (Amendment)	Eligible Hedged Items[1]
IFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
IFRS 1 (Amendment)	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters[6]
IFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
IFRS 3 (Revised)	Business Combinations[1]
IFRS 9	Financial Instruments[7]
IFRIC 14 (Amendment)	Prepayments of a Minimum Funding Requirement[5]
IFRIC 17	Distributions of Non-cash Assets to Owners[1]
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments[6]

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

[1] Effective for annual periods beginning on or after July 1, 2009

[2] Amendments that are effective for annual periods beginning on or after July 1, 2009 and January 1, 2010, as appropriate

[3] Effective for annual periods beginning on or after January 1, 2010

[4] Effective for annual periods beginning on or after February 1, 2010

[5] Effective for annual periods beginning on or after January 1, 2011

[6] Effective for annual periods beginning on or after July 1, 2010

[7] Effective for annual periods beginning on or after January 1, 2013

The application of IFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after January 1, 2010. IAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary.

IFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from January 1, 2013, with earlier application permitted. The Standard requires all recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortized cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost. All other debt investments and equity investments are measured at fair value. The application of IFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Company anticipate that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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.

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

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 intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the consolidation. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Business combinations

The acquisition of business is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognized at their fair values at the acquisition date.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalized is included in the determination of the amount of profit or loss on disposal.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Acquisition of additional interests in subsidiaries

On acquisition of additional interest in a subsidiary, the difference between the fair values and the carrying values of the underlying assets and liabilities attributable to the additional interest in a subsidiary acquired is charged to reserve on acquisition. Goodwill or discount arising on the acquisition of the additional interest is calculated as the difference between the additional cost of the interest acquired and the increase in the Group's interest, based on the fair value of all identifiable assets and liabilities of the subsidiary.

On subsequent disposal of a subsidiary or disposal of the underlying assets of that subsidiary, the attributable reserve on acquisition is included in the determination of the amount of profit or loss on disposal.

Interest in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. 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 carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of net assets of the associate, less any identified impairment loss. 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. An additional share of losses is provided for and a liability is recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognized is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Any reversal of impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interests in the relevant associate.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated statement of financial position at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognizing its share of further losses. An additional share of losses is provided for and a liability is recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

Non-current assets held for sale

Non-current assets or disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Non-current assets (or disposal groups) classified as held for sale are measured at the lower of the assets' (disposal groups') previous carrying amount and fair value less costs to sell.

Revenue recognition

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

Sales of goods are recognized when goods are delivered and title has been passed.

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 properties and are included in the consolidated statement of financial position under current liabilities.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account of the estimated residual value, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognized impairment loss. Construction in progress is classified to the appropriate category 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 derecognition of the assets (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognized.

Properties for development

Properties for development represent leasehold land located in the People's Republic of China ("PRC"). Cost comprises the costs of land use rights and other costs directly attributable to bringing the leasehold land to the condition necessary for it to be ready for development. Properties for development are measured at cost less accumulated amortization and any identified impairment loss.

Amortization is provided to write off the cost of properties for development over the lease term using the straight-line method.

Upon commencement of development for sale in the ordinary course of business, the carrying amount of the properties are transferred to properties under development under current assets.

Properties under development and held for sale

Properties under development which are developed for future sale in the ordinary course of business and properties held for sale are stated at the lower of cost (based on net carrying amount at date of transfer from properties for development) and net realizable value. Cost includes the cost of land use rights, development expenditures, borrowing costs capitalized and other direct attributable expenses.

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 term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognized as a reduction of rental expense over the lease term on a straight-line basis.

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases and released over the lease term on a straight-line basis.

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) at the rate of exchange prevailing at the end of the reporting period, and their 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 recognised in other comprehensive income and accumulated in equity (the translation reserve).

On disposal of a foreign operation, the exchange differences accumulated in equity in respect of that operation are reclassified to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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 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. Other government grants are recognized as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. 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 schemes and state-managed retirement benefit schemes, are charged as expenses when employees have rendered service entitling them to the contributions.

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 estimates during the vesting period, if any, is recognized in profit or loss 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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Share-based payments transactions (cont'd)

Equity-settled share-based payments transactions (cont'd)

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 options 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 as reported in the consolidated statement of 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.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, 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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to 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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Taxation (cont'd)

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 rates (and tax law) 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. 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 deferred tax is also recognized in other comprehensive income or directly in equity respectively.

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.

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 are recognized 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 identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

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 are recognized in profit or loss in the period when the asset is derecognized.

Impairment of tangible and intangible assets other than goodwill

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. In addition, intangible assets with indefinite useful lives are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

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.

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.

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. 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.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset 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.

Trade, bills and other receivables, receivable from disposal of assets classified as held for sale, pledged bank deposits and bank balances and cash

These non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

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).

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (cont'd)

Financial assets (cont'd)

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.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in available-for-sale investments revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the available-for-sale investments revaluation reserve is reclassified to profit or loss (see accounting policy on impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment loss on financial assets below).

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.

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

- significant financial difficulty of the issuer or counterparty; or
- 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 subsequently 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, an impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (cont'd)

Financial assets (cont'd)

Impairment of financial assets (cont'd)

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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.

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 in profit or loss in subsequent periods. 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.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's non-derivative financial liabilities are classified as 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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (cont'd)

Financial liabilities and equity (cont'd)

Trade, bills and other payables and bank and other borrowings

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

Equity instruments

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.

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, 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 expires. 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

The following 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 realisable 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 and make allowance for obsolete items. As at December 31, 2009, the carrying amount of inventories is approximately RMB409,167,000 (2008: RMB727,128,000) (net of allowance for inventories of RMB51,314,000 (2008: RMB211,091,000)).

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

Estimated impairment of property, plant and equipment

Management of the Group reviews the carrying amount of the property, plant and equipment to determine whether there is any indication that the assets have suffered an impairment loss. When there is objective evidences noted, the Group considered the recoverable amount of the assets by reference to the estimated future cash flows that are able to generate from the assets or their estimated disposal proceeds. The final cash flow from the assets may differ from that estimated by management. During the year, the Group has recognized impairment losses in respect of property, plant and equipment amounted to RMB34,110,000 (2008: RMB30,791,000).

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, 2009, the carrying amount of trade and other receivables is RMB450,329,000 (2008: RMB260,102,000) (net of allowance for doubtful debts of RMB92,063,000 (2008: RMB106,790,000).

5. SEGMENT INFORMATION

The Group has adopted IFRS 8 Operating Segments with effect from January 1, 2009. IFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor Standard (IAS 14, Segment Reporting) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments by nature of goods and services supplied by the Group's operating divisions (i.e. upholstered furniture, furniture leather, automotive leather and properties development). However, information reported to Mr. Zhu Zhangjin, the chief executive officer of the Company, for the purpose of resources allocation and performance assessment focuses more specifically on aggregated results of different subsidiaries which have similar nature of products and services provided, similar production processes, similar types of customers for their products and services provided and with similar methods used to distribute the products and services. The principal categories of business are manufacturing, properties development and retail business. The other businesses including provision of property management service are aggregated and presented as "Others". The Group's operating segments under IFRS 8 are therefore 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 ("Others").

For the year ended December 31, 2008, the segment results, segment assets and segment liabilities were measured based on the requirement of IAS 14, Segment Reporting. The basis of measurement has been changed to be based on the results, assets and liabilities of the subsidiaries or group of subsidiaries that are engaged in different segments. Information regarding the above segments is reported below. Amounts reported for the prior period have been restated to conform to the requirements of IFRS 8.

5. SEGMENT INFORMATION (cont'd)

Segment revenues and results

The following is an analysis of the Group's revenue and results by operating segment:

Revenue

For the year ended December 31, 2009

	Manufacturing *RMB'000*	**Properties development** *RMB'000*	**Retail** *RMB'000*	**Others** *RMB'000*	**Eliminations** *RMB'000*	**Total** *RMB'000*
TURNOVER						
External sales	**1,530,662**	**708,987**	**157,415**	**1,910**	**–**	**2,398,974**
Inter-segment sales	**57,236**	**–**	**–**	**–**	**(57,236)**	**–**
Total	**1,587,898**	**708,987**	**157,415**	**1,910**	**(57,236)**	**2,398,974**

For the year ended December 31, 2008

	Manufacturing *RMB'000*	Properties development *RMB'000*	Retail *RMB'000*	Others *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
TURNOVER						
External sales	1,887,928	–	5,910	152	–	1,893,990
Inter-segment sales	1,882	–	–	–	(1,882)	–
Total	1,889,810	–	5,910	152	(1,882)	1,893,990

Results

	2009 *RMB'000*	2008 *RMB'000*
Segment results		
– Manufacturing	**285,237**	(195,750)
– Properties development	**(52,341)**	(57,946)
– Retail	**(88,002)**	(16,802)
– Others	**(560)**	(315)
	144,334	(270,813)
Unallocated corporate expenses	**(9,710)**	(7,370)
Profit (loss) for the year	**134,624**	(278,183)

5. SEGMENT INFORMATION (cont'd)

Segment revenues and results (cont'd)

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit (loss) represents the profit earned by (loss from) each segment without allocation of central administration costs and directors' salaries. 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.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating segment:

Segment assets

	2009	2008
	RMB'000	*RMB'000*
Manufacturing	**4,750,753**	4,560,752
Properties development	**1,503,892**	2,038,457
Retail	**126,363**	15,484
Others	**1,785**	448
Total segment assets	**6,382,793**	6,615,141
Unallocated	**11,704**	19,930
Elimination *(Note)*	**(2,074,623)**	(2,255,326)
Consolidated assets	**4,319,874**	4,379,745

Segment liabilities

	2009	2008
	RMB'000	*RMB'000*
Manufacturing	**2,237,401**	2,452,807
Properties development	**1,070,868**	1,438,416
Retail	**247,614**	31,795
Others	**932**	37
Total segment liabilities	**3,556,815**	3,923,055
Unallocated	**13,592**	33,771
Elimination *(Note)*	**(1,305,728)**	(1,512,643)
Consolidated liabilities	**2,264,679**	2,444,183

5. SEGMENT INFORMATION (cont'd)

Segment assets and liabilities (cont'd)

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

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

– all liabilities are allocated to reportable segments other than head office liabilities.

Note: Segment assets and liabilities are measured based on the aggregate assets and liabilities of individual subsidiaries before any consolidation adjustments. Elimination comprises consolidation adjustments including mainly the elimination of intra-group current accounts.

Other segment information

For the year ended December 31, 2009

Amounts included in the measure of segment profit or loss or segment assets:

	Manufacturing *RMB'000*	Properties development *RMB'000*	Retail *RMB'000*	Others *RMB'000*	Consolidated *RMB'000*
Additions to property, plant and equipment, properties for development, intangible assets	17,252	30,505	39,862	38	87,657
Deposit paid for acquisition of a subsidiary	–	70,000	–	–	70,000
Depreciation and amortization	57,188	11,283	5,349	94	73,914
Release of prepaid lease payment	1,546	–	–	–	1,546
Gain on disposal of assets classified as held for sales	277,289	–	–	–	277,289
Gain on disposal of interest in an associate	21,300	–	–	–	21,300
Gain on disposal of properties for development	–	4,431	–	–	4,431
Discount on acquisition of additional interest in a subsidiary	(39)	878	–	–	839
Gain on fair value change on derivative financial instruments	207	–	–	–	207
Impairment losses on property, plant and equipment	34,110	–	–	–	34,110
Impairment losses (reversal of impairment loss) on trade and other receivables	16,301	(1,207)	(1,341)	10	13,763
Loss on disposal of property, plant and equipment	1,692	3,301	–	–	4,993
Allowance for inventories	21,395	–	387	–	21,782
Finance costs	59,900	2,864	–	–	62,764
Income tax expenses	40,149	37,066	–	–	77,215
Interest income	11,473	136	17	4	11,630
Impairment loss of goodwill	–	–	4,139	–	4,139
Share of profits (losses) of associates	(492)	684	–	–	192
Share of profit of a jointly controlled entity	121	–	–	–	121
Interest in associates	16,582	33,844	–	–	50,426
Interest in a jointly controlled entity	2,735	–	–	–	2,735

5. SEGMENT INFORMATION (cont'd)

Other segment information (cont'd)

For the year ended December 31, 2008

	Manufacturing	Properties development	Retail	Others	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Additions to property, plant and equipment, prepaid lease payments, properties for development, intangible assets	24,578	648,548	4,046	317	677,489
Depreciation and amortization	82,484	10,085	1,014	53	93,636
Release of prepaid lease payment	1,473	–	–	–	1,473
Gain on disposal of interest in an associate	305	–	–	–	305
Gain on disposal of interest in subsidiaries	2,399	–	–	–	2,399
Gain on fair value change on derivative financial instruments	1,646	–	–	–	1,646
Impairment losses on property, plant and equipment	30,791	–	–	–	30,791
Impairment losses (reversal of impairment loss) on trade and other receivables	42,593	2,967	(22)	–	45,538
Loss on disposal of property, plant and equipment	656	–	–	–	656
Allowance for inventories	86,384	–	–	–	86,384
Finance costs	78,291	30,209	–	–	108,500
Income tax expenses	6,183	9	–	–	6,192
Interest income	6,732	638	12	83	7,465
Share of losses of associates	7,439	–	–	–	7,439
Interest in associates	21,579	28,055	–	–	49,634
Interest in a jointly controlled entity	2,614	–	–	–	2,614

5. SEGMENT INFORMATION (cont'd)

Revenue from major products

The following is an analysis of the Group's revenue from its major products and services:

	2009 *RMB'000*	2008 *RMB'000*
Manufacturing		
Upholstered Furniture	**793,608**	1,239,585
Furniture Leather	**352,456**	478,090
Automotive Leather	**384,598**	170,253
Residential properties	**708,987**	–
Retail of furniture	**157,415**	5,910
Others	**1,910**	152
Total	**2,398,974**	1,893,990

Geographical information

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

The Group's revenue are basically based on the locations of external customers except for revenue from sales of properties, which are based on location of properties sold.

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

	Revenue from external customers Year ended December 31,		Non-current assets At December 31,	
	2009 *RMB'000*	2008 *RMB'000*	2009 *RMB'000*	2008 *RMB'000*
United States	**586,728**	802,766	**–**	–
PRC, including Hong Kong	**1,536,800**	788,552	**1,182,617**	1,636,146
Europe	**215,182**	259,223	**22,089**	–
Australia	**48,187**	13,677	**–**	–
Others	**12,077**	29,772	**–**	–
	2,398,974	1,893,990	**1,204,706**	1,636,146

5. SEGMENT INFORMATION (cont'd)

Information about major customers

Revenues from individual customer of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2009	2008
	RMB'000	*RMB'000*
Customer A[1]	**249,498**	95,332
Customer B[1]	**167,378**	192,580

[1] Revenue from Manufacturing

6. OTHER INCOME

Details of other income are as follows:

	2009	2008
	RMB'000	*RMB'000*
Government grants		
Grants for technology development	**–**	619
Grants for export sales	**402**	216
Incentive for business development	**210**	340
Other grants	**4,896**	3,379
	5,508	4,554
Compensation for cancellation of grant of land *(note)*	**–**	21,430
Net gain from sale of raw materials	**3,825**	330
Net foreign exchange gains	**587**	729
Interest income	**11,630**	7,465
Gain on disposals of subsidiaries	**–**	2,399
Dividend income from available-for-sale investments	**11**	48
Rental income	**5,446**	4,370
Others	**7,227**	6,200
	34,234	47,525

Note: The Management Committee of Haining Economic Development Zone (the "Haining Economic Development Zone") cancelled its grant of a piece of land to the Group in 2007. During the year ended December 31, 2008, the Haining Economic Development Zone paid RMB21,430,000 to the Group as compensation.

7. OTHER EXPENSES

	2009	2008
	RMB'000	*RMB'000*
Loss on disposal of property, plant and equipment	**4,993**	656
Donation	**142**	1,607
Others	**27,968**	27,904
	33,103	30,167

8. FINANCE COSTS

	2009	2008
	RMB'000	*RMB'000*
Interest on:		
Bank borrowings wholly repayable within five years	**69,673**	108,937
Other borrowings wholly repayable within five years	**324**	126
Other borrowings not wholly repayable within five years	**144**	170
Total borrowing costs	**70,141**	109,233
Less: amounts capitalized in respect of properties under development *(note 24)*	**(7,377)**	(733)
	62,764	108,500

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

9. PROFIT (LOSS) BEFORE TAX

	2009 *RMB'000*	2008 *RMB'000*
Profit (loss) before tax has been arrived at after charging:		
Amortization of intangible assets (included in administrative expenses)	**801**	559
Amortization of properties for development (included in other expenses)	**9,666**	8,824
Depreciation of property, plant and equipment	**63,447**	84,253
Total depreciation and amortization	**73,914**	93,636
Release of prepaid lease payments	**1,546**	1,473
Auditor's remuneration	**5,302**	4,865
Cost of inventories recognized as expenses	**1,353,874**	1,806,760
Cost of properties recognized as cost of sale	**711,201**	–
Allowance of inventories	**21,782**	86,384
Operating lease rentals in respect of land and buildings	**60,332**	16,861
Total employee benefit expenses	**165,989**	188,366

10. DIRECTORS AND EMPLOYEES' EMOLUMENTS

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

2009

	Zhu Zhangjin, Kasen ("Mr.Zhu") *RMB'000*	Zhou Xiaosong *RMB'000*	Zhang Mingfa, Michael *RMB'000*	Lu Yungang, Ken *RMB'000* *(Note 3)*	Li Qingyuan *RMB'000* *(Note 3)*	Chow Joseph *RMB'000*	Gu Mingchao *RMB'000*	Total *RMB'000*
Fees	–	–	–	119	40	159	159	477
Other emoluments								
Salaries and other benefits	340	238	238	–	–	–	–	816
Contributions to retirement benefits schemes	2	2	2	–	–	–	–	6
Share-based payment expenses	–	113	57	51	170	68	170	629
Total emoluments	342	353	297	170	210	227	329	1,928

10. DIRECTORS AND EMPLOYEES' EMOLUMENTS (cont'd)

2008

	Mr.Zhu	Zhou Xiaosong	Zhu Jianqi	Zhang Mingfa, Michael	Li Hui, David	Lu Yungang, Ken	Chow Joseph	Zhang Huaqiao, Joe	Gu Mingchao	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
			(Note 2)	*(Note 2)*	*(Note 1)*			*(Note 1)*	*(Note 1)*	
Fees	–	–	–	–	–	160	160	120	40	480
Other emoluments										
Salaries and other benefits	340	238	198	40	–	–	–	–	–	816
Contributions to retirement benefits schemes	2	2	2	–	–	–	–	–	–	6
Share-based payment expenses	–	263	–	33	–	158	158	–	–	612
Total emoluments	342	503	200	73	–	318	318	120	40	1,914

Notes:

(1) On October 1, 2008, Mr. Li Hui, David and Mr. Zhang Huaqiao, Joe resigned as directors of the Company and Mr. Gu Mingchao was appointed as a director of the Company.

(2) On November 10, 2008, Mr. Zhu Jianqi resigned as a director of the Company and Mr. Zhang Mingfa, Michael was appointed as a director of the Company.

(3) On October 1, 2009, Mr. Lu Yungang, Ken resigned as director of the Company and Dr. Li Qingyuan was appointed as a director of the Company.

None (2008: two) of the five individuals with the highest emoluments in the Group were directors of the Company whose emoluments are included in the disclosures as above. The emoluments of the five (2008: remaining three) individuals were as follows:

	2009	2008
	RMB'000	*RMB'000*
Basic salaries and other benefits	**2,870**	1,110
Contributions to retirement benefits schemes	**–**	14
Share-based payment expenses	**–**	1,026
	2,870	2,150

Their emoluments were within the following bands:

	2009	2008
Nil to HK$1,000,000	**4**	2
HK$1,000,001 to HK$1,500,000	**1**	1

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. None of the directors has waived any emoluments during the year (2008: Nil).

11. INCOME TAX EXPENSES

	2009	2008
	RMB'000	*RMB'000*
Hong Kong Profits Tax – overprovision in previous year	**–**	(18)
PRC enterprise income tax		
– Current year	**41,682**	4,082
– (Over) under provision of income tax in previous year	**(1,106)**	2,128
	40,576	6,210
PRC Land appreciation tax ("LAT")	**7,487**	–
Deferred tax *(note 21)*	**29,152**	–
	77,215	6,192

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% from January 1, 2008 onwards.

Pursuant to the relevant laws and regulations in the PRC, certain subsidiaries are exempted from PRC Enterprise Income Tax ("EIT") for two years starting from its first profit-making year, followed by a 50% reduction in tax rate for the next three years (the "Tax Exemptions").

According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax (Guofa 2008 No.39), certain of the group entities operating in the PRC are entitled to the following tax concession under the EIT Law:

(1) The Tax Exemptions is still applicable until the end of the five-year transitional period under the EIT Law.

(2) Those entities that previously enjoyed tax incentive rate of 15% would have their applicable tax rate increased progressively to 25% over a five year transitional period.

According to the requirements of the Provisional Regulations of the PRC on LAT (中華人民共和國土地增值税暫行條例) 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税暫行條例實施細則) 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 (loss) before tax per the consolidated statement of comprehensive income as follows:

	2009 **RMB'000**	2008 RMB'000
Profit (loss) before tax	**211,839**	(271,991)
Tax rate applicable to the major operation of the Group	**25%**	25%
Tax at the domestic income tax rate	**52,960**	(67,998)
Tax effect of share of result of associates/jointly controlled entity	**(78)**	1,860
Tax effect of expenses not deductible for tax purpose	**37,428**	1,173
Tax effect of income not taxable for tax purpose	**(2,099)**	(7,399)
Tax effect of deductible temporary differences not recognized	**19,740**	50,529
Utilization of deductible temporary differences previously not recognized	**(47,573)**	(5,092)
PRC LAT	**7,487**	–
Tax effect of tax losses not recognized	**34,991**	42,112
Utilization of tax losses previously not recognized	**(22,020)**	–
Tax effect of Tax Exemptions	**(2,515)**	(11,103)
(Over) under provision in previous years	**(1,106)**	2,110
Taxation for the year	**77,215**	6,192

12. DIVIDENDS

No dividend was paid or declared during 2009, nor has any dividend been proposed since the end of the reporting period (2008: Nil).

13. EARNINGS (LOSS) PER SHARE

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

Profit (loss) for the year

	2009	2008
	RMB'000	*RMB'000*
Profit (loss) for the year for the purposes of basic and diluted earnings (loss) per share, being profit (loss) attributable to owners of the Company	**132,675**	(273,804)

Number of shares

	2009	2008
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	**1,163,707,944**	1,069,319,451
Effect of dilutive potential ordinary shares – share options	**2,378,532**	–
Weighted average number of ordinary shares for the purposes of diluted earnings (loss) per share	**1,166,086,476**	1,069,319,451

For the year ended December 31, 2008, the share options granted to the directors and employees of the Group were not included in the calculation of diluted loss per share because the exercise price of the Company's share options was higher than average market price for shares during the share option outstanding period for the year ended December 31, 2008.

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, 2008	771,326	463,670	35,667	49,095	2,866	1,322,624
Additions	3,082	5,049	4,251	2,120	15,560	30,062
Acquired on acquisition of subsidiaries	336	–	1,240	275	–	1,851
Disposal	(819)	(8,386)	(1,502)	(180)	(425)	(11,312)
Disposal of subsidiaries	(91,956)	(28,682)	(2,902)	(2,750)	(217)	(126,507)
Transfers	2,067	220	390	–	(2,677)	–
Reclassified as held for sale	(255,134)	–	–	–	–	(255,134)
At December 31, 2008	428,902	431,871	37,144	48,560	15,107	961,584
Exchange adjustments	1,023	1,541	25	765	–	3,354
Additions	13,877	2,285	4,223	1,280	21,987	43,652
Acquired on acquisition of subsidiaries	8,140	12,266	200	6,087	–	26,693
Disposal	(380)	(78,203)	(3,848)	(8,746)	(758)	(91,935)
Transfers	2,000	–	–	–	(2,000)	–
At December 31, 2009	**453,562**	**369,760**	**37,744**	**47,946**	**34,336**	**943,348**
DEPRECIATION AND IMPAIRMENT						
At January 1, 2008	139,733	180,257	19,794	30,348	–	370,132
Provided for the year	34,596	38,342	5,133	6,182	–	84,253
Acquired on acquisition of subsidiaries	71	–	327	77	–	475
Eliminated on disposal	(748)	(4,534)	(1,266)	(167)	–	(6,715)
Eliminated on disposal of subsidiaries	(11,946)	(8,302)	(1,096)	(1,576)	–	(22,920)
Impairment loss recognized	–	30,791	–	–	–	30,791
Reclassified as held for sale	(66,510)	–	–	–	–	(66,510)
At December 31, 2008	95,196	236,554	22,892	34,864	–	389,506
Exchange adjustments	312	741	21	763	–	1,837
Provided for the year	25,174	29,667	3,884	4,722	–	63,447
Acquired on acquisition of subsidiaries	1,635	4,392	154	5,823	–	12,004
Eliminated on disposal	(80)	(45,187)	(2,820)	(7,737)	–	(55,824)
Impairment loss recognized	–	32,693	71	1,346	–	34,110
At December 31, 2009	**122,237**	**258,860**	**24,202**	**39,781**	**–**	**445,080**
CARRYING AMOUNTS						
At December 31, 2009	**331,325**	**110,900**	**13,542**	**8,165**	**34,336**	**498,268**
At December 31, 2008	333,706	195,317	14,252	13,696	15,107	572,078

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 or lease term of the land, whichever is shorter
Plant and equipment	10 – 15 years
Motor vehicles	4 – 5 years
Furniture, fixtures and equipment	5 – 10 years

During the year, the Group has recognized impairment losses amounting to RMB34,110,000 (2008: RMB30,791,000). These losses are attributable to the suspension of certain leather processing operation. For those assets to be sold, the impairment losses represented the differences between fair value less costs to sell and the carrying value of those assets. Fair value less costs to sell is determined by reference to the estimated amount the Group would obtain from the disposal of the assets. Remaining assets with no disposal value are fully impaired at the end of reporting period.

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

As at December 31, 2009, the title deeds of buildings with net carrying amount of RMB36,697,000 (2008: RMB40,918,000) 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.

	2009 ***RMB'000***	2008 *RMB'000*
Analyzed for reporting purposes as:		
Non-current assets	**60,028**	61,031
Current assets	**1,406**	1,949
	61,434	62,980

	2009 ***RMB'000***	2008 *RMB'000*
Without title deeds	**12,814**	13,278
With title deeds	**48,620**	49,702
	61,434	62,980

The directors believe that the relevant title deeds will be granted to the Group in due course.

16. PROPERTIES FOR DEVELOPMENT

	2009 *RMB'000*	2008 *RMB'000*
COST		
At January 1	**957,743**	314,781
Acquired on acquisition of subsidiaries *(note 35)*	**–**	601,281
Additions	**14,912**	41,681
Disposal	**(288,737)**	–
Transfer to properties under development	**(151,874)**	–
At December 31	**532,044**	957,743
ACCUMULATED AMORTIZATION		
At January 1	**8,824**	–
Provided for the year	**9,666**	8,824
Eliminated on disposal	**(6,025)**	–
Transfer to properties under development	**(201)**	–
At December 31	**12,264**	8,824
CARRYING AMOUNTS		
At December 31	**519,780**	948,919

The properties for development are located in the PRC and are held under medium term land use rights.

17. INTANGIBLE ASSETS

	Brand name *RMB'000*	Computer software *RMB'000*	Total *RMB'000*
COST			
At January 1, 2008	–	2,430	2,430
Additions	–	1,114	1,114
Disposal of subsidiaries	–	(12)	(12)
At December 31, 2008	–	3,532	3,532
Additions	–	70	70
Acquisition of a subsidiary	2,330	–	2,330
At December 31, 2009	**2,330**	**3,602**	**5,932**
ACCUMULATED AMORTIZATION			
At January 1, 2008	–	1,109	1,109
Provided for the year	–	559	559
Eliminated on disposal of subsidiaries	–	(6)	(6)
At December 31, 2008	–	1,662	1,662
Provided for the year	–	801	801
At December 31, 2009	**–**	**2,463**	**2,463**
CARRYING VALUES			
At December 31, 2009	**2,330**	**1,139**	**3,469**
At December 31, 2008	–	1,870	1,870

The above brand name was purchased through acquisition of a subsidiary during the year. All the Group's computer software were acquired from third parties and are amortized on a straight-line basis over five to eight years.

The brand name has a registered legal life of 8 years and is renewable at minimal cost, which are considered to have indefinite lives. The directors of the Company are of the opinion that the Group would renew the brand name continuously and has the ability to do so. Various studies including market, competitive and environmental trends, and brand extension opportunities have been performed by management of the Group, which supports that the brand name has no foreseeable limit to the period over which the products using the brand name are expected to generate net cash flows for the Group.

18. INTERESTS IN ASSOCIATES

	2009	2008
	RMB'000	*RMB'000*
Cost of investment in associates, unlisted	**56,523**	57,661
Share of post-acquisition losses	**(6,097)**	(8,027)
	50,426	49,634

In November 2009, the Group has entered into an agreement with independent third parties to dispose of its interest in Chengdu Longteng Shoes Market Investment and Development Co. Ltd. ("Chengdu Longteng") in current year by 26.9% and in coming three consecutive years by 7.53% per year ("Disposal Agreement"). The consideration of the disposal of its 26.9% interest in Chengdu Longteng was RMB35,700,000. The Group recorded a disposal gain of RMB21,300,000. The consideration of each disposal in coming three years is RMB10,000,000.

The Group has ceased to have any share in the results of Chengdu Longteng after November 2009, as set out in the agreement. Nevertheless, the Group still has significant influence in Chengdu Longteng as at December 31, 2009 with 22.6% interest in Chengdu Longteng and its continuing right to appoint one director to the board of the associate.

Particulars of the associates indirectly held by the Company at December 31, 2009 and 2008 are as follows:

Name of associate	**Place of incorporation/ registration**	**Registered capital**	**Proportion of registered capital indirectly held by the Company**		**Principal activities**
			2009	2008	
			%	%	
Haining Xieqiao Senbo Water Co. Ltd. 海寧市斜橋森博水務有限公司 ("Senbo Water")	PRC	RMB10,000,000	**30**	30	Collection and transportation of waste water
Chengdu Longteng Shoes Market Investment and Development Co. Ltd. 成都隆騰鞋城投資開發有限公司	PRC	RMB60,000,000	**22.6**	49.5	Property development
Zhejiang Liema Furniture Co. Ltd. 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	PRC	RMB50,000,000	**30**	–	Trading of kitchen utensils

18. INTERESTS IN ASSOCIATES (cont'd)

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

	2009	2008
	RMB'000	*RMB'000*
Total assets	**449,199**	347,889
Total liabilities	**(289,775)**	(238,036)
Net assets	**159,424**	109,853
Group's share of net assets of associates	**50,426**	49,634
Revenue	**125,478**	116,590
Profits (losses) for the year	**140**	(16,387)
Group's share of profits (losses) of associates for the year	**192**	(7,439)

19. INVESTMENT IN A JOINTLY CONTROLLED ENTITY

	2009	2008
	RMB'000	*RMB'000*
Cost of unlisted investment in a jointly controlled entity	**2,614**	2,614
Share of post-acquisition profits	**121**	–
	2,735	2,614

The interest in a jointly controlled entity as at December 31, 2008 and 2009 represents a 50% interest in 海寧市卡森－美如可思皮革有限公司(Haining Kasen-Melx Leather Co., Ltd.) ("Kasen-Melx"), an equity joint venture established in the PRC. The jointly controlled entity was established for the principal activity of trading in leather and other furniture products.

19. INVESTMENT IN A JOINTLY CONTROLLED ENTITY (cont'd)

The summarized financial information in respect of the Group's jointly controlled entity attributable to the Group's interest therein, which are accounted for using the equity method is set out below:

	2009 RMB'000	2008 RMB'000
Current assets	**3,274**	3,321
Non-current assets	**45**	70
	3,319	3,391
Current liabilities	**(384)**	(577)
Net assets	**2,935**	2,814
Income recognized in profit or loss	**239**	559
Expenses recognized in profit or loss	**(118)**	(82)

20. AVAILABLE-FOR-SALE INVESTMENTS

	2009 RMB'000	2008 RMB'000
Unlisted equity securities		
– 4.92% equity interest in Haining China Leather Market Co., Ltd ("HCLM")	**139,603**	42,968
Unlisted debt securities	**310**	310
	139,913	43,278

The principal activity of HCLM is the operation of department stores in the PRC. Subsequent to the end of the reporting period, shares of HCLM are listed in the Shenzhen Stock Exchange. The listed shares of HCLM are subject to trading restrictions for a period of 6 years. At December 31, 2009, the fair value of investment in shares of HCLM has been arrived at on the basis of a valuation carried out as at that date by Jones Lang LaSalle Sallmanns Ltd, independent qualified professional valuer not connected with the Group. The valuation was calculated using the Black-Scholes pricing model.

20. AVAILABLE-FOR-SALE INVESTMENTS (cont'd)

As at December 31, 2008, the investment in HCLM was measured at cost because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that the fair value cannot be measured reliably.

The inputs into the Black-Scholes option pricing model were as follows:

Spot price	RMB20.0
Exercise price	RMB20.0
Risk free rate	2.79%
Volatility	51.82%
Dividend yield	0.43%

Expected volatility was determined by using the historical volatility of comparable companies.

21. DEFERRED TAXATION

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

	Income on relocation of manufacturing plant	Unrealized profit on intra-group transactions	Fair value adjustment on available-for-sale investments	Tax losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At January 1, 2008	–	–	–	–	–
Acquired on acquisition of subsidiaries *(note 35b)*	–	–	–	5,916	5,916
At December 31, 2008	–	–	–	5,916	5,916
Charge to other comprehensive income	–	–	(24,159)	–	(24,159)
(Charge) credit to profit or loss	(29,114)	5,878	–	(5,916)	(29,152)
At December 31, 2009	**(29,114)**	**5,878**	**(24,159)**	**–**	**(47,395)**

21. DEFERRED TAXATION (cont'd)

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset.

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

	2009	2008
	RMB'000	*RMB'000*
Deferred tax assets	**7,761**	5,916
Deferred tax liabilities	**(55,156)**	–
	(47,395)	5,916

Details of unrecognized deferred tax assets in respect of other deductible temporary differences at the end of the reporting period are as follows:

	2009	2008
	RMB'000	*RMB'000*
Impairment of property, plant and equipment	**16,225**	7,698
Allowance for bad and doubtful debts	**23,515**	26,698
Allowance for inventories	**12,828**	52,772
Others	**5,058**	4,915
	57,626	92,083

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.

21. DEFERRED TAXATION (cont'd)

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 RMB24,793,000 (2008: RMB14,000,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

At December 31, 2009, the Group has unused tax losses of approximately RMB386,609,000 (2008: RMB233,119,000) available to offset against future profits. A deferred tax asset has been recognized in respect of such losses of Nil (2008: RMB23,664,000). No deferred tax asset has been recognized in respect of the remaining due to the unpredictability of future profit streams. The tax losses of approximately RMB141,845,000 (2008: RMB192,661,000) will expire in five years from the dates they were incurred. Other tax losses may be carried forward indefinitely.

22. DEPOSIT PAID FOR ACQUISITION OF A SUBSIDIARY/ADVANCE

On November 12, 2009, the Group entered into an agreement to acquire 51% equity interest in Hainan Hejia Property Development Co., Ltd. (海南合甲置業有限公司) ("Hainan Hejia"), for a consideration of RMB140,801,000. At December 31, 2009, the Group has paid RMB70,000,000 to the vendor for the acquisition and remaining RMB70,801,000 is disclosed in note 43 as commitment.

The principal activity of Hainan Hejia is property development in Hainan Province of the PRC. Hainan Hejia has signed an agreement for acquisition of a piece of land in Hainan Province of the PRC ("Acquisition of Land") and no other material assets and liabilities was owned by Hainan Hejia. Accordingly, the transaction will be accounted for as the acquisition of assets through the acquisition of a subsidiary. During the year, the Group had advanced to Hainan Hejia an amount of approximately RMB165,060,000 for the land acquisition purpose and Hainan Hejia had paid approximately RMB185,000,000 to the local government as a deposit for the land acquisition. The advance is unsecured and interest free and will be included in the initial carrying amount of the land acquired upon acquisition of Hainan Hejia.

According to the agreement for acquisition of Hainan Hejia, the consideration is refundable if Hainan Hejia does not proceed with the Acquisition of Land. At the end of the reporting period, the Acquisition of Land had not yet completed and accordingly, the payment are presented as "Deposit paid for acquisition of a subsidiary". Subsequent to the end of the reporting period, the Group had entered into an agreement to further acquire 26% equity interest in Hainan Hejia. Details are set out in note 47(b).

23. INVENTORIES

	2009	2008
	RMB'000	*RMB'000*
Raw materials	**111,794**	219,789
Work in progress	**183,652**	427,892
Finished goods	**113,721**	79,447
Total, net of allowance for inventories	**409,167**	727,128

24. PROPERTIES UNDER DEVELOPMENT AND HELD FOR SALE

	RMB'000
At January 1, 2008	–
Acquired on acquisition of subsidiaries *(note 35(b))*	655,739
Addition of development expenditure	92,197
At December 31, 2008	747,936
Transfer from properties for development	151,673
Addition of development expenditure	405,294
Disposal	(711,201)
At December 31, 2009	**593,702**

The carrying values are presented as:

	2009	2008
	RMB'000	*RMB'000*
Properties under development	**565,541**	747,936
Properties held for sales	**28,161**	–
	593,702	747,936

During the year, interest capitalized in the properties under development was an amount of RMB8,110,000 (2008: RMB733,000). RMB394,210,000 (2008: Nil) of the properties under development are expected to be realized after twelve months from the end of the reporting period.

25. TRADE, BILLS AND OTHER RECEIVABLES

	2009 RMB'000	2008 RMB'000
Trade receivables	**450,246**	333,001
Less: Allowance for doubtful debts	**(70,175)**	(85,378)
	380,071	247,623
Bills receivables	**39,750**	11,317
Deposits paid for acquisition of land use rights *(Note a)*	**46,014**	107,732
Advance payment for purchase of inventory *(Note b)*	**214,702**	10,168
Prepayments	**2,213**	19,555
Prepaid non-income tax	**10,718**	54,508
Other receivables *(Note c)*	**92,146**	33,891
Less: allowance for doubtful debts for other receivables	**(21,888)**	(21,412)
	763,726	463,382

Notes:

(a) The Group had made some deposits in respect of proposed acquisition of certain land use rights. No formal agreements for the acquisitions have been signed and the amount is refundable if the Group does not proceed with the acquisition.

(b) The Group had made advance payment for purchase of inventory to secure the inventory supply. The amount is unsecured and refundable if the Group does not receive the inventory.

(c) Other receivables include an amount of RMB25,000,000 (2008: Nil) which is interest-bearing at People's Bank of China Standard Loan interest rate. The amount is unsecured, repayable on demand and expected to be settled in 2010. In addition, interest income amounted to approximately RMB6,108,000 is accrued during the year.

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

	2009 RMB'000	2008 RMB'000
Aged:		
Within 60 days	**289,222**	133,447
61 – 90 days	**69,390**	44,727
91 – 180 days	**37,042**	60,290
181 – 365 days	**16,109**	15,500
Over 1 year	**8,058**	4,976
	419,821	258,940

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

The Group's trade receivable balances included debtors which are with related parties, details of which are set out in note 44(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 and the directors of the Company considered the debts which are neither past due nor not impaired are with good repayment history.

For the property development segment, considerations in respect of sold properties are payable by the purchasers pursuant to the terms of sale and purchase agreements. Pre-sale deposits will be collected upon signing of sale and purchase agreements.

Included in the Group's trade receivable balances are debtors with aggregate carrying amount of RMB70,908,000 (2008: RMB97,011,000) which are past due but not impaired at the reporting date.

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

	2009	2008
	RMB'000	*RMB'000*
Aged		
Within 60 days	**–**	461
61 – 90 days	**21,281**	15,784
91 – 180 days	**25,460**	60,290
181 – 365 days	**16,109**	15,500
1 – 2 years	**8,058**	4,976
	70,908	97,011

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.

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

Movement in the allowance for doubtful debts:

	2009	2008
	RMB'000	*RMB'000*
Balance at beginning of the year	**106,790**	63,486
Amounts written off during the year	**(125)**	(569)
Eliminated on disposal of subsidiaries	**–**	(1,665)
Eliminated on acquisition of a subsidiary *(note 36(a))*	**(28,365)**	–
Impairment loss recognized in profit or loss *(note)*	**13,763**	45,538
Balance at end of the year	**92,063**	106,790

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.

Note: Included in impairment loss recognized in respect of trade and other receivables during the year ended December 31, 2008, an impairment loss of approximately RMB25,965,000 which related to RMB26,824,000 receivable from an associate of the Group, Zhejiang Liema Furniture Co. Ltd. Details of the amount due from the associate amounting to RMB859,000 are set out in note 44(b).

26. PLEDGED BANK DEPOSITS/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 bank facilities granted to the Group.

The deposits carry an average fixed interest rate of 1.71% (2008: 1.71%) per annum. The pledged bank deposits will be released upon the settlement of relevant bill payables and bank borrowings.

(b) Bank balances and cash

Bank balances and cash comprised of bank deposits with short maturity at prevailing deposit interest rate of 0.36% (2008: 0.36%) per annum and cash on hand.

27. ASSETS/LIABILITIES CLASSIFIED AS HELD FOR SALE

Pursuant to a Board resolution dated on December 31, 2008, certain subsidiaries of the Company entered into an agreement with Haining City Xieqiao Town Construction and Development Company Limited, the nominee of Haining City Xieqiao Town People's Government, regarding the relocation of the manufacturing plant of such subsidiaries to fulfill local government urban redevelopment plan requirements for a consideration to be received from local government.

The segment results contributed by these subsidiaries are included in the Group's manufacturing segment for segment reporting purposes (see note 5).

The net proceeds of the disposal has exceeded the carrying amount of the relevant prepaid lease payments and buildings as at December 31, 2008 and accordingly, no impairment loss has been recognized.

The major classes of assets of the Group classified as held for sale are as follows:

	2008 *RMB'000*
Building included in property, plant and equipment	188,624
Prepaid lease payments	25,861
Assets classified as held for sale	214,485

During the year of 2009, the Group demolished the plant and returned all land use rights to the PRC Government. The consideration of the disposal was RMB503,498,000, of which RMB5,000,000 was received during the year. Half of the remaining amount of RMB498,498,000 will be settled on or before June 2010 and the remaining half will be settled on or before December 2010 in accordance with the agreement. The amount is presented in the consolidated statement of financial position as "Receivable from disposal of assets classified as held for sale".

Subsequent to the end of reporting period, the Group had received RMB135,000,000 in April 2010.

The fair value of the receivable at initial recognition, with the effective interest rate of 3.22%, was RMB486,774,000.

The Group has recognized a gain on disposal of RMB277,289,000.

28. TRADE, BILLS AND OTHER PAYABLES

	2009	2008
	RMB'000	*RMB'000*
Trade payables	**317,931**	124,364
Bills payables	**1,918**	3,163
Other payables	**73,462**	50,725
Advance from a director *(note 44(b))*	**10,494**	31,007
Advance from related companies *(note 44(b))*	**87,932**	120,932
Accruals	**84,937**	46,230
	576,674	376,421

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

	2009	2008
	RMB'000	*RMB'000*
Within 60 days	**290,868**	70,313
61 – 90 days	**12,061**	7,884
91 – 180 days	**6,196**	6,520
181 – 365 days	**2,784**	11,436
1 – 2 years	**4,108**	27,583
Over 2 years	**3,832**	3,791
	319,849	127,527

Included in the Group's trade payable balances are balances with related parties. Details of which are set out in note 44(b).

During the year of 2003, the local government paid approximately RMB53 million to the Group for the construction of certain infrastructure and public facilities on local government's behalf in a location which is under-developed. The Group applied the amount received from the government to the construction of such facilities and entered into various construction contracts. Up to December 31, 2009, the Group recorded a balance of approximately RMB13 million (2008: RMB13 million) which had not been utilized in the constructions and was included in other payables. Details of the capital commitments of the Group relating to the construction contracts at the end of the reporting periods are set out in note 43.

29. DERIVATIVE FINANCIAL INSTRUMENTS

	2009	2008
	RMB'000	*RMB'000*
Derivative financial liabilities		
Foreign currency forward contracts	**537**	627

Major terms of the foreign currency forward contracts are as follows:

As at December 31, 2009

Notional amount	**Maturity**	**Exchange rate**
21 contracts to sell US$21,000,000 aggregated in total	Range from January 4, 2010 to August 16, 2010	Sell US$ at RMB from 6.827 to 6.840

As at December 31, 2008

Notional amount	**Maturity**	**Exchange rate**
8 contracts to sell US$9,000,000 aggregated in total	Range from January 9, 2009 to May 11, 2009	Sell US$ at RMB from 6.667 to 6.970

The above derivatives are measured at fair value at the end of the reporting period. The fair values are determined based on an independent valuation carried out by independent valuer using a forward pricing model in deriving the market value at the end of the reporting period.

30. BANK AND OTHER BORROWINGS

	2009	2008
	RMB'000	*RMB'000*
Bank borrowings	**1,273,528**	1,340,102
Other borrowings	**8,404**	102,455
Total	**1,281,932**	1,442,557
Analyzed as:		
Secured	**581,800**	689,729
Unsecured	**700,132**	752,828
	1,281,932	1,442,557
Denominated in United States Dollars (foreign currency)	**6,828**	169,272
Denominated in Renminbi	**1,275,104**	1,273,285
	1,281,932	1,442,557

30. BANK AND OTHER BORROWINGS (cont'd)

The bank and other borrowings are repayable as follows:

	2009	2008
	RMB'000	*RMB'000*
Within one year or on demand	**1,083,528**	1,429,002
In more than one year but not more than two years	**–**	4,100
In more than two years but not more than five years	**190,000**	–
After five years	**8,404**	9,455
	1,281,932	1,442,557
Less: Amount due within one year shown under current liabilities	**(1,083,528)**	(1,429,002)
Amount due after one year	**198,404**	13,555

Bank borrowings are substantively fixed-rate borrowings and carry interests ranging from 1.6% to 7.84% (2008: 4.77% to 8.22%) per annum.

Other borrowings represent loans advanced by independent third parties and carry fixed interest rate of 3% (2008: 2.55% to 6.624%) per annum. Other than an amount of RMB8,404,000 (2008: RMB9,455,000) that is repayable in full in 2018, the amounts were fully repaid in 2009.

Included in unsecured bank borrowings are borrowings of RMB120,000,000 (2008: RMB100,000,000) guaranteed by Mr. Zhu. An amount of RMB26,305,000 (2008: RMB10,835,000) 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 41.

31. OTHER CURRENT LIABILITIES/OTHER LONG TERM LIABILITIES

Other current and long term liabilities represent rent-free periods and landlord contributions for retail stores. The amounts are unsecured and will be released to profit or loss over the term of the lease.

32. SHARE CAPITAL

	Number of ordinary shares at US$0.00015 each	*US$'000*
Authorized share capital of the Company:		
At January 1, 2008, December 31, 2008 and December 31, 2009	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, 2008	990,048,369	148,507	1,227
Issue of shares *(Note)*	174,425,616	26,164	178
Shares repurchased and cancelled	(817,000)	(123)	(1)
At December 31, 2008	1,163,656,985	174,548	1,404
Exercise of share options	300,000	45	–
At December 31, 2009	**1,163,956,985**	**174,593**	**1,404**

Note: During the year ended December 31, 2008, the Company issued 174,425,616 ordinary shares at a price of HK$1.354 per share for the acquisition of 100% equity interest of Investwise International Limited. The allotment was made on July 22, 2008 and details of the transaction are set out in note 35(b).

The Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	No. of ordinary shares of US$0.00015 each	Price per share Highest *HK$*	Price per share Lowest *HK$*	Aggregate consideration paid *HK$'000*	Equivalent to *RMB'000*
December 2009	**1,730,000**	**1.78**	**1.68**	**2,928**	**2,578**

The above shares were cancelled on January 6, 2010 and the partial consideration of repurchase amounted to approximately RMB1,450,000.

November 2008	817,000	0.74	0.72	596	531

The above shares were cancelled upon repurchase during the year ended December 31, 2008.

33. 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, 2009, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 23,750,000 (2008: 21,100,000), representing 2.04% (2008: 1.81%) 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 Company granted a total of 30,200,000 share options to the directors and other eligible employees on March 9, 2006 (the "First Batch Option"). The exercise price of the First Batch option is HK$2.38 (the share price at grant date was HK$2.325).

The Company granted a total of 10,500,000 share options to the directors and other eligible employees on May 5, 2008 (the "Second Batch Option"). The exercise price of the Second Batch Option is HK$1.18 (the share price at the grant date was HK$1.18).

The Company granted a total of 10,000,000 share options to a consultant of the Company (the "Share Option Grantee") on May 13, 2009 (the "Third Batch Option"). The Share Option Grantee is an independent third party and not connected with any director, chief executive or substantial shareholder of the Company, or any of their respective associates. The exercise price of the Third Batch Option is HK$0.53 (the share price at the grant date was HK$0.51). As the fair value of the services rendered by the consultant cannot be estimated reliably in view of the nature of the consultancy services rendered. Accordingly, the services received are measured with reference to the fair value of share options granted using the Binomial Model.

The Company granted a total of 2,000,000 share options to the directors on October 12, 2009 (the "Fourth Batch Option"). The exercise price of the Fourth Batch Option is HK$1.60 (the share price at the grant date was HK$1.60).

Options granted must be taken up within 21 days from the date of grant, upon payment of HK$1 per option holder.

33. SHARE OPTION (cont'd)

The directors may at their discretion determine the specific exercise period which should expire in any event not later than ten years from date of adoption of the Scheme.

The Binomial Model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate with reference to a valuation report prepared by an independent valuer. The value of an option varies with different variables of certain subjective assumptions.

The inputs into the Binomial Model were as follows:

	The Second Batch Option	The Third Batch Option	The Fourth Batch Option
Share price at the grant date	HK$1.18	HK$0.51	HK$1.60
Exercise price	HK$1.18	HK$0.53	HK$1.60
Average risk-free rate of return	2.73%	2.31%	2.25%
Expected volatility rate	55.81%	61.30%	61.90%
Dividend yield	4.22%	3.82%	0.00%
Fair value of the options at the date of grant	HK$4,500,000	HK$2,600,000	HK$2,300,000

Expected volatility was determined by using the historical volatility of the Company and comparable companies.

The Group recorded a share-based payment expense of RMB2,893,000 for the year ended December 31, 2009 (2008: RMB2,237,000) in relation to share options granted by the Company.

33. SHARE OPTION (cont'd)

The following tables disclose details of the Company's share options held by the directors, eligible employees and third party service provider of the Company. The tables disclose movements in such holdings during the years ended December 31, 2008 and 2009:

Exercise price *HK$*	Date of grant	Vesting period	Exercisable period	Outstanding at January 1, 2008	Granted during the year ended December 31, 2008	Lapsed during the year ended December 31, 2008	Outstanding at December 31, 2008 and January 1, 2009	Granted during the year ended December 31, 2009	Exercised during the year ended December 31, 2009	Lapsed during the year ended December 31, 2009	Outstanding at December 31, 2009
2.38	March 9, 2006	9.3.2006 - 31.12.2006 *(Note 1)*	1.1.2007 - 8.3.2016	12,650,000	–	(2,100,000)	10,550,000	–	–	(650,000)	9,900,000
2.38	March 9, 2006	9.3.2006 - 31.12.2007 *(Note 1)*	1.1.2008 - 8.3.2016	12,650,000	–	(2,100,000)	10,550,000	–	–	(650,000)	9,900,000
				25,300,000	–	(4,200,000)	21,100,000	–	–	(1,300,000)	19,800,000
1.18	May 5, 2008	5.5.2008 - 31.12.2008 *(Note 2)*	1.1.2009 - 4.5.2018	–	5,250,000	(1,000,000)	4,250,000	–	(300,000)	–	3,950,000
1.18	May 5, 2008	5.5.2008 - 31.12.2009 *(Note 2)*	1.1.2010 - 4.5.2018	–	5,250,000	(1,000,000)	4,250,000	–	–	(300,000)	3,950,000
				–	10,500,000	(2,000,000)	8,500,000	–	(300,000)	(300,000)	7,900,000
0.53	May 13, 2009	13.5.2009 - 31.12.2009 *(Note 3)*	1.1.2010 - 12.5.2019	–	–	–	–	5,000,000	–	–	5,000,000
0.53	May 13, 2009	13.5.2009 - 31.12.2010 *(Note 3)*	1.1.2011 - 12.5.2019	–	–	–	–	5,000,000	–	–	5,000,000
				–	–	–	–	10,000,000	–	–	10,000,000
1.60	October 12, 2009	12.10.2009 - 30.9.2010 *(Note 4)*	1.10.2010 - 11.10.2019	–	–	–	–	1,000,000	–	–	1,000,000
1.60	October 12, 2009	12.10.2009 - 30.9.2011 *(Note 4)*	1.10.2011 - 11.10.2019	–	–	–	–	1,000,000	–	–	1,000,000
				–	–	–	–	2,000,000	–	–	2,000,000
Total				25,300,000	10,500,000	(6,200,000)	29,600,000	12,000,000	(300,000)	(1,600,000)	39,700,000
Exercisable at the end of the reporting period							21,100,000				23,750,000

33. SHARE OPTION (cont'd)

Note 1: In relation to the share options granted on March 9, 2006, 50% of the share options with vesting period commencing from March 9, 2006 to December 31, 2006, and the remaining balance of the share options with the vesting period commencing from March 9, 2006 to December 31, 2007.

Note 2: In relation to the share options granted on May 5, 2008, 50% of the share options with vesting period commencing from May 5, 2008 to December 31, 2008, and the remaining balance of the share options with the vesting period commencing from May 5, 2008 to December 31, 2009.

Note 3: In relation to the share options granted on May 13, 2009, 50% of the share options with vesting period commencing from May 13, 2009 to December 31, 2009, and the remaining balance of the share options with the vesting period commencing from May 13, 2009 to December 31, 2010.

Note 4: In relation to the share options granted on October 12, 2009, 50% of the share options with vesting period commencing from October 12, 2009 to September 30, 2010, and the remaining balance of the share options with the vesting period commencing from October 12, 2009 to September 30, 2011.

In respect of the share options exercised during the year, the closing share price at the date of exercise is HK$1.95.

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, 2008	Granted during the year ended December 31, 2008	Lapsed during the year ended December 31, 2008	Outstanding at January 1, 2009	Granted during the year ended December 31, 2009	Exercised during the year ended December 31, 2009	Lapsed during the year ended December 31, 2009	Outstanding at December 31, 2009
2.38	March 9, 2006	9.3.2006 - 31.12.2006	1.1.2007 - 8.3.2016	3,900,000	–	(1,000,000)	2,900,000	–	–	(200,000)	2,700,000
2.38	March 9, 2006	9.3.2006 - 31.12.2007	1.1.2008 - 8.3.2016	3,900,000	–	(1,000,000)	2,900,000	–	–	(200,000)	2,700,000
1.18	May 5, 2008	5.5.2008 - 31.12.2008	1.1.2009 - 4.5.2018	–	2,350,000	(1,000,000)	1,350,000	–	(300,000)	–	1,050,000
1.18	May 5, 2008	5.5.2008 - 31.12.2009	1.1.2010 - 4.5.2018	–	2,350,000	(1,000,000)	1,350,000	–	–	(300,000)	1,050,000
1.60	October 12, 2009	12.10.2009 - 30.9.2010	1.10.2010 - 11.10.2019	–	–	–	–	1,000,000	–	–	1,000,000
1.60	October 12, 2009	12.10.2009 - 30.9.2011	1.10.2011 - 11.10.2019	–	–	–	–	1,000,000	–	–	1,000,000

The above table includes the share options held by the directors appointed and resigned during the year ended December 31, 2009.

During the year ended December 31, 2009, the total amount of consideration received from the directors and third party service provider of the Company for taking up the options granted was HK$3 (2008: HK$14).

34. 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) 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.

(d) The Company suffered loss of RMB9,383,000 for the year ended December 31, 2009 (2008: RMB31,519,000).

35. ACQUISITION OF ASSETS AND LIABILITIES THROUGH ACQUISITION OF SUBSIDIARIES

(a) On January 7, 2008, the Group acquired 99% equity interest in Qionghai Bodi Real Estate Co. Ltd. (琼海博地置業有限公司) ("Qionghai Bodi") from an independent party not connected with the Group, for a consideration of RMB100,062,000.

The principal activity of Qionghai Bodi is property development in Hainan Province of the PRC and the major assets of Qionghai Bodi are the property development sites in the PRC. Accordingly, the transaction has been accounted for as the acquisition of assets and liabilities through the acquisition of a subsidiary.

The net assets acquired in the transaction are as follows:

	Value as at January 7, 2008 *RMB'000*
Net assets acquired:	
Properties for development	185,013
Other receivables	677
Bank balances and cash	79
Other payables	(84,696)
Net assets	101,073
Minority interests	(1,011)
Net assets acquired	100,062
Total consideration, satisfied by:	
Cash	20,862
Other long-term assets – deposit paid	79,200
	100,062
Net cash outflow arising on acquisition:	
Cash consideration paid	(20,862)
Bank balances and cash acquired	79
	(20,783)

35. ACQUISITION OF ASSETS AND LIABILITIES THROUGH ACQUISITION OF SUBSIDIARIES (cont'd)

(b) In July 2008, the Group acquired (i) from its ultimate holding company 100% equity interest in Investwise International Limited, an investment holding company, which owns 55% equity interest in Yancheng Sujia Real Estate Development Co., Ltd. (鹽城蘇嘉房地產開發有限公司) ("Yancheng Sujia"), for a consideration of approximately RMB209,002,000. The consideration for the acquisition has been satisfied by the allotment of 174,425,616 shares issued by the Company to the ultimate holding company, and (ii) 45% equity interest in Yancheng Sujia from an independent third party for a cash consideration of approximately RMB171,002,000.

The principal activity of Yancheng Sujia is property development. Accordingly, the transactions have been accounted for as the acquisition of assets and liabilities through the acquisition of subsidiaries.

The net assets acquired in the transaction are as follows:

	Fair value as at August 1, 2008 *RMB'000*
Net assets acquired:	
Property, plant and equipment	1,376
Properties for development	416,268
Properties under development	655,739
Deferred tax asset	5,916
Other receivables	56,685
Tax recoverable	17,708
Bank balances and cash	77,615
Other payables *(Note)*	(148,398)
Deposit received in respect of pre-sales properties	(558,960)
Bank borrowing	(140,000)
	383,949
Total consideration satisfied by:	
Cash, including transaction costs incurred	174,947
Shares issued *(Note 32)*	209,002
	383,949
Net cash outflow arising on acquisition:	
Cash consideration paid including transaction costs incurred	(174,947)
Bank balances and cash acquired	77,615
	(97,332)

Note: Included in the amount, RMB93,932,000 was advanced from a related company and RMB31,007,000 was advanced from a director.

36. ACQUISITION OF A SUBSIDIARY

On March 2, 2009, the Group acquired 100% interest in Sofas UK Plc. ("Sofas UK") from an independent party at a consideration of GBP1.00 (equivalent to approximately RMB9.8). Sofas UK is engaged in the business of retail furniture in the United Kingdom ("UK").

The net liabilities acquired in the transaction are as follows:

	Acquiree's carrying amount before combination *RMB'000*	**Fair value adjustment** *RMB'000*	**Fair value** *RMB'000*
Net liabilities acquired:			
Property, plant and equipment	14,689	–	14,689
Brand name	–	2,330	2,330
Inventories	46,347	–	46,347
Trade and other receivables	28,836	–	28,836
Bank balances and cash	8,875	–	8,875
Trade and other payables *(note a)*	(80,013)	–	(80,013)
Other long-term liabilities	(25,203)	–	(25,203)
	(6,469)	2,330	(4,139)
Add: Goodwill *(note b)*			4,139
Consideration of GBP1.00			–

Cash inflow arising on acquisition represented RMB8,875,000 bank balances and cash acquired.

Notes:

(a) The trade and other payables excluded an amount of RMB28,365,000 due to the subsidiaries of the Group that had fully impaired by the Group in previous years.

Included in the amount, RMB55,343,000 was trade balance with Shanghai Starcorp Furniture Sales Co., Ltd. ("Shanghai Starcorp"), a related company of the Group. Details of relationship with the Group and the balance at December 31, 2009 are set out in note 44.

(b) Upon acquisition, the directors of the Company had reviewed the current economic outlooks in UK and considered the future profit stream is uncertain. Accordingly, the goodwill arising on acquisition was fully impaired and recognized as other expenses in the consolidated statement of comprehensive income.

Sofas UK contributed RMB147,490,000 to the Group's turnover and incurred loss of RMB64,208,000 between the date of acquisition and the end of reporting period.

If the acquisition had been completed on January 1, 2009, the turnover of the Group for the year would have been RMB2,424,931,000, and profit for the year would have been RMB129,554,000. The pro forma information is for illustrative purpose only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on January 1, 2009, nor is it intended to be a projection of future results.

37. DISPOSAL OF SUBSIDIARIES

During the year ended December 31, 2007, the Group entered into an agreement to dispose of a 50.5% owned subsidiary, Haining Oyi May Sofa Co., Ltd. ("Oyi May") (海寧歐意美沙發有限公司), which carried out upholstered furniture manufacturing operations. The disposal was completed on January 10, 2008, the date on which the control of Oyi May was passed to the acquirer.

During the year ended December 31, 2008, the Group entered into an agreement to dispose of 5% equity interest in a non-wholly owned subsidiary, 浙江獵馬傢俬有限公司 Zhejiang Liema Furniture Co., Ltd. ("Liema Furniture"), which carried out upholstered furniture manufacturing operations. The disposal was completed on June 17, 2008, the date on which the control of Liema Furniture was passed to the acquirer. The Group holds 45.5% equity interest in Liema Furniture after the disposal and accounted for Liema Furniture as an associate subsequently.

The net assets of the disposed subsidiaries at the respective dates of disposal were as follows:

	2008 *RMB'000*
Property, plant and equipment	177,964
Prepaid lease payments	24,845
Intangible assets	60
Inventories	113,611
Trade and other receivables	116,970
Pledged bank deposits	63,767
Bank balances and cash	16,002
Trade and other payables	(281,656)
Bank borrowings	(136,209)
	95,354
Minority interests	(47,160)
Gain on disposal	2,399
	50,593
Satisfied by:	
Cash consideration received	25,632
Interests in an associate	24,961
	50,593
Net cash inflow (outflow) arising on disposal of subsidiaries:	
Cash consideration received	25,632
Cash and cash equivalents disposed of	(16,002)
	9,630

Oyi May and Liema Furniture did not make any significant contributions to the results and cash flows of the Group during the year ended December 31, 2008.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Categories of financial instruments

	2009	2008
	RMB'000	*RMB'000*
Financial assets		
Loans and receivables		
(including cash and cash equivalents)	**1,512,656**	779,892
Available-for-sale investments	**139,913**	43,278
Financial liabilities		
Amortized cost	**1,773,669**	1,772,748
Financial liabilities held for trading		
– Derivative financial instrument	**537**	627

(b) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, trade, bills and other receivables, receivable from disposal of assets classified as held for sale, bank balances and cash, pledged bank deposits, trade, bills and other payables, derivative financial instruments and bank and other borrowings. 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.

Other than the foreign currency risk arising on the newly acquired subsidiary, Sofas UK, 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 and other borrowings as set out in notes 26 and 30 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 bank deposit 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.

No sensitivity analysis has been prepared as the fluctuation on interest rates will not materially affected the interest expenses on the borrowings at the end of the reporting period.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

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

Market risk (cont'd)

Foreign currency risk

The functional currency of the Company and majority of its subsidiaries is RMB since 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 such related bank balances and cash, trade and other receivables and trade and other payables arising from time to time. In addition, the Group has short term bank and other borrowings denominated in US dollars. The derivative financial instrument used has no direct relationship with the individual transactions denominated in US dollars but also give rise to foreign exchange risk exposure for the Group.

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**	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
USD *(note)*	**227,540**	294,404	**73,307**	251,163
HKD	**3,063**	224	**13**	–
EUR	**–**	437	**–**	–

Note: The amount included bank balances of RMB82,438,000 (2008: RMB109,451,000) and bank loans of RMB6,828,000 (2008: RMB169,272,000) that are denominated in USD.

Sensitivity analysis

The Group is mainly exposed to currency of USD.

5% (2008: 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, 2009, if the functional currencies of the entities had been strengthened by 5% against USD, profit for the year would have been decreased by RMB7.7 million (2008: loss for the year would have been RMB2.2 million higher) and there would be equal and opposite impact on profit for the year if the functional currencies of the entities has been weakened by 5% against USD. It is mainly as a result of foreign exchange losses on translation of USD denominated trade, bills and other receivables and bank balances and cash cannot be compensated by foreign exchange gains on translation of USD denominated trade, bills and other payables and bank and other borrowings.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

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

Market risk (cont'd)

Foreign currency risk (cont'd)

Sensitivity analysis (cont'd)

The Group's sensitivity to foreign currency has increased during the current year mainly due to the acquisition of Sofas UK with functional currency is GBP while the majority of the purchase of Sofas UK is in USD. The foreign currency risk of Sofas UK against USD is minimised partly by fixing the settlement rate of payable with a supplier in its own functional currency. The payable under such arrangement amounted to RMB47,527,000 as at December 31, 2009.

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. USD denominated sales are seasonal with lower sales volumes in the last quarter of the financial year, which results in a reduction in USD receivables at year end.

Other price risk

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

The notional amount of the Group's outstanding foreign currency forward contracts are set out in note 29.

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 prices of the respective equity instruments had been 5% higher/lower, investment valuation reserve would increase/decrease by RMB6,980,000 (2008: Nil) for the Group as a result of the changes in fair value of available-for-sale investments.

The sensitivity analysis of the available-for-sale investment has changed significantly from the prior year since the investment is carried at cost less impairment at prior year ended while it is measured at fair value at December 31, 2009. The fair value is estimated reliably in current year after considering the shares classified as available-for-sales investment are listed subsequent to the end of the reporting period.

Credit risk

As at December 31, 2009, 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 is arising from the carrying amount of the respective recognized financial assets as stated in the consolidated statement of financial position.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

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

Credit risk (cont'd)

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 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 and receivable from disposal of assets classified as held for sales which due from PRC government with minimal risk of default, 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, 2009, the Group has available unutilized short-term bank loan facilities of approximately RMB255,472,000 as a liquidity management resource.

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. To the extent that interest rates are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period. For the contractual maturity details of the derivative instruments, the effect is not significant to the Group and not presented below.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

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

Liquidity risk (cont'd)

	Weighted average effective interest rate %	0 – 60 days RMB'000	61 – 90 days RMB'000	91 – 365 days RMB'000	1 – 2 years RMB'000	Over 2 years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount at December 31, 2009 RMB'000
2009								
Non-derivative financial liabilities								
Trade, bills and other payables		**491,737**	**–**	**–**	**–**	**–**	**491,737**	**491,737**
Bank and other borrowings	**4.24**	**116,365**	**143,894**	**862,284**	**11,538**	**202,199**	**1,336,280**	**1,281,932**
Total		**608,102**	**143,894**	**862,284**	**11,538**	**202,199**	**1,828,017**	**1,773,669**

	Weighted average effective interest rate %	0 – 60 days RMB'000	61 – 90 days RMB'000	91 – 365 days RMB'000	1 – 2 years RMB'000	Over 2 years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount at December 31, 2008 RMB'000
2008								
Non-derivative financial liabilities								
Trade, bills and other payables		330,191	–	–	–	–	330,191	330,191
Bank and other borrowings	6.84%	599,210	268,675	658,861	4,593	9,889	1,541,228	1,442,557
Total		929,401	268,675	658,861	4,593	9,889	1,871,419	1,772,748

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(c) Fair value

The fair value of investment in HCLM classified as available-for-sale investments is arrived at on the basis of valuations carried out by an independent qualified professional valuer using Black-Scholes pricing model.

Foreign currency forward contracts are measured using a forward pricing model in deriving the market value at the end of the reporting period.

The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instrument as input.

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 provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

– 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).

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(c) Fair value (cont'd)

	Unlisted equity securities at Level 3 *RMB'000*	Derivative financial liabilities at Level 2 *RMB'000*	Total *RMB'000*
At January 1, 2009	–	(627)	(627)
Transfers into level 3 (note 20)	42,968	–	42,968
Total gains or losses:			
– Fair value gain through settlement	–	744	744
– Unrealized fair value change	–	(537)	(537)
– Other comprehensive income	96,635	–	96,635
Settlement	–	(117)	(117)
At December 31, 2009	**139,603**	**(537)**	**139,066**

There were no transfers between Level 1 and 2 in the current year.

For unlisted equity securities, there was transfer to level 3. Included in other comprehensive income is an amount of RMB96,635,000 gain relate to unlisted equity securities held at the end of the reporting period and is reported as changes of 'available-for-sale investments revaluation reserve'. Details of the change are disclosed in note 20.

39. 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 30, advances from a director and a related company disclosed in note 28 and 44(b) and equity attributable to owners of the Company, comprising issued share capital, reserves and retained earnings.

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 Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

40. 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$1,000 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 RMB5,551,000 (2008: RMB7,210,000) represents contributions paid and payable to the above schemes by the Group in respect of the current accounting period. As at December 31, 2009, contributions of approximately RMB441,000 (2008: Nil) in respect of the reporting period had not been paid to the above schemes.

41. 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 amount of the pledged assets of the Group at the end of the reporting period is as follows:

	2009	2008
	RMB'000	*RMB'000*
Buildings	**175,649**	272,913
Prepaid lease payments	**39,462**	38,224
Pledged bank deposits	**76,092**	120,997
Assets classified as held for sale	**–**	175,228
Properties under development and held for sale	**171,823**	–
	463,026	607,362

42. 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:

	2009	2008
	RMB'000	*RMB'000*
Within one year	**68,627**	18,519
In the second to fifth year inclusive	**258,567**	134,112
Over five years	**244,534**	–
	571,728	152,631

The lease payments represent rentals payable by the Group for its retail store and certain of its office properties. The lease terms ranged from one year to fourteen years. A contingent rent provision exists for one of the stores of the Group. In general, these contingent rents are calculated with reference to the relevant retail shops' revenue during the rental periods using pre-determined formulae. No contingent rents have been reflected in the consolidated financial statements as the turnover of the relevant store has yet to exceed the turnover threshold.

43. CAPITAL AND OTHER COMMITMENTS

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

	2009	2008
	RMB'000	*RMB'000*
Expenditure contracted for but not provided in the consolidated financial statements in respect of		
– Acquisition of property, plant and equipment	**16,644**	15,936
– Acquisition of a subsidiary	**70,801**	–
– Properties under development	**303,051**	146,112
– Construction of certain infrastructure and public facilities in the PRC on behalf of the government *(note 28)*	**12,541**	13,072
	403,037	175,120

44. 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**	**2009** *RMB'000*	2008 *RMB'000*
Baiyin Kasen Leather Co., Ltd. ("Baiyin") 白銀卡森皮革有限公司	*(i)*	Purchase by the Group	**15,190**	103,299
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	**5,091**	5,001
		Sales of fixed assets by the Group	**160**	–
		Rental income	**10**	–
Furniture and Bedding Concepts Ltd. ("Bedding Concepts") (Formerly known as Sleep City Holdings Ltd)	*(i)*	Sales by the Group	**42,046**	7,834
Yili Horgos Leather Co., Ltd. ("Yili Horgos") 伊犁霍爾果斯皮革有限公司	*(i)*	Purchase by the Group	**–**	5,532
Starcorp Corporation Pty., Ltd. ("Starcorp")	*(i)*	Sales by the Group	**6,091**	8,792
Haining Xingying Furniture Co., Ltd. ("Haining Xingying") 海寧星瑩傢俱有限公司	*(i)*	Sales by the Group	**1,427**	19
		Purchase by the Group	**20,473**	–
Shanghai Starcorp 上海思達可傢俱銷售有限公司	*(i)*	Sales by the Group	**672**	274
		Purchase by the Group	**7,541**	–
Related parties				
Joyview Enterprises Limited, the ultimate holding company of the Company	*(ii)*	Acquisition of subsidiaries *(note 35)*	**–**	209,002
Liema Furniture	*(iii)*	Sales by the Group	**2,037**	6,640
		Sales of raw materials by the Group	**4**	38
Kasen-Melx	*(iv)*	Interest expense	**120**	80
		Rental income	**6**	12
		Sales by the Group	**116**	918
		Sales of raw materials by the Group	**99**	49
Senbo Water	*(v)*	Provision of sewage treatment service to the Group	**–**	63

Notes:

(i) Mr. Zhu has significant influence and beneficial interests in these companies through Sunbridge. Mr. Zhu, a substantial shareholder of the Company, indirectly controls more than 30% of the voting power at Sunbridge's general meeting.

(ii) Mr. Zhu has significant influence and beneficial interests in the company.

(iii) Liema Furniture ceased to be a subsidiary and became an associate of the Group since June 2008.

(iv) Kasen-Melx is a jointly controlled entity of the Group.

(v) Senbo Water is an associate of the Group.

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

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

Name of related companies	*Notes*	2009 *RMB'000*	2008 *RMB'000*
Trade in nature			
Baiyin	*(i)*	**(4,349)**	(12)
Haining Xingying	*(i)*	**1,331**	–
Kasen-Melx	*(i)*	**(1,677)**	(991)
Liema Furniture	*(i)*	**228**	859
Senbo Water	*(i)*	**–**	115
Shanghai Starcorp	*(i)*	**(47,433)**	–
Bedding Concepts	*(i)*	**34,483**	2,803
Starcorp	*(i)*	**1,561**	5,167
Yili Horgos	*(i)*	**–**	(29)
Yujie	*(i)*	**2,319**	2,946
Non-trade in nature			
Senbo Water	*(ii)*	**37**	–
Sunbridge	*(ii)*	**(87,932)**	(120,932)
Yujie	*(ii)*	**255**	–
		(101,177)	(110,074)
Name of director			
Mr. Zhu	*(ii)*	**(10,494)**	(31,007)
		(111,671)	(141,081)
Represented by:			
Amounts due from related companies, included in trade receivables under current assets		**38,685**	11,890
Amounts due from related companies, included in other receivables under current assets		**292**	–
Amounts due to related companies, included in trade payables under current liabilities		**(52,222)**	(1,032)
Amounts due to related companies, included in other payables under current liabilities		**(87,932)**	(120,932)
Advance from a director, included in other payables under current liabilities		**(10,494)**	(31,007)
		(111,671)	(141,081)

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 share options granted to the directors are set out in note 33.

(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 30.

45. PRINCIPAL SUBSIDIARIES

The following table lists major subsidiaries of the Company as at December 31, 2009 and 2008 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	Attributable equity interest of the Company indirectly		Principal activities
			2009	2008	
			%	%	
Haining Gaosheng Industrial Co., Ltd. 海寧高盛實業有限公司 *(note a)*	PRC	RMB60,000,000	**95**	95	Production and processing of leather and tailored products
Haining Hainix Sofa Co., Ltd. 海寧漢林沙發有限公司 *(note b)*	PRC	US$6,000,000	**100**	95.05	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 Home Impression Furniture Co., Ltd. 海寧家美傢俱有限公司 *(note b)*	PRC	US$11,430,000	**100**	100	Production and sale of upholstered furniture
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$13,200,000	**100**	100	Production and sale of automotive leather

45. PRINCIPAL SUBSIDIARIES (cont'd)

Name of the company	Country of establishment and operations	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Company indirectly 2009 %	2008 %	Principal activities
Hainan Boao Kasen Property Development Co., Ltd. ("Hainan Boao") 海南博鰲卡森置業有限公司 *(note b)*	PRC	RMB20,000,000	**100**	99	Property development
Shanghai La Kassa Furniture Co., Ltd. 上海禾美傢俱有限公司 *(note b)*	PRC	US$4,000,000	**100**	100	Production and sale of upholstered furniture
Yancheng Sujia Real Estate Development Co. Ltd. *(note b)* 鹽城市蘇嘉房地產開發有限公司	PRC	RMB50,000,000	**100**	100	Property development
Zhejiang Kasen Industrial Co., Limited 浙江卡森實業有限公司 *(note b)*	PRC	RMB896,240,000	**100**	100	Research, development, production and sales of furniture leather
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
Sofas UK *(note a)*	UK	£7,930,000	**100**	–	Furniture retail business

Notes:

(a) The companies are limited liability companies.

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

None of the subsidiaries had issued any debt securities at the end of the year.

46. NON-CASH TRANSACTION

The Group had a major non-cash transaction as set out in note 35(b) for the acquisition of a subsidiary during the year ended December 31, 2008.

47. EVENT AFTER REPORTING PERIOD

The following events occurred after the end of the reporting period:

a) In January, 2010, a wholly owned subsidiary of the Company has successfully tendered and paid for a piece of land located in Haining, the PRC at a consideration of RMB151,780,000. The Group acquired the land for properties development with the intention to develop residential and commercial properties in Haining. Part of the piece of land acquired is also a part of the land disposed of by the Group as mentioned in note 27 before the urban redevelopment plan executed by the government.

b) Pursuant to an agreement dated February 24, 2010, the Group has agreed to purchase further 26% interest in Hainan Hejia as mentioned in note 22 from Zhejiang Zhongyu Trading Investment Development Co., Ltd ("Zhejiang Zhongyu") a connected party (the "Acquisition") at a consideration of RMB71,780,000. Upon the completion of the Acquisition, the Group will hold 77% interests in Hainan Hejia.

   On the same day, the Group has agreed to sell 2% interest in Hainan Boao, a subsidiary of the Group at a total consideration of RMB43,910,000 to Zhejiang Zhongyu.

   These two transactions have not yet completed at the date of approval of this consolidated financial statements.