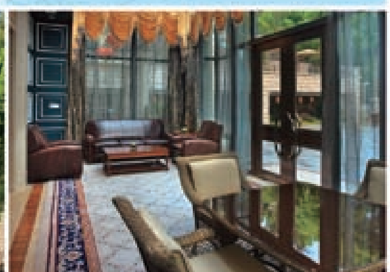
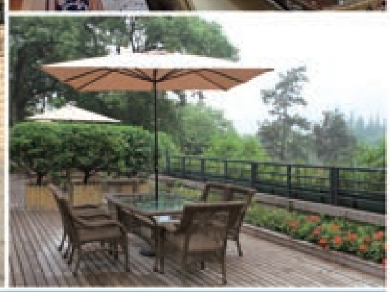
卡森國際控股有限公司

KASEN INTERNATIONAL HOLDINGS LIMITED

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

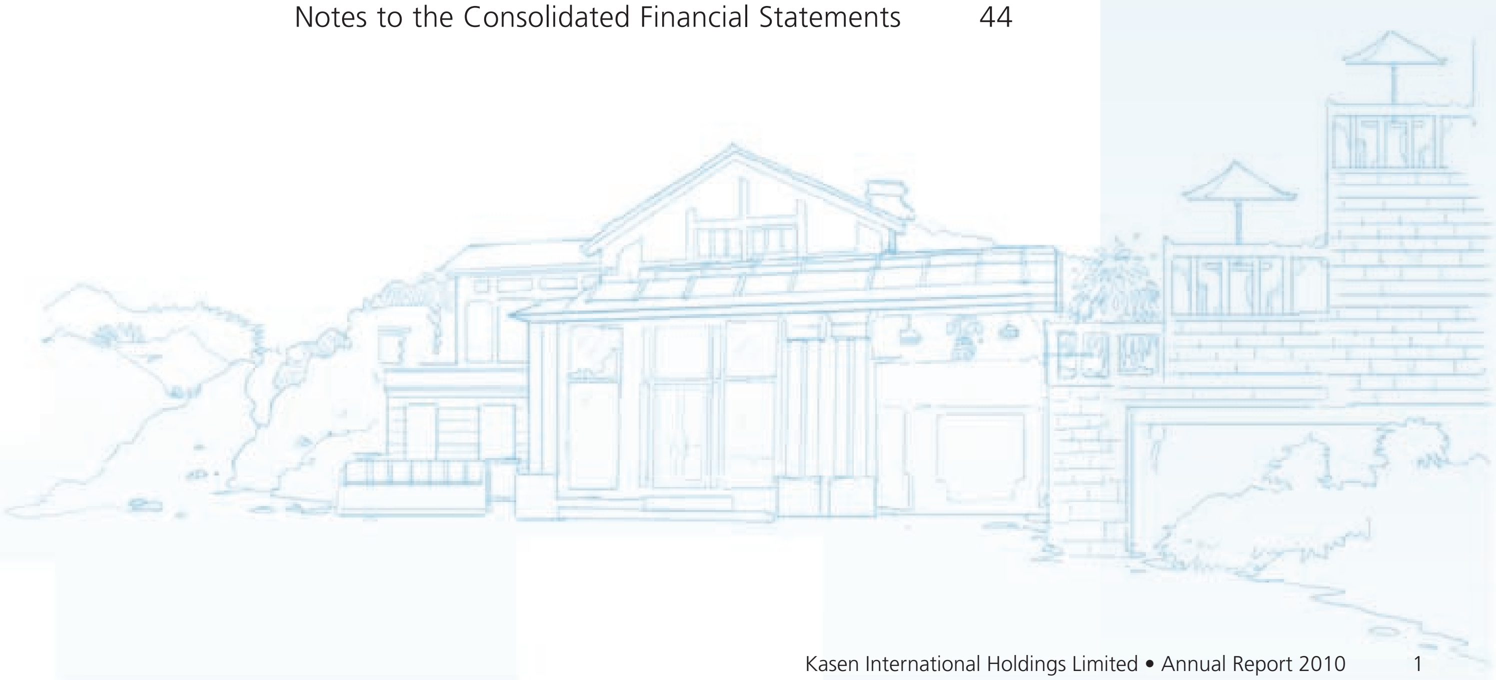
stock code : 496



Annual Report 2010

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

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,				
	2010	2009	2008	2007	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**2,318,480**	2,398,974	1,893,990	3,310,727	3,916,513
Profit (loss) before taxation	**79,270**	211,839	(271,991)	(175,440)	105,134
Profit (loss) attributable to owners of the Company	**35,378**	132,675	(273,804)	(194,149)	64,143

FINANCIAL POSITION

	At December 31,				
	2010	2009	2008	2007	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cash and cash equivalents	**745,347**	461,882	389,647	508,850	380,973
Total borrowings	**1,486,861**	1,281,932	1,442,557	1,580,864	1,257,089
Total assets	**5,656,795**	4,319,874	4,379,745	4,139,450	4,074,528
Total liabilities	**3,337,005**	2,264,679	2,444,183	2,169,604	1,891,551
Equity attributable to owners of the Company	**2,294,187**	2,052,289	1,854,058	1,917,154	2,108,865

FINANCIAL AND OPERATING RATIOS

	At December 31,				
	2010	2009	2008	2007	2006
Dividend payout ratio (%)[1]	**–**	–	–	–	54.5%
Debt to equity ratio (%)[2]	**64.1%**	62.4%	74.5%	80.3%	57.6%
Net debt to equity ratio (%)[3]	**32.0%**	39.9%	54.4%	54.4%	40.1%
Trade receivable turnover days[4]	**84**	82	48	46	46
Inventory turnover days[5]	**91**	110	147	146	139
Current ratio[6]	**115.5%**	142.0%	110.9%	118.7%	135.4%
Earning (loss) per share (RMB)					
Basic	**0.03**	0.11	(0.26)	(0.20)	0.06
Diluted	**0.03**	0.11	(0.26)	(0.20)	0.06

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 2010 has no material impact to the Group.

DIRECTORS AND MANAGEMENT PROFILES

EXECUTIVE DIRECTORS

ZHU Zhangjin, Kasen (朱張金), aged 45, 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 23 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 55, 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 21 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 50, 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 30 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

CHOW Joseph (周凡), aged 48, 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 67, 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 61 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 40, 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 from July 2004 to July 2007. He also worked as the director of corporate finance department in Export and Import Bank of China from 1995 to 2004.

CHEN Wei (陳維), aged 45, joined the Group in July, 2010 as the vice president in charge of the Group's property development business. Mr. Chen graduated from the Department of Architecture of Shanghai Tongji University in 1993 and received a master degree in urban design. From 1993 to 1996, Mr. Chen held the position of the principal architect and the director of Hangzhou Urban Construction Design Institute. Mr. Chen received the title of senior architect and National First Class Registered Architect in 1996; from 1997 to 2002, he was the director, vice general manager and chief engineer of Zhongda Real Estate Group. From 2003 to 2007, he took the position of executive general manager of Greentown Real Estate Group. Before joined the Group, Mr. Chen was the president of Zhongda Real Estate Group from 2008 to 2010.

DIRECTORS AND MANAGEMENT PROFILES

YU Guanlin (**余關林**), aged 48, 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.

ZHANG Guming (**張顧明**), aged 45, 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 42, 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 54, 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 31 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.

PAN Yougen (**潘幼根**), aged 47, is the general manager of Zhejiang Kasen Property Development Co., Ltd. After joining the Company in 2008, Mr. Pan served as the general manager of Yancheng Sujia Real Estate Development Co., Ltd. Mr. Pan received a Bachelor of Engineering degree from Southwest Jiaotong University in July 1985 and a masters degree from Tongji University in Shanghai in 1988. Prior to joining the Company, Mr. Pan worked as the vice dean of Jiaxing Zhongfang Design Institute and the chairman and general manager of Zhejiang Jingjian Project Management Co., Ltd.

HU Han (**胡晗**), aged 39, 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 also obtained a EMBA degree from Chinese Europe International Business School in 2010. 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

YIU Hoi Yan, Kate (**姚凱欣**), aged 38, joined the Company as an accountant on April 29, 2004 and was later promoted as the company secretary and finance manager of the Company. She has over 15 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 consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended December 31, 2010.

2010 was a critical year for the Group in its business transition process. Starting from 2006, as external conditions for our traditional manufacturing business worsened, we took up the challenge and diversified into property development sector while streamlining our leather and manufacturing operations. I am glad to report to our shareholders that our strategies have proven to be successful as we come out of the world financial crisis with an even stronger asset base and competitive edge. Our property projects are generating satisfactory results and we are now a leading supplier of leather products to China's expanding automotive industry. In addition, our other investments, such as our minority shareholding in Haining China Leather Market Co., Limited ("Haining Leather Market"), a China domestic listed company, has increased its value to approximately RMB432.5 million based on its current share price. We are confident that our business transition and diversification strategy will further increase our shareholders' value. I would like to take this opportunity to express my sincere appreciation to my fellow directors, management team and employees for their contribution and dedication to the Group and deep gratitude to our shareholders, customers, suppliers and business partners for their continuing support.

For the year of 2010, the Group's turnover was RMB2,318.5 million, representing a slight decrease of 3.4% as compared to the same period in 2009 while the profit attributable to the owners decreased by approximately 73.3% to RMB35.4 million, primarily due to the decline in other net gains, the increase in selling and distribution costs and administration costs incurred in the property development business and impairment losses recognized in respect of certain assets of Sofas UK Limited (formerly known as Sofas UK Plc) ("Sofas UK"). Such fluctuations were expected as our property development projects are at different stages. On a bright side, we are now pleased to see that the combined gross profit ratio for the year has risen to 18.4%, representing the highest level in the past three years.

In the year of 2010, real estate investments in mainland China came back to a reasonable interval from hypervelocity mainly as a result of the state macro-control policy imposed on this sector. We believe that the real estate industry will continue to play an important role in stimulating domestic demand and the Group will continue reassessing and adjusting its strategies in order to become a leading tourism property developer in China. To build our reputable brand in the property business, we are in pursuit of providing our customers first class premises with highest quality, beautiful landscape, energy-efficient technologies and personalized services.

In 2010, the Group's revenue from property business segment was RMB374.2 million and accounted for 16.1% of the Group's total revenue, compared to 29.6% in 2009. The fluctuation in the percentage was mainly due to the reduction in the delivery of premises during the past year. We have been concentrating on the development of Hainan Asia Bay and the first group of villas were sold out in the second half of 2010. These premises will be delivered and revenue will be recognized in the first half of 2011. It is estimated that the construction of the next phase of Hainan Asia Bay will be launched soon and it will bring significant revenue to the Group in 2011. In addition, another large scale property project located in Haining, Zhejiang Province, PRC will be launched. Haining is an attractive tourism city located between Shanghai and Hangzhou and enjoys a convenient transport system. It is well-known for its unique resort to view the tides. It is also the headquarters of the Group in mainland China. We plan to develop this project into a top grade residential district in Haining and believe that this project will further improve our performance in the real estate business.

CHAIRMAN'S STATEMENT

The manufacturing business of the Group, including production of leather products and upholstered furniture, showed a steady performance in the past year. The total turnover was RMB1,737.2 million and accounted for 74.9% of the Group's total revenue and gained an operating profit of approximately RMB170.4 million. As one of the leading automotive leather suppliers in China, the Group has successfully built strong relationships with customers and our products are welcomed in the market. The revenue generated from automotive leather division maintained its rapid growth and reached RMB714.6 million, compared to RMB384.6 million of 2009. Leveraging on our advantages in technology, talents, large scale production capability accumulated in the past several years, we believe that we will maintain our leading position in the automotive leather market in the future. In the area of upholstered furniture business, we faced fluctuation in the demand from international market. As an experienced OEM, we are capable of balancing the change of orders in different seasons and the performance for the whole year was satisfactory. The upholstered furniture division recorded a sale of RMB758.4 million in 2010, compared to RMB793.6 million in the year of 2009.

Domestic furniture retail market showed bright prospects under the national strategy of stimulating domestic demand. In the year of 2010, the number of furniture stores rose and the customer bases were diversified and expanded. Through the innovation of sales model, such as project procurement and cooperation with property developers, the Group recorded a satisfactory result in the domestic retail business and the turnover increased by 146.5% from RMB9.9 million in 2009 to RMB24.4 million in 2010.

In year 2011, the Group will strengthen its efforts on the domestic furniture retail business and implement new plans to facilitate its market expansion. The priority is to attract more partners to join our "Kasen Home Furnishings" franchise and the number of stores is expected to rise to more than 30. As consumer behavior changes and internet sales become popular, we are in the process of exploring new sales channels to grasp the golden opportunity in electronic commerce.

Due to harsh trading conditions, our UK retail business has been performing well below our expectation and has suffered major losses of RMB98.3 million in 2010, which included impairment losses recognized in property, plant and equipment as well as inventories in Sofas UK of approximately RMB25,032,000 and RMB8,794,000 respectively for the year ended December 31, 2010. We currently proposed to place Sofas UK into administration, which will enable the Group to realize the value of its interests in Sofas UK and redirect its resources and attention to other operating subsidiaries which may generate a better return to the Group. Upon the conclusion of the administration, the Group will exit the furniture market in the United Kingdom.

ZHU Zhangjin, Kasen
Chairman

The PRC, March 30, 2011

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OVERVIEW

Financial Review

For the year ended December 31, 2010, the Group recorded a consolidated turnover of RMB2,318.5 million, representing a slight decrease of 3.4% compared with RMB2,399.0 million for the year ended December 31, 2009.

The Group's gross profit for 2010 was RMB426.9 million, representing an increase of 27.9% as compared with RMB333.9 million in 2009 and the Group's gross profit margin in 2010 rose to 18.4%, as compared to 13.9% in 2009.

Due to the decline in other net gains, the increase in selling, distribution and administration expenses incurred in the property development business and impairment losses recognized in respect of certain assets of Sofas UK, the net profit attributable to owners of the Company decreased by approximately 73.3% to RMB35.4 million in 2010, as compared to RMB132.7 million in 2009.

Review by Business Segments

The Group's reportable segments are manufacturing, property development, retail business and others (comprising mainly property management service business).

The table below shows the total turnover by business segments for the year ended December 31, 2010 together with the comparative figures for the corresponding period of year 2009:

	2010		2009		**Y-O-Y Change**
	RMB'Million	%	*RMB'Million*	%	%
Manufacturing	**1,737.2**	**74.9%**	1,530.7	63.8%	13.5%
Upholstered Furniture	***758.4***	***32.7%***	*793.6*	*33.1%*	*-4.4%*
Furniture Leather	***264.2***	***11.4%***	*352.5*	*14.7%*	*-25.0%*
Automotive Leather	***714.6***	***30.8%***	*384.6*	*16.0%*	*85.8%*
Property Development	**374.2**	**16.1%**	709.0	29.6%	-47.2%
Retail business	**203.6**	**8.8%**	157.4	6.5%	29.4%
Others	**3.5**	**0.2%**	1.9	0.1%	84.2%
Total	**2,318.5**	**100.0%**	2,399.0	100.0%	-3.4%

Manufacturing Business

This business segment, including three major operating divisions: upholstered furniture, furniture leather and automotive leather, recorded a total turnover of RMB1,737.2 million in 2010, as compared to RMB1,530.7 million in 2009.

During the year under review, this segment gained an operating profit of RMB170.4 million, as compared to RMB285.2 million in 2009. A brief discussion of the performance of the three operating divisions is as follows:

Upholstered Furniture

Sales of upholstered furniture included finished sofa and sofa cut-and-sew. Total sales for this division was RMB758.4 million and accounted for 32.7% of the Group's total turnover in 2010, as compared to RMB793.6 million or 33.1% of total sales in 2009. During the year under review, we experienced sharp seasonal fluctuations in orders from international market. At the same time, our business was negatively impacted by rising raw material costs, such as timber, cowhides, foam and paint. By optimizing our business process and implementing an advanced ERP system, we were able to serve our OEM customers satisfactorily and proved our value in a challenging business environment, thus further strengthened our relationship with key customers. After the consolidation of manufacturing facilities, excess capabilities were minimized and efficiency was further enhanced.

Furniture Leather

The Group's priority in furniture leather production is to meet the internal leather requirement of its upholstered furniture division. The Group's sales of furniture leather performed steadily and recorded sales of RMB264.2 million in 2010, as compared to RMB352.5 million in 2009.

Automotive Leather

The automobile industry is one of the driving forces of China's national economy and maintained strong growth momentum in the year of 2010. As a leading automotive leather supplier in China, the Group has successfully built solid relationships with key automotive manufacturers in China and our leather seat covers were used in many popular brands. Revenue generated in automotive leather operating division was RMB714.6 million in 2010, representing a significant increase of 85.8% compared to the year of 2009.

Property Development Business

As of December 31, 2010, the Group had four projects at various stages of development and the turnover from the property development segment was RMB374.2 million in 2010, as compared to RMB709.0 million in 2009.

Group Property Project Portfolio as at December 31, 2010

No.	Project Name	Location	Interests Attributable to the Group	Total Site Area (sq.m)	Status
1	Hainan Asia Bay	Boao, Hainan	92%	590,165	Under development
2	Sanya Project	Sanya, Hainan	77%	1,424,692	Pre-development
3	Qianjiang Continent	Yancheng, Jiangsu	100%	331,040	Under development
4	Haining Project	Haining, Zhejiang	100%	168,800	Pre-development
Total				2,514,697	

MANAGEMENT DISCUSSION AND ANALYSIS

Projects Overview

Hainan Asia Bay

Hainan Asia Bay is located at the east coast of Boao City, with a site area of approximately 600,000 square meters ("sq.m."). The project features a beautiful beach and has facilities including one five-star ocean-view hotel, six luxurious clubs and one health club. The total gross floor area ("GFA") to be built is approximately 600,000 sq.m., including six groups of island villas, six buildings of wave-shaped apartments and ocean-view villas. Hainan Asia Bay is targeted to become a landmark at the east coast (東線海岸地標) attractive to customers from all over the world. In 2010, the Hainan Asia Bay project received a number of honours and awards in Hainan Province, including being named as a Top Property Project for Good Living Environment, and as the Most Anticipated Property Project.

During the year under review, the Group commenced the development of the first phase of the Hainan Asia Bay project and achieved contracted sales of approximately RMB268.9 million and GFA of approximately 11,466 sq.m. The premises will be delivered and revenue will be recognized in the first half of 2011. It is estimated that the construction of next phase of Hainan Asia Bay will be launched in the near future and will contribute significant revenue to the Group in 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

Qianjiang Continent

Qianjiang Continent, covering a site area of approximately 331,000 sq.m., is located in Yancheng city of Jiangsu Province. This project is adjacent to the major avenue of Yancheng city and surrounded by forest park, commercial center and cultural district. The total gross floor area is approximately 629,000 sq.m. and it is the largest residential property project in Yancheng. Since its expansion to Yancheng, the Group has become a leader in the local property market. In 2010, Qianjiang Continent was awarded as National Demonstration Project for Healthy Living by the Ministry of Housing and Urban-Rural Development of the People's Republic of China.

During the year under review, the recognized GFA sold in this project was 54,923 sq.m. and the recognized sales amounted to RMB289.1 million. A total of 518 units, including both commercial and residential units were delivered and the average selling price was RMB5,263 per square meter, compared to RMB3,816 per square meter in the year of 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

Haining Project

Haining is a famous tourism city in Zhejiang Province located between Shanghai and Hangzhou and enjoys a convenient transport system. It is well-known by its unique resort to view the tides. The Group acquired several parcels of land in Haining during the year of 2010 and planned to develop the area into a top-grade residential district.

The first phase has a site area of 168,800 sq.m. and the GFA is approximately 250,000 sq.m. Construction will commence in the first half of 2011 and the premises will be ready for pre-sale before the end of the year 2011.

Others

The Jing Xiang Yuan Project in Haining was completed during the year under review. All of the units were sold out and a turnover of RMB85.1 million was recorded with the average selling price of RMB2,783 per sq.m. This project contributed net profit of RMB9.0 million to the Group.

The Group's other property project in Sanya of Hainan Province was still undeveloped during the year under review. No contribution was made from this project with respect to turnover and profit of the Group in 2010.

Retail Business

The total turnover from furniture retail business in mainland China and the United Kingdom ("UK") recorded an increase of 29.4% from RMB157.4 million in 2009 to RMB203.6 million in 2010.

At present, the Group operates five furniture stores in mainland China, including self-owned and franchisees trading under the brand of "Kasen Home Furnishings". In 2010, the domestic furniture sales was RMB24.4 million, representing a significant increase of 146.5%, as compared to RMB9.9 million in 2009.

The Group entered into the UK furniture retail market in early 2009. In 2010, the Group operated 26 stores in the UK trading under the brand name of "Easyliving Furniture". Sales from the UK market was RMB179.2 million in the year of 2010. Due to harsh trading conditions, our UK retail business has been performing well below our expectation and has suffered major losses of RMB98.3 million in 2010, which included impairment losses recognized in property, plant and equipment as well as inventories in Sofas UK of approximately RMB25,032,000 and RMB8,794,000 respectively for the year ended December 31, 2010.

Operating Expense, Taxation and Profit Attributable to Owners

The Group's other income in 2010 was approximately RMB65.8 million, an increase of approximately RMB32.2 million as compared to approximately RMB33.6 million in 2009. The increase was mainly due to (1) an increase of approximately RMB16.0 million in interest income from the advance made for acquisition of a piece of land situated in Sanya, Hainan Province of the PRC, (2) an increase of approximately RMB6.5 million in concession income derived from a wholly owned subsidiary in UK, Sofas UK, (3) dividend of approximately RMB3.1 million received from the investment in Haining Leather Market, which was listed in the Shenzhen Stock Exchange, as well as (4) imputed interest of RMB5.9 million for receivable from disposal of assets. All other income items only showed small increase in the amount.

The selling and distribution costs during the year under review increased to approximately RMB238.6 million, as compared to approximately RMB192.8 million in 2009, mainly due to (1) a net increase of approximately RMB10.8 million in operating lease rentals and government rates, attributed mainly by an increase of approximately RMB20.2 million from the UK operations as the number of stores increased, offset by a reduction of approximately RMB10.3 million for the reversal of PRC store lease rentals recognized in prior years and reduction of annual rentals as a result of alteration in PRC store leases, (2) an increase of approximately RMB9.2 million in staff costs largely for sales persons of the Group's UK stores, (3) a net increase of approximately RMB5.3 million in transportation costs, and (4) an increase of approximately RMB24.9 million in payment of marketing expenses mostly incurred by the PRC property development projects. As a result, the selling and distribution costs to turnover in 2010 increased to 10.3% as compared to 8.0% in 2009.

The administrative costs in 2010 was approximately RMB117.8 million, with a decrease of approximately RMB2.2 million as compared to approximately RMB120.0 million in 2009. All administrative expenses kept at same level as in 2009.

The Group's finance cost in 2010 was approximately RMB60.8 million, with a decrease of approximately RMB2.0 million, as compared to approximately RMB62.8 million in 2009, mainly due to an increase in interest capitalization in properties under development during the year under review.

Other expenses in 2010 were approximately RMB16.9 million, as compared to approximately RMB14.0 million in 2009. All other expenses remained at the same level as in 2009.

The Group's other gains and losses in 2010 resulted in a net gain of approximately RMB25.3 million, a decrease of approximately RMB212.4 million, as compared to a net gain of approximately RMB237.7 million in 2009. Such decrease in other net gain resulted from (1) in 2009, the Group recognized a gain of approximately RMB277.3 million on disposal of 9 parcels of land for the use of leather production located in Haining, Zhejiang Province while no such income recognized in the year under review, and offset by (2) the reversal of impairment loss recognized in respect of trade and other receivable of approximately RMB30.4 million (2009:

Nil), (3) a compensation of approximately RMB15.4 million received from the PRC Government in relation to the cancellation of grant of a small parcel of land in Yancheng, Jiangsu Province in 2010, together with (4) the decrease of approximately RMB9.1 million in impairment loss recognized in respect of property, plant and equipment.

The Group's income tax in 2010 was approximately RMB46.7 million, a decrease of approximately RMB30.5 million, as compared to approximately RMB77.2 million in 2009. The decrease resulted from (1) a decrease of approximately RMB29.1 million in deferred tax charged on relocation income of manufacturing plant in Haining, Zhejiang province in 2009, and (2) a decrease in PRC income tax of approximately RMB13.1 million as a result of a decrease in taxable profits generated from reduced delivery of some of the residential building units in Yancheng, Jiangsu Province, offset by (3) an increase in PRC income tax of approximately RMB12.7 million as a result of the increase in taxable profits generated from the increased sales of manufacturing business at subsidiary level.

For reasons mentioned above, profit attributable to owners of the Company decreased by approximately 73.3% to RMB35.4 million (2009: RMB132.7 million).

CAPITAL EXPENDITURES

Capital expenditure (excluding assets acquired through acquisition of subsidiaries during the year) in 2010 increased to approximately RMB419.4 million from approximately RMB87.7 million in 2009. The capital expenditure comprised mainly (1) an amount of approximately RMB56.8 million spent on the purchase of property, plant and equipment for operational purpose, (2) payment of approximately RMB285.7 million for acquisition cost and initial expenditure spent on two parcels of land situated in Haining, Zhejiang Province, the PRC, and (3) an amount of approximately RMB74.3 million spent on initial development costs for Hainan Asia Bay project.

FINANCIAL RESOURCES AND LIQUIDITY

Bank and Other Borrowings

As at December 31, 2010, the Group's bank and other borrowings amounted to approximately RMB1,486.9 million, accounted for a 16.0% increase from approximately RMB1,281.9 million as at December 31, 2009. For details, please refer to note 30 to the Consolidated Financial Statements.

Turnover Period, Liquidity and Gearing

The Group's existing inventory primarily represented leather crust used for production, accounted for approximately 24% of the total inventory of approximately RMB388.0 million in 2010 (2009: approximately RMB409.2 million). In 2010, the inventory turnover period decreased to 91 days (2009: 110 days) due to a shorter production cycle and decrease in inventories resulting from streamlined leather production.

In 2010, the Group continued to maintain a strict credit policy. Many of the Group's customers are also facing difficult times and also a general longer credit term (up to 90 days) granted to customers in automotive leather division, resulting in a slight increase in account receivables turnover days of the Group's manufacturing and retail segments to 84 days in 2010 (2009: 82 days).

The accounts payable turnover days of the Group's manufacturing and retail segments decreased to 38 days in 2010 (2009: 51 days).

As at December 31, 2010, the Group's current ratio decreased to 1.15 (December 31, 2009: 1.42) and quick ratio decreased to 1.03 (December 31, 2009: 1.21), respectively. The Group's cash and cash equivalent balance was approximately RMB745.3 million as at December 31, 2010 (December 31, 2009: approximately RMB461.9 million). This represents a gearing ratio of 64.5% as at December 31, 2010 (December 31, 2009: 62.1%) and a net debt-to-equity ratio of 32.0% as at December 31, 2010 (December 31, 2009: 39.5%). 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 2010, 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 26% equity interest in Hainan Hejia Property Development Co., Ltd. For details, please refer to note 22 to the Consolidated Financial Statements.

During the year under review, the Group also disposed 2% equity interest in Hainan Boao Kasen Property Development Co., Ltd. For details, please refer to note 2 under the section headed "Connected Transactions" in the Directors' Report.

CONTINGENT LIABILITIES

As at December 31, 2010, the Group had certain contingent liabilities. For details, please refer to note 42 to the Consolidated Financial Statements.

PLEDGE OF ASSETS

Some of the Group's assets have been pledged to secure the bank borrowings and the bank facilities granted to the Group. For details, please refer to note 39 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 exchange rate fluctuation. In 2010, the Group used forward contract and some other financial instruments to hedge foreign exchange risk, and recorded a gain of approximately RMB4,971,000.

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 RMB42,603,000 as at December 31, 2010.

EMPLOYEES AND EMOLUMENTS POLICIES

As at December 31, 2010, the Group employed a total of approximately 4,600 full time employees (December 31, 2009: approximately 4,500), including management staff, technicians, salespersons and workers. In 2010, the Group's total expense on the remuneration of employees was approximately RMB187.7 million (2009: approximately RMB166.0 million), representing 8.10% (2009: 6.92%) 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.

The Group's emolument policies of the employees are formulated by the Board with reference to their respective qualification and experience, responsibilities undertaken, contribution to the Group, and the prevailing market level of remuneration for executives of similar position. The emoluments of the Directors are decided by the Board and the remuneration committee of the Company, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE PLANS AND PROSPECTS

Manufacturing Business

Production of leather products and upholstered furniture will still be an important segment of the Group's business. The Group will adhere to the principle of "Specialty, Excellence and Perfection" with a firm focus on profitability and efficiency. As a reliable OEM partner, the Group will fully utilize its core competitiveness in high quality products, eco-friendly materials, on-time delivery, etc. to offer our domestic and international customers with top-grade products and services. The US market has traditionally been the most important international market for the Group. According to forecast figures from EASI (Easy Analytic Software Inc.), the furniture market in the US will keep reviving in the next few years and the total sales is expected to reach US$90.7 billion, indicating that the market will come back to the pre-crisis level in 2007. The Group will grasp the opportunity to diversify our customer base while further strengthening our relationships with key customers.

The automotive leather business is the core element in the Group's leather production segment. Leveraging on our competitive advantages in high technology, talents and large scale production capabilities accumulated in the past several years, we believe that we will be able to maintain our leading position in this business segment. The Group's automotive leather manufacturing division was granted provincial-level high-tech enterprise status and received a series of quality management system accreditations. Such status and accreditations have given our customers strong confidence in the quality of our products. The Group will be actively looking for more cooperative opportunities with major auto-makers in mainland China.

The vertically integrated production platform distinguished the Group from its peers and gave our customers strong confidence in our products. In a fiercely competitive environment, the Group will continue optimizing its production process and management to enhance operating efficiency and to strengthen its core competitiveness.

Retail Business

The Group believes that domestic furniture retail market has bright prospects under the national strategy of stimulating domestic consumption. The Group will take active initiatives to strengthen its market presence and to raise its brand awareness in mainland China. An important step is to attract more franchisee distributors to join "Kasen Home Furnishings" chain store program. The Group achieved a promising start in project procurement in the year of 2010 and its cooperation with government buyers and property developers will be further strengthened to bring more sales.

Due to harsh trading conditions, our UK retail business has been performing well below our expectation and has suffered major losses since our acquisition. We have made application to place Sofas UK into administration, which will enable the Group to realize the value of its interests in Sofas UK and redirect its resources and attention to other operating subsidiaries which may generate a better return to the Group. Upon the conclusion of the administration, the Group will exit the furniture market in the United Kingdom. Please refer to the announcement of the Company dated March 29, 2011 for further details in relation to the administration of Sofas UK.

MANAGEMENT DISCUSSION AND ANALYSIS

Property Development

In the past year of 2010, macro-control regulations imposed by the PRC government on the property sector have adversely impacted the industry. We believe that such policies will continue in the next few years and will slow down the growth in China's real estate sector. However, the Group has adopted a unique strategy since its entering into the property development business and such strategy will benefit the Group under the current macro environment. Firstly, the Group's residential projects are all located in third and fourth tier cities where property prices have not gone up significantly, therefore there are less pressures for local government to implement strict controls on demand. Secondly, the Group's long-term mission is to become a leading tourism property developer in China, as evidenced by our land acquisitions in China's top tourism areas such as Hainan. Our future success in the property business will be aided by China's strong and continue growing tourism demand.

To build our reputable brand in the property business, we are in pursuit of providing our customers with the highest quality premises, beautiful landscape, energy-efficient technologies and personalized services. In 2011, we will continue upgrading the quality of our products and improving our services to enhance our corporate image in domestic property market.

In 2011, the Group will launch the second phase of Hainan Asia Bay Project, and the first phase of Haining Project. We are optimistic about the estimated sales from the above two projects. In addition, the Group will prudently seek for investment opportunities in other famous tourism resorts, specially in the Northeastern regions of China.

DIRECTORS' REPORT

The Directors present the annual report and the audited consolidated financial statements of the Company for the year ended December 31, 2010.

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 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, 2010 are set out in the consolidated statement of comprehensive income on page 38.

The Directors did not recommend the payment of any final dividend for the year ended December 31, 2010 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, 2010, calculated in accordance with International Financial Reporting Standards, was approximately RMB936.2 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 2010, the Group had acquired property, plant and equipment of approximately RMB56.8 million for the purpose of expanding its production capacity.

Details of these and other movements in the property, plant and equipment of the Group during the year of 2010 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.

MAJOR CUSTOMERS AND SUPPLIERS

During the year of 2010, the aggregate sales attributable to the Group's five largest customers comprised approximately 44.6% of the Group's manufacturing and retail segments sales and the sales attributable to the Group's largest customer were approximately 18.3% of the Group's manufacturing and retail segments sales.

The aggregate purchases during the year of 2010 attributable to the Group's five largest suppliers were approximately 72.5% of the Group's manufacturing and retail segments purchases and the purchases attributable to the Group's largest supplier were approximately 37.4% of the Group's manufacturing and retail segments purchases.

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

DIRECTORS' REPORT

DIRECTORS

The Directors during the year of 2010 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

In accordance with provision 87 of the Company's articles of association (the "Articles"), Mr. Zhu Zhangjin, Mr. Zhang Mingfa, Michael and Mr. Gu Mingchao will retire from the office of Directors by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general 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, 2010, the interests of the Directors and the chief executives and their associates in the shares of the Company (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as contained in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") are as follows:

(1) Long Positions in Shares of the Company

	Number of shares held, capacity and nature of interest			
Name of Directors	**Directly beneficially owned**	**Through controlled corporation**	**Total number of shares interested**	**Percentage of the Company's issued share capital**
Zhu Zhangjin ("Mr Zhu")	12,236,000	503,292,635 *(Note)*	515,528,635	44.57%
Zhou Xiaosong	8,173,912	–	8,173,912	0.71%
Zhang Mingfa, Michael	1,980,000	–	1,980,000	0.17%

Notes: 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, 2010.

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.

DIRECTORS' REPORT

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, 2010 were as follows:

		Number of share options							
Name of Director	Exercise price *HK$*	Outstanding as at January 1, 2010	Granted from January 1, 2010 to December 31, 2010	Lapsed from January 1, 2010 to December 31, 2010	Exercised from January 1, 2010 to December 31, 2010	Outstanding as at December 31, 2010	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	0.03%	1/1/2009 to 4/5/2018	3,9,10
	1.18	300,000	–	–	–	300,000	0.03%	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	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
		9,500,000	–	–	–	9,500,000	0.82%		
Other employees in aggregate	2.38	7,200,000	–	(400,000)	–	6,800,000	0.59%	1/1/2007 to 8/3/2016	1,9,10
	2.38	7,200,000	–	(400,000)	–	6,800,000	0.59%	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)	–	–	1/1/2010 to 12/5/2019	5,9,10
	0.53	5,000,000	–	–	–	5,000,000	0.43%	1/1/2011 to 12/5/2019	6,9,10
		39,700,000	–	(800,000)	(5,000,000)	33,900,000	2.93%		

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, 2010, none of these share options were cancelled.

SUBSTANTIAL SHAREHOLDERS

As at December 31, 2010, the following persons (other than Directors or chief executives of the Company stated in "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures") had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Shareholder	Capacity	Short position	Long position	Number of issued shares held	Percentage of the Company's issued share capital
Joyview [2]	Beneficial owner	–	503,292,635	503,292,635	43.51%
Warburg Pincus & Co.[1]	Interest of controlled corporation	–	135,989,966	135,989,966	11.76%
Warburg Pincus Partners LLC[1]	Interest of controlled corporation	–	135,989,966	135,989,966	11.76%
Warburg Pincus Private Equity VIII L.P.[1]	Beneficial owner	–	65,893,488	65,893,488	5.70%
Warburg Pincus International Partners L.P.[1]	Beneficial owner	–	65,174,811	65,174,811	5.63%

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.

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, 2010.

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 2010 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, 2010, the Group entered into the following transactions with its connected persons.

(1) Acquisition of 26% equity interest in Hainan Hejia Property Development Co., Ltd.

On February 24, 2010, an agreement was entered into between Zhejiang Kasen Property Development Co., Ltd., a wholly-owned subsidiary of the Company, and Zhejiang Zhongyu Trading Investment Development Co., Ltd., a connected person of the Company, pursuant to which Zhejiang Kasen Property Development Co., Ltd. acquired from Zhejiang Zhongyu Trading Investment Development Co., Ltd. 26% equity interest in Hainan Hejia Property Development Co., Ltd., which is held as to 51% by Zhejiang Kasen Property Development Co., Ltd. and as to 49% by Zhejiang Zhongyu Trading Investment Development Co., Ltd. prior to the completion of the acquisition, for a consideration of RMB71,780,000, which was settled in cash.

(2) Disposal of 2% equity interest in Hainan Boao Kasen Property Development Co., Ltd.

On February 24, 2010, an agreement was entered into among Haining Kasen Leather Co., Ltd., a wholly-owned subsidiary of the Company, Zhejiang Zhongyu Trading Investment Development Co., Ltd., a connected person of the Company, and Hangzhou Anwei Industrial and Investment Co., Ltd., a third party independent of the Company, pursuant to which Haining Kasen Leather Co., Ltd. agreed to sell 2% equity interest in Hainan Boao Kasen Property Development Co., Ltd., which is held as to 92% by Haining Kasen Leather Co., Ltd. and as to 8% by Hangzhou Anwei Industrial and Investment Co., Ltd. prior to the completion of the disposal, to Zhejiang Zhongyu Trading Investment Development Co., Ltd., for a consideration of RMB43,910,000, which was settled in cash.

All the above two transactions constituted one-off connected transactions for the Company under Chapter 14A of the Listing Rules and are subject to reporting and announcement requirements, while the acquisition transaction is also subject to independent shareholders' approval requirement under the Listing Rules. The acquisition transaction was approved by the independent shareholders on April 1, 2010.

CONTINUING CONNECTED TRANSACTIONS

During the year ended December 31, 2010, 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 expired 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 subsidiary of Zhejiang Sunbridge Industrial Group Co., Ltd. ("Sunbridge") and Sunbridge is a company in which Mr. Zhu Zhangjin indirectly controls 30% of the voting power at its general meetings. The pricing under this agreement was determined with reference to: (i) a comparable market price based on the type of waste involved, in the case of cowhides, whether the cowhides are processed or not; or (ii) by agreement between the parties based on prices no less favourable to/from third parties or reasonably agreed between the parties, if no comparable market price can be taken as a reference. Details of this agreement have been set out in the Company's announcement dated December 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 RMB3,892,000 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 expired 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 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 nil 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, 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 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 RMB6,079,000 and the annual cap amount granted by the Stock Exchange was RMB50,000,000.

(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 expired 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 subsidiary of Sunbridge and Sunbridge is a company in which Mr. Zhu Zhangjin indirectly controls 30% of the voting power at its general meetings. The pricing under this agreement was determined with reference to: (i) a comparable market price 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$9,735,000 (equivalent to approximately RMB65,901,000) 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 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 RMB41,326,000 and approximately RMB1,169,000 respectively, and the annual cap amounts granted by the Stock Exchange were RMB158,000,000 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, 2010.

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, 2010.

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

Pursuant to the general mandate granted by the Shareholders, the Board resolved on December 27, 2009, May 6, 2010 and July 5, 2010 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 and May 31, 2010. As at December 31, 2010, the Company had repurchased 10,504,000 ordinary shares on the Stock Exchange at an aggregate consideration of HK$20,220,230. All of such shares have been subsequently cancelled during the year ended December 31, 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, 2010.

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, 2010.

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, 2010.

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.

EVENTS AFTER REPORTING PERIOD

There are certain events occurred after the end of the reporting period. Details are set out in note 46 to the consolidated financial statements.

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 for the year ended December 31, 2010 have been reviewed by the Audit Committee.

REMUNERATION COMMITTEE

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

AUDITOR

A resolution will be proposed 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, March 30, 2011

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, 2010, 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 a candidate with suitable leadership, knowledge, skills and experience can be identified within or outside the Group. However, due to the nature and extent of the Group's operations, in particular in Mainland China and the in-depth knowledge and experience in the leather and upholstery furniture market required for the position of chief executive officer, the Company is unable to determine as to when the appointment of a chief executive officer for the Company can be effected.

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, 2010.

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, 2010 were:

Executive Directors

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

Independent Non-executive Directors

CHOW Joseph
GU Mingchao
LI Qingyuan

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 Directors 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.

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

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 to review, supervise and discuss the Company's financial reporting and internal control procedures and to make recommendations to improve the Company's internal control, and to ensure that management has discharged its duty to have an effective internal control system.

During the year ended December 31, 2010, 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

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, 2010, 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, 2010 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 *(Member of Audit Committee and Remuneration Committee)*	4/4	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, 2010.

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

AUDITORS' REMUNERATION

The remuneration paid to the external auditors of the Company in respect of audit services and non-audit services for the year ended December 31, 2010 amounted to approximately RMB3.4 million and RMB745,000 respectively.

INTERNAL CONTROL

The Company endeavors to implement a sound risk management and internal control system. The Board is responsible for maintaining an adequate internal control system to safeguard 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, 2010 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 38 to 112, which comprise the consolidated statement of financial position as at December 31, 2010, 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 information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of 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 about whether the consolidated financial statements are free from material misstatement.

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at December 31, 2010 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
March 30, 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2010

	NOTES	2010 RMB'000	2009 RMB'000
Turnover	5	**2,318,480**	2,398,974
Cost of sales		**(1,891,535)**	(2,065,075)
Gross profit		**426,945**	333,899
Other income	6	**65,831**	33,647
Distribution costs		**(238,612)**	(192,827)
Administrative expenses		**(117,786)**	(119,967)
Other expenses		**(16,938)**	(14,039)
Other gains and losses	7	**25,317**	237,716
Impairment loss of goodwill		**–**	(4,139)
Share of (losses) profits of associates		**(4,880)**	192
Share of profit of a jointly controlled entity		**200**	121
Finance costs	8	**(60,807)**	(62,764)
Profit before tax	9	**79,270**	211,839
Income tax expenses	11	**(46,684)**	(77,215)
Profit for the year		**32,586**	134,624
Other comprehensive income (expenses)			
Fair value gain on available-for-sale investments		**292,907**	96,635
Deferred tax liability on fair value change of available-for-sale investments		**(73,228)**	(24,159)
Exchange differences arising on translation		**9,683**	(8,152)
		229,362	64,324
Total comprehensive income for the year		**261,948**	198,948
Profit (loss) for the year attributable to:			
Owners of the Company		**35,378**	132,675
Non-controlling interests		**(2,792)**	1,949
		32,586	134,624
Total comprehensive income (expense) attributable to:			
Owners of the Company		**264,740**	196,999
Non-controlling interests		**(2,792)**	1,949
		261,948	198,948
Earnings per share	13		
Basic		**RMB3.05 cents**	RMB11.40 cents
Diluted		**RMB3.01 cents**	RMB11.38 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2010

	NOTES	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**467,301**	498,268
Prepaid lease payments – non-current portion	15	**58,681**	60,028
Properties for development	16	**600,938**	519,780
Intangible assets	17	**2,978**	3,469
Interests in associates	18	**35,037**	50,426
Investment in a jointly controlled entity	19	**–**	2,735
Available-for-sale investments	20	**452,820**	139,913
Deferred tax assets	21	**11,610**	7,761
Deposit paid for acquisition of a subsidiary	22	**212,581**	70,000
Advances for acquisition of land for development	22	**279,430**	165,060
		2,121,376	1,517,440
CURRENT ASSETS			
Inventories	23	**388,046**	409,167
Properties under development and held for sale	24	**1,350,981**	593,702
Trade, bills and other receivables	25	**656,044**	763,970
Receivable from disposal of assets	26	**254,646**	486,774
Prepaid lease payments – current portion	15	**1,327**	1,406
Derivative financial instruments	27	**2,751**	–
Tax recoverable		**7,933**	9,441
Pledged bank deposits	28	**128,344**	76,092
Bank balances and cash	28	**745,347**	461,882
		3,535,419	2,802,434
CURRENT LIABILITIES			
Trade, bills and other payables	29	**906,007**	576,674
Deposits received in respect of pre-sale of properties		**750,303**	289,232
Derivative financial instruments	27	**–**	537
Bank and other borrowings – due within one year	30	**1,379,402**	1,083,528
Tax payable		**20,465**	18,361
Other current liabilities	31	**4,973**	4,973
		3,061,150	1,973,305
NET CURRENT ASSETS		**474,269**	829,129
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,595,645**	2,346,569

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2010

	NOTES	2010 RMB'000	2009 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	21	**131,176**	55,156
Bank and other borrowings – due after one year	30	**107,459**	198,404
Other long-term liabilities	31	**37,220**	37,814
		275,855	291,374
NET ASSETS		**2,319,790**	2,055,195
CAPITAL AND RESERVES			
Share capital	32	**1,395**	1,404
Reserves		**2,292,792**	2,050,885
Equity attributable to owners of the Company		**2,294,187**	2,052,289
Non-controlling interests		**25,603**	2,906
Total equity		**2,319,790**	2,055,195

The consolidated financial statements on pages 38 to 112 were approved and authorized for issue by the Board of Directors on March 30, 2011 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, 2010

	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*	Other reserve *RMB'000* *(note 34c)*	Available-for-sale investments revaluation reserve *RMB'000*	Translation reserve *RMB'000*	Retained earnings *RMB'000*	Sub-total *RMB'000*	Non-controlling interests *RMB'000*	Total *RMB'000*
At January 1, 2009	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 differences 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 non-controlling interest	–	–	–	–	–	–	–	–	–	–	(77,890)	(77,890)
Acquisition of additional interests in subsidiaries from non-controlling interests without change of control	–	–	–	–	–	(1,973)	–	–	–	(1,973)	(2,357)	(4,330)
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	(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
Profit (loss) for the year	–	–	–	–	–	–	–	–	35,378	35,378	(2,792)	32,586
Fair value gain on available-for-sale investments	–	–	–	–	–	–	292,907	–	–	292,907	–	292,907
Deferred tax liability on fair value change of available-for-sales investments	–	–	–	–	–	–	(73,228)	–	–	(73,228)	–	(73,228)
Exchange differences arising on translation	–	–	–	–	–	–	–	9,683	–	9,683	–	9,683
Total comprehensive income (expense) for the year	–	–	–	–	–	–	219,679	9,683	35,378	264,740	(2,792)	261,948
Recognition of equity-settled share-based payments *(note 33)*	–	–	–	–	1,967	–	–	–	–	1,967	–	1,967
Issue of shares under share option scheme	5	3,480	–	–	(1,156)	–	–	–	–	2,329	–	2,329
Release upon lapse of share options	–	–	–	–	(567)	–	–	–	567	–	–	–
Share repurchased and cancelled	(14)	(20,315)	–	–	–	–	–	–	–	(20,329)	–	(20,329)
Transaction cost attributable to share repurchased and cancelled	–	(147)	–	–	–	–	–	–	–	(147)	–	(147)
Acquisition of additional interests in a subsidiary from non-controlling interests without change of control	–	–	–	–	–	43	–	–	–	43	(3,043)	(3,000)
Disposal of partial interests in a subsidiary to non-controlling interests without change of control	–	–	–	–	–	(6,705)	–	–	–	(6,705)	14,705	8,000
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	–	13,827	13,827
At December 31, 2010	**1,395**	**1,313,274**	**191,693**	**168,659**	**19,193**	**(39,603)**	**292,155**	**1,531**	**345,890**	**2,294,187**	**25,603**	**2,319,790**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2010

	2010 RMB'000	2009 RMB'000 (restated)
OPERATING ACTIVITIES		
Profit before tax	**79,270**	211,839
Adjustments for:		
Allowance for inventories	**13,641**	21,782
Reversal of allowance of inventories	**(40,744)**	–
Reversal of impairment loss recognized in respect of trade and other receivables	**(30,427)**	–
Amortization of intangible assets	**739**	801
Release of prepaid lease payments	**1,426**	1,546
Amortization of properties for development	**8,472**	9,666
Depreciation of property, plant and equipment	**46,767**	63,447
Finance costs	**60,807**	62,764
Gain on disposal of interest in an associate	**(17,898)**	(21,300)
Gain on fair value change on derivative financial instruments	**(4,971)**	(207)
Impairment loss recognized in respect of property, plant and equipment	**25,032**	34,110
Impairment loss of goodwill	**–**	4,139
Impairment loss recognized in respect of trade and other receivables	**7,454**	13,763
Discount on acquisition of additional interest in a subsidiary	**–**	(839)
Imputed interest of receivable from disposal of assets	**(5,862)**	–
Gain on disposal of assets classified as held for sale	**–**	(277,289)
Gain on disposal of properties for development	**(15,418)**	(4,431)
Dividend income from listed available-for-sale investments	**(3,098)**	(11)
Interest income	**(18,136)**	(11,630)
(Gain) loss on disposal of property, plant and equipment	**(3,872)**	4,993
Recognition of lease incentive of rent-free period	**(5,834)**	(4,973)
Share-based payment expense	**1,967**	2,893
Share of losses (profits) of associates	**4,880**	(192)
Share of profit of a jointly controlled entity	**(200)**	(121)
Operating cash flows before movements in working capital	**103,995**	110,750
Decrease in inventories	**45,375**	342,526
(Increase) decrease in properties under development and held for sale	**(471,483)**	313,284
Decrease (increase) in trade, bills and other receivables	**68,439**	(297,441)
Increase in trade, bills and other payables	**354,244**	157,632
Increase (decrease) in deposits received in respect of pre-sale properties	**461,071**	(328,284)
Settlement of derivative financial instruments	**1,683**	117
Increase in other long-term liabilities	**5,240**	22,557
Cash generated from operations	**568,564**	321,141
Income taxes paid	**(55,289)**	(17,568)
NET CASH FROM OPERATING ACTIVITIES	**513,275**	303,573

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2010

	NOTES	2010 RMB'000	2009 RMB'000 (restated)
INVESTING ACTIVITIES			
Proceeds from disposal of assets	26	**237,990**	5,000
Refund on deposit paid for acquisition of land use rights		**72,326**	25,000
Release of pledged bank deposits		**69,765**	87,461
Proceeds from disposal of property, plant and equipment		**18,349**	31,118
Interest received		**18,136**	5,522
Proceeds from disposal of properties for development		**15,418**	287,143
Proceed from disposal of investment in associates		**12,400**	35,700
Dividend income from available-for-sale investments		**3,098**	11
Proceed from disposal of interest in a jointly controlled entity		**2,935**	–
Repayment from (advance to) related parties		**265**	(292)
Addition to properties for development		**(362,298)**	(14,912)
Deposit paid for acquisition of a subsidiary		**(142,581)**	(70,000)
Addition to pledged bank deposit		**(122,017)**	(42,556)
Advance for acquisition of land for development		**(114,370)**	(165,060)
Purchase of property, plant and equipment		**(56,843)**	(43,652)
Increase in interest in an associate		**(3,993)**	(10,000)
Purchase of intangible assets		**(248)**	(70)
Acquisition of subsidiaries	35	**–**	8,875
Increase in deposit paid for acquisition of land use rights		**–**	(5,000)
NET CASH (USED IN) FROM INVESTING ACTIVITIES		**(351,668)**	134,288
FINANCING ACTIVITIES			
Bank and other borrowings raised		**2,182,595**	1,871,037
Deposit received for disposal of partial interest in a subsidiary		**25,000**	–
Capital contribution from non-controlling interests		**13,827**	–
Proceed from partial disposal of a subsidiary interest without change of control		**8,000**	–
Proceeds from issue of shares		**2,329**	312
Repayment of bank and other borrowings		**(1,977,666)**	(2,031,662)
Interest paid		**(73,935)**	(68,669)
Repayment to related parties		**(34,500)**	(33,000)
Shares repurchased		**(20,476)**	(1,450)
Payment for acquisition of additional interests in subsidiaries without change of control		**(3,000)**	(3,491)
Repayment to advance from a director		**(316)**	(20,513)
Return of share capital to a non-controlling interest		**–**	(77,890)
Dividends paid to non-controlling interests		**–**	(300)
NET CASH FROM (USED IN) FINANCING ACTIVITIES		**121,858**	(365,626)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**283,465**	72,235
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**461,882**	389,647
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		**745,347**	461,882

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

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 Interpretation ("new and revised IFRSs") issued by the International Accounting Standards Board.

IFRSs (Amendments)	Improvements to IFRSs issued in 2010 in relation to amendments to IAS 28
IFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
IFRS 3 (as revised in 2008)	Business Combinations
IAS 27 (as revised in 2008)	Consolidated and Separate Financial Statements
IAS 39 (Amendments)	Eligible Hedged Items
IFRSs (Amendments)	Improvements to IFRSs issued in 2009
IFRSs (Amendments)	Amendments to IFRS 5 as part of Improvements to IFRSs issued in 2008
IFRIC – Int 17	Distributions of Non-cash Assets to Owners

Except as described below, the adoption of the new and revised IFRSs had no material effect on the amounts reported in these consolidated financial statements or disclosures set out in these consolidated financial statements.

IAS 27 (as revised in 2008) Consolidated and Separate Financial Statements

The application of IAS 27 (as revised in 2008) has resulted in changes in the Group's accounting policies for changes in ownership interests in subsidiaries of the Group.

Specifically, the revised Standard has affected the Group's accounting policies regarding changes in the Group's ownership interests in its subsidiaries that do not result in loss of control. In prior years, in the absence of specific requirements in IFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognized, when appropriate; for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognized in profit or loss. Under IAS 27 (as revised in 2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

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

IAS 27 (as revised in 2008) Consolidated and Separate Financial Statements (cont'd)

In respect of the acquisition during the year of the remaining 5% equity interest in an existing subsidiary, Haining Kasen Real Estate Co., Ltd. ("Haining Kasen"), by a wholly-owned subsidiary of the Company, the impact of the change in policy has been that the difference of approximately RMB43,000 between the carrying amount of net assets of Haining Kasen acquired and the consideration of RMB3,000,000 has been charged directly in equity. Had the previous accounting policy been applied, the Group would have identified the fair value of the underlying net assets attributable to the additional interest in Haining Kasen and considered goodwill/bargain purchase in the consolidated financial statements. In addition, the cash consideration paid in the current year of RMB3,000,000 has been included in cash flows from financing activities. The changes related to classification of the cash consideration paid in the consolidated statement of cash flows from investing activities to financing activities have been applied retrospectively.

In respect of the disposal during the year of 8% equity interest in an existing subsidiary, Hainan Boao Kasen Property Development Co., Ltd. ("Hainan Boao"), by a wholly-owned subsidiary of the Company, the impact of the change in policy has been that the difference of approximately RMB6,705,000 between the carrying amount of net assets of Hainan Boao disposed of amounting to RMB14,705,000 and the consideration received of RMB8,000,000 has been charged directly in equity. Had the previous accounting policy been applied, the difference of RMB6,705,000 would have been recognized as loss for the year. In addition, the cash consideration received in the current year of RMB8,000,000 has been included in cash flows from financing activities. The changes related to classification of the cash consideration received in the consolidated statement of cash flows from investing activities to financing activities have been applied retrospectively.

The changes related to the difference between the consideration received/paid and the adjustment to the non-controlling interests have been applied prospectively from January 1, 2010 in accordance with the relevant transitional provisions.

IAS 28 (as revised in 2008) Investments in Associates

The principle adopted under IAS 27 (as revised in 2008) (see above) that a loss of control is recognized as a disposal and re-acquisition of any retained interest at fair value is extended by consequential amendments to IAS 28. Therefore, when significant influence over an associate is lost, the investor measures any investment retained in the former associate at fair value, with any consequential gain or loss recognized in profit or loss. In addition, as part of *Improvements to IFRSs* issued in 2010, IAS 28 (as revised in 2008) has been amended to clarify that the consequential amendments to IAS 28 in relation to transactions where the investor loses significant influence over an associate should be applied prospectively. The Group has applied the amendments to IAS 28 (as revised in 2008) as part of *Improvements to IFRSs* issued in 2010 in advance of their effective dates (annual periods beginning on or after July 1, 2010).

This change in policy has affected the accounting for the partial disposal of the Group's interest in Chengdu Longteng Shoes Market Investment and Development Co., Ltd. ("Chengdu Longteng") in the current year. The difference of RMB11,932,000 between the carrying amount of the interest retained in Chengdu Longteng and its fair value has been recognized in profit or loss in the current year. Had the Group's previous accounting policy been allowed, the carrying amount of the investment retained would have been regarded as cost for the purpose of subsequent accounting as an available-for-sale investment under HKAS 39 Financial Instruments: Recognition and Measurement and the movement in fair value would have been recognized in equity. The profit for the current year has therefore been increased by RMB11,932,000 as a result of the change in accounting policy.

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

The effects of the above changes in accounting policies on the Group's basic and diluted earnings per share for the current year are as follows:

Impact on basic and diluted earnings per share

	Impact on basic earnings per share Year ended 31.12.2010 *RMB cents*	**Impact on diluted earnings per share Year ended 31.12.2010** *RMB cents*
Figures before adjustments	1.44	1.42
Adjustments arising from changes in the Group's accounting policies in relation to:		
– Partial disposal of interest in a subsidiary without change of control	0.58	0.57
– Loss of control in investment in an associate	1.03	1.02
Figures after adjustments	3.05	3.01

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

IFRSs (Amendments)	Improvements to IFRSs issued in 2010 except for amendments to IAS 28[1]
IFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[3]
IFRS 9	Financial Instruments[4]
IAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[5]
IAS 24 (as revised in 2009)	Related Party Disclosures[6]
IAS 32 (Amendments)	Classification of Rights Issues[7]
IFRIC – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[6]
IFRIC – Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]

[1] Effective for annual periods beginning on or after July 1, 2010 or January 1, 2011, as appropriate.
[2] Effective for annual periods beginning on or after July 1, 2010.
[3] Effective for annual periods beginning on or after July 1, 2011.
[4] Effective for annual periods beginning on or after January 1, 2013.
[5] Effective for annual periods beginning on or after January 1, 2012.
[6] Effective for annual periods beginning on or after January 1, 2011.
[7] Effective for annual periods beginning on or after February 1, 2010.

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

IFRS 9 "Financial Instruments" introduces new requirements for the classification and measurement of financial assets and new requirements for financial liabilities and for derecognition which 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.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss is presented in profit or loss.

The application of IFRS 9 might affect the classification and measurement of the Group's financial assets. As at December 31, 2010, no financial liability has been designated as at fair value through profit and loss. The application of IFRS 9 will affect the measurement of such financial liability if designation is made in the future.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretation will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Basis of consolidation (cont'd)

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 in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to January 1, 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries on or after January 1, 2010

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

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Changes in the Group's ownership interests in existing subsidiaries prior to January 1, 2010

Increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognized where appropriate. For decreases in interests in subsidiaries, regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the adjustment to the non-controlling interests was recognized in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Business combinations

Business combinations that took place prior to January 1, 2010

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was 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 met the relevant conditions for recognition were generally recognized at their fair value at the acquisition date.

Goodwill arising on acquisition was recognized as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the recognized amounts of the identifiable assets, liabilities and contingent liabilities recognized. If, after assessment, the Group's interest in the recognized amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the acquisition, the excess was recognized immediately in profit or loss.

The minority interest in the acquiree was initially measured at the minority interest's proportionate share of the recognized amounts of the assets, liabilities and contingent liabilities of the acquiree.

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step. Any additional acquisition did not affect the previously recognized goodwill.

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

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of the associate recognized at the date of acquisition is recognized as goodwill, included within the carrying amount of the investment.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Interest in associates (cont'd)

From January 1, 2010 onwards, upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with IAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

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

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 initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognized the Group's share of the profit or loss and other comprehensive income of the jointly controlled entities. 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. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of the jointly controlled entities recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Jointly controlled entities (cont'd)

From January 1, 2010 onwards, upon disposal of a jointly controlled entity that results in the Group losing joint control over that jointly controlled entity, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with IAS 39. The difference between the previous carrying amount of the jointly controlled entity attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the jointly controlled entity. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that jointly controlled entity on the same basis as would be required if that jointly controlled entity had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that jointly controlled entity would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses joint control over that jointly controlled entity.

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

Revenue recognition

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

Revenue from the sale of goods is recognized when the goods are delivered and the title has been passed.

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

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

Service income is recognized when services are provided.

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Property, plant and equipment

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

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

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

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

Properties 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 completed 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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Leasing

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

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

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

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

Leasehold land and building

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

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

Foreign currencies

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Foreign currencies (cont'd)

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 recognized in other comprehensive income and accumulated in equity (the translation reserve).

From January 1, 2010 onwards, on the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Borrowing costs

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

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

Government grants

Government grants are 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 scheme and state-managed retirement benefit scheme, are charged as expenses when employees have rendered service entitling them to the contributions.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Share-based payments transactions

Equity-settled share-based payments transactions

Share options granted to employees

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

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the 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.

Share options granted to consultants

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

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit 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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Taxation (cont'd)

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, 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 utilize 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.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. 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 recognized separately from goodwill and are initially recognized at their fair values at the acquisition date (which is regarded as their cost).

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 sales proceeds and the carrying amount of the assets and is included in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (cont'd)

Financial assets (cont'd)

Effective interest method

The effective interest method is a method of calculating the amortized cost of a 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, 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).

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 recognized 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).

Impairment of financial assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (cont'd)

Financial assets (cont'd)

Impairment of financial assets (cont'd)

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

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- the disappearance of an active market for that financial asset because of financial difficulties

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (cont'd)

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.

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

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.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (cont'd)

Derecognition (cont'd)

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

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or 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 realizable value for such items based primarily on the latest invoices prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of the reporting period. Where there is obsolete or the net realizable value is lower than its carrying amount in such items, a material impairment loss may arise. As at December 31, 2010, the carrying amount of inventories is approximately RMB388,046,000 (2009: RMB409,167,000) (net of allowance for inventories of RMB24,211,000 (2009: RMB51,314,000)).

Estimated impairment of properties under development and held for sale

Management of the Group reviews the carrying amount of the properties under development and held for sale to determine whether there is any indication that the assets have suffered an impairment loss. Management estimates the net realizable value for such items based on the market value of the properties with similar conditions. The Group carries out a review on a project basis at the end of the reporting period. Where the net realizable value of such items is lower than its carrying amount, a material impairment loss may arise. As at December 31, 2010, the carrying amount of properties under development and held for sale is approximately RMB1,350,981,000 (2009: RMB593,702,000).

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, 2010, the carrying amount of trade and other receivables is RMB502,304,000 (2009: RMB450,573,000) (net of allowance for doubtful debts of RMB69,090,000 (2009: RMB92,063,000)).

5. SEGMENT INFORMATION

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

- Manufacturing of upholstered furniture, furniture leather and automotive leather ("Manufacturing");
- Properties development;
- Retailing of furniture ("Retail"); and
- Others, comprising mainly provision of property management service ("Others").

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, 2010

	Manufacturing	Properties development	Retail	Others	Segment total	Eliminations	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
TURNOVER							
External sales	**1,737,149**	**374,197**	**203,605**	**3,529**	**2,318,480**	**–**	**2,318,480**
Inter-segment sales	**63,943**	**–**	**–**	**500**	**64,443**	**(64,443)**	**–**
Total	**1,801,092**	**374,197**	**203,605**	**4,029**	**2,382,923**	**(64,443)**	**2,318,480**

For the year ended December 31, 2009

	Manufacturing	Properties development	Retail	Others	Segment total	Eliminations	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
TURNOVER							
External sales	1,530,662	708,987	157,415	1,910	2,398,974	–	2,398,974
Inter-segment sales	57,236	–	–	–	57,236	(57,236)	–
Total	1,587,898	708,987	157,415	1,910	2,456,210	(57,236)	2,398,974

5. SEGMENT INFORMATION (cont'd)

Segment revenues and results (cont'd)

Results

	2010	2009
	RMB'000	*RMB'000*
Segment results		
– Manufacturing	**170,400**	285,237
– Properties development	**(28,883)**	(52,341)
– Retail	**(95,815)**	(88,002)
– Others	**(2,416)**	(560)
	43,286	144,334
Unallocated corporate expenses	**(10,700)**	(9,710)
Profit for the year	**32,586**	134,624

The accounting policies of the operating 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

	2010	2009
	RMB'000	*RMB'000*
Manufacturing	**4,965,635**	4,806,049
Properties development	**2,845,364**	1,364,586
Retail	**79,497**	126,121
Others	**59,186**	1,785
Total segment assets	**7,949,682**	6,298,541
Unallocated	**6,803**	11,704
Elimination *(Note)*	**(2,299,690)**	(1,990,371)
Consolidated assets	**5,656,795**	4,319,874

5. SEGMENT INFORMATION (cont'd)

Segment assets and liabilities (cont'd)

Segment liabilities

	2010	2009
	RMB'000	*RMB'000*
Manufacturing	**2,203,947**	2,311,358
Properties development	**2,390,492**	1,070,868
Retail	**288,457**	247,614
Others	**12,608**	932
Total segment liabilities	**4,895,504**	3,630,772
Unallocated	**13,299**	13,592
Elimination *(Note)*	**(1,571,798)**	(1,379,685)
Consolidated liabilities	**3,337,005**	2,264,679

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 operating 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 investment cost in group companies and intra-group current accounts.

5. SEGMENT INFORMATION (cont'd)

Other segment information

For the year ended December 31, 2010

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	7,049	401,443	10,700	197	419,389
Net reversal of allowance for inventories	35,897	–	(8,794)	–	27,103
Increase in deposit paid for acquisition of subsidiary	–	142,581	–	–	142,581
Advance for acquisition of land for development	–	114,370	–	–	114,370
Depreciation and amortization	37,774	10,347	7,727	130	55,978
Finance costs	60,323	484	–	–	60,807
Gain on disposal of interest in an associate	–	17,898	–	–	17,898
Gain on disposal of properties for development	–	15,418	–	–	15,418
Gain on fair value change on derivative financial instruments	4,971	–	–	–	4,971
Impairment losses on trade and other receivables	6,666	602	185	1	7,454
Impairment losses on property, plant and equipment	–	–	25,032	–	25,032
Reversal of impairment loss recognized in respect of trade and other receivables	28,365	2,062	–	–	30,427
Income tax expenses	17,367	29,317	–	–	46,684
Interest in associates	24,961	10,076	–	–	35,037
Interest income	1,351	16,710	14	61	18,136
Imputed interest of receivable from disposal of assets	–	5,862	–	–	5,862
Dividend income from available-for-sale investments	3,098	–	–	–	3,098
Gain on disposal of property, plant and equipment	2,622	1,236	14	–	3,872
Release of prepaid lease payment	1,426	–	–	–	1,426
Share of losses of associates	1,281	3,599	–	–	4,880
Share of profit of a jointly controlled entity	200	–	–	–	200

5. SEGMENT INFORMATION (cont'd)

Other segment information (cont'd)

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
Allowance for inventories	21,395	–	387	–	21,782
Increase in deposit paid for acquisition of a subsidiary	–	70,000	–	–	70,000
Advance for acquisition of land for development	–	165,060	–	–	165,060
Depreciation and amortization	57,188	11,283	5,349	94	73,914
Discount on acquisition of additional interest in a subsidiary	(39)	878	–	–	839
Finance costs	59,900	2,864	–	–	62,764
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
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
Impairment loss of goodwill	–	–	4,139	–	4,139
Interest in associates	16,582	33,844	–	–	50,426
Interest in a jointly controlled entity	2,735	–	–	–	2,735
Income tax expenses	40,149	37,066	–	–	77,215
Interest income	11,473	136	17	4	11,630
Dividend income from available-for-sale investments	11	–	–	–	11
Loss on disposal of property, plant and equipment	1,692	3,301	–	–	4,993
Release of prepaid lease payment	1,546	–	–	–	1,546
Share of (losses) profits of associates	(492)	684	–	–	192
Share of profit of a jointly controlled entity	121	–	–	–	121

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:

	2010 RMB'000	2009 RMB'000
Manufacturing		
Upholstered furniture	**758,401**	793,608
Furniture leather	**264,127**	352,456
Automotive leather	**714,621**	384,598
Residential properties	**374,197**	708,987
Retail of upholstered furniture	**203,605**	157,415
Provision of building management service	**3,529**	1,910
Total	**2,318,480**	2,398,974

Geographical information

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

The Group's revenue analysis are basically based on the locations of external customers except for revenue from sales of properties, 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,	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
United States	**545,893**	586,728	**–**	–
PRC, including Hong Kong	**1,446,564**	1,536,800	**1,656,946**	1,347,677
Europe	**244,434**	215,182	**–**	22,089
Australia	**77,525**	48,187	**–**	–
Others	**4,064**	12,077	**–**	–
	2,318,480	2,398,974	**1,656,946**	1,369,766

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:

	2010	2009
	RMB'000	*RMB'000*
Customer A[1]	**355,917**	249,498

[1] Revenue from Manufacturing

The trade receivable from customer A as at December 31, 2010 was amounted to RMB56,344,000 (2009: RMB106,149,000).

6. OTHER INCOME

Details of other income are as follows:

	2010	2009
	RMB'000	*RMB'000*
Government grants		
Grants for export sales	**328**	402
Incentive for business development	**1,332**	210
Other grants	**7,579**	4,896
	9,239	5,508
Income from sales of scrap materials	**7,414**	3,825
Interest income	**18,136**	11,630
Dividend income from listed available-for-sale investments	**3,098**	11
Rental income	**12,161**	5,446
Imputed interest of receivable from disposal of assets	**5,862**	–
Others	**9,921**	7,227
	65,831	33,647

7. OTHER GAINS AND LOSSES

	2010	2009
	RMB'000	*RMB'000*
Reversal of impairment loss recognized in respect of trade and other receivables	**30,427**	–
Gain on disposal of interest in an associate	**17,898**	21,300
Gain on disposal of properties for development	**15,418**	4,431
Gain on disposal of assets classified as held for sale	**–**	277,289
Gain on fair value change on derivative financial instruments	**4,971**	207
Gain(loss) on disposal of property, plant and equipment	**3,872**	(4,993)
Impairment loss recognized in respect of property, plant and equipment	**(25,032)**	(34,110)
Net foreign exchange loss	**(14,783)**	(13,484)
Impairment loss recognized in respect of trade and other receivables	**(7,454)**	(13,763)
Discount on acquisition of additional interest in a subsidiary	**–**	839
	25,317	237,716

8. FINANCE COSTS

	2010	2009
	RMB'000	*RMB'000*
Interest on:		
Bank borrowings wholly repayable within five years	**73,717**	69,673
Other borrowings wholly repayable within five years	**20**	324
Other borrowings not wholly repayable within five years	**198**	144
Total borrowing costs	**73,935**	70,141
Less: amounts capitalized in respect of properties under development *(note 24)*	**(13,128)**	(7,377)
	60,807	62,764

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 BEFORE TAX

	2010 RMB'000	2009 RMB'000
Profit before tax has been arrived at after charging:		
Amortization of intangible assets (included in administrative expenses)	**739**	801
Amortization of properties for development (included in other expenses)	**8,472**	9,666
Depreciation of property, plant and equipment	**46,767**	63,447
Total depreciation and amortization	**55,978**	73,914
Release of prepaid lease payments	**1,426**	1,546
Auditor's remuneration	**6,530**	5,302
Cost of inventories recognized as expenses (including net reversal of allowance of inventories of RMB27,103,000 (2009: RMB21,782,000))	**1,560,763**	1,353,874
Cost of properties recognized as cost of sale	**330,772**	711,201
Operating lease rentals in respect of land and buildings	**67,641**	60,332
Total employee benefit expenses	**187,654**	165,989

10. DIRECTORS AND EMPLOYEES' EMOLUMENTS

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

2010

	Zhu Zhangjin, Kasen ("Mr.Zhu") RMB'000	Zhou Xiaosong RMB'000	Zhang Mingfa, Michael RMB'000	Li Qingyuan RMB'000	Chow Joseph RMB'000	Gu Mingchao RMB'000	Total RMB'000
Fees	–	–	–	157	157	157	471
Other emoluments							
Salaries and other benefits	340	238	238	–	–	–	816
Contributions to retirement benefits schemes	2	2	2	–	–	–	6
Share-based payment expenses	–	–	–	634	–	634	1,268
Total emoluments	342	240	240	791	157	791	2,561

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

2009

	Mr. Zhu *RMB'000*	Zhou Xiaosong *RMB'000*	Zhang Mingfa, Michael *RMB'000*	Lu Yungang, Ken *RMB'000* *(Note)*	Li Qingyuan *RMB'000* *(Note)*	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

Notes:

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

Two (2009: None) 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 remaining three (2009: five) individuals were as follows:

	2010 ***RMB'000***	2009 *RMB'000*
Basic salaries and other benefits	**2,543**	2,870
Contributions to retirement benefits schemes	**2**	–
Share-based payment expenses	**–**	–
	2,545	2,870

Their emoluments were within the following bands:

	2010	2009
Nil to HK$1,000,000	**2**	4
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 (2009: Nil).

11. INCOME TAX EXPENSES

	2010	2009
	RMB'000	*RMB'000*
PRC enterprise income tax		
– Current year	**39,426**	41,682
– Under(over) provision of income tax in previous year	**2,050**	(1,106)
	41,476	40,576
PRC Land appreciation tax ("LAT")	**6,265**	7,487
Deferred tax *(note 21)*	**(1,057)**	29,152
	46,684	77,215

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"). The tax exemption had expired in 2009 and the tax relief of 50% reduction in tax rate will expire in 2012.

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 before tax per the consolidated statement of comprehensive income as follows:

	2010	2009
	RMB'000	*RMB'000*
Profit before tax	**79,270**	211,839
Tax rate applicable to the major operation of the Group	**25%**	25%
Tax at the domestic income tax rate	**19,818**	52,960
Tax effect of share of result of associates/jointly controlled entity	**1,170**	(78)
Tax effect of expenses not deductible for tax purpose	**24,279**	37,428
Tax effect of income not taxable for tax purpose	**(9,352)**	(2,099)
Tax effect of deductible temporary differences not recognized	**10,340**	19,740
Utilization of deductible temporary differences previously not recognized	**(29,795)**	(47,573)
PRC LAT	**6,265**	7,487
Tax effect of tax losses not recognized	**36,370**	34,991
Utilization of tax losses previously not recognized	**(3,745)**	(22,020)
Tax effect of Tax Exemptions	**(10,716)**	(2,515)
Under (over) provision in previous years	**2,050**	(1,106)
Taxation for the year	**46,684**	77,215

12. DIVIDENDS

No dividend was paid or declared during 2010, nor has any dividend been proposed since the end of the reporting period (2009: Nil).

13. EARNINGS PER SHARE

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

Profit for the year

	2010	2009
	RMB'000	*RMB'000*
Profit for the year for the purposes of basic and diluted earnings per share, being profit attributable to owners of the Company	**35,378**	132,675

Number of shares

	2010	2009
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,159,347,478**	1,163,707,944
Effect of dilutive potential ordinary shares – share options	**15,468,032**	2,378,532
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,174,815,510**	1,166,086,476

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and equipment RMB'000	Motor vehicles RMB'000	Furniture, fixtures and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At January 1, 2009	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
Exchange adjustments	(1,056)	(1,094)	(16)	(554)	–	(2,720)
Additions	8,246	2,610	5,742	1,565	38,680	56,843
Disposal	(11,159)	(108,935)	(4,471)	(13,697)	–	(138,262)
Transfers	29,372	–	–	–	(29,372)	–
At December 31, 2010	**478,965**	**262,341**	**38,999**	**35,260**	**43,644**	**859,209**
DEPRECIATION AND IMPAIRMENT						
At January 1, 2009	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
Exchange adjustments	(205)	(490)	(13)	(478)	–	(1,186)
Provided for the year	22,228	17,354	4,026	3,159	–	46,767
Eliminated on disposal	(4,242)	(102,162)	(4,471)	(12,910)	–	(123,785)
Impairment loss recognized	16,951	7,211	–	870	–	25,032
At December 31, 2010	**156,969**	**180,773**	**23,744**	**30,422**	**–**	**391,908**
CARRYING AMOUNTS						
At December 31, 2010	**321,996**	**81,568**	**15,255**	**4,838**	**43,644**	**467,301**
At December 31, 2009	331,325	110,900	13,542	8,165	34,336	498,268

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

For the year ended December 31, 2009, the Group has recognized impairment losses amounting to RMB34,110,000. 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.

Subsequent to the year ended December 31, 2010, the directors of the Company announced a proposed administration of Sofas UK Limited (formerly known as Sofas UK Plc) ("Sofas UK"). Sofas UK is a wholly owned subsidiary of the Group that engaged in retail business in United Kingdom. In respect of the property, plant and equipment of Sofas UK, the directors conducted a review of those and determined that all related property, plant and equipment were not able to recover through retail business. Accordingly, impairment losses of approximately RMB25,032,000 has been recognized in respect of those assets.

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

As at December 31, 2010, the title deeds of buildings with carrying amount of RMB36,318,000 (2009: RMB36,697,000) 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.

	2010	2009
	RMB'000	*RMB'000*
Analyzed for reporting purposes as:		
Non-current assets	**58,681**	60,028
Current assets	**1,327**	1,406
	60,008	61,434

	2010	2009
	RMB'000	*RMB'000*
Without title deeds	**12,420**	12,814
With title deeds	**47,588**	48,620
	60,008	61,434

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

16. PROPERTIES FOR DEVELOPMENT

	2010	2009
	RMB'000	*RMB'000*
COST		
At January 1	**532,044**	957,743
Additions	**362,298**	14,912
Disposal	**–**	(288,737)
Transfer to properties under development	**(279,369)**	(151,874)
At December 31	**614,973**	532,044
ACCUMULATED AMORTIZATION		
At January 1	**12,264**	8,824
Provided for the year	**8,472**	9,666
Eliminated on disposal	**–**	(6,025)
Transfer to properties under development	**(6,701)**	(201)
At December 31	**14,035**	12,264
CARRYING AMOUNTS		
At December 31	**600,938**	519,780

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, 2009	–	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
Additions	–	248	248
At December 31, 2010	**2,330**	**3,850**	**6,180**
ACCUMULATED AMORTIZATION			
At January 1, 2009	–	1,662	1,662
Provided for the year	–	801	801
At December 31, 2009	–	2,463	2,463
Provided for the year	–	739	739
At December 31, 2010	**–**	**3,202**	**3,202**
CARRYING VALUES			
At December 31, 2010	**2,330**	**648**	**2,978**
At December 31, 2009	2,330	1,139	3,469

The above brand name was purchased through acquisition of a subsidiary during the year ended December 31, 2009. 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

	2010 RMB'000	2009 RMB'000
Cost of investment in associates, unlisted	**43,954**	56,523
Share of post-acquisition losses	**(8,917)**	(6,097)
	35,037	50,426

In November 2009, the Group has entered into an agreement with independent third parties to dispose of its interest in Chengdu Longteng in 2009 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 during the year ended December 31, 2009. The consideration of each disposal in coming three years is RMB10,000,000. During the year ended December 31, 2010, the Group further disposed 7.53% interest in Chengdu Longteng at RMB10,000,000. The Group has lost the significant influence in Chengdu Longteng in 2010 by having a director resigned in Chengdu Longteng. As at December 31, 2010, the Group held 15.06% interest in Chengdu Longteng and the investment had been transferred to available-for-sale investment as set out in note 20. The gain arising on derecognition of Chengdu Longteng amounted to RMB17,898,000.

Particulars of the associates indirectly held by the Company at December 31, 2010 and 2009 are as follows:

Name of associate	Place of registration	Registered capital	Proportion of registered capital indirectly held by the Company 2010 %	2009 %	Principal activities
Haining Xieqiao Senbo Water Co., Ltd. ("Senbo Water") 海寧市斜橋森博水務有限公司 (Note)	PRC	RMB10,000,000	**–**	30	Collection and transportation of waste water
Chengdu Longteng 成都隆騰鞋城投資開發有限公司	PRC	RMB60,000,000	**N/A**	22.6	Property development
Zhejiang Liema Furniture Co. Ltd. ("Liema Furniture") 浙江獵馬傢俬有限公司	PRC	USD7,000,000	**45.5**	45.5	Production and sales of upholstered furniture
Zhejiang Youge Kitchen Appliances Co. Ltd. ("Youge") 浙江優格廚電有限公司	PRC	RMB50,000,000	**30**	30	Trading of kitchen utensils
Deqing Shengde Leather Co., Ltd. 德清升德皮革有限公司	PRC	USD13,000,000	**30**	N/A	Research and development of leathers

Note: The company was deregistered during the year ended December 31, 2010.

18. INTERESTS IN ASSOCIATES (cont'd)

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

	2010	2009
	RMB'000	*RMB'000*
Total assets	**321,862**	449,199
Total liabilities	**(202,133)**	(289,775)
Net assets	**119,729**	159,424
Group's share of net assets of associates	**35,037**	50,426
Revenue	**69,554**	125,478
(Loss) profits for the year	**(12,180)**	140
Group's share of (loss) profits of associates for the year	**(4,880)**	192

19. INVESTMENT IN A JOINTLY CONTROLLED ENTITY

	2010	2009
	RMB'000	*RMB'000*
Cost of unlisted investment in a jointly controlled entity	**–**	2,614
Share of post-acquisition profits	**–**	121
	–	2,735

The interest in a jointly controlled entity as at December 31, 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. During the year ended December 31, 2010, Kasen Melx has been deregistered, share of profit of approximately RMB200,000 was recognized before the deregistration.

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

The summarized financial information in respect of the Group's jointly controlled entity, as at December 31, 2009, attributable to the Group's interest therein, which are accounted for using the equity method is set out below:

	2009 RMB'000
Current assets	3,274
Non-current assets	45
	3,319
Current liabilities	(384)
Net assets	2,935
Income recognized in profit or loss	239
Expenses recognized in profit or loss	(118)

20. AVAILABLE-FOR-SALE INVESTMENTS

	2010 **RMB'000**	2009 RMB'000
Equity securities		
– 3.69% equity interest in Haining China Leather Market Co., Ltd ("HCLM")	**432,510**	139,603
– 15.06% equity interest in Chengdu Longteng	**20,000**	–
Unlisted debt securities	**310**	310
	452,820	139,913

The principal activity of HCLM is the operation of department stores in the PRC. In 2010, 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, 2010, the fair value of investments 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 arrived at the excess of market value of the freely trade share over the discount for lack of marketability. The respective discount for lack of marketability is calculated by using the Black-Scholes pricing model.

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

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

	2010	2009
Spot price	**RMB54.9**	RMB20.0
Exercise price	**RMB54.9**	RMB20.0
Risk free rate	**3.39%**	2.79%
Volatility	**43.86%**	51.82%
Dividend yield	**0.62%**	0.43%

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

In November 2009, the Group has entered into an agreement with independent third parties to dispose its interest in Chengdu Longteng in 2009 by 26.9% and in coming three consecutive years by 7.53% per year at the consideration of RMB10,000,000 for each disposal. As at December 31, 2010, the Group held 15.06% interest in Chengdu Longteng and the investment had been transferred from interests in associates as set out in note 18. The fair value of investment in Chengdu Longteng is based on the estimated future proceeds discounted at the effective interest rate in accordance with HKAS 39.

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 *RMB'000*	**Unrealized profit on intra-group transactions** *RMB'000*	**Fair value adjustment on available-for-sale investments** *RMB'000*	**Tax losses** *RMB'000*	**Total** *RMB'000*
At January 1, 2009	–	–	–	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)
Charge to other comprehensive income	–	–	(73,228)	–	(73,228)
Credit (charge) to profit or loss	–	4,040	(2,983)	–	1,057
At December 31, 2010	**(29,114)**	**9,918**	**(100,370)**	**–**	**(119,566)**

21. DEFERRED TAXATION (cont'd)

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

	2010	2009
	RMB'000	*RMB'000*
Deferred tax assets	**11,610**	7,761
Deferred tax liabilities	**(131,176)**	(55,156)
	(119,566)	(47,395)

Details of other deductible temporary differences at the end of the reporting period are as follows:

	2010	2009
	RMB'000	*RMB'000*
Impairment of property, plant and equipment	**59,385**	66,897
Allowance for bad and doubtful debts	**69,090**	92,063
Allowance for inventories	**24,211**	51,314
Others	**–**	20,230
	152,686	230,504

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

Under the EIT Law and Implementation Regulations, PRC withholding income tax is applicable to interest and dividends payable to investors that are "non-tax resident enterprises", which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such interest or dividends have their sources within the PRC. Under such circumstances, dividends distributed from the PRC subsidiaries to off-shore group entities shall be subject to the withholding tax at 10% or a lower treaty rate. Under tax treaty, withholding tax rate on distributions to Hong Kong resident companies is 5%. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB17,660,000 (2009: RMB17,042,000) 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, 2010, the Group has unused tax losses of approximately RMB517,109,000 (2009: RMB386,609,000) available to offset against future profits. No deferred tax asset has been recognized in respect of such losses (2009: Nil) due to the unpredictability of future profit streams. The tax losses of approximately RMB117,991,334 (2009: RMB141,845,000) 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/ADVANCES FOR ACQUISITION OF LAND FOR DEVELOPMENT

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 was paid during the year ended December 31, 2010.

On February 24, 2010, the Group entered into an agreement to acquire further 26% entity interest in Hainan Hejia for a consideration of RMB71,780,000. The Group had paid the amount during the year.

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. In prior 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. During the year, the Group had further advance to Hainan Hejia an amount of approximately RMB114,370,000 for the land acquisition purpose. The advances are unsecured and interest free and will be included in the initial carrying amount of the land acquired upon acquisition of Hainan Heija.

According to the agreements for acquisition of Hainan Hejia, the total consideration paid 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 of RMB212,581,000 paid to vendor for the acquisition and RMB279,430,000 paid for land acquisition purpose are presented as "Deposit paid for acquisition of a subsidiary" and "Advances for acquisition of land for development" respectively. The acquisition is expected to be completed in 2011.

23. INVENTORIES

	2010	2009
	RMB'000	*RMB'000*
Raw materials	**126,990**	111,794
Work in progress	**174,370**	183,652
Finished goods	**86,686**	113,721
Total, net of allowance for inventories	**388,046**	409,167

During the year December 31, 2010, there was an increase in the net realizable value of inventories due to market recovery and subsequent sale of impaired inventories. As a result, a net reversal of allowances of inventories of approximately RMB27,103,000 (includes reversal of allowance of inventories of RMB40,744,000 and allowance of inventories of RMB13,641,000) has been recognized and included in profit or loss.

24. PROPERTIES UNDER DEVELOPMENT AND HELD FOR SALE

	RMB'000
At January 1, 2009	747,936
Transfer from properties for development	151,673
Addition of development expenditure	405,294
Disposal of completed properties held for sales	(711,201)
At December 31, 2009	593,702
Transfer from properties for development	272,668
Addition of development expenditure	815,383
Disposal of completed properties held for sales	(330,772)
At December 31, 2010	**1,350,981**

The carrying values are presented as:

	2010 ***RMB'000***	2009 *RMB'000*
Properties under development	**1,257,388**	565,541
Completed properties held for sales	**93,593**	28,161
	1,350,981	593,702

During the year, interest capitalized in the properties under development was an amount of RMB21,238,000 (2009: RMB8,110,000). RMB810,981,000 of the properties under development are expected to be realized after twelve months from the end of the reporting period (2009: RMB394,210,000).

25. TRADE, BILLS AND OTHER RECEIVABLES

	2010 ***RMB'000***	2009 *RMB'000*
Trade receivables	**502,257**	450,246
Less: Allowance for doubtful debts	**(49,474)**	(70,175)
	452,783	380,071
Bills receivables	**8,697**	39,750
Deposits paid for acquisition of land use rights *(Note a)*	**46,014**	46,014
Advance payment for purchase of inventory *(Note b)*	**56,844**	214,702
Prepayments	**1,190**	2,213
Prepaid non-income tax	**40,995**	10,718
Other receivables *(Note c)*	**69,137**	92,390
Less: allowance for doubtful debts for other receivables	**(19,616)**	(21,888)
	656,044	763,970

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

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 received the inventory.

(c) As at December 31, 2009, other receivables include an amount of RMB25,000,000 which is interest-bearing at People's Bank of China Standard Loan interest rate. The amount was settled during the year ended December 31, 2010.

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 (net of allowance for doubtful debts) presented based on the invoice date at the end of reporting period is as follows:

	2010	2009
	RMB'000	*RMB'000*
Aged:		
Within 60 days	**280,275**	289,222
61 – 90 days	**28,076**	69,390
91 – 180 days	**50,550**	37,042
181 – 365 days	**77,194**	16,109
Over 1 year	**25,385**	8,058
	461,480	419,821

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. 72% of the debts are neither past due nor impaired. Those customers are mainly engaged in manufacturing of automotive and furniture in PRC 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 RMB130,379,000 (2009: RMB70,908,000) which are past due but not impaired at the reporting date.

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

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

	2010	2009
	RMB'000	*RMB'000*
Aged		
Within 60 days	**–**	–
61 – 90 days	**2,551**	21,281
91 – 180 days	**25,251**	25,460
181 – 365 days	**77,194**	16,109
1 – 2 years	**25,383**	8,058
	130,379	70,908

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.

Movement in the allowance for doubtful debts for trade and other receivable

	2010	2009
	RMB'000	*RMB'000*
Balance at beginning of the year	**92,063**	106,790
Amounts written off during the year	**–**	(125)
Eliminated on acquisition of a subsidiary *(note 35(a))*	**–**	(28,365)
Impairment loss recognized in profit or loss	**7,454**	13,763
Reversal of impairment loss recognized in prior years	**(30,427)**	–
Balance at end of the year	**69,090**	92,063

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.

26. GAIN ON DISPOSAL OF ASSETS CLASSIFIED AS HELD FOR SALE/RECEIVABLE FROM DISPOSAL OF ASSETS

During the year ended December 31, 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. The fair value of the receivable at initial recognition with effective interest rate of 3.22% per annum amounted to approximately RMB491,774,000. RMB237,990,000 (2009: RMB5,000,000) was received during the year. In accordance with the agreement, the remaining RMB260,508,000 should have been settled during the year 2010. The Company considered the amount was past due but not impaired, as the counterparty is the PRC government. The amount is considered recoverable and expected to be settled in 2011. The Group does not held any collateral over these balance. The amount is presented in consolidated statement of financial position as "Receivable from disposal of assets".

The Group has recognized a gain on disposal of RMB277,289,000 for the year ended December 31, 2009.

	2010	2009
	RMB'000	*RMB'000*
Balance as at January 1	**486,774**	–
Addition of receivable	**–**	503,498
Recognition of fair value on initial recognition	**–**	(11,724)
Imputed interest *(note 6)*	**5,862**	–
Settled during the year	**(237,990)**	(5,000)
Balance as at December 31	**254,646**	486,774

27. DERIVATIVE FINANCIAL INSTRUMENTS

	2010	2009
	RMB'000	*RMB'000*
Derivative financial assets (liabilities) – Foreign currency forward contracts (not under hedge accounting)	**2,751**	(537)

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

As at December 31, 2010

Notional amount	**Maturity**	**Exchange rate**
16 contracts to sell US$16,000,000 aggregated in total	Range from January 4, 2011 to June 20, 2011	Sell US$ at RMB from 6.618 to 6.792

27. DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

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

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.

28. 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 a fixed interest rate range from 1.71% to 2.25% (2009: 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% (2009: 0.36%) per annum and cash on hand.

29. TRADE, BILLS AND OTHER PAYABLES

	2010	2009
	RMB'000	*RMB'000*
Trade payables	**578,499**	317,931
Bills payables	**80,000**	1,918
Other payables	**77,036**	73,462
Deposit received for disposal of partial interest in a subsidiary	**25,000**	–
Advance from a director *(note 44 (b))*	**10,178**	10,494
Advance from related companies *(note 44 (b))*	**53,432**	87,932
Accruals	**81,862**	84,937
	906,007	576,674

29. TRADE, BILLS AND OTHER PAYABLES (cont'd)

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

	2010 RMB'000	2009 RMB'000
Within 60 days	**552,931**	290,868
61 – 90 days	**31,818**	12,061
91 – 180 days	**6,757**	6,196
181 – 365 days	**61,616**	2,784
1 – 2 years	**1,231**	4,108
Over 2 years	**4,146**	3,832
	658,499	319,849

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 ended December 31, 2010, the Group had entered an agreement with the non-controlling interest of Hainan Boao, to dispose 2% of equity interest in Hainan Boao at a consideration of approximately RMB43,910,000. As at December 31, 2010, the Group had received RMB25,000,000 deposit and the transaction will complete in 2011.

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, 2010, the Group recorded a balance of approximately RMB12 million (2009: 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 41.

30. BANK AND OTHER BORROWINGS

	2010 RMB'000	2009 RMB'000
Bank borrowings	**1,479,402**	1,273,528
Other borrowings	**7,459**	8,404
Total	**1,486,861**	1,281,932
Analyzed as:		
Secured	**753,222**	581,800
Unsecured	**733,639**	700,132
	1,486,861	1,281,932
Denominated in United States Dollars (foreign currency)	**81,499**	6,828
Denominated in Renminbi	**1,405,362**	1,275,104
	1,486,861	1,281,932

Carrying amount repayable:

	2010 RMB'000	2009 RMB'000
Within one year	**1,379,402**	1,083,528
In more than two years but not more than five years	**100,000**	190,000
After five years	**7,459**	8,404
	1,486,861	1,281,932
Less: Amount due within one year shown under current liabilities	**(1,379,402)**	(1,083,528)
Amount due after one year	**107,459**	198,404

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

Bank borrowings are substantively fixed-rate borrowings and carry interests ranging from 2.28% to 8.21% (2009: 1.6% to 7.84%) per annum.

Other borrowings represent loans advanced by independent third parties and carry fixed interest rate of 3% (2009: 3%) per annum. The amount is repayable in full in 2018.

Included in unsecured bank borrowings are borrowings of RMB40,000,000 (2009: RMB120,000,000) guaranteed by a related company in which Mr. Zhu has significant influence and beneficial interests. An amount of RMB300,000 (2009: RMB26,305,000) 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 39.

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, 2009, December 31, 2009 and December 31, 2010	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, 2009	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
Exercise of share options	5,000,000	750	5
Share repurchased	(12,234,000)	(1,835)	(14)
At December 31, 2010	**1,156,722,985**	**173,508**	**1,395**

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*
July 2010	2,330,000	1.85	1.72	4,205	3,669
May 2010	6,894,000	2.00	1.94	13,754	12,091
January 2010	1,280,000	1.79	1.74	2,261	1,991
December 2009	1,730,000	1.78	1.68	2,928	2,578

The above shares were cancelled upon repurchase during the year.

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, 2010, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 33,900,000 (2009: 39,700,000), representing 2.93% (2009: 3.41%) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company on October 20, 2005 (representing 101,404,536 shares of the Company), without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the total shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

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

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, 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 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 Third Batch Option	**The Fourth Batch Option**
Share price at the grant date	HK$0.51	HK$1.60
Exercise price	HK$0.53	HK$1.60
Average risk-free rate of return	2.31%	2.25%
Expected volatility rate	61.30%	61.90%
Dividend yield	3.82%	0.00%
Fair value of the options at the date of grant	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 RMB1,967,000 for the year ended December 31, 2010 (2009: RMB2,893,000) in relation to share options granted by the Company.

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, 2009 and 2010:

33. SHARE OPTION (cont'd)

Exercise price *HK$*	Date of grant	Vesting period	Exercisable period	Outstanding at January 1, 2009	Granted during the year ended December 31, 2009	Exercised during the year ended December 31, 2009	Lapsed during the year ended December 31, 2009	Outstanding at December 31, 2009 and January 1, 2010	Granted during the year ended December 31, 2010	Exercised during the year ended December 31, 2010	Lapsed during the year ended December 31, 2010	Outstanding at December 31, 2010
2.38	March 9, 2006	9.3.2006 - 31.12.2006 *(Note 1)*	1.1.2007 - 8.3.2016	10,550,000	–	–	(650,000)	9,900,000	–	–	(400,000)	9,500,000
2.38	March 9, 2006	9.3.2006 - 31.12.2007 *(Note 1)*	1.1.2008 - 8.3.2016	10,550,000	–	–	(650,000)	9,900,000	–	–	(400,000)	9,500,000
				21,100,000	–	–	(1,300,000)	19,800,000	–	–	(800,000)	19,000,000
1.18	May 5, 2008	5.5.2008 - 31.12.2008 *(Note 2)*	1.1.2009 - 4.5.2018	4,250,000	–	(300,000)	–	3,950,000	–	–	–	3,950,000
1.18	May 5, 2008	5.5.2008 - 31.12.2009 *(Note 2)*	1.1.2010 - 4.5.2018	4,250,000	–	–	(300,000)	3,950,000	–	–	–	3,950,000
				8,500,000	–	(300,000)	(300,000)	7,900,000	–	–	–	7,900,000
0.53	May 13, 2009	13.5.2009 - 31.12.2009 *(Note 3)*	1.1.2010 - 12.5.2019	–	5,000,000	–	–	5,000,000	–	(5,000,000)	–	–
0.53	May 13, 2009	13.5.2009 - 31.12.2010 *(Note 3)*	1.1.2011 - 12.5.2019	–	5,000,000	–	–	5,000,000	–	–	–	5,000,000
				–	10,000,000	–	–	10,000,000	–	(5,000,000)	–	5,000,000
1.60	October 12, 2009	12.10.2009 - 30.9.2010 *(Note 4)*	1.10.2010 - 11.10.2019	–	1,000,000	–	–	1,000,000	–	–	–	1,000,000
1.60	October 12, 2009	12.10.2009 - 30.9.2011 *(Note 4)*	1.10.2011 - 11.10.2019	–	1,000,000	–	–	1,000,000	–	–	–	1,000,000
				–	2,000,000	–	–	2,000,000	–	–	–	2,000,000
Total				29,600,000	12,000,000	(300,000)	(1,600,000)	39,700,000	–	(5,000,000)	(800,000)	33,900,000
Exercisable at the end of the reporting period				21,100,000				23,750,000				27,900,000
Weighted average exercise price (HK$)				2.04	0.71	1.18	2.12	1.64	–	0.53	2.38	1.78

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$2.47 (2009: 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, 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 and January 1, 2010	Granted during the year ended December 31, 2010	Exercised during the year ended December 31, 2010	Lapsed during the year ended December 31, 2010	Outstanding at December 31, 2010
2.38	March 9, 2006	9.3.2006 - 31.12.2006	1.1.2007 - 8.3.2016	2,900,000	–	–	(200,000)	2,700,000	–	–	–	2,700,000
2.38	March 9, 2006	9.3.2006 - 31.12.2007	1.1.2008 - 8.3.2016	2,900,000	–	–	(200,000)	2,700,000	–	–	–	2,700,000
1.18	May 5, 2008	5.5.2008 - 31.12.2008	1.1.2009 - 4.5.2018	1,350,000	–	(300,000)	–	1,050,000	–	–	–	1,050,000
1.18	May 5, 2008	5.5.2008 - 31.12.2009	1.1.2010 - 4.5.2018	1,350,000	–	–	(300,000)	1,050,000	–	–	–	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	–	–	–	1,000,000
1.60	October 12, 2009	12.10.2009 - 30.9.2011	1.10.2011 - 11.10.2019	–	1,000,000	–	–	1,000,000	–	–	–	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.

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

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

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

35. ACQUISITION OF A SUBSIDIARY

This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was RMB4,139,000.

On March 2, 2009, the Group acquired 100% interest in 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:

	RMB'000
Net liabilities acquired:	
Property, plant and equipment	14,689
Brand name	2,330
Inventories	46,347
Trade and other receivables	28,836
Bank balances and cash	8,875
Trade and other payables *(note a)*	(80,013)
Other long-term liabilities	(25,203)
	(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.

35. ACQUISITION OF A SUBSIDIARY (cont'd)

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 December 31, 2009.

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.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Categories of financial instruments

	2010	2009
	RMB'000	*RMB'000*
Financial assets		
Loans and receivables		
(including cash and cash equivalents)	**1,625,804**	1,512,656
Available-for-sale investments	**452,820**	139,913
Financial assets held for trading		
– Derivative financial instrument	**2,751**	–
Financial liabilities		
Amortized cost	**2,286,006**	1,773,669
Financial liabilities held for trading		
– Derivative financial instrument	**–**	537

(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, 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.

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

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

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 bank and other borrowings as set out in notes 28 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.

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, bills and other receivables and trade, bills and other payables arising from time to time. In addition, the Group has short term bank and other borrowings denominated in US dollars. 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.

36. 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)

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**	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
USD	**255,170**	227,540	**58,237**	73,307
HKD	**1,456**	3,063	**–**	13

Sensitivity analysis

The Group is mainly exposed to currency of USD.

5% (2009: 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, 2010, if the functional currency of the entities had been strengthened by 5% against USD, profit for the year would have been decreased by RMB9.8 million (2009: profit for the year would have been decreased by RMB7.7 million) and there would be equal and opposite impact on profit for the year if the functional currency of the entities has been weakened by 5% against USD. 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.

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 listed 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 27.

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

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

Market risk (cont'd)

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 listed equity instruments had been 5% higher/lower, investment valuation reserve would increase/decrease by RMB21,625,000 (2009: RMB6,980,000) for the Group as a result of the changes in fair value of available-for-sale investments.

The Group's derivative financial instruments have exposure to price risk. However, as the directors of the Company consider the exposure is insignificant, no sensitivity analysis is therefore presented.

Credit risk

As at December 31, 2010, 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.

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.

For the deposit paid for acquisition of a subsidiary and advance payment for acquisition of land for development, the management of the Group has assessed the financial position of the counterparties and the recoverability of the amounts to ensure that there is not significant credit risks for them.

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

Liquidity risk

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

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

Other than continuously monitoring the actual cash flows by management, the Group also relies on bank and other borrowings as a significant source of liquidity. As at December 31, 2010, the Group has available unutilized short-term bank loan facilities of approximately RMB307,264,000 (2009: RMB255,472,000) as a liquidity management resource.

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

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

Liquidity risk (cont'd)

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms or the earliest date on which the Group can be required to pay. The table has been drawn up based on the undiscounted cash flows of financial liabilities and include both interest and principal cash flows. 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.

	Weighted average effective interest rate	0 – 60 days	61 – 90 days	91 – 365 days	1 – 2 years	Over 2 years	Total undiscounted cash flow	Carrying amount at December 31, 2010
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2010								
Non-derivative financial liabilities								
Trade, bills and other payables	–	799,145	–	–	–	–	799,145	799,145
Bank and other borrowings	5.11	131,119	317,432	1,001,233	5,491	112,950	1,568,225	1,486,861
Total		930,264	317,432	1,001,233	5,491	112,950	2,367,370	2,286,006

	Weighted average effective interest rate	0 – 60 days	61 – 90 days	91 – 365 days	1 – 2 years	Over 2 years	Total undiscounted cash flow	Carrying amount at December 31, 2009
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*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

36. 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 the excess of market value of the freely trade share over the discount for lack of marketability. The respective discount for lack of marketability is calculated by using the Black-Scholes pricing model. The basis of valuation is carried out by an independent qualified professional valuer.

The fair value of investment in Chengdu Longteng classified as available-for-sale investments is arrived at on the estimate future proceeds discounted at the effective interest rate.

The fair value of 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.

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).

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

(c) Fair-value (cont'd)

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

	Equity securities at Level 3	**Derivative financial liabilities at Level 2**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At January 1, 2010	**139,603**	**(537)**	**139,066**
Transfers into level 3 *(note 20)*	**20,000**	**–**	**20,000**
Total gains or losses:			
– Fair value gain through settlement	**–**	**2,220**	**2,220**
– Unrealized fair value change	**–**	**2,751**	**2,751**
– Other comprehensive income	**292,907**	**–**	**292,907**
Settlement	**–**	**(1,683)**	**(1,683)**
At December 31, 2010	**452,510**	**2,751**	**455,261**
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 equity securities, there was transfer into level 3 for the both years. For the year ended December 31, 2010, included in other comprehensive income is an amount of RMB292,907,000 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' (2009: RMB96,635,000). Details of the change are disclosed in note 20.

37. 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 29 and 44(b) and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. As at December 31, 2010, the gearing ratio of the Group is 64.5% (2009: 62.1%) and a net debt-to-equity ratio is 32.0% (2009: 39.5%). The directors of the Company considered the Group's credit facilities were able to renew on an on-going basis, which provide sufficient cash to finance the Group's working capital and balance its overall capital structure.

38. 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 RMB5,583,000 (2009: RMB5,551,000) represents contributions paid and payable to the above schemes by the Group in respect of the current accounting period. As at December 31, 2010, contributions of approximately RMB441,000 (2009: RMB441,000) in respect of the reporting period had not been paid to the above scheme.

39. 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:

	2010	2009
	RMB'000	*RMB'000*
Buildings	**224,147**	175,649
Prepaid lease payments	**38,626**	39,462
Pledged bank deposits	**128,344**	76,092
Properties under development and held for sale	**207,348**	171,823
	598,465	463,026

40. 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:

	2010	2009
	RMB'000	*RMB'000*
Within one year	**56,616**	68,627
In the second to fifth year inclusive	**208,140**	258,567
Over five years	**184,194**	244,534
	448,950	571,728

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 formula. 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.

41. CAPITAL AND OTHER COMMITMENTS

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

	2010	2009
	RMB'000	*RMB'000*
Expenditure contracted for but not provided in the consolidated financial statements in respect of		
– Acquisition of property, plant and equipment	**6,996**	16,644
– Acquisition of land use rights	**–**	70,801
– Properties under development	**576,178**	303,051
– Construction of certain infrastructure and public facilities in the PRC on behalf of the government *(note 29)*	**12,253**	12,541
	595,427	403,037

42. CONTINGENT LIABILITIES

The Group provided guarantees of RMB138,683,000 (2009: RMB73,832,000) at December 31, 2010 to banks in favour of its customers in respect of the mortgage loans provided by the banks to those customers for the purchase of the Group's properties. These guarantees provided by the Group to the banks will be released upon receiving the building ownership certificate of the respective properties by the banks from the customers as a pledge for security to the mortgage loans granted.

43. FINANCIAL INFORMATION OF THE COMPANY

	2010 RMB'000	2009 RMB'000
ASSETS		
Property, plant and equipment	–	2
Long term equity investments	**590,029**	590,595
Other receivables	**317**	275
Amount due from subsidiaries	**384,668**	425,233
Bank balances and cash	**3,360**	6,443
	978,374	1,022,548
LIABILITIES		
Other payables	**40,797**	47,062
	40,797	47,062
NET ASSETS	**937,577**	975,486
CAPITAL AND RESERVES		
Share capital	**1,395**	1,404
Reserves	**936,182**	974,082
TOTAL EQUITY	**937,577**	975,486

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**	**2010** ***RMB'000***	2009 *RMB'000*
Baiyin Kasen Leather Co., Ltd. ("Baiyin") 白銀卡森皮革有限公司	*(i)*	Purchase of wet blues by the Group	**–**	15,190
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	**3,892**	5,091
		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 of upholstered furniture by the Group	**65,901**	42,046
Starcorp Corporation Pty., Ltd. ("Starcorp")	*(i)*	Sales of upholstered furniture by the Group	**6,079**	6,091
Haining Xingying Furniture Co., Ltd. ("Haining Xingying") 海寧星瑩傢俱有限公司	*(i)*	Sales of leather by the Group	**1,169**	1,427
		Purchase of wooden furniture by the Group	**41,326**	20,473
Shanghai Starcorp 上海思達可傢俱銷售有限公司	*(i)*	Sales of leather by the Group	**–**	672
		Purchase of wooden furniture by the Group	**–**	7,541
Related parties				
Liema Furniture	*(ii)*	Sales of leather by the Group	**769**	2,037
		Sales of raw materials by the Group	**3**	4
Kasen-Melx	*(iii)*	Interest expense	**–**	120
		Rental income	**–**	6
		Sales by the Group	**–**	116
		Sales of raw materials by the Group	**–**	99
Youge	*(ii)*	Purchase of kitchen utensils by the Group	**607**	–

Notes:

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

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

(iii) Kasen-Melx was a jointly controlled entity 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	2010 RMB'000	2009 RMB'000
Trade in nature			
Baiyin	(i)	–	(4,349)
Haining Xingying	(i)	**(15,126)**	(46,102)
Kasen-Melx	(i)	–	(1,677)
Liema Furniture	(i)	**20,551**	228
Starcorp	(i)	**(41,189)**	1,561
Bedding Concepts	(i)	**39,155**	34,483
Yujie	(i)	**1,613**	2,319
Sunbridge	(i)	**103**	–
Non-trade in nature			
Senbo Water	(ii)	–	37
Sunbridge	(ii)	**(53,432)**	(87,932)
Yujie	(ii)	**27**	255
		(48,298)	(101,177)
Name of director			
Mr. Zhu	(ii)	**(10,178)**	(10,494)
		(58,476)	(111,671)
Represented by:			
Amounts due from related companies,included in trade receivables under current assets		**61,422**	38,685
Amounts due from related companies, included in other receivables under current assets		**27**	292
Amounts due to related companies, included in trade payables under current liabilities		**(56,315)**	(52,222)
Amounts due to related companies, included in other payables under current liabilities		**(53,432)**	(87,932)
Advance from a director, included in other payables under current liabilities		**(10,178)**	(10,494)
		(58,476)	(111,671)

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, 2010 and 2009 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
			2010	2009	
			%	%	
Haining Kasen Real Estate Co., Ltd. (Formerly known as Haining Gaosheng Industrial Co., Ltd.) 海寧卡森地產有限公司（原名：海寧高盛實業有限公司）*(note a)*	PRC	RMB60,000,000	**100**	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**	100	Production and sale of sofas, dining chairs and other furniture products
Haining Hengsen Furniture Co., Ltd. 海寧恒森傢俱有限公司 *(note a)*	PRC	RMB50,000,000	**100**	100	Production of furniture and glass fiber reinforced plastic products; wood processing
Haining Hidea Furniture Co., Ltd. 海寧慧達傢俱有限公司 *(note b)*	PRC	US$7,800,000	**100**	100	Production and sale of sofas, dining chairs and other furniture products
Haining 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
Hainan Boao Kasen Property Development Co., Ltd. ("Hainan Boao") 海南博鰲卡森置業有限公司 *(note b)*	PRC	RMB100,000,000	**92**	100	Property development

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 2010 %	2009 %	Principal activities
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. 鹽城市蘇嘉房地產開發有限公司 *(note b)*	PRC	RMB63,580,000	**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 and c)*	UK	£7,930,000	**100**	100	Furniture retail business

Notes:

(a) The companies are limited liability companies.

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

(c) The company has processed to place its assets under the control of an administrator subsequent to the reporting period.

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

46. EVENTS AFTER REPORTING PERIOD

The Group has the following significant events after the reporting period:

(a) On March 29, 2011, the directors of the Company proposed to put Sofas UK into administration. The Group intends to appoint an administrator to manage Sofas UK's affairs, business and property. Notwithstanding the administration, the Group maintains the normal operation of all its businesses and activities. Details of the financial impacts on impairment loss of property, plant and equipment are set out in note 14.

(b) Pursuant to a sale and purchase agreement dated February 23, 2011, Haining Kasen Property Co., Ltd (海寧卡森地產有限公司), an indirect wholly-owned subsidiary of the Company, agreed to acquire from Haining Bureau of Land and Resources (海寧市國土資源局), an independent third party, a parcel of land which is located in the north side of Xiaxie Road, Haining City, Zhejiang Province, the PRC with a total site area of 58,382 square meters for an aggregate consideration of approximately RMB94,800,000. The parcel of land is acquired for the properties development segment.