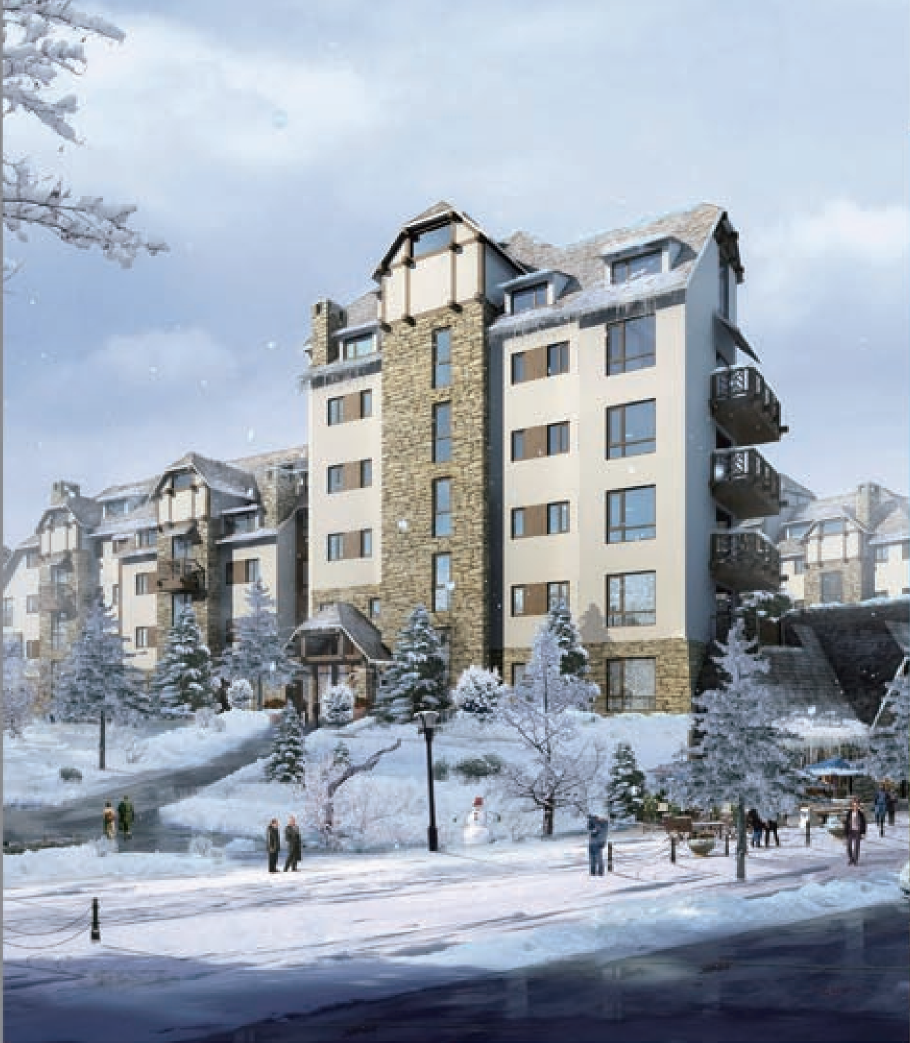
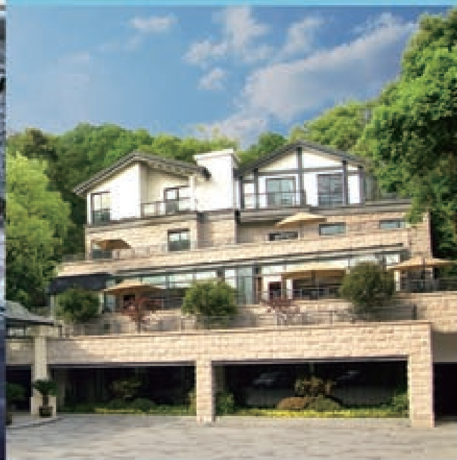
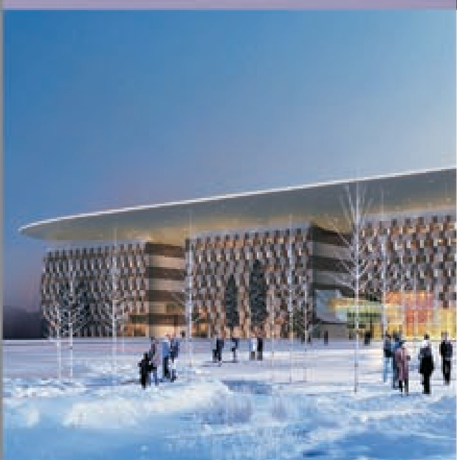


Annual Report 2011





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

CONTENTS

Corporate Information	2
Financial Highlights	3
Directors and Management Profiles	4
Chairman's Statement	8
Management Discussion and Analysis	9
Directors' Report	17
Corporate Governance Report	29
Independent Auditor's Report	36
Consolidated Statement of Comprehensive Income	37
Consolidated Statement of Financial Position	38
Consolidated Statement of Changes in Equity	40
Consolidated Statement of Cash Flows	41
Notes to the Consolidated Financial Statements	44

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-Executive Directors

ZHOU Lingqiang
SUN Steve Xiaodi
ZHANG Yuchuan (appointed on March 1, 2012)

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
Export – Import Bank of China, Zhejiang Branch
China Mingsheng Banking Corporation Ltd.,
Yuhang Sub branch
Hongkong and Shanghai Banking Corporation Limited

LEGAL ADVISORS

As to Hong Kong law
Sidley Austin

As to Cayman Islands law
Conyers Dill & Pearman

PRINCIPAL SHARE REGISTRAR

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

RESULTS

	For the year ended December 31,				
	2011	2010	2009	2008	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**2,241,475**	2,318,480	2,398,974	1,893,990	3,310,727
Profit (loss) before taxation	**458,627**	79,270	211,839	(271,991)	(175,440)
Profit (loss) attributable to owners of the Company	**300,491**	35,378	132,675	(273,804)	(194,149)

FINANCIAL POSITION

	At December 31,				
	2011	2010	2009	2008	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cash and cash equivalents	**370,744**	745,347	461,882	389,647	508,850
Total borrowings	**1,430,889**	1,486,861	1,281,932	1,442,557	1,580,864
Total assets	**6,985,990**	5,656,795	4,319,874	4,379,745	4,139,450
Total liabilities	**4,394,483**	3,337,005	2,264,679	2,444,183	2,169,604
Equity attributable to owners of the Company	**2,518,987**	2,294,187	2,052,289	1,854,058	1,917,154

FINANCIAL AND OPERATING RATIOS

	At December 31,				
	2011	2010	2009	2008	2007
Dividend payout ratio (%)[1]	**9.5%**	–	–	–	–
Debt to equity ratio (%)[2]	**55.2%**	64.1%	62.4%	74.5%	80.3%
Net debt to equity ratio (%)[3]	**40.9%**	32.0%	39.9%	54.4%	54.4%
Trade receivable turnover days[4]	**89**	84	82	48	46
Inventory turnover days[5]	**85**	91	110	147	146
Current ratio[6]	**128.3%**	115.5%	142.0%	110.9%	118.7%
Earning (loss) per share (RMB)					
Basic	**0.26**	0.03	0.11	(0.26)	(0.20)
Diluted	**0.26**	0.03	0.11	(0.26)	(0.20)

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 2011 has no material impact to the Group.

DIRECTORS AND MANAGEMENT PROFILES

EXECUTIVE DIRECTORS

ZHU Zhangjin, Kasen (朱張金), aged 46, 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 24 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 56, joined the Group on June 12, 1995 and is an executive Director. He is also the vice president and co-general manager of the Group's Leather Manufacturing Division. Mr. Zhou has spent more than 22 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 51, joined Zhejiang Kasen Industrial Co., Ltd., a subsidiary of the Company, on October 1, 1997 as vice president of the Import and Export Division and co-general manager of the Group's Leather Manufacturing Division. Mr. Zhang Mingfa, Michael was appointed an executive Director with effect from November 10, 2008. He has more than 31 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

ZHOU Lingqiang (周玲強), aged 48, joined the Company as an independent non-executive Director on June 1, 2011. Mr. Zhou obtained a bachelor degree in Economics from Hangzhou University in 1986, a master degree in Economics from Hangzhou University in 1998 and a doctoral degree in Management from Zhejiang University in 2005. Since graduated in 1986, Mr. Zhou has been working at Zhejiang University. Mr. Zhou is now the faculty dean of the Faculty of Tourism of Zhejiang University and the Head of the Tourism Research Institute of Zhejiang University. From 2006 to 2007, Mr. Zhou was appointed by the China government to serve as the vice president of the Faculty of Tourism and Foreign Language of University of Tibet. Apart from his professional career, Mr. Zhou serves as a member of the Consultant Committee for Master's Degree Education for National Tourism Management under the State Council Academic Degrees Committee, vice president of the Education Branch of China Tourism Association, the vice president of Zhejiang Tourism Association, the vice president and secretary of Zhejiang Recreation Academy and executive member of the World Leisure Organisation, China branch. Mr. Zhou is also a committee member of the Zhejiang Tourism Standardisation of Technology Committee, Hangzhou Economic Zone Tourism Cooperation and Development Coordination Section, Hangzhou Government Decisionmaking Advisory Committee and Hangzhou Tourism Branding and Marketing Committee. Mr. Zhou has acted as the consultant in relation to the tourism-related matters in various districts in the Zhejiang Province and has acted as a government consultant in various districts within the Tibet Autonomous Region.

SUN Steve Xiaodi (孫曉鏑), aged 51, joined the Company as an independent non-executive Director on June 1, 2011. Mr. Sun obtained a bachelor degree in mathematics from Heilongjiang University in 1983, a master degree in operational research from Xidian University in 1985 and a master degree in business management from the University of Chicago in 1996. From 1997 to 2000, Mr. Sun served as an executive vice president of AE Capital Markets Inc., an investment bank based in New York. From 2004 to 2005, Mr. Sun served as the chief operating officer of Sunshine 100 Real Estate Group, a real estate company based in Beijing. From 2006 to 2008, Mr. Sun served as a director and the president of Aohua Medical Services Ltd. In 2007, Mr. Sun co-founded Concord Medical Services Holdings Limited (CCCM), a company listed on the Stock Exchange of New York, and has served as its director since 2007, co-chairman of its board of directors between 2008 to 2011, chief financial officer between 2009 to 2011 and chairman of its investment decision committee since 2009. Since 2011, Mr. Sun has been a member of the Global Advisory Boards of the University of Chicago, Booth School of Business.

ZHANG Yuchuan (張玉川), aged 53, joined the Company as an independent non-executive Director on March 1, 2012. Mr. Zhang obtained a bachelor degree in Information Management from The School of Information Management, Wuhan University in 1982. From 1982 to 1985, Mr. Zhang worked at the Ministry of Education. From 1985 to 1986, he served as a finance journalist of the China Economic Press. From 1986 to 1987, Mr. Zhang served as the assistant researcher at the China Association for Science and Technology. From 1988 to 1994, Mr. Zhang served as the division chief of The Development Research Centre of the State Council and was later appointed as the deputy chief executive of the centre in 1994 till 2002. Since 1998 up to present, Mr. Zhang has been serving as the director of the Beijing Owen Institute of Public Affairs, responsible for finance public affairs related matters. From 2001 to 2006, Mr. Zhang served an independent director of Hubei Guangji Pharmaceutical Co., Ltd. From 2001 to 2008, Mr. Zhang served as an independent non-executive director of Shenzhen Mingwah Aohan High Technology Corporation Limited, a company listed on The Stock Exchange of Hong Kong Limited (Stock Code: 8301). Further, Mr. Zhang is an independent non-executive director of Tiandi Science and Technology Co., Ltd., a company listed on the Shanghai Stock Exchange. Apart from his professional career, Mr. Zhang also serves as the vice chairman of China Electronic Commerce Association.

Dr. LI Qingyuan (李青原), aged 62 and retired. Dr. Li joined the Company as an independent non-executive Director on October 1, 2009 and resigned on March 1, 2012. 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.

CHOW Joseph (周凡), aged 49, joined the Company as an independent non-executive Director on July 11, 2005 and resigned on June 1, 2011. 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 68, retired. Mr. Gu joined the Company as an independent non-executive Director on October 1, 2008 and resigned on June 1, 2011. 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.

SENIOR MANAGEMENT

ZHONG Jian (鍾劍), aged 41, 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 46, joined the Group in July, 2010 as the vice president in charge of the Group's property development business. Mr. Chen graduated from the Department of Architecture of Shanghai Tongji University in 1993 and received a master degree in urban design. From 1993 to 1996, Mr. Chen held the position of the principal architect and the director of Hangzhou Urban Construction Design Institute. Mr. Chen received the title of senior architect and National First Class Registered Architect in 1996; from 1997 to 2002, he was the director, vice general manager and chief engineer of Zhongda Real Estate Group. From 2003 to 2007, he took the position of executive general manager of Greentown Real Estate Group. Before joining the Group, Mr. Chen was the president of Zhongda Real Estate Group from 2008 to 2010.

YU Guanlin (余關林), aged 49, 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 46, 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 43, 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 55, joined the Company in July 2008 and is the chairman of the board committee of Haining Kasen Real Estate 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 48, 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 40, 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 AND QUALIFIED ACCOUNTANT

YIU Hoi Yan, Kate (**姚凱欣**), aged 39, 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 16 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 (the "Board") of directors (the "Directors") of the Company, I am pleased to present the consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended December 31, 2011.

The international furniture market remained vulnerable during the year 2011 and the consumption momentum in the United States and the euro zone was severely impacted by the unstable economic environment. The PRC central government has implemented a series of austerity measures to regulate and control the real estate market, resulting in a sharp slowdown in the volume of transactions in the market.

Amidst the unfavorable economic environment, our financial performance for the year ended December 31, 2011 was outstanding. The growth of our automotive leather division was still strong and we successfully became the largest leather supplier to FAW-Volkswagen in the PRC. Our property projects were still generating satisfactory results.

For the year of 2011, the Group's turnover was RMB2,241.5 million, representing a slight decrease of 3.3% as compared to the same period in 2010. Profit attributable to the shareholders for the year 2011 increased by RMB265.1 million to RMB300.5 million, primarily due to the profit generated from relocation of a factory in Haining, Zhejiang Province, PRC and the reduction in selling and distribution costs due to the administration of Sofas UK Limited ("Sofas UK").

In 2011, the Group's revenue from property business segment was RMB532.4 million and accounted for 23.8% of the Group's total revenue, compared to 16.1% in 2010. The increase in the percentage was mainly due to more premises in the projects of Asia Bay in Hainan and Qianjiang Continent in Jiangsu were delivered during the year 2011.

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 RMB1,637.2 million and accounted for 73.0% of the Group's total revenue and in which the revenue generated from automotive leather division maintained its rapid growth and reached RMB837.0 million, compared to RMB714.6 million of 2010. 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 decline in sales mainly due to the weak demand from the United States and the euro zone countries. The upholstered furniture division recorded a sale of RMB527.4 million in 2011, compared to RMB758.4 million in the year of 2010.

In year 2012, the Group expects that the PRC central government will not relieve the regulatory measures in real estate industry significantly and property developers will continue to be exposed to the austerity control pressure. The Group is still positive about the long term prospects of the property market, especially in tourism-related property market. The Group has accumulated experiences in the development, operation and management of tourism-related premises in the past several years and is optimistic about a better performance in the future.

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.

ZHU Zhangjin, Kasen
Chairman

The PRC, March 30, 2012

RESULTS OVERVIEW

Financial Review

For the year ended December 31, 2011, the Group recorded a consolidated turnover of RMB2,241.5 million, representing a slight decrease of 3.3% as compared with RMB2,318.5 million for the year ended December 31, 2010.

The Group's gross profit for the year 2011 was RMB344.3 million, representing a decrease of 19.3% as compared with RMB426.9 million in the year 2010 and the Group's gross profit margin in 2011 fell to 15.4%, as compared to 18.4% in the year 2010.

The net profit attributable to owners of the Company rose to RMB300.5 million in 2011, representing a substantial increase of approximately 748.9% as compared to RMB35.4 million in 2010.

Review by Business Segments

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

The table below shows the total turnover by business segments for the year ended December 31, 2011 together with the comparative figures for the corresponding period of year 2010:

	2011		2010		**Y-O-Y Change**
	RMB'Million	*%*	*RMB'Million*	*%*	*%*
Manufacturing	**1,637.2**	**73.0%**	1,737.2	74.9%	-5.8%
Upholstered Furniture	***527.4***	***23.5%***	*758.4*	*32.7%*	*-30.5%*
Furniture Leather	***272.8***	***12.2%***	*264.2*	*11.4%*	*3.3%*
Automotive Leather	***837.0***	***37.3%***	*714.6*	*30.8%*	*17.1%*
Property Development	**532.4**	**23.8%**	374.2	16.1%	42.3%
Retail business	**46.9**	**2.1%**	203.6	8.8%	-77.0%
Others	**25.0**	**1.1%**	3.5	0.2%	614.3%
Total	**2,241.5**	**100.0%**	2,318.5	100.0%	-3.3%

Manufacturing Business

During the year under review, the Group's manufacturing business, comprising of upholstered furniture, furniture leather and automotive leather, recorded a total turnover of RMB1,637.2 million, representing a decrease of 5.8% as compared to RMB1,737.2 million in 2010.

During the year under review, this segment recorded a profit of RMB232.2 million, as compared to an operating profit of RMB170.4 million in 2010. 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 RMB527.4 million and accounted for 23.5% of the Group's total turnover in 2011, as compared to RMB758.4 million or 32.7% of total sales in 2010. The Group's major customers are in the United States and the euro zone countries which are severely impacted by the sovereign debt crisis. With less demand of furniture products from the United States and Europe and the rising raw material costs and labor cost in PRC, the overall sales of upholstered furniture business during the year 2011 decreased by RMB231.0 million, representing a decrease of 30.5% as compared with 2010.

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 recorded sales of RMB272.8 million in 2011, as compared to RMB264.2 million in 2010.

Automotive Leather

As a leading automotive leather supplier in China and strategic partner with major international auto makers, the Group's leather seat covers were used in many popular auto brands. Revenue generated in automotive leather operating division was RMB837.0 million in 2011, representing an increase of 17.1% as compared to the corresponding period in year 2010.

Property Development Business

As of December 31, 2011, the Group has five projects at various stages of development spread around the mainland of PRC. The turnover from the property development segment was RMB532.4 million in 2011, as compared to RMB374.2 million in 2010 and the net profit generated from this segment was RMB33.2 million in 2011.

Group Property Project Portfolio as at December 31, 2011

No.	Project Name	Location	Interests Attributable to the Group	Total Site Area (sq.m)	Status
1	Asia Bay	Boao, Hainan	92%	590,165	Under development
2	Sanya Project	Sanya, Hainan	77%	1,424,692	Pre-development
3	Qianjiang Continent	Yancheng, Jiangsu	100%	331,040	Under development
4	Kingdom Garden	Haining, Zhejiang	100%	430,319	Under development
5	Changbai Paradise	Changbai Mountain, Jilin	89%	157,004	Under development
Total				2,933,220	

During the year under review, the Group acquired several parcels of land in Haining and Changbai Mountain and the total site area for property development rose to 2,933,220 square meters, representing an increase of 16.6% as compared to 2,514,697 square meters as at the end of 2010.

Analysis of Properties Under Development

No.	Project Name	Total GFA (sq.m.)	GFA under development (sq.m.)	Total Saleable GFA (sq.m.)	GFA sold as at December 31, 2011 (sq.m.)	GFA delivered as at December 31, 2011 (sq.m.)	Average Selling Price (RMB/sq.m.)
1	Asia Bay	718,665	246,556	575,443	37,733	10,277	27,227
2	Qianjiang Continent	722,091	722,091	628,587	455,405	277,081	4,515
3	Kingdom Garden	998,108	221,462	662,620	3,423	–	N.A
4	Changbai Paradise	200,323	152,425	159,024	–	–	N.A
Total		2,639,187	1,342,534	2,025,674	496,561	287,358	

PROJECTS OVERVIEW

Asia Bay

As the Group's first and flagship project in resort property development, Asia Bay achieved a steady sales performance despite of the overall downturn in Hainan property markets. During the year under review, 88 units of the Sentosa and Bali Island semi-detached houses were successfully delivered and a revenue of RMB279.8 million was recognized with a net profit of RMB25.6 million. The recognized gross floor area ("GFA") sold was 10,276.7 square meters.

During the year of 2011, the contracted sales from semi-detached houses and apartments amounted to approximately RMB531.5 million.

During the year under review, the semi-detached houses of Phuket Island and apartments of Tower 2 are under construction and is expected to contribute more pre-sale revenue to the Group in 2012.

Qianjiang Continent in Yancheng of Jiangsu

During the year under review, the recognized GFA sold in this project was 36,320.6 square meters and the recognized sales amounted to RMB252.6 million with a net profit of RMB30.6 million (2010: RMB6.0 million). A total of 247 units, including both commercial and residential units were delivered.

Kingdom Garden in Haining of Zhejiang

The first phase of Kingdom Garden has a site area of 93,578 square meters and the GFA is approximately 240,000 square meters. The pre-sale of premises, including townhouses and high-rise apartments commenced at the end of 2011.

During the year under review, the Group expanded its land reserve in this project and the total site area for development was around 430,000 square meters.

Changbai Paradise in Changbai Mountain of Jilin

As one of the pioneers in resort property development in the Changbai Mountain resort area, the Group has secured a large parcel of land in one of the best spots. The first project, located in Chibei district, was named "Changbai Paradise". It includes one five-star hot spring hotel, a shopping plaza, a performance center and a large number of residential units. Construction has commenced in the second half of year 2011.

Other projects

The Group's property project in Sanya of Hainan Province was still pre-developed during the year under review. No contribution was made from this project with respect to turnover and profit of the Group in the year 2011.

Others

In the second half of year 2011, the Group held 55% equity interests of Xin'anjiang Hot Spring Resort located in Jiande city of Zhejiang Province. The Xin'anjiang Hot Spring Resort owns the best Hot Spring nearest to Hangzhou with a site area of 32,892 square meters and attracted many travelers from the Yangtze River Delta. The Four Seas Vacation Club operated by the Group will manage this resort and offers the Group's customers with unique leisure experiences.

Operating Expense, Taxation and Profit Attributable to Owners

The Group's other income in 2011 was approximately RMB67.1 million with a slight increase of approximately RMB1.3 million as compared to approximately RMB65.8 million in 2010. For details, please refer to note 7 to the Consolidated Financial Statements.

The selling and distribution costs during the year under review decreased to approximately RMB149.5 million, as compared to approximately RMB238.6 million in 2010, mainly due to (1) the administration of Sofas UK, previously a wholly-owned subsidiary of the Group, which resulted in the loss of control of Sofas UK and consequently, the financial results of Sofas UK during the period from March 2011 to December 2011 was not consolidated into the Group's results for the year ended December 31, 2011. The main selling and distribution expenses of Sofas UK, such as operating lease rentals and government rates, staff costs for sales persons, sales commission and marketing expenses, etc, were significantly reduced by approximately RMB117.9 million in total as a result of such loss of control of Sofas UK, (2) the decrease of transportation costs of approximately RMB15.0 million due to the reduction in sales to Europe, offset by (3) the increase of approximately RMB32.8 million in payment of marketing expenses and salesperson commission expenses mostly incurred by the PRC property development projects, and (4) the increase of approximately RMB5.4 million in PRC store lease rentals as compared with 2010 store rentals, as a reversal of PRC store lease rental recognized in prior years was made in 2010. As a result, the Group's selling and distribution costs to turnover in 2011 decreased to 6.7% as compared to 10.3% in 2010.

The administrative costs in 2011 was approximately RMB124.6 million, representing an increase of approximately RMB6.8 million as compared to approximately RMB117.8 million in 2010, the increase was mainly due to (1) the administration of Sofas UK as mentioned above and consequently the administrative expenses of Sofas UK were significantly reduced by approximately RMB19.9 million in total as a result of such loss of control of Sofas UK, offset by (2) the increase of administrative expenses incurred by those newly setup PRC subsidiaries and new PRC property development projects during the year under review in total of approximately RMB18.1 million, and (3) the increase of depreciation of property, plant and equipment (excluding depreciation of Sofas UK) of approximately RMB7.1 million.

The Group's finance cost in 2011 was approximately RMB78.3 million, with an increase of approximately RMB17.5 million, as compared to approximately RMB60.8 million in 2010, mainly due to the increase in both bank lending rates and the Group's borrowings during the year under review.

The Group's other gains and losses in 2011 recorded at a net loss of approximately RMB7.7 million, representing a decrease of approximately RMB33.0 million, as compared to a net gain of approximately RMB25.3 million in 2010. For details, please refer to note 8 to the Consolidated Financial Statements.

During the year under review, there were gains of approximately RMB72.3 million from the loss of control of Sofas UK and approximately RMB361.1 million from relocation of a PRC factory. For details, please refer to note 37 and 26, respectively to the Consolidated Financial Statements.

The Group's income tax in 2011 was approximately RMB157.5 million, an increase of approximately RMB110.8 million, as compared to approximately RMB46.7 million in 2010. The increase was resulted from (1) an increase in PRC land appreciation tax of approximately RMB44.7 million from the property development projects, (2) an increase of deferred taxation charge of RMB76.8 million mainly related to the compensation receivable from relocation of a PRC factory, offset by (3) a decrease in PRC income tax of approximately RMB17.1 million mainly due to the decrease in taxable profits generated by the manufacturing business from the reduced sales of manufacturing business at subsidiary level.

For reasons mentioned above, profit attributable to owners of the Company for the year 2011 increased by approximately 748.9% to RMB300.5 million (2010: RMB35.4 million).

CAPITAL EXPENDITURES

Capital expenditure (excluding assets acquired through acquisition of subsidiaries during the year) in 2011 slightly increased to approximately RMB57.2 million from approximately RMB57.1 million in 2010. The capital expenditure comprised mainly the amount of approximately RMB56.8 million spent on the purchase of property, plant and equipment for operational purpose.

FINANCIAL RESOURCES AND LIQUIDITY

Bank and Other Borrowings

As at December 31, 2011, the Group's bank and other borrowings amounted to approximately RMB1,430.9 million, representing a 3.8% decrease from approximately RMB1,486.9 million as at December 31, 2010. For details, please refer to note 31 to the Consolidated Financial Statements.

Turnover Period, Liquidity and Gearing

The Group's existing inventory primarily comprising leather crust used for production, accounted for approximately 16.6% of the total inventory of approximately RMB357.6 million in 2011 (2010: approximately RMB388.0 million). In 2011, the inventory turnover period slightly decreased to 85 days (2010: 91 days).

In 2011, the Group continued to maintain a strict credit policy. However, many of the Group's customers were also facing difficult times and a general longer credit term (up to 90 days) was 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 89 days in 2011 (2010: 84 days).

The accounts payable turnover days of the Group's manufacturing and retail segments increased to 52 days in 2011 (2010: 38 days).

MANAGEMENT DISCUSSION AND ANALYSIS

As at December 31, 2011, the Group's current ratio increased to 1.28 (December 31, 2010: 1.15). The Group's cash and cash equivalent balance was approximately RMB370.7 million as at December 31, 2011 (December 31, 2010: approximately RMB745.3 million). This represents a gearing ratio of 56.5% as at December 31, 2011 (December 31, 2010: 64.5%) and a net debt-to-equity ratio of 41.8% as at December 31, 2011 (December 31, 2010: 32.0%). 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 2011, 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.

MATERIAL ACQUISITION AND DISPOSAL

During the year under review, the Group acquired 4 parcels of land located in Haining of Zhejiang Province with a total site area of 261,519 square meters for the purpose of property development. The Group also acquired 3 parcels of land located in Changbai Mountain of Jilin Province in May 2011 with a total site area of 133,685 square meters for the purpose of property development.

In September 2011, the Group acquired 100% interest in Jiande Xin'an Jiang Hot Spring Resort Company Limited ("Jiande Hot Spring Resort") at a consideration of RMB34,970,000 from an independent third party. Jiande Hot Spring Resort is engaged in hot spring resort operation in Jiande, PRC.

Pursuant to a sale and purchase agreement dated June 30, 2011, Haining Kareno Furniture Co., Ltd. an indirect wholly-owned subsidiary of the Company, surrendered a parcel of land situated in Haining of Zhejiang Province with a total site area of 205,978 square meters to an independent third party at a total compensation of RMB463,418,238. The compensation comprises of a fixed amount of RMB380,137,680 as compensation of the land and an additional incentive fee of up to RMB83,280,558. For details, please refer to note 26 to the Consolidated Financial Statements.

Pursuant to a Board resolution dated on March 29, 2011, the resolution in respect of the administration of Sofas UK, which carried out retail sales of furniture in the United Kingdom, was duly passed by the Board. Up to the date of board authorization for issue of the annual financial statements for the year ended December 31, 2011, the administration of Sofas UK has not been completed. For details, please refer to note 37 to the Consolidated Financial Statements.

CONTINGENT LIABILITIES

As at December 31, 2011, the Group had certain contingent liabilities. For details, please refer to note 44 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 41 to the Consolidated Financial Statements.

CAPITAL COMMITMENTS

As at December 31, 2011, the Group had contracted, but not provided for, a total capital expenditure of RMB739.9 million (2010: RMB595.4 million), in which an amount of RMB696.7 million (2010: RMB576.2 million) was in respect of properties under development.

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 2011, the Group used forward contract and some other financial instruments to hedge foreign exchange risk, and recorded a gain of approximately RMB839,000.

EMPLOYEES AND EMOLUMENTS POLICIES

As at December 31, 2011, the Group employed a total of approximately 3,500 full time employees (December 31, 2010: approximately 4,600), including management staff, technicians, salespersons and workers. In 2011, the Group's total expense on the remuneration of employees was approximately RMB149.1 million (2010: approximately RMB187.7 million), representing 6.7% (2010: 8.1%) 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.

FUTURE PLANS AND PROSPECTS

Manufacturing Business

The Company expects that the global furniture market in 2012 will still be highly volatile as the economy recovery of the United States and the euro zone countries is slower than anticipated. Consumers in these developed countries may be reluctant to spend money on the purchase of home furniture. The Group will keep monitoring the market situation and try to consolidate the relationship with our major OEM customers.

The Group will make ongoing efforts into the improvement of production efficiency and cost control. An advanced ERP system was implemented in the factories and excess capabilities will be further minimized.

The automotive leather business will continue to be the most promising division in the Group's manufacturing business. During the past several years, the Group has successfully established its brand image in the leather car seat industry in the PRC and built strong relationships with major auto makers in the PRC, such as FAW-Volkswagen, General Motors and Ford. Compared to the Group's competitors in PRC, the Group has overwhelming advantages in the R&D, large-scale production capabilities, team management and market expansion skills. The Group is confident about the prospects of automotive leather division.

MANAGEMENT DISCUSSION AND ANALYSIS

Property Development

In the year of 2012, it is expected that the real estate market in the PRC will continue to be depressed by the cooling measures from the PRC central government and such regulatory measures will not be relieved in the near future. However, the Group remains optimistic about the resort property market since the tourism industry is definitely to be one of the pillar industries in the coming several years. In the past years, the Group emphasized on the land acquisitions in China's top tourism areas such as Hainan, Changbai Mountain and Zhejiang. In the coming year of 2012, more premises in Hainan Asia Bay and Changbai Paradise will be ready for sale or delivered and it will make more contribution to the Group's financial performance.

Travel-Related Service

During the year under review, the Group established "Four Seas Vacation Club", specializing in vacation arrangements and services for our property owners and other potential high-end customers. In 2012, the Four Seas Vacation Club will also provide the service named "vacation swap" to offer customers with more vacation destination choices. In 2011, the Group has also acquired a travel agency located in Hangzhou of Zhejiang which will further enhance the Group's service ability.

The Directors present the annual report and the audited consolidated financial statements of the Company for the year ended December 31, 2011.

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

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2011 are set out in the consolidated statement of comprehensive income on page 37.

An interim dividend of approximately RMB2.46 cents (equivalent to approximately HK3.00 cents) per ordinary share amounting to approximately RMB28,565,000 (equivalent to approximately HK$34,869,000) was paid to the shareholders during the year 2011. The Directors did not recommend the payment of any final dividend for the year ended December 31, 2011.

DISTRIBUTABLE RESERVES OF THE COMPANY

The amount of the Company's reserves available for distribution to shareholders as at December 31, 2011, calculated in accordance with International Financial Reporting Standards, was approximately RMB887.9 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 2011, 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 2011 are set out in note 15 to the consolidated financial statements.

DIRECTORS' REPORT

SHARE CAPITAL

Details of the Company's share capital are set out in note 33 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year of 2011, the aggregate sales attributable to the Group's five largest customers comprised approximately 57.6% of the Group's manufacturing and retail segments sales and the sales attributable to the Group's largest customer were approximately 25.1% of the Group's manufacturing and retail segments sales.

The aggregate purchases during the year of 2011 attributable to the Group's five largest suppliers were approximately 83.9% of the Group's manufacturing and retail segments purchases and the purchases attributable to the Group's largest supplier were approximately 45.7% of the Group's manufacturing and retail segments purchases.

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

DIRECTORS

The Directors during the year of 2011 and up to the date of this report are:

Executive Directors

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

Independent Non-executive Directors

SUN Steve Xiaodi	(appointed on June 1, 2011)
ZHOU Lingqiang	(appointed on June 1, 2011)
ZHANG Yuchuan	(appointed on March 1, 2012)
CHOW Joseph	(resigned on June 1, 2011)
GU Mingchao	(resigned on June 1, 2011)
LI Qingyuan	(resigned on March 1, 2012)

In accordance with article 87 of the Company's articles of association (the "Articles"), Mr. Zhou Xiaosong will retire from the office of Director by rotation and, being eligible, will offer himself for re-election at the forthcoming annual general meeting. Mr. Sun Steve Xiaodi, Mr. Zhang Yuchuan and Mr. Zhou Lingqiang will only hold office as Directors until the forthcoming annual general meeting and, being eligible, will offer themselves for re-election at such meeting.

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

BRIEF DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

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

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

As at December 31, 2011, the interests of the Directors and the chief executives and their associates in the shares of the Company (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as contained in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") are as follows:

(1) Long Positions in Shares of the Company

	Number of shares held, capacity and nature of interest			
Name of Directors	**Directly beneficially owned**	**Through controlled corporation**	**Total number of shares interested**	**Percentage of the Company's issued share capital**
Zhu Zhangjin ("Mr Zhu")	12,360,000	503,292,635 *(Note)*	515,652,635	44.36%
Zhou Xiaosong	8,173,912	–	8,173,912	0.70%
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, 2011.

SHARE OPTION SCHEME

Particulars of the Company's share option scheme are set out in note 34 to the consolidated financial statements.

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

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

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

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

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

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

Details of the share options granted, pursuant to the Scheme on March 9, 2006, May 5, 2008, May 13, 2009 and October 12, 2009 respectively, during the year ended December 31, 2011 were as follows:

		Number of share options							
Name of Director	Exercise price *HK$*	Outstanding as at January 1, 2011	Granted from January 1, 2011 to December 31, 2011	Lapsed from January 1, 2011 to December 31, 2011	Exercised from January 1, 2011 to December 31, 2011	Outstanding as at December 31, 2011	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)	–	–	–	1/1/2007 to 8/3/2016	1,9,10
(Note 8)	2.38	200,000	–	(200,000)	–	–	–	1/1/2008 to 8/3/2016	2,9,10
	1.18	300,000	–	–	(300,000)	–	–	1/1/2009 to 4/5/2018	3,9,10
	1.18	300,000	–	–	(300,000)	–	–	1/1/2010 to 4/5/2018	4,9,10
Gu Mingchao	1.60	500,000	–	(500,000)	–	–	–	1/10/2010 to 11/10/2019	6,9,10
(Note 8)	1.60	500,000	–	(500,000)	–	–	–	1/10/2011 to 11/10/2019	7,9,10
Li Qingyuan	1.60	500,000	–	–	–	500,000	0.04%	1/10/2010 to 11/10/2019	6,9,10
(Note 8)	1.60	500,000	–	–	–	500,000	0.04%	1/10/2011 to 11/10/2019	7,9,10
		9,500,000	–	(1,400,000)	(600,000)	7,500,000	0.64%		
Other employees in aggregate	2.38	6,800,000	–	(50,000)	–	6,750,000	0.58%	1/1/2007 to 8/3/2016	1,9,10
	2.38	6,800,000	–	(50,000)	–	6,750,000	0.58%	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)	–	–	1/1/2011 to 12/5/2019	5,9,10
		33,900,000	–	(1,500,000)	(5,600,000)	26,800,000	2.30%		

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, 2011 to May 12, 2019.

6. 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.

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, 2011 to October 11, 2019.

8. Mr. Chow Joseph and Mr. Gu Mingchao were resigned on June 1, 2011. Dr. Li Qingyuan was resigned on March 1, 2012.

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, 2011, none of these share options were cancelled.

SUBSTANTIAL SHAREHOLDERS

As at December 31, 2011, 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	43.30%
Warburg Pincus & Co.[1]	Interest of controlled corporation	–	135,989,966	135,989,966	11.70%
Warburg Pincus Partners LLC[1]	Interest of controlled corporation	–	135,989,966	135,989,966	11.70%
Warburg Pincus Private Equity VIII L.P.[1]	Beneficial owner	–	65,893,488	65,893,488	5.67%
Warburg Pincus International Partners L.P.[1]	Beneficial owner	–	65,174,811	65,174,811	5.60%

Notes:

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

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

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, 2011.

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 2011 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, 2011, the Group did not enter into any transactions with its connected persons.

CONTINUING CONNECTED TRANSACTIONS

During the year ended December 31, 2011, the Group entered into the following transactions with its connected persons. The transactions constituted "continuing connected transactions" for the Company under the Listing Rules, details of which are disclosed in compliance with the requirement of Chapter 14A of the Listing Rules.

(1) Agreement for Sale of Production Wastes to Yujie

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

Pursuant to this renewal agreement, the Company agreed to sell certain production wastes (including materials such as residue leather, used tubs, hair and fat) to Yujie ("Haining Yujie Transactions"). Yujie is one of the largest recycling companies in Haining and is located near many of the Group's production facilities (all within approximately 10 km). The Company believes that by selling wastes to Yujie, the Group will achieve an efficient management of disposal logistics and an effective supervision of its employees in its sale of wastes. During the year under review, the aggregate amount of the transactions under this renewal agreement was approximately RMB3,653,000 and the annual cap amount granted by the Stock Exchange was RMB8,000,000.

(2) 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 expired 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 95% 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: (i) a comparable market price; or (ii) by agreement between the parties based on prices no less favourable to/from third parties or reasonably agreed between the parties, if no comparable market price can be taken as a reference. Details of this agreement have been set out in the 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 RMB2,806,000 and the annual cap amount granted by the Stock Exchange was RMB80,000,000.

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

On December 8, 2010, Furniture and Bedding Concepts Ltd. ("Bedding Concepts") entered into an agreement with the Group which will expire on December 31, 2013 and, subject to compliance with the Listing Rules requirements regarding connected transactions, is renewable for a term of 3 years thereafter. Bedding Concepts is a wholly-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 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 announcement dated December 8, 2010.

Pursuant to this agreement, the Group agreed to sell upholstered furniture to Bedding Concepts. Bedding Concepts and its subsidiaries are principally engaged in retail sales of upholstered furniture in Australia. Bedding Concepts is one of the Australia's largest privately owned companies of specialty bedding stores and it is expanding its business to upholstered furnitures. Its demand for upholstered furnitures imported from China is big and continuous. The Directors consider that the transactions with the Bedding Concepts Group as contemplated under this agreement are in the interest of the Company and the shareholders as a whole as it would render regular sales to one of the largest privately owned companies of specialty bedding stores in Australia. During the year under review, the aggregate value of the transactions under this agreement was approximately US$6,783,000 (equivalent to approximately RMB43,919,000) and the annual cap amount granted by the Stock Exchange was US$11,000,000.

(4) Agreement for Sale of Leather to Starcorp

On March 9, 2009, Starcorp Corporation Pty. Ltd. ("Starcorp") entered into an agreement with the Group which expired 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 95% 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 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 regular sales of leather to Australia, through Starcorp. During the year under review, the aggregate value of the Starcorp Purchases under this agreement were approximately RMB705,000 and the annual cap amount granted by the Stock Exchange was RMB5,000,000.

(5) Agreement for Purchase of Wooden Products from Sunbridge

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

Pursuant to this agreement, the Group agreed to purchase wooden products from Sunbridge and its subsidiaries. Sunbridge is principally engaged, through its various subsidiaries, in hardwood furniture manufacturing in China and furniture retailing in Australia. Sunbridge has four production bases in the PRC. As the Company's property development business is growing rapidly, it is anticipated that the demand for wooden products, which are widely used in the development of residential projects and tourism-related properties, will increase substantially. During the year under review, the aggregate value of the transaction under this agreement was approximately RMB39,101,000 and the annual cap amount granted by the Stock Exchange was RMB74,000,000.

Pursuant to Rule 14A.38 of the Listing Rules, the Board engaged the auditor of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditor has reported their factual findings on these procedures to the Board. 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, 2011.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Save as disclosed under the sections headed "Connected Transaction" and "Continuing Connected Transactions", there were no contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly and indirectly, subsisted at the end of the year or at any time during the year ended December 31, 2011.

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

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

SUFFICIENCY OF PUBLIC FLOAT

Based on information available to the Company and within the knowledge of its Directors, the Company has maintained sufficient public float as required under the Listing Rules throughout the year ended December 31, 2011.

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, 2011.

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. Sun Steve Xiaodi, Zhou Lingqiang 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.

AUDIT COMMITTEE

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

The annual results of the Company for the year ended December 31, 2011 have been reviewed by the Audit Committee.

REMUNERATION COMMITTEE

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

AUDITOR

A resolution will be proposed at the 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, 2012

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, 2011, 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 independent non-executive Directors, namely Mr. Sun Steve Xiaodi, Mr. Zhou Lingqiang, Mr. Chow Joseph (resigned on June 1, 2011), Mr. Gu Mingchao (resigned on June 1, 2011) and Dr. Li Qingyuan (resigned on March 1, 2012) are not appointed for specific terms during the year under review, 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. Notwithstanding the foregoing, the Company has entered into service contract with the current independent non-executive Directors for a term of three years commencing from January 1, 2012 and March 1, 2012 for the purpose of complying with the CG Code Provisions.

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 year ended December 31, 2011, each of them has complied with the provisions with the required standards as set out in the Model Code.

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, 2011 were:

Executive Directors

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

Independent Non-executive Directors

SUN Steve Xiaodi	(appointed on June 1, 2011)
ZHOU Lingqiang	(appointed on June 1, 2011)
ZHANG Yuchuan	(appointed on March 1, 2012)
CHOW Joseph	(resigned on June 1, 2011)
GU Mingchao	(resigned on June 1, 2011)
LI Qingyuan	(resigned on March 1, 2012)

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

The Company has received an annual confirmation of independence from each of its independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules. Based on 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 were not appointed for specific terms during the year ended December 31, 2011, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Articles. Subsequent to December 31, 2011, the Company has entered into service contract with the current non-executive Directors for a term of three years.

INDUCTION AND CONTINUING DEVELOPMENT OF DIRECTORS

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

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

BOARD COMMITTEES

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

Audit Committee

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

Mr. SUN Steve Xiaodi	*(Chairman of the Audit Committee,* appointed on June 1, 2011*)*
Mr. ZHOU Lingqiang	(appointed on June 1, 2011)
Mr. ZHANG Yuchuan	(appointed on March 1, 2012)
Mr. CHOW Joseph	*(Chairman of the Audit Committee,* resigned on June 1, 2011*)*
Mr. GU Mingchao	(resigned on June 1, 2011)
Dr. LI Qingyuan	(resigned on March 1, 2012)

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

During the year ended December 31, 2011, the Audit Committee held three 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 of the Company (the "Remuneration Committee") comprises three members, the majority of which are independent non-executive Directors:

Mr. ZHOU Lingqiang	*(Chairman of the Remuneration Committee,* appointed on June 1, 2011*)*
Mr. GU Mingchao	*(Chairman of the Remuneration Committee,* resigned on June 1, 2011*)*
Mr. ZHOU Xiaosong	
Mr. ZHANG Yuchuan	(appointed on March 1, 2012)
Dr. LI Qingyuan	(resigned on March 1, 2012)

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, 2011, 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, 2011 is set out below:

Name of Directors	Attendance/Number of Meetings 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. SUN Steve Xiaodi (appointed on June 1, 2011) *(Chairman of Audit Committee,* appointed on June 1, 2011*)*	3/4	N/A	2/3
Mr. ZHOU Lingqiang (appointed on June 1, 2011) *(Member of Audit Committee and Chairman of Remuneration Committee,* all appointed on June 1, 2011*)*	3/4	1/1	2/3
Mr. ZHANG Yuchuan (appointed on March 1, 2012) *(Member of Audit Committee and Remuneration Committee,* all appointed on March 1, 2012*)*	N/A	N/A	N/A
Mr. CHOW Joseph (resigned on June 1, 2011) *(Chairman of Audit Committee,* resigned on June 1, 2011)	1/4	N/A	1/3
Mr. GU Mingchao (resigned on June 1, 2011) *(Member of Audit Committee and Chairman of Remuneration Committee,* all resigned on June 1, 2011*)*	1/4	0/1	1/3
Dr. LI Qingyuan (resigned on March 1, 2012) *(Member of Audit Committee and Remuneration Committee,* all resigned on March 1, 2012*)*	4/4	1/1	3/3

NOMINATION OF DIRECTORS

The Company has established a separate nomination committee to nominate Directors after December 31, 2011. During the year ended December 31, 2011, 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, 2011.

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, 2011 amounted to approximately RMB3.1 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, 2011 and will be explained during the proceedings of meetings. Poll results, if any, will be posted on both the websites of the Stock Exchange and the Company no later than 30 minutes before the earlier of the morning session or any pre-opening session on the next business day of the shareholders' meeting.

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

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

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

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

We have audited the consolidated financial statements of Kasen International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 37 to 112, which comprise the consolidated statement of financial position as at December 31, 2011, 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, 2011 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, 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2011

	NOTES	2011 RMB'000	2010 RMB'000
Turnover	6	**2,241,475**	2,318,480
Cost of sales		**(1,897,163)**	(1,891,535)
Gross profit		**344,312**	426,945
Other income	7	**67,097**	65,831
Distribution costs		**(149,475)**	(238,612)
Administrative expenses		**(124,620)**	(117,786)
Other expenses		**(11,154)**	(16,938)
Other gains and losses	8	**(7,659)**	25,317
Share of losses of associates		**(14,845)**	(4,880)
Share of profit of a jointly controlled entity		**–**	200
Gain on loss of control of a subsidiary	37	**72,250**	–
Gain on relocation of a factory	26	**361,052**	–
Finance costs	9	**(78,331)**	(60,807)
Profit before tax	10	**458,627**	79,270
Income tax expenses	12	**(157,472)**	(46,684)
Profit for the year		**301,155**	32,586
Other comprehensive (expenses) income			
Fair value (loss) gain on available-for-sale investments		**(62,024)**	292,907
Deferred tax liability on fair value change of available-for-sale investments		**15,506**	(73,228)
Exchange differences arising on translation		**–**	9,683
Cumulative exchange differences in respect of the net liabilities of the subsidiary reclassified from equity to profit or loss on loss of control of a subsidiary	37	**(1,531)**	–
		(48,049)	229,362
Total comprehensive income for the year		**253,106**	261,948
Profit (loss) for the year attributable to:			
Owners of the Company		**300,491**	35,378
Non-controlling interests		**664**	(2,792)
		301,155	32,586
Total comprehensive income (expense) attributable to:			
Owners of the Company		**252,442**	264,740
Non-controlling interests		**664**	(2,792)
		253,106	261,948
Earnings per share	14		
Basic		**RMB25.86 cents**	RMB3.05 cents
Diluted		**RMB25.84 cents**	RMB3.01 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2011

	NOTES	2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**408,225**	467,301
Prepaid lease payments – non-current portion	16	**33,951**	58,681
Properties for development	17	**175,807**	600,938
Intangible assets	18	**702**	2,978
Interests in associates	19	**16,200**	35,037
Available-for-sale investments	20	**380,796**	452,820
Deferred tax assets	21	**25,080**	11,610
Deposit paid for acquisition of a property		**40,000**	–
Deposit paid for acquisition of a subsidiary	22	**212,581**	212,581
Advances for acquisition of land for development	22	**279,430**	279,430
Deposits paid for acquisition of land use rights		**17,068**	–
		1,589,840	2,121,376
CURRENT ASSETS			
Inventories	23	**357,584**	388,046
Properties under development and held for sale	24	**3,319,575**	1,350,981
Trade, bills and other receivables	25	**810,617**	656,044
Receivable from disposal of assets	26	**270,948**	254,646
Prepaid lease payments – current portion	16	**806**	1,327
Derivative financial instruments	27	**497**	2,751
Tax recoverable		**30,522**	7,933
Pledged bank deposits	28	**185,180**	128,344
Restricted bank deposits for property development business	28	**9,192**	–
Bank balances and cash	28	**370,385**	745,347
		5,355,306	3,535,419
Assets classified as held for sale	29	**40,844**	–
		5,396,150	3,535,419
CURRENT LIABILITIES			
Trade, bills and other payables	30	**1,185,590**	906,007
Deposits received in respect of pre-sale of properties		**1,535,252**	750,303
Bank and other borrowings – due within one year	31	**1,424,376**	1,379,402
Tax payable		**36,194**	20,465
Other current liabilities	32	**–**	4,973
		4,181,412	3,061,150
Liabilities classified as held for sale	29	**1,690**	–
		4,183,102	3,061,150
NET CURRENT ASSETS		**1,213,048**	474,269
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,802,888**	2,595,645

	NOTES	**2011** **RMB'000**	2010 *RMB'000*
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*21*	**204,868**	131,176
Bank and other borrowings – due after one year	*31*	**6,513**	107,459
Other long-term liabilities	*32*	**–**	37,220
		211,381	275,855
NET ASSETS		**2,591,507**	2,319,790
CAPITAL AND RESERVES			
Share capital	*33*	**1,400**	1,395
Reserves		**2,517,587**	2,292,792
Equity attributable to owners of the Company		**2,518,987**	2,294,187
Non-controlling interests		**72,520**	25,603
Total equity		**2,591,507**	2,319,790

The consolidated financial statements on pages 37 to 112 were approved and authorized for issue by the Board of Directors on March 30, 2012 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, 2011

	Attributable to owners of the Company											
	Share capital RMB'000	Share premium RMB'000	Statutory reserve RMB'000 (note 35a)	Special reserve RMB'000 (note 35b)	Share option reserve RMB'000	Other reserve RMB'000 (note 35c)	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, 2010	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 34)*	–	–	–	–	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
Profit for the year	–	–	–	–	–	–	–	–	300,491	300,491	664	301,155
Fair value loss on available-for-sale investments	–	–	–	–	–	–	(62,024)	–	–	(62,024)	–	(62,024)
Deferred tax liability on fair value change of available-for-sales investments	–	–	–	–	–	–	15,506	–	–	15,506	–	15,506
Cumulative exchange differences in respect of the net liabilities of the subsidiary reclassified from equity to profit or loss on loss of control of a subsidiary *(note 37)*	–	–	–	–	–	–	–	(1,531)	–	(1,531)	–	(1,531)
Total comprehensive (expense) income for the year	–	–	–	–	–	–	(46,518)	(1,531)	300,491	252,442	664	253,106
Dividend recognized as distribution *(note 13)*	–	–	–	–	–	–	–	–	(28,565)	(28,565)	–	(28,565)
Recognition of equity-settled share-based payments *(note 34)*	–	–	–	–	180	–	–	–	–	180	–	180
Issue of shares under share option scheme	5	4,213	–	–	(1,375)	–	–	–	–	2,843	–	2,843
Release upon lapse of share options	–	–	–	–	(1,158)	–	–	–	1,158	–	–	–
Acquisition of subsidiaries *(note 36)*	–	–	–	–	–	–	–	–	–	–	2,279	2,279
Dissolution of a subsidiary	–	–	–	–	–	–	–	–	–	–	(7,126)	(7,126)
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	–	49,000	49,000
Deemed disposal of partial interests in a subsidiary to non-controlling interests without change of control *(Note)*	–	–	–	–	–	(2,100)	–	–	–	(2,100)	2,100	–
At December 31, 2011	**1,400**	**1,317,487**	**191,693**	**168,659**	**16,840**	**(41,703)**	**245,637**	**–**	**618,974**	**2,518,987**	**72,520**	**2,591,507**

Note: In September 2011, the Group acquired 100% equity interest in Jiande Xin'an Jiang Hot Spring Resort Company Limited 建德市新安江溫泉度假村有限公司 ("Jiande Hot Spring Resort"). Subsequently, in October 2011, additional capital amounting to RMB45,000,000 was injected by independent third parties, which is less than its share of the net asset by RMB2,100,000 at the time of capital injection. Therefore, the Group's equity interest in Jiande Hot Spring Resort is diluted to 55% and loss on deemed disposal of RMB2,100,000 was recognized in equity.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2011

	NOTES	2011 RMB'000	2010 RMB'000
OPERATING ACTIVITIES			
Profit before tax		**458,627**	79,270
Adjustments for:			
Allowance for inventories		**4,623**	13,641
Reversal of allowance of inventories		**(18,029)**	(40,744)
Reversal of impairment loss recognized in respect of trade and other receivables		**(9,154)**	(30,427)
Amortization of intangible assets		**429**	739
Release of prepaid lease payments		**1,344**	1,426
Amortization of properties for development		**1,092**	8,472
Depreciation of property, plant and equipment		**43,276**	46,767
Finance costs		**78,331**	60,807
Gain on disposal of interest in an associate		**–**	(17,898)
Gain on fair value change on derivative financial instruments		**(839)**	(4,971)
(Reversal of) impairment loss recognized in respect of property, plant and equipment		**(6,781)**	25,032
Impairment loss recognized in respect of trade and other receivables		**14,748**	7,454
Imputed interest of receivable from disposal of assets		**(5,862)**	(5,862)
Gain on disposal of properties for development		**–**	(15,418)
Dividend income from available-for-sale investments		**(5,163)**	(3,098)
Interest income		**(23,995)**	(18,136)
Gain on disposal of property, plant and equipment		**(1,143)**	(3,872)
Gain on relocation of a factory	26	**(361,052)**	–
Gain on loss of control of a subsidiary	37	**(72,250)**	–
Recognition of lease incentive of rent-free period		**1,262**	(5,834)
Share-based payment expense		**180**	1,967
Share of losses of associates		**14,845**	4,880
Share of profit of a jointly controlled entity		**–**	(200)
Operating cash flows before movements in working capital		**114,489**	103,995
Decrease in inventories		**12,050**	45,375
Increase in properties under development and held for sale		**(1,507,941)**	(471,483)
Increase in property for development		**(9,681)**	–
(Increase) decrease in trade, bills and other receivables		**(148,038)**	68,439
Increase in trade, bills and other payables		**402,217**	354,244
Increase in deposits received in respect of pre-sale properties		**784,949**	461,071
Settlement of derivative financial instruments		**3,093**	1,683
Increase in other long-term liabilities		**–**	5,240
Increase in restricted bank deposits		**(9,192)**	–
Cash (used in) generated from operations		**(358,054)**	568,564
Land Appreciation Tax ("LAT") paid		**(50,463)**	(17,425)
Income taxes paid		**(54,992)**	(37,864)
NET CASH (USED IN) FROM OPERATING ACTIVITIES		**(463,509)**	513,275

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2011

	NOTES	2011 RMB'000	2010 RMB'000
INVESTING ACTIVITIES			
Settlement of receivable from disposal of asset	26	**260,508**	237,990
Release of pledged bank deposits		**44,942**	69,765
Interest received		**23,995**	18,136
Deposit received for disposal of interest in a subsidiary		**10,000**	–
Proceeds from disposal of available-for-sale investments		**10,000**	–
Dividend income from available-for-sale investments		**5,163**	3,098
Proceeds from disposal of property, plant and equipment		**4,460**	18,349
Proceeds from disposal of investment in associates		**3,992**	12,400
Repayment from related parties		**12**	265
Gross proceeds from relocation of factory		**190,000**	–
Addition to pledged bank deposits		**(101,778)**	(122,017)
Purchase of property, plant and equipment		**(56,760)**	(56,843)
Deposit paid for acquisition of a property		**(40,000)**	–
Acquisition of subsidiaries/businesses	36	**(36,686)**	–
Deposits paid for acquisition of land use rights		**(17,068)**	–
Loss of control of a subsidiary	37	**(11,686)**	–
Removal cost arising from relocation of factory		**(1,414)**	–
Purchase of intangible assets		**(483)**	(248)
Addition to prepaid lease payment		**(440)**	–
Refund on deposit paid for acquisition of land use rights		**–**	72,326
Proceeds from disposal of properties for development		**–**	15,418
Proceed from disposal of interest in a jointly-controlled entity		**–**	2,935
Addition to properties for development		**–**	(362,298)
Deposit paid for acquisition of a subsidiary		**–**	(142,581)
Advance for acquisition of land for development		**–**	(114,370)
Acquisition of interest in an associate		**–**	(3,993)
NET CASH FROM (USED IN) INVESTING ACTIVITIES		**286,757**	(351,668)

	NOTES	2011 RMB'000	2010 RMB'000
FINANCING ACTIVITIES			
Repayment of bank and other borrowings		**(2,056,837)**	(1,977,666)
Interest paid		**(78,331)**	(73,935)
Repayment to related parties		**(50,000)**	(34,500)
Dividend paid	13	**(28,565)**	–
Return of share capital to a non-controlling interest		**(7,126)**	–
Bank and other borrowings raised		**1,971,165**	2,182,595
Capital contribution from non-controlling interests		**49,000**	13,827
Proceeds from issue of shares		**2,843**	2,329
Deposit received for disposal of interest in a subsidiary without change of control		**–**	25,000
Proceed from partial disposal of a subsidiary interest without change of control		**–**	8,000
Shares repurchased		**–**	(20,476)
Payment for acquisition of additional interests in subsidiaries without change of control		**–**	(3,000)
Repayment to a director		**–**	(316)
NET CASH (USED IN) FROM FINANCING ACTIVITIES		**(197,851)**	121,858
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(374,603)**	283,465
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**745,347**	461,882
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**370,744**	745,347
Represented by:			
Bank balances and cash		**370,385**	745,347
Bank balance and cash classified as assets held for sale	29	**359**	–
		370,744	745,347

1. GENERAL

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

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

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

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group and its ability to meet its ongoing obligations in light of its financial position as at December 31, 2011. At December 31, 2011, the Group had consolidated net current assets of approximately RMB1,213,048,000, of which bank balances and cash as at December 31, 2011 was approximately RMB564,757,000 (including RMB185,180,000 of bank deposits pledged for borrowings within one year and RMB9,192,000 of restricted bank deposits for property development business) and borrowings due within one year were approximately RMB1,424,376,000.

The Group's operating results for the year continue to show a profit of approximately RMB301,155,000 (2010: RMB32,586,000). The turnover of the Group for the year has decreased from RMB2,318 million for the year ended December 31, 2010 to RMB2,241 million for the year ended December 31, 2011. The Group has net cash used in operating activities amounting to RMB464 million (2010: Net cash from operating activities amounting to RMB513 million). In order to improve the liquidity of the Group, the directors maintained regular contacts with the banks to renew the credit facilities annually on an ongoing basis. As at December 31, 2011, the Group has available unutilized short-term bank loan facilities of approximately RMB507 million as liquidity management resources. The directors consider that the existing facilities can provide sufficient cash to finance the Group's working capital requirement and the Group is able to renew the existing credit facilities on an ongoing basis. In addition, RMB504,000,000 of bank loan has been renewed subsequently up to the date of this report. Accordingly, the consolidated financial statements are prepared on a going concern basis.

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

In the current year, the Group has applied the following new and revised IFRSs issued by the International Accounting Standards Board.

Amendments to IFRSs	Improvements to IFRSs issued in 2010
IAS 24 (as revised in 2009)	Related Party Disclosures
Amendments to IAS 32	Classification of Rights Issues
Amendments to IFRIC 14	Prepayments of a Minimum Funding Requirement
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the new and revised IFRSs in the current year has no material impact on the Group's financial performance and positions for the current and prior years and/or the disclosures set out in these consolidated financial statements.

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

Amendments to IFRS 7	Disclosures – Transfers of Financial Assets[1]
	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
	Mandatory Effective Date of IFRS 9 and Transition Disclosures[3]
IFRS 9	Financial Instruments[3]
IFRS 10	Consolidated Financial Statements[2]
IFRS 11	Joint Arrangements[2]
IFRS 12	Disclosure of Interests in Other Entities[2]
IFRS 13	Fair Value Measurement[2]
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to IAS 12	Deferred Tax – Recovery of Underlying Assets[4]
IAS 19 (as revised in 2011)	Employee Benefits[2]
IAS 27 (as revised in 2011)	Separate Financial Statements[2]
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities[6]
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine[2]

[1] Effective for annual periods beginning on or after July 1, 2011.
[2] Effective for annual periods beginning on or after January 1, 2013.
[3] Effective for annual periods beginning on or after January 1, 2015.
[4] Effective for annual periods beginning on or after January 1, 2012.
[5] Effective for annual periods beginning on or after July 1, 2012.
[6] Effective for annual periods beginning on or after January 1, 2014.

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

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The directors anticipate that IFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning January 1, 2013 and that the application of the new standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

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.

4. 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.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Basis of consolidation

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

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

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

All intra-group transactions, balances, income and expenses are eliminated 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 (effective from January 1, 2010 onwards).

Changes in the Group's ownership interests in existing subsidiaries

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, it (i) derecognizes the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognizes the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognizes the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognized as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried 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 as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Business combinations

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

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

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

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.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Interest in associates (cont'd)

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

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

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

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

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

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Revenue recognition

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

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

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.

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

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

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

Property, plant and equipment

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Properties for development

Properties for development represent leasehold land located in the People's Republic of China (the "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 subsequent development cost) and net realizable value. Cost includes the cost of land use rights, development expenditures, borrowing costs capitalized and other direct attributable expenses.

Leasing

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

Operating lease payments are recognized as an expense on a straight-line basis over the 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, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

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

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Foreign currencies

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

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

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

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

Borrowing costs

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Government grants

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

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

Retirement benefits costs

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

Share-based payments transactions

Equity-settled share-based payments transactions

Share options granted to employees

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

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

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

Share options granted to consultants

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

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Taxation

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

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Intangible assets

Intangible assets acquired separately

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

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

Intangible assets acquired in a business combination

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

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

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

Inventories

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

Impairment of tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. 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.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments

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

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

Financial assets

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

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.

Loan and receivables

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).

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (cont'd)

Financial assets (cont'd)

Impairment of financial assets

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

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

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

- significant financial difficulty of the issuer or counterparty; or
- 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, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period, observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

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

Impairment losses on available-for-sale equity investments will not be reversed through profit or loss 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.

4. 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 as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

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

Effective interest method

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

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

Trade, bills and other payables and bank and other borrowings

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

Equity instruments

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

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

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.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (cont'd)

Derecognition

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

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

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Allowance for inventories

Management of the Group reviews the inventories at the end of the reporting period and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. Management estimates the net realizable value for such items based primarily on the latest invoices prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of the reporting period. Where there is obsolete or the net realizable value is lower than its carrying amount in such items, a material impairment loss may arise. As at December 31, 2011, the carrying amount of inventories is approximately RMB357,584,000 (2010: RMB388,046,000) (net of allowance for inventories of RMB10,805,000 (2010: RMB24,211,000)).

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 for 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, 2011, the carrying amount of properties under development and held for sale is approximately RMB3,319,575,000 (2010: RMB1,350,981,000).

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

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, 2011, the carrying amount of trade and other receivables is RMB435,898,000 (2010: RMB462,857,000) (net of allowance for doubtful debts of RMB194,530,000 (2010: RMB69,090,000)).

6. SEGMENT INFORMATION AND REVENUE

a. Segment information

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

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

– Properties development;

– Retailing of furniture ("Retail"); and

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

In July 2011 and September 2011, the Group acquired two subsidiaries engaged in hot spring resort operation and provision of travel-related services. Because the sizes of subsidiaries are insignificant, they are aggregated with provision of property management services as an operating segment of Others when reporting to the CODM.

Segment revenues and results

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

Revenue

For the year ended December 31, 2011

	Manufacturing *RMB'000*	**Properties development** *RMB'000*	**Retail** *RMB'000*	**Others** *RMB'000*	**Segment total** *RMB'000*	**Eliminations** *RMB'000*	**Total** *RMB'000*
TURNOVER							
External sales	**1,637,113**	**532,417**	**46,928**	**25,017**	**2,241,475**	**–**	**2,241,475**
Inter-segment sales	**13,869**	**–**	**–**	**6,042**	**19,911**	**(19,911)**	**–**
Total	**1,650,982**	**532,417**	**46,928**	**31,059**	**2,261,386**	**(19,911)**	**2,241,475**

For the year ended December 31, 2010

	Manufacturing *RMB'000*	Properties development *RMB'000*	Retail *RMB'000*	Others *RMB'000*	Segment total *RMB'000*	Eliminations *RMB'000*	Total *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

6. SEGMENT INFORMATION AND REVENUE (cont'd)

a. Segment information (cont'd)

Segment revenues and results (cont'd)

Results

	2011	2010
	RMB'000	RMB'000
Segment results		
– Manufacturing	**232,235**	170,400
– Properties development	**33,221**	(28,883)
– Retail	**(4,733)**	(95,815)
– Others	**(19,389)**	(2,416)
	241,334	43,286
Unallocated corporate expenses and gain	**(12,429)**	(10,700)
Gain on loss of control of a subsidiary	**72,250**	–
Profit for the year	**301,155**	32,586

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4. Segment profit (loss) represents the profit earned by (loss from) each segment without allocation of central administration costs, directors' salaries and exchange gain. 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 segments:

Segment assets

	2011	2010
	RMB'000	*RMB'000*
Manufacturing	**6,141,335**	4,965,635
Properties development	**4,994,527**	2,845,364
Retail	**69,957**	79,497
Others	**234,138**	59,186
Total segment assets	**11,439,957**	7,949,682
Unallocated	**6,867**	6,803
Elimination *(Note)*	**(4,460,834)**	(2,299,690)
Consolidated assets	**6,985,990**	5,656,795

6. SEGMENT INFORMATION AND REVENUE (cont'd)

a. Segment information (cont'd)

Segment assets and liabilities (cont'd)

Segment liabilities

	2011	2010
	RMB'000	*RMB'000*
Manufacturing	**3,204,822**	2,203,947
Properties development	**4,473,438**	2,390,492
Retail	**87,580**	288,457
Others	**73,487**	12,608
Total segment liabilities	**7,839,327**	4,895,504
Unallocated	**12,944**	13,299
Elimination *(Note)*	**(3,457,788)**	(1,571,798)
Consolidated liabilities	**4,394,483**	3,337,005

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 of group companies and intra-group current accounts.

6. SEGMENT INFORMATION AND REVENUE (cont'd)

a. Segment information (cont'd)

Other segment information

For the year ended December 31, 2011

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	33,013	25,721	–	73,671	132,405
Net reversal of allowance for inventories	4,631	–	8,775	–	13,406
Depreciation and amortization	33,963	9,025	1,248	561	44,797
Finance costs	78,331	–	–	–	78,331
Gain on fair value change on derivative financial instruments	839	–	–	–	839
Impairment losses on trade and other receivables	6,126	8,658	(38)	2	14,748
Reversal of impairment loss recognized in respect of trade and other receivables	4,996	4,158	–	–	9,154
Reversal of impairment losses recognized in respect of property, plant and equipment	6,781	–	–	–	6,781
Imputed interest of receivable from disposal of assets	5,862	–	–	–	5,862
Income tax expenses	74,220	82,606	–	646	157,472
Interest in associates	5,580	10,620	–	–	16,200
Interest income	4,012	19,872	15	96	23,995
Dividend income from available-for-sale investments	5,163	–	–	–	5,163
Gain on disposal of property, plant and equipment	1,197	(84)	–	30	1,143
Gain on reallocation of a factory	361,052	–	–	–	361,052
Release of prepaid lease payment	1,344	–	–	–	1,344
Share of losses of associates	7,321	7,524	–	–	14,845

6. SEGMENT INFORMATION AND REVENUE (cont'd)

a. Segment information (cont'd)

Other segment information (cont'd)

For the year ended December 31, 2010

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

	Manufacturing	Properties development	Retail	Others	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*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
Impairment losses on property, plant and equipment	–	–	25,032	–	25,032
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
Reversal of impairment loss recognized in respect of trade and other receivables	28,365	2,062	–	–	30,427
Imputed interest of receivable from disposal of assets	5,862	–	–	–	5,862
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
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

6. SEGMENT INFORMATION AND REVENUE (cont'd)

a. Segment information (cont'd)

Geographical information

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

The Group's revenue analysis are basically based on the locations of external customers except for revenue from sales of properties, 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,**	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
United States	**348,027**	545,893	**–**	–
PRC, including Hong Kong	**1,777,608**	1,446,564	**1,183,964**	1,656,946
Europe	**68,951**	244,434	**–**	–
Australia	**46,889**	77,525	**–**	–
Others	**–**	4,064	**–**	–
	2,241,475	2,318,480	**1,183,964**	1,656,946

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:

	2011	2010
	RMB'000	*RMB'000*
Customer A[1]	**422,704**	355,917
Customer B[1]	**247,940**	162,001

[1] Revenue from Manufacturing

The trade receivable from Customer A and Customer B as at December 31, 2011 was amounted to RMB259,634,000 (2010: RMB56,344,000) and nil (2010: RMB133,197,000) respectively.

6. SEGMENT INFORMATION AND REVENUE (cont'd)

b. Revenue

Revenue represents the aggregate of the net amounts received and receivable from third parties for the year. The following is an analysis of the Group's revenue for the year:

	2011 **RMB'000**	2010 RMB'000
Sales of Goods		
Manufacturing		
Upholstered furniture	**527,342**	758,401
Furniture leather	**272,813**	264,127
Automotive leather	**836,958**	714,621
Residential properties	**532,417**	374,197
Retail of upholstered furniture	**46,928**	203,605
	2,216,458	2,314,951
Provision of Services		
Others (including provision of property management services and travel-related operation and income from hot spring resort)	**25,017**	3,529
Total	**2,241,475**	2,318,480

7. OTHER INCOME

Details of other income are as follows:

	2011 **RMB'000**	2010 RMB'000
Government grants		
Grants for export sales	**452**	328
Incentive for business development	**5,520**	1,332
Other grants	**6,191**	7,579
	12,163	9,239
Income from sales of scrap materials	**2,957**	7,414
Interest income	**23,995**	18,136
Dividend income from listed available-for-sale investments	**5,163**	3,098
Rental income	**6,438**	12,161
Imputed interest of receivable from disposal of assets	**5,862**	5,862
Others	**10,519**	9,921
	67,097	65,831

8. OTHER GAINS AND LOSSES

	2011 *RMB'000*	2010 *RMB'000*
Reversal of impairment loss recognized in respect of trade and other receivables	**9,154**	30,427
Gain on disposal of interest in an associate	**–**	17,898
Gain on disposal of properties for development	**–**	15,418
Gain on fair value change on derivative financial instruments	**839**	4,971
Gain on disposal of property, plant and equipment	**1,143**	3,872
Net foreign exchange loss	**(10,828)**	(14,783)
Impairment loss recognized in respect of trade and other receivables	**(14,748)**	(7,454)
Reversal of (impairment loss) recognized in respect of property, plant and equipment	**6,781**	(25,032)
	(7,659)	25,317

9. FINANCE COSTS

	2011 *RMB'000*	2010 *RMB'000*
Interest on:		
Bank borrowings wholly repayable within five years	**87,255**	73,717
Other borrowings wholly repayable within five years	**–**	20
Other borrowings not wholly repayable within five years	**48**	198
Total borrowing costs	**87,303**	73,935
Less: Amounts capitalized in respect of properties under development *(note 24)*	**(8,972)**	(13,128)
	78,331	60,807

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.

10. PROFIT BEFORE TAX

	2011 **RMB'000**	2010 *RMB'000*
Profit before tax has been arrived at after charging:		
Amortization of intangible assets (included in administrative expenses)	**429**	739
Amortization of properties for development (included in other expenses)	**1,092**	8,472
Depreciation of property, plant and equipment	**43,276**	46,767
Total depreciation and amortization	**44,797**	55,978
Release of prepaid lease payments	**1,344**	1,426
Auditor's remuneration	**7,463**	6,530
Cost of inventories recognized as expenses (including net reversal of allowance of inventories of RMB13,406,000 (2010: RMB27,103,000))	**1,540,612**	1,560,763
Cost of properties recognized as cost of sale	**331,991**	330,772
Operating lease rentals in respect of land and buildings	**26,178**	67,641
Total employee benefit expenses	**149,068**	187,654

11. DIRECTORS AND EMPLOYEES' EMOLUMENTS

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

2011

	Zhu Zhangjin, Kasen ("Mr. Zhu") *RMB'000*	Zhou Xiaosong *RMB'000*	Zhang Mingfa, Michael *RMB'000*	Li Qingyuan *RMB'000*	Chow Joseph *RMB'000* *(note i)*	Gu Mingchao *RMB'000* *(note i)*	Sun Steve Xiaodi *RMB'000* *(note ii)*	Zhou Lingqiang *RMB'000* *(note ii)*	Total *RMB'000*
Fees	–	–	–	149	63	63	86	86	447
Other emoluments									
Salaries and other benefits	340	238	238	–	–	–	–	–	816
Contributions to retirement benefits schemes	2	2	2	–	–	–	–	–	6
Share-based payment expenses	–	–	–	180	–	–	–	–	180
Total emoluments	342	240	240	329	63	63	86	86	1,449

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

2010

	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*	Sun Steve Xiaodi *RMB'000*	Zhou Lingqiang *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

Notes:

(i) Mr. Chow Joseph and Mr. Gu Mingchao resigned as directors on June 1, 2011.

(ii) Mr. Sun Steve Xiaodi and Mr. Zhou Lingqiang were appointed as directors on June 1, 2011.

Three (2010: Two) of the five individuals with the highest emoluments in the Group were directors of the Company whose emoluments are included in the disclosures as above. The emoluments of the remaining two (2010: three) individuals were as follows:

	2011 ***RMB'000***	2010 *RMB'000*
Basic salaries and other benefits	**946**	2,543
Contributions to retirement benefits schemes	**12**	2
	958	2,545

Their emoluments were within the following bands:

	2011	2010
Nil to HK$1,000,000	**2**	2
HK$1,000,001 to HK$1,500,000	**–**	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 (2010: Nil).

12. INCOME TAX EXPENSES

	2011	2010
	RMB'000	*RMB'000*
PRC enterprise income tax		
– Current year	**22,343**	39,426
– Underprovision of income tax in previous years	**8,389**	2,050
	30,732	41,476
PRC Land appreciation tax ("LAT")	**51,012**	6,265
Deferred tax *(note 21)*	**75,728**	(1,057)
	157,472	46,684

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.

12. 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:

	2011	2010
	RMB'000	*RMB'000*
Profit before tax	**458,627**	79,270
Tax rate applicable to the major operation of the Group	**25%**	25%
Tax at the domestic income tax rate	**114,657**	19,818
Tax effect of share of result of associates/jointly controlled entity	**3,711**	1,170
Tax effect of expenses not deductible for tax purpose	**24,107**	25,845
Tax effect of income not taxable for tax purpose	**(25,527)**	(9,352)
Tax effect of deductible temporary differences not recognized	**28,514**	10,340
Utilization of deductible temporary differences previously not recognized	**(7,658)**	(29,795)
PRC LAT	**51,012**	6,265
Tax effect of PRC LAT	**(12,753)**	(1,566)
Tax effect of tax losses not recognized	**4,841**	36,370
Utilization of tax losses previously not recognized	**(9,633)**	(3,745)
Tax effect of Tax Exemptions	**(22,188)**	(10,716)
Under provision in previous years	**8,389**	2,050
Taxation for the year	**157,472**	46,684

13. DIVIDENDS

2011 interim dividend of RMB2.46 cents (equivalent to approximately HK3.00 cents) per ordinary share (2010: Nil) amounting to approximately RMB28,565,000 (equivalent to approximately HK$34,869,000 was paid during the year.

14. 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

	2011	2010
	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	**300,491**	35,378

Number of shares

	2011	2010
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,161,972,300**	1,159,347,478
Effect of dilutive potential ordinary shares – share options	**796,543**	15,468,032
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,162,768,843**	1,174,815,510

The computation of diluted earnings per share does not assume the exercise of certain of the Company's options because the exercise prices of those options were higher than the average market price of shares in 2011.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and equipment	Motor vehicles	Furniture, fixtures and equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST						
At January 1, 2010	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
Additions	609	2,915	9,955	2,889	40,392	56,760
Acquired on acquisition of subsidiaries/ businesses *(note 36)*	49,497	–	5	539	15,440	65,481
Disposal	(126,491)	(10,665)	(3,446)	(7,909)	–	(148,511)
Transfer to properties under development	–	–	–	–	(26,933)	(26,933)
Loss of control of a subsidiary *(note 37)*	(20,069)	(13,323)	–	(1,822)	–	(35,214)
Transfers	9,177	–	–	–	(9,177)	–
Reclassification of assets held for sale *(note 29)*	(43,516)	–	–	–	–	(43,516)
At December 31, 2011	**348,172**	**241,268**	**45,513**	**28,957**	**63,366**	**727,276**
DEPRECIATION AND IMPAIRMENT						
At January 1, 2010	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
Provided for the year	23,330	13,441	5,117	1,388	–	43,276
Eliminated on disposal	(39,763)	(8,755)	(3,111)	(6,837)	–	(58,466)
Reversal of impairment loss recognized	–	(6,781)	–	–	–	(6,781)
Loss of control of a subsidiary *(note 37)*	(20,069)	(13,323)	–	(1,822)	–	(35,214)
Reclassification of assets held for sale *(note 29)*	(15,672)	–	–	–	–	(15,672)
At December 31, 2011	**104,795**	**165,355**	**25,750**	**23,151**	**–**	**319,051**
CARRYING AMOUNTS						
At December 31, 2011	**243,377**	**75,913**	**19,763**	**5,806**	**63,366**	**408,225**
At December 31, 2010	321,996	81,568	15,255	4,838	43,644	467,301

15. 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

Before the announcement date of the result for 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 during the year ended December 31, 2010.

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

As at December 31, 2011, the title deeds of buildings with carrying amount of RMB34,081,000 (2010: RMB36,318,000) 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.

16. PREPAID LEASE PAYMENTS

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

	2011	2010
	RMB'000	*RMB'000*
Analyzed for reporting purposes as:		
Non-current assets	**33,951**	58,681
Current assets	**806**	1,327
	34,757	60,008

	2011	2010
	RMB'000	*RMB'000*
Without title deeds	**9,972**	12,420
With title deeds	**24,785**	47,588
	34,757	60,008

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

17. PROPERTIES FOR DEVELOPMENT

	2011	2010
	RMB'000	*RMB'000*
COST		
At January 1	**614,973**	532,044
Additions	**9,681**	362,298
Transfer to properties under development	**(440,992)**	(279,369)
At December 31	**183,662**	614,973
ACCUMULATED AMORTIZATION		
At January 1	**14,035**	12,264
Provided for the year	**1,092**	8,472
Transfer to properties under development	**(7,272)**	(6,701)
At December 31	**7,855**	14,035
CARRYING AMOUNTS		
At December 31	**175,807**	600,938

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

18. INTANGIBLE ASSETS

	Brand name *RMB'000*	Computer software *RMB'000*	Total *RMB'000*
COST			
At January 1, 2010	2,330	3,602	5,932
Additions	–	248	248
At December 31, 2010	2,330	3,850	6,180
Additions	–	483	483
Loss of control of a subsidiary *(note 37)*	(2,330)	–	(2,330)
At December 31, 2011	**–**	**4,333**	**4,333**
ACCUMULATED AMORTIZATION			
At January 1, 2010	–	2,463	2,463
Provided for the year	–	739	739
At December 31, 2010	–	3,202	3,202
Provided for the year	–	429	429
At December 31, 2011	**–**	**3,631**	**3,631**
CARRYING VALUES			
At December 31, 2011	**–**	**702**	**702**
At December 31, 2010	2,330	648	2,978

All the Group's computer software were acquired from third parties and are amortised on a straight-line basis over five to eight years.

19. INTERESTS IN ASSOCIATES

	2011	2010
	RMB'000	*RMB'000*
Cost of investment in associates, unlisted	**39,962**	43,954
Share of post-acquisition losses	**(23,762)**	(8,917)
	16,200	35,037

Particulars of the associates indirectly held by the Company at December 31, 2011 and 2010 are as follows:

Name of associate	**Place of registration**	**Registered capital**	**Proportion of registered capital indirectly held by the Company**		**Principal activities**
			2011	2010	
			%	%	
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 *(Note)*	PRC	USD13,000,000	**–**	30	Research and development of leathers

Note: The interest in the associate was disposed of to an independent third party during the year ended December 31, 2011 at book value of US$585,000 (equivalent to RMB3,992,000) without gain or loss of disposal.

19. INTERESTS IN ASSOCIATES (cont'd)

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

	2011	2010
	RMB'000	*RMB'000*
Total assets	**255,977**	321,862
Total liabilities	**(205,820)**	(202,133)
Net assets	**50,157**	119,729
Group's share of net assets of associates	**16,200**	35,037
Revenue	**89,765**	69,554
Loss for the year	**(40,938)**	(12,180)
Group's share of loss of associates for the year	**(14,845)**	(4,880)

20. AVAILABLE-FOR-SALE INVESTMENTS

	2011	2010
	RMB'000	*RMB'000*
Equity securities		
– 3.69% (2010: 3.69%) equity interest in Haining China Leather Market Co., Ltd ("HCLM")	**370,486**	432,510
– 7.53% (2010: 15.06%) equity interest in Chengdu Longteng Shoes Market Investment and Development Co. Ltd. ("Chengdu Longteng")	**10,000**	20,000
Unlisted debt securities	**310**	310
	380,796	452,820

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, 2011 and 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 Corporate Appraisal and Advisory Limited ("Jones LaSalle"), independent qualified professional valuer not connected with the Group.

The valuation was arrived at on the basis of market value for the freely trade share discounted for lack of marketability. The respective discount 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:

	2011	2010
Spot price	**RMB22.63**	RMB54.9
Risk free rate	**2.81%**	3.39%
Volatility	**44.60%**	43.86%
Dividend yield	**1.21%**	0.62%
Fair value per share	**RMB17.94**	RMB20.94

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

In November 2009, the Group has entered into an agreement with independent parties to dispose of its interests 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, 2011, the Group held 7.53% (2010: 15.06%) interest in Chengdu Longteng. The fair value of investment in Chengdu Longteng is based on the estimated future proceeds discounted at the effective interest rate and approximate to the amount of consideration.

21. DEFERRED TAXATION

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

	Income on relocation of manufacturing plant	**Unrealized profit on intra-group transactions**	**Fair value adjustment on available-for-sale investments**	**LAT provision**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At January 1, 2010	(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)
Charge to other comprehensive income	–	–	15,506	–	15,506
(Charge) credit to profit or loss	(90,880)	9,310	1,492	4,350	(75,728)
At December 31, 2011	**(119,994)**	**19,228**	**(83,372)**	**4,350**	**(179,788)**

21. DEFERRED TAXATION (cont'd)

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

	2011	2010
	RMB'000	*RMB'000*
Deferred tax assets	**25,080**	11,610
Deferred tax liabilities	**(204,868)**	(131,176)
	(179,788)	(119,566)

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

	2011	2010
	RMB'000	*RMB'000*
Impairment of property, plant and equipment	**23,992**	59,385
Allowance for bad and doubtful debts	**200,636**	69,090
Allowance for inventories	**10,805**	24,211
	235,433	152,686

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 RMB61,075,000 (2010: RMB17,660,000) 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, 2011, the Group has unused tax losses of approximately RMB268,642,000 (2010: RMB517,109,000) available to offset against future profits. No deferred tax asset has been recognized in respect of such losses (2010: Nil) due to the unpredictability of future profit streams. The tax losses of approximately RMB79,221,000 (2010: RMB117,991,000) will expire in five years from the dates they were incurred. Other tax losses may be carried forward indefinitely.

22. DEPOSIT PAID FOR ACQUISITION OF A SUBSIDIARY/ADVANCE 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 of 2010.

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. At December 31, 2011, the Group had advanced to Hainan Hejia an amount of approximately RMB279,430,000 for the land acquisition purpose and Hainan Hejia had paid approximately RMB370,000,000 to the local government as a deposit for the land acquisition. The advances will be included in the initial carrying amount of the land acquired upon the completion of acquisition of Hainan Hejia.

The deposits and advance are unsecured and interest-bearing at People's Bank of China Standard Loan interest rate.

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 and a subsidiary had not yet completed and is expected to complete in 2013.

23. INVENTORIES

	2011	2010
	RMB'000	*RMB'000*
Raw materials	**86,012**	126,990
Work in progress	**170,894**	174,370
Finished goods	**100,678**	86,686
Total, net of allowance for inventories	**357,584**	388,046

During the year ended December 31, 2011, 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 RMB13,406,000 (2010: RMB27,103,000) (includes reversal of allowance of inventories of RMB18,029,000 (2010: RMB40,744,000) and allowance of inventories of RMB4,623,000 (2010: 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, 2010	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
Transfer from properties for development	433,720
Transfer from construction in progress	26,933
Addition of development expenditure	1,839,932
Disposal of completed properties held for sales	(331,991)
At December 31, 2011	**3,319,575**

The carrying values are presented as:

	2011 ***RMB'000***	2010 *RMB'000*
Properties under development	**2,906,761**	1,257,388
Completed properties held for sales	**412,814**	93,593
	3,319,575	1,350,981

During the year, interest capitalized in the properties under development was an amount of RMB25,949,000 (2010: RMB21,238,000). RMB2,106,939,000 (2010: RMB810,981,000) of the properties under development are expected to be realized after twelve months from the end of the reporting period.

25. TRADE, BILLS AND OTHER RECEIVABLES

	2011 ***RMB'000***	2010 *RMB'000*
Trade receivables *(Note e)*	**530,270**	502,257
Less: Allowance for doubtful debts	**(120,943)**	(49,474)
	409,327	452,783
Bills receivables	**29,527**	8,697
Deposits paid for acquisition of land use rights *(Note a)*	**70,264**	46,014
Advance payment for purchase of inventory *(Note b)*	**29,894**	56,844
Deposit and prepayments	**45,554**	13,039
Prepaid non-income tax	**81,448**	40,995
Prepaid Land Appreciation Tax ("LAT")	**28,256**	11,404
Prepaid land demolishing expense *(Note c)*	**50,000**	–
Interest receivable *(Note d)*	**39,776**	16,194
Other receivables *(Note e)*	**100,158**	29,690
Less: allowance for doubtful debts for other receivables	**(73,587)**	(19,616)
	810,617	656,044

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 for property development for sale. 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 in the opinion of the directors, it is refundable if the Group does not receive the inventories.

(c) The Group has proposed to acquire certain land and had prepaid an amount to the local government for demolishing the buildings located on the piece of land. The amount is refundable if the Group does not proceed with the acquisition.

(d) Amount represents interest receivable from Hainan Hejia for the deposit for acquisition of a subsidiary and advance for acquisition of land paid. Details of the deposit and advance are set out in note 22.

(e) As at December 31, 2011, trade receivables and other receivables include amounts of RMB71,817,000 and RMB55,997,000, respectively, of receivable due from Sofas UK, of which control was lost during the year. Allowance for doubtful debts was fully provided on the receivables during the year. Details of the loss of control of a subsidiary are set out in note 37.

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:

	2011	2010
	RMB'000	*RMB'000*
Aged:		
Within 60 days	**287,871**	280,275
61 – 90 days	**92,781**	28,076
91 – 180 days	**42,772**	50,550
181 – 365 days	**12,884**	77,194
Over 1 year	**2,546**	25,385
	438,854	461,480

The Group's trade receivable balances included debtors which are with related parties, details of which are set out in note 46(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. 69% (2010: 72%) of the debts are neither past due nor impaired. Those customers are mainly engaged in manufacturing of automotive and leather in PRC with good repayment history.

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

Included in the Group's trade receivable balances are debtors with aggregate carrying amount of RMB134,524,000 (2010: RMB130,379,000) which are past due but not impaired at the end of the reporting period.

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

	2011	2010
	RMB'000	*RMB'000*
Aged		
61 – 90 days	**92,101**	2,551
91 – 180 days	**27,093**	25,251
181 – 365 days	**12,784**	77,194
Over 1 year	**2,546**	25,383
	134,524	130,379

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 receivables

	2011	2010
	RMB'000	*RMB'000*
Balance at beginning of the year	**69,090**	92,063
Amounts written off during the year	**(1,862)**	–
Allowance made related to Sofas UK	**127,814**	–
Impairment loss recognized in profit or loss	**14,748**	7,454
Reversal of impairment loss recognized in prior years	**(9,154)**	(30,427)
Transfer to asset held for sale	**(6,106)**	–
Balance at end of the year	**194,530**	69,090

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. RECEIVABLE FROM DISPOSAL OF ASSETS/GAIN ON RELOCATION OF A FACTORY

During the year ended December 31, 2009, the Group demolished the plant and returned certain land use rights to the PRC government ("2009 demolition"). 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. The consideration of RMB242,990,000 was received in previous year, the remaining balance of RMB260,508,000 was received in 2011.

During the year ended December 31, 2011, the Group demolished the plant and returned certain of land use rights to the PRC government ("2011 demolition"). The consideration of the disposal was RMB463,418,000. RMB190,000,000 of the consideration was received in the current year. The fair value of the remaining balance of the receivable at initial recognition with effective interest rate of 3.75% per annum amounted to approximately RMB270,948,000. In the opinion of the directors, the remaining balance will be settled in 2012.

	2011 demolition	2009 demolition	Total
	RMB'000	*RMB'000*	*RMB'000*
Balance as at January 1, 2010	**–**	486,774	486,774
Imputed interest *(note 7)*	**–**	5,862	5,862
Settled during the year	**–**	(237,990)	(237,990)
Balance as at December 31, 2010	**–**	254,646	254,646
Addition of receivable	**273,418**	–	273,418
Recognition of fair value on initial recognition (included in gain on relocation of a factory)	**(2,470)**	–	(2,470)
Imputed interest *(note 7)*	**–**	5,862	5,862
Settled during the year	**–**	(260,508)	(260,508)
Balances as at December 31, 2011	**270,948**	–	270,948

A gain of relocation, amounting to RMB361,052,000 (including removal cost of RMB1,414,000) was recognized during the year.

An analysis of the assets sold are set out below:

	RMB'000
Property, plant and equipment – buildings	86,728
Prepaid lease payment	11,754
	98,482

27. DERIVATIVE FINANCIAL INSTRUMENTS

	2011	2010
	RMB'000	*RMB'000*
Derivative financial assets (liabilities) – Foreign currency forward contracts (not under hedge accounting)	**497**	2,751

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

As at December 31, 2011

Notional amount	**Maturity**	**Exchange rate**
16 contracts to sell US$16,000,000 aggregated in total	Range from January 30, 2011 to August 7, 2012	Sell US$ at RMB from 6.2870 to 6.3457

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

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 Jones LaSalle, independent qualified professional valuer using a forward pricing model in deriving the market value at the end of the reporting period.

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

(a) Pledged bank deposits

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

The deposits carry a fixed interest rate range from 2.6% to 3.1% (2010: 1.71% to 2.25%) per annum. The pledged bank deposits will be released upon the settlement of relevant bill payables and bank borrowings.

(b) Restricted bank deposits for property development business

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

The deposits carry variable interest rate of 0.36% (2010: nil) per annum.

(c) Bank balances and cash

Bank balances and cash comprised of bank deposits with short maturity at prevailing deposit interest rate of 0.36% (2010: 0.36%) per annum and cash on hand.

29. ASSETS HELD FOR SALE/LIABILITIES HELD FOR SALE

In December 2011, the Group entered into an agreement with independent third parties to dispose of 100% interest of a subsidiary, Shanghai La Kassa Furniture Co., Ltd. ("La Kassa") for an aggregate consideration of approximately RMB41,000,000. The assets and liabilities attributable to the subsidiary, which is expected to be sold within twelve months, have been classified as a disposal group held for sale and are presented separately in the consolidated statement of financial position. The subsidiary is included in manufacturing segment for segment reporting purpose (see note 6). The net proceeds of disposal exceed the net carrying amount of the relevant assets and liabilities and accordingly, no impairment loss has been recognized. In the opinion of the directors, the transaction has been completed before the issue of this annual report.

The major classes of assets and liabilities of the subsidiary classified as held for sale are as follows:

	31.12.2011
	RMB'000
Bank balance and cash	**359**
Other receivable	**49**
Building	**27,844**
Prepaid lease payments	**12,592**
Total assets classified as held for sale	**40,844**
Trade and other payables	**1,690**
Total liabilities classified as held for sale	**1,690**

30. TRADE, BILLS AND OTHER PAYABLES

	2011	2010
	RMB'000	*RMB'000*
Trade payables	**810,492**	578,499
Bills payables	**146,000**	80,000
Other payables	**88,925**	77,036
Deposit received for disposal of interest in subsidiaries	**35,000**	25,000
Advance from a director *(note 46(b))*	**9,681**	10,178
Advance from a related company *(note 46(b))*	**3,432**	53,432
Accruals	**92,060**	81,862
	1,185,590	906,007

30. 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:

	2011	2010
	RMB'000	*RMB'000*
Within 60 days	**703,086**	552,931
61 – 90 days	**106,731**	31,818
91 – 180 days	**110,934**	6,757
181 – 365 days	**7,342**	61,616
1 – 2 years	**19,220**	1,231
Over 2 years	**9,179**	4,146
	956,492	658,499

Included in the Group's trade payable balances are balances with related parties. Details of which are set out in note 46(b).

During the years of 2010 and 2011, the Group received deposits from independent third parties, amounting to RMB25 million in relation to the disposal of 2% equity interests in Hainan Boao Kasen Property Development Co., Ltd ("Hainan Boao"), a wholly-owned subsidiary, and RMB10 million in relation to the disposal of 100% equity interest in La Kassa respectively. The considerations of the disposals of Hainan Boao and La Kassa were approximately RMB43,910,000 and RMB41,000,000 respectively. As at the year ended December 31, 2011, both transactions were not yet completed.

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 locations which are 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 which had not been utilized in the constructions and was included in other payables. During the year, the amount received from the local government had been fully utilized.

31. BANK AND OTHER BORROWINGS

	2011	2010
	RMB'000	*RMB'000*
Bank borrowings	**1,424,376**	1,479,402
Other borrowings	**6,513**	7,459
Total	**1,430,889**	1,486,861
Analyzed as:		
Secured	**1,068,172**	753,222
Unsecured	**362,717**	733,639
	1,430,889	1,486,861
Denominated in United States Dollars (foreign currency)	**14,105**	81,499
Denominated in Renminbi	**1,416,784**	1,405,362
	1,430,889	1,486,861

Carrying amount repayable*:

	2011	2010
	RMB'000	*RMB'000*
Within one year	**1,424,376**	1,379,402
In more than two years but not more than five years	**–**	100,000
After five years	**6,513**	7,459
	1,430,889	1,486,861
Less: Amount due within one year shown under current liabilities	**(1,424,376)**	(1,379,402)
Amount due after one year	**6,513**	107,459

* 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 1.72% to 8.21% (2010: 2.28% to 8.21%) per annum.

Other borrowings represent loans advanced by independent third parties and carry fixed interest rate of 3% (2010: 3%) per annum. The amount is repayable in full in 2018.

Included in unsecured bank borrowings are borrowings of RMB370,000,000 (2010: RMB40,000,000) guaranteed by Mr. Zhu and a related company in which Mr. Zhu has significant influence and beneficial interests. An amount of RMB75,000,000 (2010: RMB300,000) were guaranteed by certain independent third parties.

Certain borrowings were also secured by the assets owned by the Group and details of the assets set out in note 41.

32. OTHER CURRENT LIABILITIES/OTHER LONG TERM LIABILITIES

Other current and long term liabilities in prior year represent rent-free periods and landlord contributions for retail stores in UK, operated by Sofas UK.

33. SHARE CAPITAL

	Number of ordinary shares at US$0.00015 each	*US$'000*
Authorized share capital of the Company:		
At January 1, 2010, December 31, 2010 and December 31, 2011	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, 2010	1,163,956,985	174,593	1,404
Exercise of share options	5,000,000	750	5
Share repurchased *(Note)*	(12,234,000)	(1,835)	(14)
At December 31, 2010	1,156,722,985	173,508	1,395
Exercise of share options	5,600,000	840	5
At December 31, 2011	**1,162,322,985**	**174,348**	**1,400**

Note:

The Company repurchased its own shares through the Stock Exchange in prior years 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

The above shares were cancelled upon repurchase during the year of the repurchase.

34. 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, 2011, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 26,800,000 (2010: 33,900,000), representing 2.31% (2010: 2.93%) 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).

34. SHARE OPTION (cont'd)

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.

The Group recorded a share-based payment expense of RMB180,000 for the year ended December 31, 2011 (2010: RMB1,967,000) 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, 2010 and 2011:

34. SHARE OPTION (cont'd)

Exercise price *HK$*	Date of grant	Vesting period	Exercisable period	Outstanding at January 1, 2010	Exercised during the year ended December 31, 2010	Lapsed during the year ended December 31, 2010	Outstanding at December 31, 2010 and January 1, 2011	Exercised during the year ended December 31, 2011	Lapsed during the year ended December 31, 2011	Outstanding at December 31, 2011
2.38	March 9, 2006	9.3.2006 - 31.12.2006 *(Note 1)*	1.1.2007 - 8.3.2016	9,900,000	–	(400,000)	9,500,000	–	(250,000)	9,250,000
2.38	March 9, 2006	9.3.2006 - 31.12.2007 *(Note 1)*	1.1.2008 - 8.3.2016	9,900,000	–	(400,000)	9,500,000	–	(250,000)	9,250,000
				19,800,000	–	(800,000)	19,000,000	–	(500,000)	18,500,000
1.18	May 5, 2008	5.5.2008 - 31.12.2008 *(Note 2)*	1.1.2009 - 4.5.2018	3,950,000	–	–	3,950,000	(300,000)	–	3,650,000
1.18	May 5, 2008	5.5.2008 - 31.12.2009 *(Note 2)*	1.1.2010 - 4.5.2018	3,950,000	–	–	3,950,000	(300,000)	–	3,650,000
				7,900,000	–	–	7,900,000	(600,000)	–	7,300,000
0.53	May 13, 2009	13.5.2009 - 31.12.2009 *(Note 3)*	1.1.2010 12.5.2019	5,000,000	(5,000,000)	–	–	–	–	–
0.53	May 13, 2009	13.5.2009 - 31.12.2010 *(Note 3)*	1.1.2011 12.5.2019	5,000,000	–	–	5,000,000	(5,000,000)	–	–
				10,000,000	(5,000,000)	–	5,000,000	(5,000,000)	–	–
1.60	October 12, 2009	12.10.2009 - 30.9.2010 *(Note 4)*	1.10.2010 11.10.2019	1,000,000	–	–	1,000,000	–	(500,000)	500,000
1.60	October 12, 2009	12.10.2009 - 30.9.2011 *(Note 4)*	1.10.2011 - 11.10.2019	1,000,000	–	–	1,000,000	–	(500,000)	500,000
				2,000,000	–	–	2,000,000	–	(1,000,000)	1,000,000
Total				39,700,000	(5,000,000)	(800,000)	33,900,000	(5,600,000)	(1,500,000)	26,800,000
Exercisable at the end of the reporting period				23,750,000			27,900,000			26,800,000
Weighted average exercise price (HK$)				1.64	0.53	2.38	1.78	0.60	1.86	2.02

34. 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 January 4, 2011 and June 28, 2011 is HK$1.59 and HK$1.30 respectively (2010: HK$2.49).

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, 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 and January 1, 2011	Granted during the year ended December 31, 2011	Exercised during the year ended December 31, 2011	Lapsed during the year ended December 31, 2011	Outstanding at December 31, 2011
2.38	March 9, 2006	9.3.2006 - 31.12.2006	1.1.2007 - 8.3.2016	2,700,000	–	–	–	2,700,000	–	–	(200,000)	2,500,000
2.38	March 9, 2006	9.3.2006 - 31.12.2007	1.1.2008 - 8.3.2016	2,700,000	–	–	–	2,700,000	–	–	(200,000)	2,500,000
1.18	May 5, 2008	5.5.2008 - 31.12.2008	1.1.2009 - 4.5.2018	1,050,000	–	–	–	1,050,000	–	(300,000)	–	750,000
1.18	May 5, 2008	5.5.2008 - 31.12.2009	1.1.2010 - 4.5.2018	1,050,000	–	–	–	1,050,000	–	(300,000)	–	750,000
1.60	October 12, 2009	12.10.2009 - 30.9.2010	1.10.2010 - 11.10.2019	1,000,000	–	–	–	1,000,000	–	–	(500,000)	500,000
1.60	October 12, 2009	12.10.2009 - 30.9.2011	1.10.2011 - 11.10.2019	1,000,000	–	–	–	1,000,000	–	–	(500,000)	500,000

The above table includes the share options held by the directors appointed and resigned during the year ended December 31, 2011.

35. 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.

36. ACQUISITION OF SUBSIDIARIES/BUSINESSES

The following acquisitions have been accounted for using the purchase method.

On July 19, 2011, the Group acquired 60.08% interest in Hangzhou Zoutianxia International Travel Agency Company Limited 杭州走天下國際旅行社有限公司 (“Zoutianxia”) from an independent third party at a consideration of RMB3,360,000. Zoutianxia is engaged in the business of providing package tours, travel and other related services in PRC.

On September 26, 2011, the Group acquired 100% interest in Jiande Xin’an Jiang Hot Spring Resort Company Limited 建德市新安江溫泉度假村有限公司 (“Jiande Hot Spring Resort”) at a consideration of RMB34,970,000 (including acquisition – related costs of RMB302,000) from an independent third party. Jiande Hot Spring Resort is engaged in hot spring resort operation in Jiande, PRC.

Zoutianxia and Jiande Hot Spring Resort were acquired to diversify the Group’s business.

36. ACQUISITION OF SUBSIDIARIES/BUSINESSES (cont'd)

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

	Zoutianxia	Jiande Hot Spring Resort	Total
	RMB'000	*RMB'000*	*RMB'000*
Property, plant and equipment	17	65,464	65,481
Inventory	–	332	332
Trade and other receivables	10,122	52	10,174
Bank balances and cash	592	750	1,342
Trade and other payables	(5,092)	(2,230)	(7,322)
Short-term bank borrowing	–	(29,700)	(29,700)
Net assets	5,639	34,668	40,307
Non-controlling interests	(2,279)	–	(2,279)
Consideration (excluding acquisition – related costs)	3,360	34,668	38,028
Net cash outflow arising on acquisition:			
Consideration paid in cash	3,360	34,668	38,028
Less: Bank balances and cash acquired	(592)	(750)	(1,342)
	2,768	33,918	36,686

The fair value of trade and other receivables at the date of acquisition of Zoutianxia and Jiande Hot Spring Resort amounted to RMB10,122,000 and RMB52,000, respectively, which are the same as the gross contractual amounts. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to nil for both companies.

Acquisition-related costs amounting to RMB302,000 have been recognized as an expense in the current year, within the "other expenses" line item in the consolidated statement of comprehensive income.

Non-controlling interests

The non-controlling interests in Zoutianxia recognized at the acquisition date were measured by reference to the non-controlling interests' proportionate share of the fair value of the net assets of Zoutianxia and amounted to approximately RMB2,279,000.

36. ACQUISITION OF SUBSIDIARIES/BUSINESSES (cont'd)

Impact of acquisitions of Zoutianxia and Jiande Hot Spring Resort

Zoutianxia and Jiande Hot Spring Resort contributed RMB20,708,000 and RMB505,000 to the Group's turnover respectively and incurred profit of RMB204,000 and loss of RMB1,020,000 between the date of acquisitions and December 31, 2011, respectively.

Had the acquisitions been completed on January 1, 2011, total group revenue for the year would have been approximately RMB2,259,466,000, and profit for the year would have been approximately RMB299,827,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisitions been completed on January 1, 2011, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Zoutianxia and Jiande Hot Spring Resort been acquired at the beginning of the current year, the directors have calculated depreciation of property, plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

37. LOSS OF CONTROL OF A SUBSIDIARY

Pursuant to a Board resolution dated on March 29, 2011, the resolution in respect of the administration of a wholly owned subsidiary, Sofas UK, which carried out retail sales of furniture in the United Kingdom, was duly passed. Accordingly, the Group filed the necessary documentation with the High Court of Justice (Bristol District Registry) in United Kingdom and administrators were appointed. The administration became effective from March 30, 2011, on which date the control of Sofas UK was lost. After consultation of a legal counsel for legal advice, the directors of the Company are in the opinion that the Group has lost its control over Sofas UK since administration became effective. Up to the date of board authorization for issue of the annual financial statements, the administration has not been completed.

An analysis of the assets and liabilities of Sofas UK at the date when the Group lost control were as follows:

	RMB'000
Bank balances and cash	11,686
Inventories	32,149
Trade and other receivables	14,837
Other long term liabilities	(43,455)
Trade and other payables *(Note)*	(219,142)
Carrying amount of brandname (included in intangible assets of the Group)	2,330
Net liabilities	(201,595)
Add: Allowance made by the Group related to trade and other receivables due from Sofas UK	127,814
Cumulative exchange differences in respect of net liabilities of the subsidiary reclassified from equity to profit or loss on loss of control of a subsidiary	1,531
Gain on loss of control of Sofas UK	(72,250)

The net cash outflow arising on loss of control of a subsidiary with an amount of RMB11,686,000 is disclosed as an investing activity in consolidated statement of cash flows.

Note: The amount includes a balance due to the Group of approximately RMB127,814,000 which had been fully eliminated in the Group prior to the loss of control. The Group had fully impaired the amount due from Sofas UK.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Categories of financial instruments

	2011	2010
	RMB'000	*RMB'000*
Financial assets		
Loans and receivables		
(including cash and cash equivalents)	**1,390,906**	1,625,804
Available-for-sale investments	**380,796**	452,820
Financial assets held for trading		
– Derivative financial instrument	**497**	2,751
Financial liabilities		
Amortized cost	**2,489,452**	2,286,006

(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, 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.

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 31 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.

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

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

Market risk (cont'd)

Interest rate risk (cont'd)

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

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point (2010: 50 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2010: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended December 31, 2011 would increase/decrease by RMB3,268,000 (2010: increase/decrease by RMB4,640,000). This is mainly attributable to the Group's exposure to interest rates on its deposit paid for acquisition of a subsidiary, advances for acquisition of land for development, bank balances and restricted bank balances.

Foreign currency risk

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

The Group's exposure to foreign currency risk related primarily to the sales and purchases that are denominated in US dollars and 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.

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**	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
USD	**37,762**	255,170	**25,400**	58,237
HKD	**320**	1,456	**–**	–

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

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

Market risk (cont'd)

Sensitivity analysis

The Group is mainly exposed to currency of USD.

5% (2010: 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, 2011, if the functional currency of the entities had been strengthened by 5% against USD, profit for the year would have been decreased by RMB464,000 (2010: RMB7.4 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 mainly 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.

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 listed equity instruments had been 5% higher/lower, available-for-sale investments valuation reserve would increase/decrease by RMB13,893,000 (2010: RMB21,625,000) for the Group as a result of the changes in fair value of available-for-sale investments.

Derivative financial instrument has exposure to other price risk but as the directors of the Company consider the exposure is insignificant, no sensitivity analysis is therefore presented.

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

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

Credit risk

As at December 31, 2011, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties and financial guarantees provided by the Group is arising from the carrying amount of the respective recognized financial assets as stated in the consolidated statement of financial position and the amount of contingent liabilities in relation to financial guarantees is secured by the Group as disclosed in note 44.

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

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

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 6, 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, 2011, the Group has available unutilized short-term bank loan facilities of approximately RMB506,595,000 (2010: RMB307,264,000) as a liquidity management resource.

38. 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, 2011
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2011								
Non-derivative financial liabilities								
Trade, bills and other payables	–	1,058,563	–	–	–	–	1,058,563	1,058,563
Bank and other borrowings	6.31	438,638	60,355	1,015,261	195	6,924	1,521,373	1,430,889
Total		1,497,201	60,355	1,015,261	195	6,924	2,579,936	2,489,452

	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

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

(c) Fair-value

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

The fair value of investment in Chengdu Longtong classified as available-for-sale investments is arrived at on the estimate future proceeds discounted at the original 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).

38. 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 security at Level 1	Derivative financial liabilities at Level 2	Equity security at Level 3	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At January 1, 2011	**20,000**	**2,751**	**432,510**	**455,261**
Total gains or losses:				
– Fair value gain through settlement	**–**	**342**	**–**	**342**
– Unrealized fair value change	**–**	**497**	**–**	**497**
– Other comprehensive income	**–**	**–**	**(62,024)**	**(62,024)**
Settlement	**(10,000)**	**(3,093)**	**–**	**(13,093)**
At December 31, 2011	**10,000**	**497**	**370,486**	**380,983**
At January 1, 2010	–	(537)	139,603	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	20,000	2,751	432,510	455,261

There were no transfers between Level 1, 2 and 3 in the current year.

For equity securities, there was transfer into level 3 for the year ended December 31, 2010. Included in other comprehensive income for the year ended December 31, 2010 was an amount of RMB292,907,000 gain relate to unlisted equity securities held at the end of the reporting period. Details of the change are disclosed in note 20.

39. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debts, which includes the bank and other borrowings disclosed in note 31, advances from a director and a related company disclosed in note 30 and 46(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. 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.

40. RETIREMENT BENEFITS PLAN

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

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

The total cost charged to profit or loss of approximately RMB5,871,000 (2010: RMB5,583,000) represents contributions paid and payable to the above schemes by the Group in respect of the current accounting period. As at December 31, 2011, contributions of approximately RMB135,000 (2010: RMB441,000) in respect of the reporting period had not been paid to the above scheme.

41. PLEDGE OF ASSETS

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

	2011	2010
	RMB'000	*RMB'000*
Buildings	**133,351**	224,147
Prepaid lease payments	**26,016**	38,626
Pledged bank deposits	**185,180**	128,344
Properties under development and held for sale	**553,615**	207,348
	898,162	598,465

42. LEASE COMMITMENT

As lessee

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

	2011	2010
	RMB'000	*RMB'000*
Within one year	**12,174**	56,616
In the second to fifth year inclusive	**30,996**	208,140
Over five years	**23,283**	184,194
	66,453	448,950

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, this contingent rent is calculated with reference to the relevant retail shop's 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.

The significant decrease in operating lease commitment was the result of the loss of control of a subsidiary, Sofas UK.

43. CAPITAL AND OTHER COMMITMENTS

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

	2011	2010
	RMB'000	*RMB'000*
Expenditure contracted for but not provided in the consolidated financial statements in respect of		
– Acquisition of property, plant and equipment	**43,176**	6,996
– Properties under development	**696,727**	576,178
– Construction of certain infrastructure and public facilities in the PRC on behalf of the government	**–**	12,253
	739,903	595,427

44. CONTINGENT LIABILITIES

The Group provided guarantees of RMB150,059,000 (2010: RMB138,683,000) at December 31, 2011 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.

45. INFORMATION OF FINANCIAL POSITION OF THE COMPANY

(a) The information of financial position of the Company as at December 31, 2011 is as follows:

	2011 *RMB'000*	2010 *RMB'000*
ASSETS		
Long term equity investments in subsidiaries	**589,958**	590,029
Other receivables	**265**	317
Amounts due from subsidiaries	**332,328**	384,668
Bank balances and cash	**4,841**	3,360
	927,392	978,374
LIABILITIES		
Other payables	**38,105**	40,797
	38,105	40,797
NET ASSETS	**889,287**	937,577
CAPITAL AND RESERVES		
Share capital	**1,400**	1,395
Reserves *(note 45(b))*	**887,887**	936,182
TOTAL EQUITY	**889,287**	937,577

45. INFORMATION OF FINANCIAL POSITION OF THE COMPANY (cont'd)

(b) Reserve of the Company

	The Company				
	Share premium *RMB'000*	**Special reserve** *RMB'000*	**Share option reserve** *RMB'000*	**Accumulated losses** *RMB'000*	**Total** *RMB'000*
As at January 1, 2010	1,330,256	168,659	18,949	(543,782)	974,082
Issue of shares under share option scheme	3,480	–	(1,156)	–	2,324
Share repurchased and cancelled	(20,315)	–	–	–	(20,315)
Transaction cost attributable to share repurchased and cancelled	(147)	–	–	–	(147)
Recognition of equity-settled share-based payments *(note 34)*	–	–	1,967	–	1,967
Release upon lapse of share options	–	–	(567)	–	(567)
Loss for the year	–	–	–	(21,162)	(21,162)
As at December 31, 2010	1,313,274	168,659	19,193	(564,944)	936,182
Dividend recognized as distribution *(note 13)*	–	–	–	(28,565)	(28,565)
Issue of share upon exercise of share options	4,213	–	(1,375)	–	2,838
Recognition of equity-settled share-based payments *(note 34)*	–	–	180	–	180
Release upon lapsed of share options	–	–	(1,158)	1,088	(70)
Loss for the year	–	–	–	(22,678)	(22,678)
As at December 31, 2011	**1,317,487**	**168,659**	**16,840**	**(615,099)**	**887,887**

46. 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**	**2011** ***RMB'000***	2010 *RMB'000*
Haining Yujie Material Recycling Co., Ltd. ("Yujie") 海寧宇潔物資回收有限公司	*(i)*	Sales of scrap materials by the Group	**3,653**	3,892
Furniture and Bedding Concepts Ltd. ("Bedding Concepts") (Formerly known as Sleep City Holdings Ltd)	*(i)*	Sales of upholstered furniture by the Group	**43,919**	65,901
Starcorp Corporation Pty., Ltd. ("Starcorp")	*(i)*	Sales of upholstered furniture by the Group	**2,764**	6,079
Haining Xingying Furniture Co., Ltd. ("Haining Xingying") 海寧星瑩傢俱有限公司	*(i)*	Sales of leather by the Group	**705**	1,169
		Sales of upholstered furniture by the Group	**42**	–
		Purchase of wooden products by the Group	**24,693**	41,326
Zhejiang Sunbridge Industrial Group Company Limited ("Sunbridge")	*(i)*	Purchase of wooden products by the Group	**14,408**	–
Related parties				
Liema Furniture	*(ii)*	Sales of leather by the Group	**6,868**	769
		Sales of raw materials by the Group	**–**	3
Youge	*(ii)*	Purchase of kitchen utensils furniture by the Group	**2,429**	607

Notes:

(i) Mr. Zhu, substantial shareholder and director of the Company, indirectly controls more than 30% of the voting power at Sunbridge's general meeting. Mr. Zhu has significant influence and beneficial interests in Yujie, Bedding Concepts, Starcorp and Haining Xingying through Sunbridge.

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

46. 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	2011 RMB'000	2010 RMB'000
Trade in nature			
Haining Xingying	(i)	**(13,610)**	(15,126)
Liema Furniture	(i)	**313**	20,551
Starcorp	(i)	**2,341**	(41,189)
Bedding Concepts	(i)	**33,290**	39,155
Yujie	(i)	**1,976**	1,613
Youge	(i)	**(2,021)**	–
Sunbridge	(i)	**(11,831)**	103
Non-trade in nature			
Sunbridge	(ii)	**(3,432)**	(53,432)
Yujie	(ii)	**15**	27
		7,041	(48,298)
Name of director			
Mr. Zhu	(ii)	**(9,681)**	(10,178)
		(2,640)	(58,476)
Represented by:			
Amounts due from related companies, included in trade receivables under current assets		**38,832**	61,422
Amounts due from related companies, included in other receivables under current assets		**15**	27
Amounts due to related companies, included in trade payables under current liabilities		**(28,374)**	(56,315)
Advance from a related company, included in other payables under current liabilities		**(3,432)**	(53,432)
Advance from a director, included in other payables under current liabilities		**(9,681)**	(10,178)
		(2,640)	(58,476)

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 34.

(d) The remuneration of the key management personnel of the Group (representing all directors) were disclosed in note 11.

(e) Detail of the financial guarantees granted by a related party are set out in note 31.

47. PRINCIPAL SUBSIDIARIES

The following table lists major subsidiaries of the Company as at December 31, 2011 and 2010 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 2011 %	2010 %	Principal activities
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**	100	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

47. 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 2011 %	2010 %	Principal activities
Hainan Boao Kasen Property Development Co., Ltd. ("Hainan Boao") 海南博鰲卡森置業有限公司 *(note b)*	PRC	RMB100,000,000	**92**	92	Property development
Shanghai La Kassa Furniture Co., Ltd. 上海禾美傢俱有限公司 *(note b)*	PRC	US$4,000,000	**100**	100	Production and sale of upholstered furniture
Yancheng Sujia Real Estate Development Co., Ltd. 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	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 administration in March 2011.

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