卡森國際控股有限公司

KASEN INTERNATIONAL HOLDINGS LIMITED

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

stock code : 496

ANNUAL REPORT
2014

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

ZHU Zhangjin, Kasen
(Chairman & Chief Executive Officer)
ZHANG Mingfa, Michael
LEE Lawrence
(appointed on August 8, 2014)

Non-Executive Director

QIU Jian Ping

Independent Non-Executive Directors

ZHOU Lingqiang
SUN Steve Xiaodi
ZHANG Yuchuan

COMPANY SECRETARY

YIU Hoi Yan, Kate

STOCK CODE

0496.HK

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

PLACE OF BUSINESS IN HONG KONG

Room 1605
Tai Tung Building
8 Fleming Road
Wanchai
Hong Kong

PRINCIPAL BANKERS

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

LEGAL ADVISORS

As to Hong Kong law
Sidley Austin

As to Cayman Islands law
Conyers Dill & Pearman

PRINCIPAL SHARE REGISTRAR

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

HONG KONG BRANCH SHARE REGISTRAR

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

AUDITORS

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

AUTHORISED REPRESENTATIVES

ZHANG Mingfa, Michael
YIU Hoi Yan, Kate

COMPANY WEBSITE

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

FINANCIAL HIGHLIGHTS

RESULTS

	For the year ended December 31,				
	2014	2013	2012	2011	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**3,230,327**	3,439,200	3,094,552	2,241,475	2,318,480
Profit before taxation	**120,324**	339,182	400,360	458,627	79,270
Profit attributable to owners of the Company	**32,418**	173,422	203,399	300,491	35,378

FINANCIAL POSITION

	At December 31,				
	2014	2013	2012	2011	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cash and cash equivalents	**324,388**	560,147	560,928	370,744	745,347
Total borrowings	**2,346,630**	1,938,214	1,286,546	1,430,889	1,486,861
Total assets	**9,137,332**	9,133,894	8,200,968	6,985,990	5,656,795
Total liabilities	**6,030,024**	5,715,690	5,289,229	4,394,483	3,337,005
Equity attributable to owners of the Company	**2,962,707**	3,261,417	2,815,064	2,518,987	2,294,187

FINANCIAL AND OPERATING RATIOS

	At December 31,				
	2014	2013	2012	2011	2010
Dividend payout ratio (%)[1]	**–**	5.3%	–	9.5%	–
Debt to equity ratio (%)[2]	**75.5%**	56.7%	44.2%	55.2%	64.1%
Net debt to equity ratio (%)[3]	**65.1%**	40.3%	24.9%	40.9%	32.0%
Trade and bills receivable turnover days[4]	**84**	84	88	89	84
Inventory turnover days[5]	**99**	98	100	85	91
Current ratio[6]	**151.9%**	149.4%	134.0%	128.3%	115.5%
Earning per share (RMB)					
Basic	**0.03**	0.15	0.18	0.26	0.03
Diluted	**0.03**	0.15	0.17	0.26	0.03

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 and bills 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 (as shown in note 2 to the consolidated financial statements) in 2014 has no material impact on the Group.

DIRECTORS AND MANAGEMENT PROFILES

EXECUTIVE DIRECTORS

ZHU Zhangjin, Kasen (朱張金), aged 49, 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 27 years of experience in the leather manufacturing industry, Mr. Zhu has extensive knowledge in the upholstered furniture industry in the People's Republic of China (the "PRC") and has been a successful entrepreneur in leather manufacturing related businesses. Mr. Zhu is also the vice chairman of the China Leather Association. In recognition of his contribution to promote the development of the leather manufacturing industry, Mr. Zhu was awarded the "Top Ten Businessmen in Zhejiang" in 2004. In 2006, Mr. Zhu was one of the 10 recipients of the prestigious "National May 4th Youth Award (全國五四青年獎章)". In 2007, Mr. Zhu received the National May Day Award.

ZHANG Mingfa, Michael (張明發), aged 54, joined Zhejiang Kasen Industrial Group Co., Ltd., a subsidiary of the Company, on October 1, 1997 as the vice president of the Import and Export Division and co-general manager of the Group's Leather Manufacturing Division. Mr. Zhang Mingfa, Michael was appointed as an executive Director with effect from November 10, 2008. He has more than 34 years of experience in the leather manufacturing industry. Mr. Zhang is the director of the Logistics Department of Zhejiang Kasen Industrial Group Co., Ltd. Mr. Zhang is a qualified international business engineer and obtained the qualification certificate approved by the Ministry of Commerce of the PRC in 1995. In 1984, Mr. Zhang obtained a diploma in leather industry from Chengdu University of Technology. Mr. Zhang also obtained a diploma in Business Administration from Zhejiang University of Technology in 1989.

LEE Lawrence (李磊), aged 50, was appointed as an executive Director on August 8, 2014. Mr. Lee joined the Company as the vice president and chief financial officer from August 2004 to September 2007. Mr. Lee also held other senior finance positions during his career of over 21 years, serving as the chief financial officer at Synutra International, Inc., a company listed on NASDAQ from October 2007 to October 2009. He also worked as the chief financial officer at Eagle Brand Holdings Limited, a company listed on the Singapore stock exchange from July 2001 to April 2004 and as a financial controller at the Korean division of Exel Plc in the United Kingdom from January 1999 to July 2001. Before rejoining the Company as an executive Director, Mr. Lee has worked as independent advisors to several companies in China advising on corporate finance and strategic matters. Mr. Lee received a bachelor degree in Management and Engineering from the Beijing Institute of Technology in 1984. Mr. Lee also obtained a master's degree in Economics from the Renmin University in 1987 and a master's degree in Accounting and Finance from the London School of Economics and Political Science in 1992. He is also a fellow member of the Association of Chartered Certified Accountants.

ZHOU Xiaosong (周小松), aged 59, 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. He resigned as an executive Director on August 8, 2014. Mr. Zhou has spent more than 25 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.

NON-EXECUTIVE DIRECTOR

QIU Jian Ping (**仇建平**), aged 53, was appointed as a non-executive Director on February 22, 2013. He obtained a bachelor degree in mechanical engineering from University of Science and Technology Beijing (北京科技大學) in 1982 and a master degree in Mechanical Engineering from Xi'an Jiaotong University (西安交通大學) in 1985. From 1987 to 1992, he served as a business operator of Zhejiang Machinery & Equipment Import & Export Co., Ltd. (浙江省機械進出口公司). From 1992 to 2001, Mr. Qiu served as the chairman of Hangzhou Greatstar Tools Co., Ltd (杭州巨星工具有限公司). Since 2001 and up to present, Mr. Qiu has been serving as the chairman and president of Hangzhou Great Star Industrial Co., Ltd. (杭州巨星科技股份有限公司), a company the shares of which are listed on the Shenzhen Stock Exchange and as the chairman of Hangzhou Great Star Investment Holdings Co., Ltd. (杭州巨星投資控股有限公司).

INDEPENDENT NON-EXECUTIVE DIRECTORS

ZHOU Lingqiang (**周玲強**), aged 51, joined the Company as an independent non-executive Director on June 1, 2011. Mr. Zhou obtained a bachelor degree in economics from Hangzhou University in 1986, a master degree in economics from Hangzhou University in 1998 and a doctoral degree in management from Zhejiang University in 2005. Mr. Zhou has been working at Zhejiang University since 1986. Mr. Zhou is now the faculty dean of the Faculty of Tourism of Zhejiang University and the Head of the Tourism Research Institute of Zhejiang University. From 2006 to 2007, Mr. Zhou was appointed by the PRC government to serve as the vice president of the Faculty of Tourism and Foreign Language of University of Tibet. Apart from his professional career, Mr. Zhou serves as a member of the Consultant Committee for Master's Degree Education for National Tourism Management under the State Council Academic Degrees Committee, the vice president of the Education Branch of China Tourism Association, the vice president of Zhejiang Tourism Association, the vice president and secretary of Zhejiang Recreation Academy and executive member of the World Leisure Organisation, China branch. Mr. Zhou is also a committee member of the Zhejiang Tourism Standardisation of Technology Committee, Hangzhou Economic Zone Tourism Cooperation and Development Coordination Section, Hangzhou Government Decisionmaking Advisory Committee and Hangzhou Tourism Branding and Marketing Committee. Mr. Zhou has acted as the consultant in relation to the tourism-related matters in various districts in Zhejiang Province and has acted as a government consultant in various districts within the Tibet Autonomous Region.

ZHANG Yuchuan (**張玉川**), aged 56, joined the Company as an independent non-executive Director on March 1, 2012. Mr. Zhang obtained a bachelor degree in information management from The School of Information Management, Wuhan University in 1982. From 1982 to 1985, Mr. Zhang worked at the Ministry of Education. From 1985 to 1986, he served as a finance journalist of the China Economic Press. From 1986 to 1987, Mr. Zhang served as an assistant researcher at the China Association for Science and Technology. From 1988 to 1994, Mr. Zhang served as the division chief of The Development Research Centre of the State Council and was later appointed as the deputy chief executive of the centre in 1994 till 2002. Since 1998 up to present, Mr. Zhang has been serving as the director of the Beijing Owen Institute of Public Affairs, responsible for finance public affairs related matters. From 2001 to 2006, Mr. Zhang served as an independent director of Hubei Guangji Pharmaceutical Co., Ltd. From 2001 to 2008, Mr. Zhang served as an independent non-executive director of Shenzhen Mingwah Aohan High Technology Corporation Limited, a company listed on The Stock Exchange of Hong Kong Limited (Stock Code: 8301). Furthermore, Mr. Zhang is an independent non-executive director of Tiandi Science and Technology Co., Ltd., a company listed on the Shanghai Stock Exchange. Apart from his professional career, Mr. Zhang also serves as the vice chairman of China Electronic Commerce Association.

DIRECTORS AND MANAGEMENT PROFILES (cont'd)

INDEPENDENT NON-EXECUTIVE DIRECTORS (cont'd)

SUN Steve Xiaodi (**孫曉鏑**), aged 54, joined the Company as an independent non-executive Director on June 1, 2011. Mr. Sun obtained a bachelor degree in mathematics from Heilongjiang University. He also obtained a master degree in operational research from Xidian University and a master degree in business administration from the University of Chicago. From 1997 to 2000, Mr. Sun served as an executive vice president of AE Capital Markets Inc., an investment bank based in New York. From 2004 to 2005, Mr. Sun served as the chief operating officer of Sunshine 100 Real Estate Group, a real estate company based in Beijing. From 2006 to 2008, Mr. Sun served as a director and the president of Aohua Medical Services Ltd. In 2007, Mr. Sun co-founded Concord Medical Services Holdings Limited, a company listed on the New York Stock Exchange and has served as its director from 2007 to 2013, co-chairman of its board of directors from 2008 to 2011, chief financial officer from 2009 to 2011 and chairman of its investment decision committee from 2009 to 2013. Since 2011, Mr. Sun has been a member of the Global Advisory Boards of the University of Chicago, Booth School of Business. In November 2013, Mr. Sun has also been appointed as the chief operating officer of FAB Universal Corp., a company of which shares are listed on the New York Stock Exchange.

SENIOR MANAGEMENT

CHEN Zhengming (**陳爭明**), aged 38, joined the Company as financial analysis supervisor in October 2003 and was later promoted as financial manager and assistant of president of the Company. Mr. Chen was appointed as the chief financial officer with effect from July 2014. Before he joined the Company, he worked in the finance department of Panasonic Appliances (Hangzhou) Co., Ltd from 2000 to 2003. He is an associate member of Association of International Accountants. Mr. Chen obtained a Bachelor degree in Economics from Zhejiang University in 2000.

YU Guanlin (**余關林**), aged 52, joined the Group in 1995 and is the production manager and deputy general manager of the Group. He is currently the general manager of the Group's Cut-and-sew Operations Division. Before joining the Group, Mr. Yu founded a garment company and was responsible for its design and production. Mr. Yu has extensive knowledge and experience in the upholstered furniture manufacturing industry.

ZHOU Xiaohong (**周小紅**), aged 46, joined the Group in 1995 and was the cashier and treasury manager of the Group. She is currently the vice president of the Group in charge of internal auditing. Ms. Zhou obtained a diploma in management from China University of Geosciences in 2003.

SENIOR MANAGEMENT (cont'd)

PAN Yougen (潘幼根), aged 51, is the general manager of Zhejiang Kasen Property Development Co., Ltd. After joining the Company in 2008, Mr. Pan has been serving as the general manager of Yancheng Sujia Real Estate Development Co., Ltd. Mr. Pan received a bachelor of engineering degree from Southwest Jiaotong University in July 1985 and a master degree from Tongji University in Shanghai in 1988. Before joining the Company, Mr. Pan worked as the vice dean of Jiaxing Zhongfang Design Institute and the chairman and general manager of Zhejiang Jingjian Project Management Co., Ltd.

SHI Juntao (史軍濤), aged 43, joined the Company as vice president and the General Manager in charge of the Group's sale of both domestic and international furniture business in March 2013. Mr. Shi was graduated from Xinjiang Normal University in 1996 and worked as a teacher in Xinjiang University upon graduation. Before joining the Company, he has serviced as vice president of Markor International Furniture Co., Ltd from 1997 to 2008, as well as chairman and chief executive officer of Xinjiang Rooms to Life Furniture Co., Ltd from 2008 to 2013.

CAO Ying (曹纓), aged 48, joined the Company as assistant chief executive officer in November 2013. Ms. Cao is in charge of purchasing cowhides, the primary raw materials of the Company. She received a Bachelor of Physics degree from Shanghai Technology and Science University in 1990. Before joining the Company, Ms. Cao worked as Business Development Manager, Project Manager and other key positions in IKEA Trading (HK) Ltd Shanghai Representative Office from 1997 to 2013.

ZENG Sheng (曾勝), aged 44, joined the Company as vice president in September 2013, and is responsible for the Company's sofa fabrics products. In 1993, Ms. Zeng was graduated from Guizhou Normal University, majoring in English. She has serviced as operation manager in Pacific Market International Co., Ltd from 1993 to 1998, and worked as vice president in Outlook International Co., Ltd from 1998 to 2013.

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

YIU Hoi Yan, Kate (姚凱欣), aged 42, joined the Company as an accountant in April 2004 and was later promoted as the company secretary and finance manager of the Company. She has over 19 years of experience in auditing and accounting. She is a member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Ms. Yiu obtained a Bachelor of Arts (Honors) in Accountancy from the City University of Hong Kong in 1995.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of Directors of Kasen International Holdings Limited (the "Company"), I am pleased to present the annual results of the Company and its subsidiaries (the "Group") for the year ended December 31, 2014.

During the period under review, the Group's core manufacturing business achieved an improved revenue as compared to the year of 2013 due to better performance in leather manufacturing and furniture export divisions. However, the downturn of the property market in China and weakened demand from home buyers caused a substantial decrease in the delivery of properties, resulting in reduced revenue in the Group's property development segment. The Group experienced a substantial decline in its consolidated net profit for the year of 2014 as compared with the corresponding period for the year of 2013. Such decline is primarily attributable to (i) a substantial decline in the revenue generated from the property development segment; (ii) the sharp increase of raw material prices for the manufacturing segment; and (iii) the increase of loss suffered by a subsidiary of the Group due to increase in operational expenses during the year under review.

For the year of 2014, the Group's total turnover was approximately RMB3,230.3 million, representing a decrease of approximately 6.1% as compared to the same period in 2013. Profit attributable to the shareholders was approximately RMB32.4 million, representing a decrease of approximately 81.3% as compared to RMB173.4 million in the year of 2013.

The manufacturing business of the Group, including automotive leather, furniture leather and upholstered furniture, recorded a total turnover of RMB2,375.9 million, representing an increase of approximately 28.3% as compared to RMB1,851.9 million for the year of 2013. As the core business of the Group, the automotive leather division maintained robust growth and contributed a revenue of RMB1,461.7 million, representing an increase of approximately 28.5% compared to RMB1,137.4 million for the year 2013. After several years of consolidation in the furniture export business, the Group welcomed a strong rebound in the sales of upholstered furniture. Revenue generated by this division was RMB666.1 million in 2014 as compared to RMB459.1 million in 2013, representing a significant increase of approximately 45.1%.

In the year of 2014, the Group has six property projects under different stages of development in the mainland of China. Due to weakened demand from home buyers, the recognized sales in property development declined to RMB718.3 million as compared to RMB1,468.1 million for the year of 2013.

In the year of 2015, the Group expects that the slow-down in the Chinese economy will challenge the Group's overall strategy. The manufacturing business, as is the foundation of the Group's activities, requires continued improvements to maintain its core competitiveness. The Group will invest in more advanced machineries to offset the increasing labor cost and to improve production efficiency. In the US market, which is the main overseas market for the Group's upholstered furniture business, the Group will continue its efforts to broaden sales channels and to offer customers with quality products at competitive prices. In the PRC market, the Group aims to maintain its leading position as automotive leather producer by investing in new technology, optimizing production process, developing new products, and providing better services to automakers. The local furniture market will also be an important business segment of the Group with huge development potential. The Group will strive to improve the brand awareness and seek innovations in the Online to Offline operation model to meet the needs from domestic customers.

CHAIRMAN'S STATEMENT (cont'd)

For the upcoming future, it is expected that the Group will face an unfavorable market condition in its property development business for both residential and resort projects. The Group's projects are mostly in third and fourth tier cities where there are likely to be more uncertainties. Therefore, the Group will take a prudent approach by focusing on the projects under development and by introducing more sales incentives to home buyers to reduce inventories.

Despite of the current difficulties in operating environment, we are still confident that our long-term business goals will be achieved. On behalf of the Board, I would like to express my sincere appreciation to my fellow directors, management team, and employees for their contribution and dedication to the Group and my deep gratitude to our shareholders, customers, suppliers and business partners for their continuing support.

ZHU Zhangjin, Kasen
Chairman

The PRC, March 27, 2015

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OVERVIEW

Financial Review

For the year ended December 31, 2014, the Group recorded a consolidated turnover of approximately RMB3,230.3 million, representing a decrease of approximately 6.1% as compared to approximately RMB3,439.2 million for the year ended December 31, 2013.

The Group's gross profit for the year of 2014 was approximately RMB377.5 million, representing a decrease of approximately 44.3% as compared to approximately RMB677.4 million in the year of 2013 and the Group's gross profit margin in 2014 was at 11.7%, compared to 19.7% in the year of 2013.

During the year under review, the net profit attributable to owners of the Company was approximately RMB32.4 million, representing a decrease of approximately 81.3% as compared to approximately RMB173.4 million in the year of 2013. The decrease in the net profit was mainly due to (i) the substantial decrease in the delivery of properties during the year of 2014 which in turn translates into a substantial decline in the Group's revenue generated from the property development segment; (ii) the sharp increase of raw material prices for the Group's manufacturing segment; and (iii) the increase of loss suffered by a subsidiary of the Group due to increase in operational expenses during the year under review.

Review by Business Segments

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

The table below shows the total turnover of the Group by business segments for the year ended December 31, 2014 together with the comparative figures for the corresponding period of year 2013:

	2014		2013		**Y-O-Y Change**
	RMB'Million	**%**	*RMB'Million*	*%*	*%*
Manufacturing	**2,375.9**	**73.5**	1,851.9	53.8	28.3
Automotive Leather	***1,461.7***	***45.2***	*1,137.4*	*33.1*	*28.5*
Upholstered Furniture	***666.1***	***20.6***	*459.1*	*13.3*	*45.1*
Furniture Leather	***248.1***	***7.7***	*255.4*	*7.4*	*-2.9*
Property Development	**718.3**	**22.2**	1,468.1	42.7	-51.1
Retail business	**17.9**	**0.6**	16.0	0.5	11.9
Others	**118.2**	**3.7**	103.2	3.0	14.5
Total	**3,230.3**	**100.0**	3,439.2	100.0	-6.1

RESULTS OVERVIEW (cont'd)

Review by Business Segments (cont'd)

Manufacturing Business

During the year under review, the Group's manufacturing business, comprising of manufacturing of upholstered furniture, furniture leather and automotive leather, recorded a total turnover of RMB2,375.9 million, representing an increase of approximately 28.3% as compared to RMB1,851.9 million in 2013.

During the year under review, this segment recorded an operating profit of RMB80.4 million, as compared to an operating loss of RMB4.1 million in 2013. A brief discussion of the performance of the three operating divisions is as follows:

Automotive Leather

According to the statistical data published by China Association of Automobile Manufacturers, the passenger vehicle sales maintained a 10% year-on-year increase in the year of 2014 and the top six automakers accounted for approximately 80% of the market share in PRC. The market concentration ratio maintains its uprising trend and the Group is well positioned with a strong business relationship with some of the top automakers. Due to the overall favourable market environment and the Group's solid position in this industrial sector, the turnover from automotive leather division achieved a record level of RMB1,461.7 million, representing an increase of approximately 28.5% compared to RMB1,137.4 million in the year of 2013.

During the year under review, the Group acquired a new leather plant in Wuji City of Hebei Province, which will enable the Group to enhance its footprints and development within the leather manufacturing industry further to the north of the PRC, by taking advantage of the matured leather industrial chain locally in Wuji city, optimizing the geographical and industrial structure of the Group's leather development, which will be beneficial to the long-term development of the Group's leather manufacturing business as a whole.

Upholstered Furniture

Sale of upholstered furniture included finished sofa and sofa cut-and-sew with the US market as major destination. As a reputable OEM manufacturer, the Group successfully broadened its customer base by actively participating in furniture exhibitions held in the US. In addition, consolidated efforts were made at plant level to improve product efficiency and to reduce costs. As a result, turnover generated from this division amounted to RMB666.1 million in 2014 as compared to RMB459.1 million in 2013, representing a substantial increase of approximately 45.1%.

In the PRC market, the Group opened eight Design and Experience Centers and introduced medium to higher end furniture lines under the brand name of Kasen Helpdeco. Still at an experimental stage, sales from retail business in 2014 was approximately RMB17.9 million, representing an increase of approximately 11.9% as compared to RMB16.0 million in 2013.

Furniture Leather

The Group's priority in furniture leather production is to meet the internal leather requirement of its upholstered furniture division. Additionally, the Group supplied furniture leather to some major international furniture makers. The Group's sale of furniture leather was RMB248.1 million in 2014, representing a decrease of approximately 2.9% as compared to RMB255.4 million in 2013.

RESULTS OVERVIEW (cont'd)

Review by Business Segments (cont'd)

Property Development Business

As of December 31, 2014, the Group has six projects at various stages of development in different geographical locations in the PRC. Since many of the premises are under construction, fewer properties are delivered during the past year which, compounded with a downturn in the property market, resulted in a substantial decrease in turnover for the Group's property development segment. The turnover from the property development segment was RMB718.3 million in 2014, representing a decrease of approximately 51.1% as compared to RMB1,468.1 million in 2013. An operating loss generated from this segment in 2014 was RMB11.7 million, as compared to an operating profit of RMB222.4 million in 2013.

Group Property Project Portfolio as at December 31, 2014

No.	Project Name	Location	Interests Attributable to the Group	Total Site Area (sq.m.)	Status	Usage
1	Asia Bay	Boao, Hainan	92%	590,165	Under development	Residential
2	Sanya Project	Sanya, Hainan	77%	1,423,987	Under development	Water park and hotel
3	Qianjiang Continent	Yancheng, Jiangsu	100%	335,822	Under development	Residential
4	Kasen Star City	Haining, Zhejiang	100%	469,867	Under development	Residential
5	Changbai Paradise	Changbai Mountain, Jilin	89%	291,662	Under development	Residential and hotel
6	Qianjiang Oasis	Yancheng, Jiangsu	55%	108,138	Under development	Residential
Total				3,219,641		

Analysis of Properties Under Development as at December 31, 2014

No.	Project Name	Total GFA (sq.m.)	GFA under development (sq.m.)	Total Saleable GFA (sq.m.)	GFA sold as at December 31, 2014 (sq.m.)	GFA delivered as at December 31, 2014 (sq.m.)	Average Selling Price (RMB/sq.m.)
1	Asia Bay	718,665	342,435	590,165	79,853	64,844	20,158
2	Qianjiang Continent	775,292	775,292	670,065	641,105	599,031	5,647
3	Kasen Star City	1,042,588	595,171	709,009	142,036	48,131	6,168
4	Changbai Paradise	179,077	179,077	110,330	21,547	–	–
5	Qianjiang Oasis	335,301	55,556	266,206	19,558	–	–
Total		3,050,923	1,947,531	2,345,775	904,099	712,006	

MANAGEMENT DISCUSSION AND ANALYSIS (cont'd)

RESULTS OVERVIEW (cont'd)

Operating Expense, Taxation and Profit Attributable to Owners

The selling and distribution costs during the year under review increased to approximately RMB164.3 million, as compared to approximately RMB151.8 million in 2013, mainly attributable to an increase in transportation costs of approximately RMB10.5 million due to increased export sales in manufacturing business. As a result, the Group's selling and distribution costs to turnover in 2014 increased to approximately 5.1% as compared to approximately 4.4% in 2013.

The administrative costs in 2014 was approximately RMB211.7 million, representing an increase of approximately RMB31.4 million as compared to approximately RMB180.3 million in 2013. The increase was mainly due to (1) an increase of salary of approximately RMB13.8 million, including approximately RMB9.1 million increase in salary from certain number of subsidiaries newly set up both in the second half of 2013 and the second half of 2014 and (2) increase in depreciation of property, plant and equipment of approximately RMB6.9 million mainly from certain property development subsidiaries. Apart from these main changes, all other administrative costs and expenses increased slightly at a steady pace.

The Group's finance cost in 2014 was approximately RMB63.0 million, representing an increase of approximately RMB22.4 million, as compared to approximately RMB40.6 million in 2013, mainly due to (1) the increase of loan interests of approximately RMB29.3 million since the increase in bank loans made during 2014 and also the decrease in capitalisation of interests charged in the bank loans used for financing the Group's property development projects, offset by (2) decrease of loan interests from the corporate bond issued in June 2012 by approximately RMB5.7 million because approximately RMB120 million of corporate bonds were redeemed in June 2014.

The Group's other gains and losses in 2014 recorded at a net gain of approximately RMB160.2 million, representing an increase of approximately RMB172.2 million, as compared to a net loss of approximately RMB12.0 million in 2013. The significant increase was mainly due to a net gain of approximately RMB187.7 million on disposal of 1.37% of equity securities in Haining China Leather Market Co., Ltd. ("HCLM"). HCLM operates department stores in the PRC and its shares are listed on the Shenzhen Stock Exchange. The Group disposed such 1.37% of equity securities in HCLM in the open trading market on the Shenzhen Stock Exchange. For details, please refer to note 18 to the consolidated financial statements and the announcement of the Company dated August 28, 2014.

The Group's income tax in 2014 was approximately RMB102.5 million, representing a decrease of approximately RMB67.5 million, as compared to approximately RMB170.0 million in 2013. The decrease resulted from (1) a decrease in PRC income tax of approximately RMB77.5 million mainly due to a decrease in taxable profits generated by the property development business at the subsidiary level, together with (2) a decrease in PRC land appreciation tax of approximately RMB63.4 million from the property development projects, which was offset by (3) a decrease in deferred taxation credit of approximately RMB73.4 million.

With the reasons mentioned above, profit attributable to owners of the Company for the year 2014 decreased by approximately 81.3% to RMB32.4 million (2013: RMB173.4 million).

CAPITAL EXPENDITURES

Capital expenditure (excluding assets acquired through acquisition of subsidiaries during the year) in 2014 increased to approximately RMB195.5 million from approximately RMB88.3 million in 2013. The capital expenditure mainly comprised the amount of approximately RMB195.3 million spent on the purchase of property, plant and equipment for operational purpose during the year under review.

FINANCIAL RESOURCES AND LIQUIDITY

Bank and Other Borrowings

As at December 31, 2014, the Group's bank and other borrowings amounted to approximately RMB2,346.6 million, representing a 21.1% increase from approximately RMB1,938.2 million as at December 31, 2013. Besides, a wholly-owned subsidiary of the Company, Haining Schinder Tanning Co., Ltd., issued corporate bonds in the PRC on June 14, 2012 at the issue size of RMB150 million, with a term of three years, and approximately RMB120 million of corporate bonds were redeemed in June 2014. Also another wholly-owned subsidiary of the Company, Zhejiang Kasen Industrial Group Co., Ltd., issued exchangeable bonds in the PRC on December 29, 2014 at the issue size of RMB216 million, with a term of two years. For details of the corporate bonds and the exchangeable bonds, please refer to notes 28 and 26 to the consolidated financial statements respectively and the announcements of the Company dated June 14, 2012 and December 24, 2014 respectively.

Turnover Period, Liquidity and Gearing

The Group's existing inventory primarily comprised leather crust used for production, accounted for approximately 41.6% of the total inventory of approximately RMB601.9 million in 2014 (2013: approximately RMB459.5 million). In 2014, the inventory turnover period maintained at 99 days (2013: 98 days).

In 2014, the Group continued to maintain a strict credit policy. The account and bills receivables turnover days of the Group's manufacturing and retail segments maintained at 84 days in 2014 (2013: 84 days).

The accounts and bills payable turnover days of the Group's manufacturing and retail segments decreased to 81 days in 2014 (2013: 98 days).

As at December 31, 2014, the Group's current ratio was 1.52 (December 31, 2013: 1.49). The Group's cash and cash equivalent balance was approximately RMB324.4 million as at December 31, 2014 (December 31, 2013: approximately RMB560.1 million). This represents a gearing ratio of 77.4% as at December 31, 2014 (December 31, 2013: 59.3%) and a net debt-to-equity ratio of 66.4% as at December 31, 2014 (December 31, 2013: 42.1%). 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 2014, the Group's credit facilities were renewed on an on-going basis, which provided sufficient cash to finance the Group's working capital requirement during the year under review.

MATERIAL ACQUISITION AND DISPOSAL

On November 21, 2014, the Group acquired 100% equity interest in Wuji Kasen Industrial Co., Ltd ("Wuji Kasen") for the consideration of RMB23,260,000 from its connected parties. Upon completion of such acquisition, Wuji Kasen become a wholly-owned subsidiary of the Company. For details, please refer to note 32 to the consolidated financial statements and the announcement of the Company dated November 21, 2014.

Save as disclosed above, the Group did not have any material acquisitions or disposals during the year ended December 31, 2014.

CONTINGENT LIABILITIES

As at December 31, 2014, the Group had certain contingent liabilities. For details, please refer to note 39 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 36 to the consolidated financial statements.

CAPITAL COMMITMENTS

As at December 31, 2014, the Group had contracted, but not provided for, a total capital expenditure of RMB1,082.4 million (2013: RMB1,344.6 million), in which an amount of RMB997.1 million (2013: RMB1,167.7 million) was in respect of properties under development.

FOREIGN EXCHANGE EXPOSURE

The Group is principally engaged in export-related business, and transactions (including sale and procurements) were mainly denominated in US dollars, and most of the trade receivables was exposed to exchange rate fluctuation. The Group currently does not engage in any hedging activities.

EMPLOYEES AND EMOLUMENTS POLICIES

As at December 31, 2014, the Group employed a total of approximately 4,960 full time employees (December 31, 2013: approximately 4,600), including management staff, technicians, salespersons and workers. In 2014, the Group's total expense on the remuneration of employees was approximately RMB265.9 million (2013: approximately RMB208.9 million), representing approximately 8.2% (2013: 6.1%) 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) and medical insurance, discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance.

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

The Group has also adopted a share option scheme for the purpose of providing incentives to Directors, eligible employees and third party service providers. Further details in relation to the scheme are set out in the "Directors' Report" section of this report.

FUTURE PLANS AND PROSPECTS

The slowdown in Chinese economy poses many challenges to the Group's core manufacturing business with continuously rising labor costs, shortage of bank loans, and industrial wide overcapacity. However, the Group is confident that with its more than 20 years of experience in the leather and upholstery furniture industry, this segment will maintain its momentum for further growth. To enhance its core competitiveness, the Group will further invest in production machineries to offset labor cost increases. In addition, the Group will also implement innovative marketing strategies to broaden its customer base.

More specifically, the Group has established leather manufacturing plants in key strategic geographical areas such as Zhejiang, Jiangsu and Hebei Provinces. New technology and high environmental compliance are introduced in the plants of the Group to fend off competitors. With centralized raw cowhide purchasing, the Group will be able to maintain its cost competitiveness. Concerted efforts will also be made in research and development to ensure the Group's traditional advantage in leather product innovation is further enhanced.

For the upholstery furniture business, the Group has regained its reputation as a reliable OEM partner in 2014 with much increased sales. The recovery in the US economy has provided the Group with further opportunities to expand. The Group is optimistic that with a good foundation already laid out in 2014, revenue and profitability in this segment will be further improved.

For the property development business, the Group will take a more prudent approach and focus on the projects that are already under development. As many of the Group's projects are in third and fourth tiered cities where there are likely to be more uncertainties, the Group will carry out aggressive market campaigns with attractive promotion packages to reduce inventories. Given the unfavorable market condition, the Group is not expecting to expand its land acquisition while weighing out options to dispose some of its early stage projects.

The Group's other businesses, such as the PRC domestic furniture retail, water park development, and resort hotel operations, have all made positive progress in the past 12 months. However, these businesses are still at experimental stage and will not contribute significantly to the Group's result in the near future.

DIRECTORS' REPORT

The Directors present the annual report and the audited consolidated financial statements of the Company for the year ended December 31, 2014.

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, 2014 are set out in the consolidated statement of profit or loss and other comprehensive income on page 36.

FINAL DIVIDENDS

The Directors do not recommend the payment of any final dividend for the year ended December 31, 2014 (2013: final dividend of HK1.00 cent per ordinary share) and proposed that profit for the year be retained.

There is no arrangement that a shareholder of the Company has waived or agreed to waive any dividend.

CLOSURE OF REGISTER OF MEMBERS FOR AGM

For the purpose of determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from May 27, 2015 to May 29, 2015 (both days inclusive), during which period no transfer of shares of the Company will be effected. In order to be entitled to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrars in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on May 26, 2015.

DISTRIBUTABLE RESERVES OF THE COMPANY

The amount of the Company's reserves available for distribution to Shareholders as at December 31, 2014, calculated in accordance with International Financial Reporting Standards, was approximately RMB857.9 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 2014, the Group had acquired property, plant and equipment of approximately RMB195.3 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 2014 are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of the Company's share capital are set out in note 29 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year of 2014, the aggregate sale attributable to the Group's five largest customers comprised approximately 52.6% of the Group's manufacturing and retail segments sale and the sale attributable to the Group's largest customer were approximately 20.8% of the Group's manufacturing and retail segments sale.

The aggregate purchases during the year of 2014 attributable to the Group's five largest suppliers were approximately 66.6% of the Group's manufacturing and retail segments purchases and the purchases attributable to the Group's largest supplier were approximately 47.4% of the Group's manufacturing and retail segments purchases.

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

DIRECTORS

The Directors during the year of 2014 and up to the date of this report are:

Executive Directors

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

LEE Lawrence	(appointed on August 8, 2014)
ZHOU Xiaosong	(resigned on August 8, 2014)

Non-executive Director

QIU Jian Ping

Independent Non-executive Directors

SUN Steve Xiaodi
ZHOU Lingqiang
ZHANG Yuchuan

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

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

BRIEF DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

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

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

As at December 31, 2014, the interests and short positions of the Directors and the chief executives and their associates in the shares, underlying shares and debentures of the Company or any associated corporation (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 Companies (the "Model Code") as contained in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") are as follows:

(1) Long Positions in Shares of the Company

	Number of shares held, capacity and nature of interest			
Name of Directors	**Directly beneficially owned**	**Through controlled corporation**	**Total number of shares interested**	**Percentage of the Company's issued share capital**
Zhu Zhangjin ("Mr. Zhu")	12,360,000	514,798,635 *(Note)*	527,158,635	45.35%
Lee Lawrence	205,000	–	205,000	0.02%
Zhang Mingfa, Michael	1,980,000	–	1,980,000	0.17%

Notes: 514,798,635 shares are beneficially owned by Joyview Enterprises Limited ("Joyview"), a company wholly and beneficially owned by Mr. Zhu. This figure does not include the options granted to Mr. Zhu to subscribe for 2,000,000 shares under the Scheme (as defined in the section headed "Share Options" below) on March 9, 2006.

(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, 2014.

SHARE OPTION SCHEME

Particulars of the Company's share option scheme are set out in note 30 to the consolidated financial statements.

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

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

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

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

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

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

DIRECTORS' REPORT (cont'd)

SHARE OPTION SCHEME (cont'd)

Details of the share options granted, pursuant to the Scheme on March 9, 2006 and May 5, 2008 respectively, during the year ended December 31, 2014 were as follows:

	Exercise price HK$	Number of share options: Outstanding as at January 1, 2014	Lapsed from January 1, 2014 to December 31, 2014	Outstanding as at December 31, 2014	Percentage of total issued share capital	Exercisable period	Notes
Name of Director							
Zhu Zhangjin	2.38	1,000,000	–	1,000,000	0.09%	1/1/2007 to 8/3/2016	1,5,6
	2.38	1,000,000	–	1,000,000	0.09%	1/1/2008 to 8/3/2016	2,5,6
Zhou Xiaosong	2.38	1,000,000	–	1,000,000	0.09%	1/1/2007 to 8/3/2016	1,5,6
(resigned on August 8, 2014)	2.38	1,000,000	–	1,000,000	0.09%	1/1/2008 to 8/3/2016	2,5,6
	1.18	500,000	–	500,000	0.04%	1/1/2009 to 4/5/2018	3,5,6
	1.18	500,000	–	500,000	0.04%	1/1/2010 to 4/5/2018	4,5,6
Zhang Mingfa, Michael	2.38	500,000	–	500,000	0.04%	1/1/2007 to 8/3/2016	1,5,6
	2.38	500,000	–	500,000	0.04%	1/1/2008 to 8/3/2016	2,5,6
	1.18	250,000	–	250,000	0.02%	1/1/2009 to 4/5/2018	3,5,6
	1.18	250,000	–	250,000	0.02%	1/1/2010 to 4/5/2018	4,5,6
		6,500,000	–	6,500,000	0.56%		
Other employees in aggregate	2.38	5,600,000	(100,000)	5,500,000	0.47%	1/1/2007 to 8/3/2016	1,5,6
	2.38	5,600,000	(100,000)	5,500,000	0.47%	1/1/2008 to 8/3/2016	2,5,6
	1.18	2,650,000	(1,500,000)	1,150,000	0.10%	1/1/2009 to 4/5/2018	3,5,6
	1.18	2,650,000	(1,500,000)	1,150,000	0.10%	1/1/2010 to 4/5/2018	4,5,6
		23,000,000	(3,200,000)	19,800,000	1.70%		

SHARE OPTION SCHEME (cont'd)

Notes:

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

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

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

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

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

6. Except the lapsed share option stated above, during the year ended December 31, 2014, none of these share options were cancelled and exercised.

SUBSTANTIAL SHAREHOLDERS

As at December 31, 2014, the following persons (other than Directors or chief executives of the Company stated in "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures") had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

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

Notes:

1. Joyview is a company beneficially owned as to 100% by Mr. Zhu Zhangjin.

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

Save as disclosed herein, the Company has not been notified of any other person (other than a Director or a chief executive of the Company) who had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at December 31, 2014.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Other than the Scheme disclosed in the section "Share Option Scheme", at no time during the year of 2014 was the Company or any of its subsidiaries a party to any arrangements which enables the Directors of the Company acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

CONNECTED TRANSACTIONS

On November 21, 2014, the Group acquired 100% interest in Wuji Kasen for the consideration of RMB23,260,000 from two connected persons, Zhejiang Sunbridge Industrial Group Co., Ltd. ("Sunbridge") and Zhejiang Sunbridge Import and Export Company Limited ("Sunbridge I&E"). Mr. Zhu Zhangjin, an executive Director and a substantial shareholder of the Company, indirectly controls 30% of the voting power at the general meeting of Sunbridge. Sunbridge I&E is a non wholly-owned subsidiary of Sunbridge. This transaction constituted connected transaction for the Company under Chapter 14A of the Listing Rules and are subject to reporting and announcement requirements under the Listing Rules.

For further details, please refer to the announcement of the Company dated November 21, 2014.

CONTINUING CONNECTED TRANSACTIONS

During the year ended December 31, 2014, the Group entered into the following transactions with its connected persons. The transactions constituted "continuing connected transactions" for the Company under the Listing Rules, details of which are disclosed in compliance with the requirement of Chapter 14A of the Listing Rules.

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

On November 7, 2013, Yujie entered into a renewal agreement with the Group which will expire on December 31, 2016 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 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. For further details, please refer to the announcement of the Company dated November 7, 2013.

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. The Company believes that by selling wastes to Yujie, the Group will achieve an efficient management of disposal logistics and an effective supervision of its employees in its sale of wastes. Besides, the scrapped leather and other production wastes need special process to handle, and Yujie can handle this process. Given that no comparable price from the market is available, it was then agreed that the price with Yujie will be made with reference to Yujie's price from collecting similar production waste from the third parties. Since Haining Yujie Transactions have been made for many years, the Group always regularly check with Yujie for any price movement. During the year under review, the aggregate amount of the transactions under this renewal agreement was approximately RMB3,768,000 and the annual cap amount granted by the Stock Exchange was RMB5,000,000.

CONTINUING CONNECTED TRANSACTIONS (cont'd)

(2) Agreement for Sale of Upholstered Furniture to Sunbridge

On November 7, 2013 and November 27, 2014, Sunbridge entered into an agreement and supplemental agreement respectively with the Group which will expire on December 31, 2016 and, subject to compliance with Listing Rules requirements regarding connected transactions, is renewable for a term of 3 years thereafter. The pricing under this agreement was determined in accordance with: (i) a comparable market price; or (ii) by agreement between the parties based on prices no less favourable to/from third parties or reasonably agreed between the parties, if no comparable market price can be taken as a reference. Pursuant to this agreement, the Group agreed to sell upholstered furniture to Sunbridge. Sunbridge is principally engaged, through its various subsidiaries, in hardwood furniture manufacturing in the PRC and furniture retailing. Sunbridge has three production bases in the PRC. Given the Sunbridge Group's furniture manufacturing and wholesales businesses are growing rapidly, its demand for upholstered furniture is continuous. Regarding the pricing procedures, we determine the selling price for upholstered furniture sold to Sunbridge with reference to our Group's standard selling price being sold to our external customers. During the year under review, the aggregate value of the transaction under this agreement was approximately RMB4,078,000 and the annual cap amount granted by the Stock Exchange was RMB5,000,000.

For further details, please refer to the announcements of the Company dated November 7, 2013 and November 27, 2014.

(3) Agreement for Sale of Leather to Sunbridge

On November 7, 2013 and November 27, 2014, Sunbridge entered into an agreement and supplemental agreement respectively with the Group which will expire on December 31, 2016 and, subject to compliance with the Listing Rules requirements regarding connected transactions, is renewable for a term of 3 years thereafter. The pricing under this agreement was determined with reference to: (i) a comparable market price; or (ii) by agreement between the parties based on prices no less favourable than that to/from third parties or as reasonably agreed between the parties, if no comparable market price may be taken as a reference.

Pursuant to this agreement, the Group agreed to supply leather to Sunbridge ("Sunbridge Purchases"). The Group is a leading upholstered furniture and leather products manufacturer based in the PRC. It manufactures upholstered furniture products in accordance with the designs of its customers. Sunbridge is principally engaged, through its various subsidiaries, in hardwood furniture manufacturing in the PRC and furniture retailing. Sunbridge has three production bases in the PRC. As the Sunbridge Group's furniture manufacturing business is growing rapidly, its demand for upholstered furniture and leather imported from the PRC is continuous. Regarding the pricing procedures, we determine the selling price for leather sold to Sunbridge with reference to our Group's standard selling price being sold to our external customers. During the year under review, the aggregate value of the Sunbridge Purchases under this agreement was approximately RMB9,001,000 and the annual cap amount granted by the Stock Exchange was RMB13,000,000.

For further details, please refer to the announcements of the Company dated November 7, 2013 and November 27, 2014.

CONTINUING CONNECTED TRANSACTIONS (cont'd)

(4) Agreement for Purchase of Wooden Products from Sunbridge

On November 7, 2013, Sunbridge entered into an agreement with the Group which will expire on December 31, 2016 and, subject to compliance with Listing Rules requirements regarding connected transactions, is renewable for a term of 3 years thereafter. The pricing under this agreement was determined in accordance with: (i) a comparable market price; or (ii) by agreement between the parties based on prices no less favourable to/from third parties or reasonably agreed between the parties, if no comparable market price can be taken as a reference. In general, the Company would compare the quotations obtained from various potential suppliers and determine the price after taking into consideration the quality of the wooden products to be supplied by the relevant suppliers.

Pursuant to this agreement, the Group agreed to purchase wooden products from Sunbridge and its subsidiaries. Sunbridge is principally engaged, through its various subsidiaries, in hardwood furniture manufacturing in China and furniture retailing. Sunbridge has three production bases in the PRC. As the Company's property development business is growing rapidly, it is anticipated that the demand for wooden products, which are widely used in the development of residential projects and tourism-related properties, will increase substantially. Regarding the pricing procedures, we obtain the quotation from Sunbridge and quotations of similar products from two external suppliers for comparison. During the year under review, the aggregate value of the transaction under this agreement was approximately RMB11,724,000 and the annual cap amount granted by the Stock Exchange was RMB55,000,000.

For further details, please refer to the announcement of the Company dated November 7, 2013.

Pursuant to Rule 14A.56 of the Listing Rules, the Board engaged the auditor of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditor has reported their factual findings on these procedures to the Board that:

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

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

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

d. with respect to the aggregate amount of each of the continuing connected transactions set out as above, nothing has come to the auditor's attention that causes the auditor to believe that the disclosed continuing connected transactions have exceeded the maximum aggregate annual value disclosed in the previous announcements dated November 7, 2013 and November 27, 2014 made by the Company in respect of each of the disclosed continuing connected transactions.

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

CONTINUING CONNECTED TRANSACTIONS (cont'd)

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 and in the interests of the Company and its shareholders as a whole.

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, 2014.

RELATED PARTY TRANSACTIONS

During the year ended December 31, 2014, the Group had certain transactions with "related parties" as defined under the applicable accounting standards. None constitutes a discloseable connected transaction as defined under the Listing Rules.

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 or a controlling shareholder of the Company or 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, 2014.

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, 2014.

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, 2014.

PRE-EMPTIVE RIGHTS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION OF INDEPENDENCE

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

EVENTS AFTER THE REPORTING PERIOD

The Company had certain events after the reporting period. For details, please refer to note 44 to the consolidated financial statements.

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, 2014 have been reviewed by the Audit Committee.

REMUNERATION COMMITTEE

A remuneration committee of the Company (the "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.

NOMINATION COMMITTEE

A nomination committee of the Company (the "Nomination Committee") was established by the Company to make recommendations to the Board on nominations, appointment or reappointment of Directors and Board succession. The Nomination Committee comprises two independent non-executive Directors and an executive Director. Mr. SUN Steve Xiaodi is the chairman of the Nomination Committee.

AUDITOR

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

On behalf of the Board

ZHU Zhangjin, Kasen
Director

The PRC, March 27, 2015

CORPORATE GOVERNANCE REPORT

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

The Company has complied with code provisions ("CG Code Provisions") set out in the Code on Corporate Governance Practices and Corporate Governance Code (the "CG Code") as stated in Appendix 14 of the Listing Rules throughout the year ended December 31, 2014, except for the following deviation:

CODE PROVISION A.2.1

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Specific enquiries have been made with all Directors, who have confirmed that, during the year ended December 31, 2014, each of them has complied with the provisions with the required standards as set out in the Model Code.

BOARD OF DIRECTORS

The primary responsibilities of the Board are to establish long term strategies, administrate and oversee the operations and financial policies and set up and regularly review the Company's performance. As at the year ended December 31, 2014, the Board comprised seven members, including three executive Directors, one non-executive Director and three independent non-executive Directors. The Board members for the year ended December 31, 2014 and up to the date of this annual report are shown below:

BOARD OF DIRECTORS (cont'd)

Executive Directors

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

LEE Lawrence	(appointed on August 8, 2014)
ZHOU Xiaosong	(resigned on August 8, 2014)

Non-executive Director

QIU Jian Ping

Independent Non-executive Directors

SUN Steve Xiaodi
ZHOU Lingqiang
ZHANG Yuchuan

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

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

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

NON-EXECUTIVE DIRECTOR

The existing non-executive Directors (including the independent non-executive Directors) were appointed for a term of three years commenced from February 22, 2013, January 1, 2015 and March 1, 2015 and are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Articles.

INDUCTION AND CONTINUING DEVELOPMENT OF DIRECTORS

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

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

The Company has put in place an on-going training and professional development programme for Directors. During the year ended December 31, 2014, all Directors of the Company namely, Mr. Zhu Zhangjin, Mr. Zhou Xiaosong (resigned on August 8, 2014), Mr. Lee Lawrence (appointed on August 8, 2014), Mr. Zhang Mingfa, Michael, Mr. Qiu Jian Ping, Mr. Sun Steve Xiaodi, Mr. Zhou Lingqiang and Mr. Zhang Yuchuan received regular briefings and updates on the Group's business, operations, risk management and corporate governance matters. Furthermore, all of the Directors attended in-house seminars conducted which covers the topics of disclosure requirements under the Listing Rules and SFO during the year under review. All Directors are requested to provide the Company with their respective training records pursuant to the CG Code.

BOARD COMMITTEES

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

Audit Committee

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

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

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

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

BOARD COMMITTEES (cont'd)

Audit Committee (cont'd)

During the year ended December 31, 2014, the Audit Committee performed the following Company's corporate governance functions:

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

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

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

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

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

During the year ended December 31, 2014, the Audit Committee held two meetings to review the annual and interim results, and to make recommendations to improve the Company's internal control. The chief financial officer, internal audit officer and representatives of the external auditors attended the meetings.

Remuneration Committee

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

Mr. ZHOU Lingqiang	*(Chairman of the Remuneration Committee)*
Mr. LEE Lawrence	(appointed on August 8, 2014)
Mr. ZHANG Yuchuan	
Mr. ZHOU Xiaosong	(resigned on August 8, 2014)

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

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

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

BOARD COMMITTEES (cont'd)

Remuneration Committee (cont'd)

During the year ended December 31, 2014, the Remuneration Committee held one meeting to review and approve the remuneration package of the Board members and the senior management.

Pursuant to paragraph B.1.5 of the CG Code, the remuneration of Directors and the members of the senior management by band for the year ended December 31, 2014 is set out below:

Remuneration band	Number of individuals
Nil to HK$1,000,000	15
HK$1,000,001 – HK$1,500,000	1
HK$2,000,001 – HK$2,500,000	Nil

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

Nomination Committee

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

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

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

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

During the year ended December 31, 2014, the Nomination Committee held one meeting to discuss about the appointment of Mr. Lee Lawrence as the Company's executive Director.

NUMBER OF MEETINGS AND DIRECTORS' ATTENDANCE

The individual attendance record of each Director at the meetings of the Board, Remuneration Committee, Audit Committee and Nomination Committee as well as general meeting of the Company during the year ended December 31, 2014 is set out below:

	Attendance/Number of Meetings				
Name of Directors	**Board Meeting**	**Remuneration Committee Meeting**	**Audit Committee Meeting**	**Nomination Committee Meeting**	**Annual General Meeting held on May 30, 2014**
Executive Directors					
Mr. ZHU Zhangjin, Kasen *(Chairman)*	6/6	N/A	N/A	N/A	1/1
Mr. ZHOU Xiaosong *(resigned on August 8, 2014)* *(Member of Remuneration Committee, resigned on August 8, 2014)*	4/4	1/1	N/A	N/A	1/1
Mr. ZHANG Mingfa, Michael *(Member of Nomination Committee)*	6/6	N/A	N/A	1/1	1/1
Mr. LEE Lawrence *(appointed on August 8, 2014)* *(Member of Remuneration Committee, appointed on August 8, 2014)*	2/2	N/A	N/A	N/A	N/A
Non-executive Director					
Mr. QIU Jian Ping	6/6	N/A	N/A	N/A	1/1
Independent Non-executive Directors					
Mr. SUN Steve Xiaodi *(Chairman of Audit Committee, and Chairman of Nomination Committee)*	6/6	N/A	2/2	1/1	1/1
Mr. ZHOU Lingqiang *(Member of Audit Committee, Member of Nomination Committee and Chairman of Remuneration Committee)*	6/6	1/1	2/2	1/1	1/1
Mr. ZHANG Yuchuan *(Member of Audit Committee and Remuneration Committee)*	6/6	1/1	2/2	N/A	1/1

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended December 31, 2014.

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, 2014 amounted to approximately RMB3.1 million and RMB0.7 million, respectively.

INTERNAL CONTROL

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

SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

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

The rights of Shareholders and the procedures for them to demand a poll on resolutions at shareholders' meetings are contained in the Articles. Details of such rights to demand a poll and the poll procedures are included in all circulars to Shareholders prior to December 31, 2014 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.

SHAREHOLDER RIGHTS AND INVESTOR RELATIONS (cont'd)

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

There has been no changes in the Articles during the year ended December 31, 2014.

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

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

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 36 to 116, which comprise the consolidated statement of financial position as at December 31, 2014, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at December 31, 2014 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
March 27, 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2014

	NOTES	2014 RMB'000	2013 RMB'000
Turnover	5	**3,230,327**	3,439,200
Cost of sales		**(2,852,868)**	(2,761,776)
Gross profit		**377,459**	677,424
Other income	6	**21,578**	50,784
Selling and distribution costs		**(164,335)**	(151,803)
Administrative expenses		**(211,651)**	(180,315)
Other gains and losses	7	**160,237**	(12,002)
Share of losses of associates		**–**	(4,253)
Finance costs	8	**(62,964)**	(40,653)
Profit before tax	9	**120,324**	339,182
Income tax expenses	11	**(102,494)**	(169,967)
Profit for the year		**17,830**	169,215
Other comprehensive income (loss)			
Items that may be subsequently reclassified to profit or loss:			
Fair value (loss) gain on available-for-sale investments		**(230,720)**	364,216
Income tax on fair value change of available-for-sale investments		**57,680**	(91,054)
Exchange difference arising on translation		**(481)**	(231)
Reclassification from revaluation reserve to profit or loss on disposal of available-for-sale investments		**(197,972)**	–
Reclassification from revaluation reserve to profit or loss on income tax relating to disposal of available-for-sale investments		**49,493**	–
		(322,000)	272,931
Total comprehensive (loss) income for the year		**(304,170)**	442,146
Profit (loss) for the year attributable to:			
Owners of the Company		**32,418**	173,422
Non-controlling interests		**(14,588)**	(4,207)
		17,830	169,215
Total comprehensive (loss) income attributable to:			
Owners of the Company		**(289,582)**	446,353
Non-controlling interests		**(14,588)**	(4,207)
		(304,170)	442,146
Earnings per share	13		
Basic		**RMB2.79 cents**	RMB14.92 cents
Diluted		**RMB2.79 cents**	RMB14.90 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 2014

	NOTES	2014 RMB'000	2013 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**923,774**	752,721
Prepaid lease payments – non-current portion	15	**73,704**	67,362
Intangible assets	16	**938**	1,162
Interests in associates	17	**–**	–
Available-for-sale investments – non-current portion	18	**223,056**	859,213
Deferred tax assets	19	**82,456**	91,602
Deposits paid for acquisition of land use rights		**68,458**	20,000
Other long-term assets		**–**	620
		1,372,386	1,792,680
CURRENT ASSETS			
Available-for-sale investments – current portion	18	**190,920**	–
Inventories	20	**601,911**	459,541
Properties under development	21	**3,249,721**	3,355,805
Properties held for sale	21	**1,426,793**	1,140,048
Amounts due from non-controlling interests of subsidiary		**4,769**	–
Trade, bills and other receivables	22	**1,655,427**	1,528,423
Prepaid lease payments – current portion	15	**2,581**	2,129
Tax recoverable		**13,790**	13,987
Prepaid land appreciation tax		**41,050**	52,491
Pledged bank deposits	23	**244,495**	199,028
Restricted bank deposits for property development business	23	**9,101**	29,615
Bank balances and cash	23	**324,388**	560,147
		7,764,946	7,341,214
CURRENT LIABILITIES			
Trade, bills and other payables	24	**1,856,171**	1,896,980
Deposits received in respect of pre-sale of properties		**1,044,265**	1,023,479
Bank and other borrowings – due within one year	25	**1,666,765**	1,480,098
Exchangeable bonds	26	**216,000**	–
Tax payable		**166,909**	253,849
Amount due to non-controlling interests of subsidiaries	27	**127,474**	114,374
Other long-term liabilities – current portion	28	**33,222**	145,345
		5,110,806	4,914,125
NET CURRENT ASSETS		**2,654,140**	2,427,089
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,026,526**	4,219,769

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (cont'd)

AT DECEMBER 31, 2014

	NOTES	2014 RMB'000	2013 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	19	**228,369**	326,289
Bank and other borrowings – due after one year	25	**679,865**	458,116
Other long-term liabilities	28	**10,984**	17,160
		919,218	801,565
NET ASSETS		**3,107,308**	3,418,204
CAPITAL AND RESERVES			
Share capital	29	**1,400**	1,400
Reserves		**2,961,307**	3,260,017
Equity attributable to owners of the Company		**2,962,707**	3,261,417
Non-controlling interests		**144,601**	156,787
TOTAL EQUITY		**3,107,308**	3,418,204

The consolidated financial statements on pages 36 to 116 were approved and authorized for issue by the Board of Directors on March 27, 2015 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, 2014

	Attributable to owners of the Company											
	Share capital RMB'000	Share premium RMB'000	Statutory reserve RMB'000 (note 31)	Special reserve RMB'000 (note 31)	Share option reserve RMB'000	Other reserve RMB'000 (note 31)	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, 2013	1,400	1,317,487	189,309	167,983	14,038	(41,703)	338,315	–	828,235	2,815,064	96,675	2,911,739
Profit for the year	–	–	–	–	–	–	–	–	173,422	173,422	(4,207)	169,215
Total other comprehensive income (loss)	–	–	–	–	–	–	273,162	(231)	–	272,931	–	272,931
Total comprehensive income (loss) for the year	–	–	–	–	–	–	273,162	(231)	173,422	446,353	(4,207)	442,146
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	63,499	63,499
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	–	820	820
At December 31, 2013	1,400	1,317,487	189,309	167,983	14,038	(41,703)	611,477	(231)	1,001,657	3,261,417	156,787	3,418,204
Profit for the year	–	–	–	–	–	–	–	–	32,418	32,418	(14,588)	17,830
Total other comprehensive loss	–	–	–	–	–	–	(321,519)	(481)	–	(322,000)	–	(322,000)
Total comprehensive income (loss) for the year	–	–	–	–	–	–	(321,519)	(481)	32,418	(289,582)	(14,588)	(304,170)
Dividend recognized as distribution *(note 12)*	–	–	–	–	–	–	–	–	(9,227)	(9,227)	–	(9,227)
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	99	99	2,402	2,501
Release upon lapse of share options	–	–	–	–	(1,271)	–	–	–	1,271	–	–	–
At December 31, 2014	**1,400**	**1,317,487**	**189,309**	**167,983**	**12,767**	**(41,703)**	**289,958**	**(712)**	**1,026,218**	**2,962,707**	**144,601**	**3,107,308**

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2014

	NOTES	2014 RMB'000	2013 RMB'000
OPERATING ACTIVITIES			
Profit before tax		**120,324**	339,182
Adjustments for:			
Allowance for inventories		**21,594**	7,303
Reversal of impairment loss recognized in respect of trade and other receivables		**(3,206)**	(5,756)
Amortization of intangible assets		**460**	436
Release of prepaid lease payments		**2,206**	2,129
Depreciation of property, plant and equipment		**65,467**	56,290
Finance costs		**62,964**	40,653
Impairment loss recognized in respect of trade and other receivables		**9,175**	6,392
Impairment loss recognized in respect of property under development		**9,015**	–
Impairment loss recognized in respect of property, plant and equipment		**278**	–
Gain on disposal of available-for-sale investments		**(190,820)**	–
Dividend income from available-for-sale investments		**(4,034)**	(5,985)
Interest income		**(7,516)**	(19,007)
Gain on disposal of property, plant and equipment		**(2,619)**	(400)
Share of losses of associates		**–**	4,253
Gain on bargain purchase of a subsidiary		**–**	(4,849)
Others		**–**	34
Operating cash flows before movements in working capital		**83,288**	420,675
(Increase) decrease in inventories		**(163,964)**	9,622
Increase in properties under development and held for sale		**(215,551)**	(75,199)
(Increase) decrease in trade, bills and other receivables		**(168,592)**	284,092
Decrease in trade, bills and other payables		**(49,220)**	(435,934)
Increase (decrease) in deposits received in respect of pre-sale properties		**20,786**	(518,601)
Increase (decrease) in amounts due to non-controlling interest of subsidiaries		**13,100**	(65,315)
Decrease (increase) in restricted bank deposits		**20,514**	(23,358)
Cash used in operations		**(459,639)**	(404,018)
Land Appreciation Tax ("LAT") paid		**(71,840)**	(52,423)
Income taxes paid		**(87,600)**	(65,101)
NET CASH USED IN OPERATING ACTIVITIES		**(619,079)**	(521,542)

CONSOLIDATED STATEMENT OF CASH FLOWS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2014

	NOTES	2014 RMB'000	2013 RMB'000
INVESTING ACTIVITIES			
Release of pledged bank deposits		**838,128**	738,391
Interest received		**7,516**	19,007
Proceeds from disposal of available-for-sale investments		**207,325**	440
Dividend income from available-for-sale investments		**4,034**	5,299
Proceeds from disposal of property, plant and equipment		**1,714**	251
Addition to pledged bank deposits		**(883,595)**	(696,604)
Purchase of property, plant and equipment		**(150,614)**	(87,759)
Acquisition of assets through acquisition of a subsidiary	32	**(23,162)**	1,323
Purchase of intangible assets		**(236)**	(588)
Proceeds from disposal of investment in associates		**–**	10
Increase in amounts due from non-controlling interest of subsidiaries		**(4,769)**	–
Decrease in other long-term assets		**620**	–
Proceed from sale of assets held for sale		**–**	1,883
NET CASH USED IN INVESTING ACTIVITIES		**(3,039)**	(18,347)
FINANCING ACTIVITIES			
Repayment of bank and other borrowings		**(2,743,533)**	(2,439,255)
Interest paid		**(110,551)**	(109,083)
Dividend paid	12	**(9,227)**	–
Repayment to related parties		**–**	(290)
Underwriting fee paid in relation to issuance of corporate bonds by a subsidiary		**(570)**	(3,700)
Bank and other borrowings raised		**3,154,920**	3,074,247
Proceeds from issuance of exchangeable bonds by a subsidiary		**216,000**	–
Advance from a related party		**–**	16,600
Capital contribution from non-controlling interests of subsidiaries		**2,501**	820
Redemption of corporate bonds by a subsidiary		**(120,000)**	–
Repayment of other long-term liabilities		**(2,700)**	–
NET CASH GENERATED FROM FINANCING ACTIVITIES		**386,840**	539,339
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(235,278)**	(550)
Effect of changes in exchange rates		**(481)**	(231)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**560,147**	560,928
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**324,388**	560,147
Represented by:			
Bank balances and cash		**324,388**	560,147

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

1. GENERAL

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

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

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

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

In the current year, the Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board ("IASB") for the first time in the current year, which are effective from the Group's financial period beginning on January 1, 2014.

Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting
IFRIC 21	Levies

Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities

The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- obtain funds from one or more investors for the purpose of providing them with investment management services;

- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and

- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

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

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets

The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurements.

IFRIC 21 Levies

IFRIC 21 Levies addresses the issue as to when to recognise a liability to pay a levy imposed by a government. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

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

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

New and revised IFRSs issued but not yet effective

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

IFRS 9	Financial Instruments[1]
IFRS 14	Regulatory Deferral Accounts[2]
IFRS 15	Revenue from Contracts with Customers[3]
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations[5]
Amendments to IAS 1	Disclosure Initiative[5]
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[5]
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions[4]
Amendments to IFRSs	Annual Improvements to IFRSs 2010-2012 Cycle[6]
Amendments to IFRSs	Annual Improvements to IFRSs 2011-2013 Cycle[4]
Amendments to IFRSs	Annual Improvements to IFRSs 2012-2014 Cycle[5]
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants[5]
Amendments to IAS 27	Equity Method in Separate Financial Statements[5]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception[5]

1 Effective for annual periods beginning on or after January 1, 2018
2 Effective for first annual IFRS financial statements beginning on or after January 1, 2016
3 Effective for annual periods beginning on or after January 1, 2017
4 Effective for annual periods beginning on or after July 1, 2014
5 Effective for annual periods beginning on or after January 1, 2016
6 Effective for annual periods beginning on or after July 1, 2014, with limited exceptions

The directors of the Company anticipate that the application of the above new and revised IFRSs will have no material impact on the consolidated financial statement except for the application of IFRS 15 which may have impact on the disclosure as described below.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

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

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The directors of the Company anticipate that the application of IFRS 15 in the future may have an impact on disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Basis of consolidation (cont'd)

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

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

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

3. 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 acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Interest in associates

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Interest in associates (cont'd)

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.

Revenue recognition

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Revenue recognition (cont'd)

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

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

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

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Properties under development and held for sale

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

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

Leasing

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

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

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

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.

3. 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) using exchange rate prevailing at the end of the reporting period. Income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity under the heading of the translation reserve.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Borrowing costs

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

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

Government grants

Government grants are 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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Share-based payments transactions (cont'd)

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

Share options granted to consultants

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

Taxation

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

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Taxation (cont'd)

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

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

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

Intangible assets

Intangible assets acquired separately

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

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

Intangible assets acquired in a business combination

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Inventories

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

Impairment of tangible and intangible assets

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

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

Financial instruments

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (cont'd)

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

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

Loan and receivables

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

Available-for-sale investments

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

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

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

3. 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (cont'd)

***Financial assets** (cont'd)*

Impairment of financial assets (cont'd)

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

Financial liabilities and equity

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

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

Effective interest method

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

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

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

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

Equity instruments

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

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

Exchangeable bonds

The exchangeable bonds issued by the Group are classified as financial liabilities in accordance with the substance of the contractual arrangements and the definitions of a financial liability. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the equity instruments other than the bond issuer's own equity is a derivative.

At initial recognition, the Group choose to designate the entire instrument as a whole based on its fair value through profit or loss.

Transaction costs that relate to the issue of the exchangeable bonds are recognized in profit and loss during the year.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (cont'd)

Derivative financial instruments

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

Embedded derivatives

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

Derecognition

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

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

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, 2014, the carrying amount of inventories is approximately RMB601,911,000 (2013: RMB459,541,000) (net of allowance for inventories of RMB29,607,000 (2013: RMB11,365,000)).

Estimated impairment of properties under development and held for sale

Net realizable value for properties under development is determined by reference to management estimates of the selling price based on prevailing market conditions, less applicable variable selling expenses and the anticipated costs to completion. Net realizable value for properties held for sale is determined by reference to management estimates of the selling price based on prevailing market conditions, less applicable variable selling expenses. During the course of their assessment, management may make reference to property valuations conducted by independent qualified professional valuers based on comparable market prices. Management will revise these estimates if there is a change in market condition or demand. If actual market conditions are less favorable than those projected by management, additional adjustments to the value of properties under development and properties held for sale may be required. As at December 31, 2014, the aggregate carrying amount of properties under development and held for sale is approximately RMB4,676,514,000 (2013: RMB4,495,853,000) (net of allowance for property under development of RMB9,015,000 (2013: nil)).

As at December 31, 2014, the aggregate carrying amount of deposits paid for acquisition of land for development is approximately RMB724,007,000 (2013: RMB756,861,000), which will be transferred to property under development upon obtaining the title deeds of the underlying land.

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, 2014, the aggregate carrying amount of trade and other receivables is RMB545,334,000 (2013: RMB442,895,000), net of allowance for doubtful debts of RMB64,786,000 (2013: RMB130,926,000).

5. SEGMENT INFORMATION AND REVENUE

(a) Segment information

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

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

– Properties development;

– Retailing of furniture ("Retail"); and

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

Segment revenues and results

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

Revenue

For the year ended December 31, 2014

	Manufacturing	**Properties development**	**Retail**	**Others**	**Segment total**	**Eliminations**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
TURNOVER							
External sales	**2,375,828**	**718,348**	**17,913**	**118,238**	**3,230,327**	**–**	**3,230,327**
Inter-segment sales	**968**	**–**	**–**	**5,050**	**6,018**	**(6,018)**	**–**
Total	**2,376,796**	**718,348**	**17,913**	**123,288**	**3,236,345**	**(6,018)**	**3,230,327**

For the year ended December 31, 2013

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

5. SEGMENT INFORMATION AND REVENUE (cont'd)

(a) Segment information (cont'd)

Segment revenues and results *(cont'd)*

Results

	2014 *RMB'000*	2013 *RMB'000*
Segment results		
– Manufacturing *(note)*	**80,353**	(4,142)
– Properties development	**(11,660)**	222,403
– Retail	**(1,340)**	(9,725)
– Others	**(45,573)**	(38,366)
	21,780	170,170
Unallocated corporate expenses	**(2,953)**	(4,080)
Unallocated other gains and losses	**(997)**	(1,724)
Gain on bargain purchase of a subsidiary	**–**	4,849
Profit for the year	**17,830**	169,215

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

Inter-segment sales are charged at prevailing market rates.

Note: Included in the result of manufacturing segment was a gain on disposal of available-for-sale investments amounting to RMB190,820,000 (note 18). The available-for-sale investments were invested and managed under the manufacturing segment.

5. SEGMENT INFORMATION AND REVENUE (cont'd)

(a) Segment information (cont'd)

Segment assets and liabilities

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

Segment assets

	2014	2013
	RMB'000	*RMB'000*
Manufacturing	**2,547,622**	2,712,444
Properties development	**6,252,332**	6,050,348
Retail	**20,382**	10,929
Others	**264,508**	302,303
Total segment assets	**9,084,844**	9,076,024
Unallocated	**52,488**	57,870
Consolidated assets	**9,137,332**	9,133,894

Segment liabilities

	2014	2013
	RMB'000	*RMB'000*
Manufacturing	**2,531,720**	2,522,182
Properties development	**3,373,871**	3,098,222
Retail	**12,655**	17,921
Others	**101,982**	67,668
Total segment liabilities	**6,020,228**	5,705,993
Unallocated	**9,796**	9,697
Consolidated liabilities	**6,030,024**	5,715,690

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

- all assets are allocated to operating segments other than head office assets;
- all liabilities are allocated to operating segments other than head office liabilities; and
- all intergroup balances and investment costs have been eliminated in internal reports when presenting segment assets and liabilities to CODM.

5. SEGMENT INFORMATION AND REVENUE (cont'd)

(a) Segment information (cont'd)

Geographical information

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

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

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

	Revenue from external customers Year ended December 31,		Non-current assets At December 31,	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
United States	**444,787**	234,574	**–**	–
PRC, including Hong Kong	**2,601,400**	3,062,840	**1,066,685**	840,474
Europe	**91,026**	92,068	**–**	–
Japan	**40,245**	37,308	**189**	1,391
Others	**52,869**	12,410	**–**	–
	3,230,327	3,439,200	**1,066,874**	841,865

Information about major customers

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

	Revenue Year ended December 31,		Trade receivable At December 31,	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Customer A[1]	**496,976**	492,443	**114,554**	92,620
Customer B[1]	**454,631**	486,813	**163,875**	165,466

1 Revenue from Manufacturing

5. SEGMENT INFORMATION AND REVENUE (cont'd)

(b) Revenue

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

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

	2014	2013
	RMB'000	*RMB'000*
Sale of goods		
Manufacturing		
Upholstered furniture	**666,059**	459,128
Furniture leather	**248,099**	255,359
Automotive leather	**1,461,670**	1,137,377
Residential properties	**718,348**	1,468,074
Retail of upholstered furniture	**17,913**	16,041
	3,112,089	3,335,979
Provision of services		
Others *(note)*	**118,238**	103,221
Total	**3,230,327**	3,439,200

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

6. OTHER INCOME

Details of other income are as follows:

	2014	2013
	RMB'000	*RMB'000*
Government grants *(note)*	**8,053**	11,939
Income from sales of scrap materials	**630**	4,645
Interest income	**7,516**	19,007
Dividend income from available-for-sale investments	**4,034**	5,985
Rental income	**1,345**	4,401
Others	**–**	4,807
	21,578	50,784

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

7. OTHER GAINS AND LOSSES

	2014	2013
	RMB'000	*RMB'000*
Reversal of impairment loss recognized in respect of trade and other receivables	**3,206**	5,756
Impairment loss recognized in respect of property under development	**(9,015)**	–
Impairment loss recognized in respect of property, plant and equipment	**(278)**	–
Gain on disposal of property, plant and equipment	**2,619**	400
Net foreign exchange loss	**(9,517)**	(2,962)
Impairment loss recognized in respect of trade and other receivables	**(9,175)**	(6,392)
Donation	**(1,794)**	(1,482)
Penalty	**(138)**	(9,571)
Gain on disposal of available-for-sale investments *(note 18)*	**190,820**	–
Gain on bargain purchase of a subsidiary	**–**	4,849
Gain on disposal of an associate	**–**	10
Loss on sale of assets held for sale	**–**	(44)
Others	**(6,491)**	(2,566)
	160,237	(12,002)

8. FINANCE COSTS

	2014	2013
	RMB'000	*RMB'000*
Interest on:		
Bank borrowings wholly repayable within five years	**93,318**	94,899
Corporate bonds wholly repayable within five years	**8,971**	14,653
Other borrowings not wholly repayable within five years	**4,978**	6,840
Total borrowing costs	**107,267**	116,392
Less: Amounts capitalized in respect of properties under development *(note 21)*	**(44,303)**	(75,739)
	62,964	40,653

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

9. PROFIT BEFORE TAX

	2014 RMB'000	2013 RMB'000
Profit before tax has been arrived at after charging:		
Amortization of intangible assets	**460**	436
Depreciation of property, plant and equipment	**65,467**	56,290
Total depreciation and amortization	**65,927**	56,726
Release of prepaid lease payments	**2,206**	2,129
Auditor's remuneration	**3,800**	3,800
Cost of inventories recognized as expenses (including allowance of inventories of RMB21,594,000 (2013: RMB7,303,000))	**2,194,915**	1,697,933
Cost of properties recognized as cost of sale	**573,597**	994,224
Operating lease rentals in respect of land and buildings	**19,525**	25,190
Total employee benefit expenses (including directors' emoluments)	**265,852**	208,860

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

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

2014

	Zhu Zhangjin, Kasen ("Mr. Zhu") RMB'000 (note i)	Zhou Xiaosong RMB'000 (note ii)	Zhang Mingfa, Michael RMB'000	Sun Steve Xiaodi RMB'000	Zhou Lingqiang RMB'000	Zhang Yuchuan RMB'000	Lee Lawrence RMB'000 (note ii)	Qiu Jian Ping RMB'000	Total RMB'000
Fees	–	–	–	143	143	143	–	–	429
Other emoluments									
Salaries and other benefits	800	245	420	–	–	–	125	–	1,590
Contributions to retirement benefits schemes	15	8	15	–	–	–	–	–	38
Total emoluments	815	253	435	143	143	143	125	–	2,057

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

2013

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

Notes:

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

(ii) Mr. Zhou Xiaosong resigned as an executive director of the Company with effect from August 8, 2014. Mr. Lee Lawrence was appointed as an executive director on August 8, 2014.

Two (2013: 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 three (2013: three) individuals were as follows:

	2014 ***RMB'000***	2013 *RMB'000*
Basic salaries and other benefits	**1,367**	1,590
Contributions to retirement benefits schemes	**42**	71
	1,409	1,661

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

Their emoluments were within the following bands:

	2014	2013
Nil to HK$1,000,000	**3**	3

During the years ended 2014 and 2013, 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 years ended 2014 and 2013.

11. INCOME TAX EXPENSES

	2014	2013
	RMB'000	*RMB'000*
Current year		
– PRC enterprise income tax	**58,824**	131,468
– Japan	**112**	91
	58,936	131,559
(Overprovision) underprovision of income tax in previous years		
– PRC enterprise income tax	**(956)**	3,876
PRC Land appreciation tax ("LAT")	**26,115**	89,516
Deferred tax *(note 19)*	**18,399**	(54,984)
	102,494	169,967

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

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

Haining Schinder Tanning Co., Ltd, one subsidiary of the Group obtained a High and New Technology Enterprise status for the periods from January 1, 2013 to December 31, 2015, respectively, and entitled to a preferential tax rate of 15% for the years ended December 31, 2014 and 2013.

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

11. INCOME TAX EXPENSES (cont'd)

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

	2014	2013
	RMB'000	*RMB'000*
Profit before tax	**120,324**	339,182
Tax rate applicable to the major operation of the Group	**25%**	25%
Tax at the domestic income tax rate	**30,081**	84,796
Tax effect of share of result of associates	**–**	1,063
Tax effect of disposal of associates	**(6,241)**	(3,748)
Tax effect of expenses not deductible for tax purpose	**25,541**	34,207
Tax effect of income not taxable for tax purpose	**(12,507)**	(13,320)
Tax effect of deductible temporary differences not recognized	**9,946**	3,424
Utilization of deductible temporary differences previously not recognized	**(1,876)**	(3,010)
PRC LAT	**26,115**	89,516
Tax effect of PRC LAT	**(6,529)**	(22,379)
Tax effect of tax losses not recognized	**43,819**	20,873
Utilization of tax losses previously not recognized	**(3,006)**	(23,407)
Tax effect of tax preference	**(1,893)**	(1,924)
Underprovision (overprovision) in previous years	**(956)**	3,876
Taxation for the year	**102,494**	169,967

12. DIVIDENDS

	2014	2013
	RMB'000	*RMB'000*
Dividends recognised as distributions during the year:		
2013 final, paid – HK1.00 cent per share (equivalent to approximately RMB0.79 cent) (2013: nil)	**9,227**	–

No dividend has been proposed during 2014 nor since the end of the reporting period.

13. EARNINGS PER SHARE

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

Profit for the year

	2014	2013
	RMB'000	*RMB'000*
Profit for the purposes of basic and diluted earnings per share, being profit attributable to owners of the Company	**32,418**	173,422

Number of shares

	2014	2013
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,162,322,985**	1,162,322,985
Effect of dilutive potential ordinary shares – share options	**1,400,675**	1,544,806
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,163,723,660**	1,163,867,791

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 2014 and 2013.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and equipment	Motor vehicles	Furniture, fixtures and equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST						
At January 1, 2013	442,555	250,036	51,343	34,849	78,892	857,675
Additions	13,325	33,274	5,330	4,637	31,193	87,759
Acquired on acquisition of subsidiaries	–	–	539	194	77,809	78,542
Disposal	–	(11)	(524)	(26)	–	(561)
Transfers	94,137	164	–	–	(94,301)	–
Transfers from property under development	129,963	–	–	–	–	129,963
At December 31, 2013	679,980	283,463	56,688	39,654	93,593	1,153,378
Additions	5,866	20,473	2,260	3,588	163,063	195,250
Acquired on acquisition of a subsidiary *(note 32)*	–	500	175	7	31,290	31,972
Disposal	–	(19,118)	(843)	(96)	–	(20,057)
Transfers	1,321	4,548	–	–	(5,869)	–
Transfers from property under development *(note 21)*	10,993	–	–	1,780	–	12,773
At December 31, 2014	**698,160**	**289,866**	**58,280**	**44,933**	**282,077**	**1,373,316**
DEPRECIATION AND IMPAIRMENT						
At January 1, 2013	123,735	164,758	27,645	28,743	–	344,881
Provided for the year	30,594	16,870	2,134	6,692	–	56,290
Eliminated on disposal	–	(4)	(490)	(20)	–	(514)
At December 31, 2013	154,329	181,624	29,289	35,415	–	400,657
Depreciation expense	37,634	17,409	6,216	4,208	–	65,467
Impairment loss recognised in profit or loss	–	76	197	5	–	278
Eliminated on disposal	–	(16,090)	(736)	(34)	–	(16,860)
At December 31, 2014	**191,963**	**183,019**	**34,966**	**39,594**	**–**	**449,542**
CARRYING AMOUNTS						
At December 31, 2014	**506,197**	**106,847**	**23,314**	**5,339**	**282,077**	**923,774**
At December 31, 2013	525,651	101,839	27,399	4,239	93,593	752,721

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

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

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

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

As at December 31, 2014, the title deeds of buildings with carrying amount of RMB1,409,000 (2013: RMB168,935,000) has not been obtained. The directors believe that the relevant title deeds will be granted in the due course and the absence of official certificate does not impair the value of the relevant properties of the Group.

15. PREPAID LEASE PAYMENTS

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

	2014	2013
	RMB'000	*RMB'000*
Analyzed for reporting purposes as:		
Non-current assets	**73,704**	67,362
Current assets	**2,581**	2,129
	76,285	69,491

16. INTANGIBLE ASSETS

	Computer software *RMB'000*
COST	
At January 1, 2013	4,608
Additions	588
Acquisition of subsidiaries	405
At December 31, 2013	5,601
Additions	236
At December 31, 2014	**5,837**
ACCUMULATED AMORTIZATION	
At January 1, 2013	4,003
Provided for the year	436
At December 31, 2013	4,439
Provided for the year	460
At December 31, 2014	**4,899**
CARRYING VALUES	
At December 31, 2014	**938**
At December 31, 2013	1,162

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

17. INTERESTS IN ASSOCIATES

	2014	2013
	RMB'000	*RMB'000*
Cost of investment in associates, unlisted	**–**	24,962
Share of post-acquisition losses	**–**	(24,962)
	–	–

Particulars of the associates indirectly held by the Company at December 31, 2014 and 2013 are as follows:

Name of associate	**Place of registration**	**Registered capital**	**Proportion of registered capital indirectly held by the Company**		**Principal activities**
			2014	2013	
			%	%	
Zhejiang Liema Furniture Co. Ltd. ("Liema Furniture") 浙江獵馬傢俬有限公司	PRC	USD7,000,000	–	45.5	Production and sales of upholstered furniture

Note: On September 23, 2014, the Group disposed all its shares in Liema Furniture for an amount of RMB1.

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

	2014	2013
	RMB'000	*RMB'000*
Total assets	**N/A**	151,051
Total liabilities	**N/A**	(155,234)
Net assets	**N/A**	(4,183)
Group's share of net assets of associates	**N/A**	–
Revenue	**45,117**	86,461
Loss for the year	**(10,427)**	(31,732)
Group's share of loss of associates for the year	**–**	(4,253)

17. INTERESTS IN ASSOCIATES (cont'd)

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

	RMB'000
Accumulated unrecognized share of losses at January 1, 2013	2,242
Unrecognized share of loss of an associate for the year ended 2013	3,193
Eliminated as disposal of an associate	(2,242)
Accumulated unrecognized share of losses at December 31, 2013	3,193
Unrecognized share of loss of an associate for the year ended 2014	4,744
Eliminated as disposal of an associate	(7,937)
Accumulated unrecognized share of losses at December 31, 2014	–

18. AVAILABLE-FOR-SALE INVESTMENTS

	2014 ***RMB'000***	2013 *RMB'000*
Equity securities:		
– Listed	**413,660**	858,272
– Unlisted	**316**	941
	413,976	859,213
Analysed for reporting purpose as:		
– Current assets	**190,920**	–
– Non-current assets	**223,056**	859,213
	413,976	859,213

The listed securities represent 26,000,000 shares (2.32% equity interest) (2013: 41,302,800 shares (3.69% equity interest)) in Haining China Leather Market Co., Ltd ("HCLM"). The principal activity of HCLM is the operation of department stores in the PRC. The shares of HCLM are listed in the Shenzhen Stock Exchange.

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

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

During the year, the Group disposed of certain listed equity securities and unlisted equity securities with carrying amount of RMB213,892,000 and RMB585,000, respectively. A gain on disposal of RMB187,747,000 and RMB3,073,000 have been recognised in profit or loss for the year, respectively.

As detailed in note 26, 12,000,000 shares of HCLM have been provided as collateral to the issuance of exchangeable bonds. The exchangeable bond holders have a conversion option exercisable from June 29, 2015 to December 28, 2016 to convert to the HCLM shares at an initial price of RMB18. As such, the 12,000,000 HCLM shares are presented as current assets as at December 31, 2014. The remaining 14,000,000 HCLM shares have been pledged for bank borrowings.

19. DEFERRED TAXATION

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

	Income on relocation of manufacturing plant	Unrealized profit on intra-group transactions	Fair value available-for-sale investments	LAT provision	Tax losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At January 1, 2013	(119,994)	21,000	(112,772)	13,149	–	(198,617)
Charge to other comprehensive income	–	–	(91,054)	–	–	(91,054)
Credit to profit or loss	29,114	5,734	–	12,657	7,479	54,984
At December 31, 2013	(90,880)	26,734	(203,826)	25,806	7,479	(234,687)
Charge to other comprehensive loss	–	–	107,173	–	–	107,173
Credit to profit or loss	–	(543)	–	(12,576)	(5,280)	(18,399)
At December 31, 2014	**(90,880)**	**26,191**	**(96,653)**	**13,230**	**2,199**	**(145,913)**

19. DEFERRED TAXATION (cont'd)

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

	2014	2013
	RMB'000	*RMB'000*
Deferred tax assets	**82,456**	91,602
Deferred tax liabilities	**(228,369)**	(326,289)
	(145,913)	(234,687)

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

	2014	2013
	RMB'000	*RMB'000*
Impairment of property, plant and equipment	**11,185**	10,908
Impairment of property under development	**9,015**	–
Allowance for bad and doubtful debts	**64,786**	130,926
Allowance for inventories	**29,607**	11,365
	114,593	153,199

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

Under the EIT Law and Implementation Regulations, PRC withholding income tax is applicable to interest and dividends payable to investors that are "non-tax resident enterprises", which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such interest or dividends have their sources within the PRC. Under such circumstances, dividends distributed from the PRC subsidiaries to off-shore group entities shall be subject to the withholding tax at 10% or a lower treaty rate. Under tax treaty, withholding tax rate on distributions to Hong Kong resident companies is 5%. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB1,410,317,000 (2013: RMB1,392,203,000).

19. DEFERRED TAXATION (cont'd)

The directors of the Company represent that the undistributed earnings of the PRC subsidiaries as of December 31, 2014 will be set aside for expansion of operations, and therefore the Group has not provided for the deferred tax liabilities in respect of withholding tax on the remaining undistributed earnings of the Group's PRC entities as the Group is able to control the timing of reversal of such temporary difference and it is probable that such temporary difference would not be reversed foreseeable.

At the end of the reporting period, the Group has unused tax losses of RMB360,113,000 (2013: RMB220,048,000) available for offset against future profits. A deferred tax asset has been recognized in respect of RMB8,796,000 (2013: RMB29,917,000) of such losses. No deferred tax asset has been recognized in respect of the remaining RMB351,317,000 (2013: RMB190,131,000) due to the unpredictability of future profit streams. Included in unrecognized tax losses are losses of RMB32,384,000 (2013: RMB26,472,000) can be carried forward indefinitely. The remaining RMB318,933,000 (2013: RMB163,659,000) expires in the following years:

	2014	2013
	RMB'000	*RMB'000*
2014	**–**	4,913
2015	**4,888**	4,888
2016	**36,840**	37,028
2017	**49,613**	49,613
2018	**58,229**	67,217
2019	**169,363**	–
	318,933	163,659

20. INVENTORIES

	2014	2013
	RMB'000	*RMB'000*
Raw materials	**108,202**	100,386
Work in progress	**286,264**	205,359
Finished goods	**207,445**	153,796
Total, net of allowance for inventories	**601,911**	459,541

21. PROPERTIES UNDER DEVELOPMENT AND HELD FOR SALE

	RMB'000
COST	
At January 1, 2013	4,381,801
Addition of development expenditure	1,145,162
Acquired on acquisition of subsidiaries	93,077
Sales of properties held for sales	(994,224)
Transfer to property, plant and equipment	(129,963)
At December 31, 2013	4,495,853
Addition of development expenditure	776,046
Sales of properties held for sales	(573,597)
Transfer to property, plant and equipment	(12,773)
At December 31, 2014	**4,685,529**
IMPAIRMENT	
At January 1, 2013	–
Provided for the year	–
At December 31, 2013	–
Provided for the year	(9,015)
At December 31, 2014	**(9,015)**
CARRYING AMOUNTS	
At December 31, 2014	**4,676,514**
At December 31, 2013	4,495,853

The carrying values are presented as:

	2014	2013
	RMB'000	*RMB'000*
Properties under development	**3,249,721**	3,355,805
Properties held for sales	**1,426,793**	1,140,048
	4,676,514	4,495,853

21. PROPERTIES UNDER DEVELOPMENT AND HELD FOR SALE (cont'd)

During the year, interest capitalized in the properties under development was an amount of RMB44,303,000 (2013: RMB75,739,000). The properties under development and property held for sales are located in the PRC and are held under medium term land use rights.

22. TRADE, BILLS AND OTHER RECEIVABLES

	2014 RMB'000	2013 RMB'000
Trade receivables	**554,210**	513,689
Less: Allowance for doubtful debts	**(42,458)**	(108,312)
	511,752	405,377
Bills receivables	**44,751**	31,178
Deposits paid for acquisition of land for development *(note a)*	**724,007**	756,861
Advance payment for purchase of inventory *(note b)*	**63,956**	28,017
Deposit and prepayments	**89,270**	81,128
Prepaid other taxes	**87,841**	77,076
Prepaid land demolishing expenses *(note c)*	**100,268**	111,268
Other receivables	**55,910**	60,132
Less: allowance for doubtful debts for other receivables	**(22,328)**	(22,614)
	1,655,427	1,528,423

Notes:

(a) The Group had made 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 acquisitions. The amount included RMB636,856,000 (2013: RMB636,856,000) as deposits for the land acquisition through Sanya Kasen Property Development Co., Ltd. (三亞卡森置業有限公司) ("Sanya Kasen"), a 77% subsidiary of the Company, at the end of 2014.

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

(c) The Group has proposed to acquire certain land and had prepaid expenses to the local government for demolishing the buildings located on the land. The amount is refundable if the Group does not proceed with the acquisition. During the year ended December 31, 2014, RMB11,000,000 was refunded by the local government (2013: approximately RMB37,130,000 was transferred to properties under development and held for sale).

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

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

	2014	2013
	RMB'000	*RMB'000*
Aged:		
Within 60 days	**439,594**	341,865
61 – 90 days	**92,944**	72,433
91 – 180 days	**19,576**	15,141
181 – 365 days	**3,154**	3,881
Over 1 year	**1,235**	3,235
	556,503	436,555

The Group's trade receivable balances included debtors which are related parties, details of which are set out in note 41(b).

Before accepting any new customers under the manufacturing segment, the Group reviews the credit quality and defines credit limits by customer. Limits attributed to customers are reviewed once a year. The Group maintains a defined credit policy to assess the credit quality of the trade customers. The collection is closely monitored to minimize any credit risk associated with these trade debtors. There has not been significant change in credit quality of the debtors. 94% (2013: 94%) of the debts are neither past due nor impaired. Those customers are mainly engaged in manufacturing of automotive leather in the PRC with good repayment history.

Included in the Group's trade receivable balances are debtors with aggregate carrying amount of RMB18,950,000 (2013: RMB23,453,000) which are past due but not impaired at the end of the reporting period.

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

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

	2014 *RMB'000*	2013 *RMB'000*
Aged:		
Within 60 days	–	1,030
61 – 90 days	**2,674**	7,569
91 – 180 days	**11,887**	7,738
181 – 365 days	**3,154**	3,881
Over 1 year	**1,235**	3,235
	18,950	23,453

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:

	2014 *RMB'000*	2013 *RMB'000*
Balance at beginning of the year	**130,926**	130,290
Amounts written off during the year as uncollectible *(note)*	**(72,109)**	–
Impairment loss recognized in profit or loss	**9,175**	6,392
Reversal of impairment loss recognized in prior years	**(3,206)**	(5,756)
Balance at end of the year	**64,786**	130,926

Note: The amounts written off during the year consisted mostly of the trade receivables from Sofas UK, approximately RMB67,539,000, which finished bankruptcy liquidation process in 2014.

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

Aging of impaired trade and other receivables

	2014	2013
	RMB'000	*RMB'000*
Aged:		
Within 60 days	**20,348**	15,954
61 – 90 days	**4,518**	3,930
91 – 180 days	**694**	483
181 – 365 days	**363**	389
Over 1 year	**38,863**	110,170
	64,786	130,926

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

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

(a) Pledged bank deposits

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

The deposits carry a fixed interest rate range from 2.6% to 3% (2013: 2.6% to 3%) per annum. The pledged bank deposits will be released upon the settlement of relevant bill payables and bank borrowings.

(b) Restricted bank deposits for property development business

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

The deposits carry average interest rates of 0.35% (2013: 0.35%) per annum.

(c) Bank balances and cash

Bank balances and cash comprised of bank deposits with short maturity at prevailing deposit interest rate of 0.35% (2013: 0.35%) per annum and cash on hand.

24. TRADE, BILLS AND OTHER PAYABLES

	2014	2013
	RMB'000	*RMB'000*
Trade payables	**1,291,137**	1,419,727
Bills payables	**284,876**	146,000
Other payables *(note)*	**152,980**	179,110
Deposit received for partial disposal of interests in a subsidiary	**25,000**	25,000
Advance from a director *(note 41(b))*	**9,404**	9,370
Advance from a related company *(note 41(b))*	**3,432**	36,532
Other tax payable	**38,244**	29,426
Accruals	**51,098**	51,815
	1,856,171	1,896,980

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

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

	2014	2013
	RMB'000	*RMB'000*
Within 60 days	**1,155,932**	1,287,422
61 – 90 days	**64,710**	131,351
91 – 180 days	**261,314**	38,332
181 – 365 days	**39,856**	39,184
1 – 2 years	**27,885**	43,345
Over 2 years	**26,316**	26,093
	1,576,013	1,565,727

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

In prior year, the Group received deposits from independent third parties, amounting to RMB25,000,000 in relation to the disposal of 2% equity interests in Hainan Boao Kasen Property Development Co., Ltd ("Hainan Boao"), a non-wholly owned subsidiary. The considerations of the disposals of Hainan Boao were approximately RMB43,910,000. The disposal of Hainan Boao was not yet completed at December 31, 2014.

25. BANK AND OTHER BORROWINGS

	2014	2013
	RMB'000	*RMB'000*
Bank borrowings	**2,292,848**	1,933,592
Other borrowings	**53,782**	4,622
Total	**2,346,630**	1,938,214
Analyzed as:		
Secured	**2,067,446**	1,406,690
Unsecured	**279,184**	531,524
	2,346,630	1,938,214
Denominated in United States Dollars (foreign currency)	**184,105**	125,899
Denominated in Renminbi	**2,150,710**	1,778,898
Denominated in Euro (foreign currency)	**–**	17,078
Denominated in Japanese Yen (foreign currency)	**11,815**	16,339
	2,346,630	1,938,214

Carrying amount repayable*:

	2014	2013
	RMB'000	*RMB'000*
Within one year	**1,666,765**	1,480,098
One to five years	**634,865**	458,116
After five years	**45,000**	–
	2,346,630	1,938,214
Less: Amount due within one year shown under current liabilities	**(1,666,765)**	(1,480,098)
Amount due after one year	**679,865**	458,116

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

Bank borrowings are fixed-rate borrowings and carry interests ranging from 1.73% to 13% (2013: 1.16% to 12.5%) per annum.

25. BANK AND OTHER BORROWINGS (cont'd)

Other borrowings mainly represent loans advanced by independent financial institutions and carry fixed interest rate ranged from 3% to 12.5% (2013: 3%) per annum. The amount are repayable in full in 2018.

Included in unsecured bank borrowings are borrowings guaranteed by Mr. Zhu, the chief executive officer and a controlling shareholder of the Company, and a related company in which Mr. Zhu has significant influence and beneficial interests. The total guarantee amount is RMB673,500,000 (2013: RMB654,500,000). An amount of RMB45,000,000 (2013: RMB73,500,000) were guaranteed by certain independent third parties.

Certain borrowings were also secured by the assets owned by the Group and details of the assets are set out in note 36.

26. EXCHANGEABLE BONDS

Zhejiang Kasen Industrial Group Co., Limited ("Zhejiang Kasen"), a wholly-owned subsidiary of the Company incorporated in the PRC, issued RMB216,000,000 exchangeable bonds ("Exchangeable Bonds") on December 29, 2014 with a term of two years. The Exchangeable Bonds are exchangeable at the option of the Bondholders for a portion of the HCLM shares currently held by Zhejiang Kasen. The initial coupon rate is fixed at 7.5% per annum.

The issuance of the Exchangeable Bonds is guaranteed by the Company. In addition, Zhejiang Kasen also provided an aggregate of 12,000,000 HCLM shares (available-for-sale investments) as collateral, pursuant to which the Bondholders may exercise their rights to exchange for HCLM shares during the exercise period based on the face value of the Exchangeable Bonds as subscribed by the Bondholders and the total number of HCLM shares as provided by Zhejiang Kasen, on a pro rata basis, upon the market price of the HCLM shares reaching a level exceeding an initial exercise price. The initial exercise price was set at RMB18 per HCLM share. The Bondholders will have a right to exchange the Exchangeable Bonds for HCLM shares during the exercise period.

During the period from 15 trading days and 6 trading days prior to the commencement of the exercise period; or during the exercise period, for a consecutive period of 10 trading days, in the event that for at least 5 trading days thereof, the closing price of the HCLM shares is equal to or more than 120% of the exercise price of the Exchangeable Bonds, or the carrying value of the Exchangeable Bonds is less than RMB10,000,000, the board of directors of Zhejiang Kasen may elect to redeem all or part of the outstanding Exchangeable Bonds. Further, during the exercise period, in the event that in any 20 consecutive trading days, the closing price of the HCLM shares for at least 10 trading days is lower than 90% of the initial exercise price, the board of directors of Zhejiang Kasen may exercise its discretion to lower the exercise price under the terms of the Exchangeable Bonds. The Bondholders have the right to back sale the Exchangeable Bonds to the Company at a price equal to the face value of the bond plus accrued interest.

The Exchangeable Bonds is a financial liability, and the management has decided to measure the entire instrument as a whole based its fair value through profit and loss. The directors of the Company estimated that the fair value on initial recognition was equal to the transaction price of RMB216,000,000.

26. EXCHANGEABLE BONDS (cont'd)

The directors of the Company estimated that the fair value of the Exchangeable Bonds as of December 31, 2014 approximated to its value on initial recognition, given there were 2 days difference between the issuance date and December 31, 2014, and there was no material change in the price of HCLM shares.

The Bondholders can exercise the conversion option 6 month after issuance, therefore, the Exchangeable Bonds was presented as current liability as of December 31, 2014.

27. AMOUNT DUE TO NON-CONTROLLING INTERESTS OF SUBSIDIARIES

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

28. OTHER LONG TERM LIABILITIES

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

At the end of the second year from the issue of the Corporate Bonds, eligible investors have the right to put the Corporate Bonds held by them, in whole or in part, back to Haining Schinder Tanning at a total consideration equivalent to the total face value of the corresponding Corporate Bonds. As of June 14, 2014, being the end of the second year from the issue of the Corporate Bonds, Haining Schinder Tanning has redeemed Corporate Bonds at total consideration equivalent to the total face value of the corresponding Corporate Bonds amounted to RMB120,000,000 and agreed with the Corporate Bond-holders that the coupon rate on the third year of the remaining Corporate Bonds at 8.1% per annum. The carrying value at December 31, 2014 is RMB29,747,000 and presented as current liability.

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

The issuing costs were adjusted to RMB6,270,000, the remaining part RMB570,000 (2013: RMB3,700,000) was paid during the year.

The effective interest rate of the Corporate Bonds for the last 1-year is 10.19% (initial 2-year period: 10.41%) per annum.

Other long term liabilities as of December 31, 2014 also include the provision for retirement benefits and other long term debts from rehabilitation plan of Melx Co., Ltd. amounting to RMB14,459,000, of which RMB3,475,000 was classified as current liabilities.

29. SHARE CAPITAL

	Number of ordinary shares at US$0.00015 each	*US$'000*
Authorized share capital of the Company:		
At January 1, 2013, December 31, 2013 and December 31, 2014	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, 2013, December 31, 2013 and December 31, 2014	1,162,322,985	174,348	1,400

30. 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, 2014, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 19,800,000 (2013: 23,000,000), representing 1.70% (2013: 1.98%) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company on October 20, 2005 (representing 101,404,536 shares of the Company), without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the total shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

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

30. SHARE OPTION (cont'd)

No share-based payment expense has been recorded during the years ended December 31, 2014 and 2013 as the share options granted by the Company were fully vested in prior years.

The following tables disclose details of the Company's share options held by the directors and eligible employees of the Company. The tables disclose movements in such holdings during the years ended December 31, 2013 and 2014:

Exercise price *HK$*	Date of grant	Vesting period	Exercisable period	Outstanding at January 1, 2013 and December 31, 2013	Lapsed during the year ended December 31, 2014	Outstanding at, December 31, 2014
2.38	March 9, 2006	9.3.2006 – 31.12.2006	1.1.2007 – 8.3.2016	8,100,000	(100,000)	8,000,000
2.38	March 9, 2006	9.3.2006 – 31.12.2007	1.1.2008 – 8.3.2016	8,100,000	(100,000)	8,000,000
				16,200,000	(200,000)	16,000,000
1.18	May 5, 2008	5.5.2008 – 31.12.2008	1.1.2009 – 4.5.2018	3,400,000	(1,500,000)	1,900,000
1.18	May 5, 2008	5.5.2008 – 31.12.2009	1.1.2010 – 4.5.2018	3,400,000	(1,500,000)	1,900,000
				6,800,000	(3,000,000)	3,800,000
Total				23,000,000	(3,200,000)	19,800,000
Exercisable at the end of the reporting period				23,000,000		19,800,000
Weighted average exercise price (HK$)				2.03		2.15

30. SHARE OPTION (cont'd)

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

Exercise price *HK$*	Date of grant	Vesting period	Exercisable period	Outstanding at January 1, 2013 and December 31, 2013	Changed from director to employee during the year ended December 31, 2014 (note)	Outstanding at December 31, 2014
2.38	March 9, 2006	9.3.2006 – 31.12.2006	1.1.2007 – 8.3.2016	2,500,000	(1,000,000)	1,500,000
2.38	March 9, 2006	9.3.2006 – 31.12.2007	1.1.2008 – 8.3.2016	2,500,000	(1,000,000)	1,500,000
1.18	May 5, 2008	5.5.2008 – 31.12.2008	1.1.2009 – 4.5.2018	750,000	(500,000)	250,000
1.18	May 5, 2008	5.5.2008 – 31.12.2009	1.1.2010 – 4.5.2018	750,000	(500,000)	250,000

Note: Mr. Zhou Xiaosong resigned as a director of the Company with effect from August 8, 2014, but he was still an employee in the Group as of December 31, 2014.

The above table includes the share options held by the directors appointed and resigned during the year ended December 31, 2014 and no variation in 2013.

31. RESERVES

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

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

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

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

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

32. ACQUISITION OF ASSETS THROUGH ACQUISITION OF A SUBSIDIARY

On November 21, 2014, the Group acquired the entire equity interest of Wuji Kasen Industrial Co., Limited ("Wuji Kasen") (無極卡森實業有限公司) from Zhejiang Sunbridge Industrial Group Company Limited ("Sunbridge"), a related party, for a consideration of RMB23,260,000.

Wuji Kasen is a company established in the PRC with limited liability for production, processing and trading of leather business in the PRC. At the date of completion of the acquisition of Wuji Kasen, it was under development stage and thus no business has been commenced. Accordingly this transaction has been accounted for as an acquisition of assets as the acquisition does not meet the definition of a business combination.

32. ACQUISITION OF ASSETS THROUGH ACQUISITION OF A SUBSIDIARY (cont'd)

Assets acquired and liabilities recognized at the date of acquisition:

	RMB'000
Net assets acquired:	
Prepaid lease payments	9,000
Property, plant and equipment	31,972
Deposits paid for acquisition of land use rights	4,533
Bank balances and cash	98
Other payables	(22,343)
Net assets	23,260
Consideration	23,260
Net cash outflow arising on acquisition:	
Consideration paid in cash	23,260
Less: Bank balances and cash acquired	(98)
	23,162

33. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2014	2013
	RMB'000	*RMB'000*
Financial assets		
Loans and receivables (including cash and cash equivalents)	**1,268,337**	1,374,131
Available-for-sale investments	**413,976**	859,213
Financial liabilities		
Amortized cost	**4,245,680**	3,988,672
Fair value through profit or loss	**216,000**	–

(b) Financial risk management objectives and policies

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

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

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

Market risk

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to the fixed rate pledged bank deposits, bank and other borrowings, and other long term liabilities as set out in notes 23, 25 and 28 respectively. It is the Group's policy to keep its borrowings at fixed rate of interest so as to minimize the cash flow interest rate risk.

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

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

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

33. FINANCIAL INSTRUMENTS (cont'd)

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

Market risk *(cont'd)*

Interest rate risk (cont'd)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point (2013: 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 (2013: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended December 31, 2014 would increase/decrease by RMB2,167,000 (2013: increase/decrease by RMB2,958,000). This is mainly attributable to the Group's exposure to interest rates on its bank balances and restricted bank balances variable-rate.

Foreign currency risk

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

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

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

	Assets		**Liabilities**	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
USD	**178,032**	186,123	**272,469**	174,315
HKD	**651**	399	**15**	321
GBP	**1,076**	1,134	**–**	–
EURO	**–**	–	**17,108**	17,084

33. FINANCIAL INSTRUMENTS (cont'd)

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

***Market risk** (cont'd)*

Foreign currency risk (cont'd)

Sensitivity analysis

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

5% (2013: 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, 2014, if the functional currency of the entities had been strengthened by 5% against USD and Euro, profit for the year would have been increased by RMB3,541,000 (2013: decreased by RMB443,000) and RMB642,000 (2013: RMB641,000) respectively, and there would be equal and opposite impact on profit for the year if the functional currency of the entities has been weakened by 5% against USD and Euro. It is mainly as a result of foreign exchange losses on translation of USD and Euro denominated trade, bills and other receivables and bank balances and cash cannot be compensated by foreign exchange gains on translation of USD and Euro denominated trade, bills and other payables and bank and other borrowings.

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

Other price risk

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

Sensitivity analysis

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

If the price of the listed equity instrument had been 5% higher/lower, available-for-sale investments valuation reserve would increase/decrease by RMB15,512,000 (2013: RMB32,185,000) for the Group as a result of the changes in fair value of available-for-sale investments. If the price of Exchangeable Bonds had been 5% higher/lower, there would be a loss/gain by RMB8,100,000 (2013: nil) for the Group as a result of the changes in fair value of Exchangeable Bonds.

33. FINANCIAL INSTRUMENTS (cont'd)

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

Credit risk

As at December 31, 2014, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties and financial guarantees provided by the Group is arising from the carrying amount of the respective recognized financial assets as stated in the consolidated statement of financial position and the amount of contingent liabilities in relation to financial guarantee issued by the Group as disclosed in note 39.

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

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

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

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

Liquidity risk

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

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

Other than continuously monitoring the actual cash flows by management, the Group also relies on bank and other borrowings as a significant source of liquidity. As at December 31, 2014, the Group has available unutilized short-term bank loan facilities of approximately RMB671,890,000 (2013: RMB455,541,000) as a liquidity management resource.

33. FINANCIAL INSTRUMENTS (cont'd)

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

***Liquidity risk** (cont'd)*

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

	Weighted average effective interest rate %	0 – 60 days RMB'000	61 – 90 days RMB'000	91 – 365 days RMB'000	1 – 2 years RMB'000	Over 2 years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount at December 31, 2014 RMB'000
2014								
Non-derivative financial liabilities								
Trade, bills and other payables	–	1,741,829	–	–	–	–	1,741,829	1,741,829
Bank and other borrowings	6.51	156,574	429,902	1,208,225	595,555	154,557	2,544,813	2,346,630
Amounts due to non-controlling interests of a subsidiaries	–	127,474	–	–	–	–	127,474	127,474
Exchangeable Bonds	7.5	–	–	16,200	232,200	–	248,400	216,000
Other long-term liabilities	8.1	–	–	32,430	–	–	32,430	29,747
Total		2,025,877	429,902	1,256,855	827,755	154,557	4,694,946	4,461,680

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

33. FINANCIAL INSTRUMENTS (cont'd)

(c) Fair-value

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

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

Fair value measurements recognized in the statement of financial position

The following tables provide an analysis of financial instruments that are measured at fair value on a recurring basis subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. There is no transfer between level 1 and level 2 in the years ended December 31, 2014 and 2013.

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

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

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

Financial assets/liabilities	Fair value as at December 31, 2014 *RMB'000*	Fair value as at December 31, 2013 *RMB'000*	Fair value hierarchy	Valuation technique and key input
Available-for-sale investments listed in a stock exchange	**413,660**	858,272	Level 1	Quoted bid prices in an active market.
Exchangeable Bonds	**216,000**	N/A	Level 2	Based on quoted bid price in an active market indirectly *(note)*

Note: As disclosed in note 26, the directors of the Company estimated that the fair value of Exchangeable Bonds as at December 31, 2014 approximated to that of the initial recognition value, which was determined with reference to the issuance price at initial recognition.

34. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debts, which includes the bank and other borrowings disclosed in note 25, advances from a director and a related company disclosed in note 41(b), other long-term liabilities disclosed in note 28 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.

35. 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$1,500 (HK$1,250 before June 2014) 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 RMB11,337,000 (2013: RMB10,167,000) represents contributions paid and payable to the above schemes by the Group in respect of the current accounting period.

36. PLEDGE OF ASSETS

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

	2014	2013
	RMB'000	*RMB'000*
Buildings	**300,048**	117,010
Prepaid lease payments	**68,611**	24,800
Pledged bank deposits	**244,495**	199,028
Available-for-sale investments	**222,740**	–
Properties under development and held for sale	**2,260,130**	2,347,584
	3,096,024	2,688,422

37. 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:

	2014	2013
	RMB'000	*RMB'000*
Within one year	**18,053**	20,902
In the second to fifth year inclusive	**21,368**	39,019
Over five years	**13,147**	16,630
	52,568	76,551

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

38. CAPITAL AND OTHER COMMITMENTS

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

	2014	2013
	RMB'000	*RMB'000*
Expenditure contracted for but not provided in the consolidated financial statements in respect of		
– Acquisition of property, plant and equipment	**52,861**	120,720
– Properties under development	**997,106**	1,167,650
Expenditure authorized but not contracted in respect of		
– Acquisition of land use rights	**32,405**	56,236
	1,082,372	1,344,606

39. CONTINGENT LIABILITIES

The Group provided guarantees of RMB450,465,000 (2013: RMB328,718,000) at December 31, 2014 to banks in favour of its customers in respect of the mortgage loans provided by the banks to those customers for the purchase of the Group's properties. These guarantees provided by the Group to the banks will be released upon receiving the building ownership certificate of the respective properties by the banks from the customers as a pledge for security to the mortgage loans granted. The directors consider that the fair value of the above guarantees is insignificant on initial recognition and at the report dates as it is not probable that an outflow in settlement will be required.

40. INFORMATION OF FINANCIAL POSITION OF THE COMPANY

The information of financial position of the Company as at December 31, 2014 is as follows:

	Note	**2014**	2013
		RMB'000	*RMB'000*
ASSETS			
Long term equity investments in subsidiaries		**816,439**	851,702
Other receivables		**325**	254
Amounts due from subsidiaries		**37,807**	19,757
Bank balances and cash		**6,142**	599
		860,713	872,312
LIABILITIES			
Other payables		**1,393**	1,321
		1,393	1,321
NET ASSETS		**859,320**	870,991
CAPITAL AND RESERVES			
Share capital		**1,400**	1,400
Reserves	*(a)*	**857,920**	869,591
TOTAL EQUITY		**859,320**	870,991

Note:

(a) Reserve of the Company

	The Company				
	Share premium	**Special reserve**	**Share option reserve**	**Accumulated losses**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at January 1, 2013	1,317,487	168,659	14,038	(619,820)	880,364
Loss for the year	–	–	–	(10,773)	(10,773)
As at December 31, 2013	1,317,487	168,659	14,038	(630,593)	869,591
Release upon lapse of share options	–	–	(1,271)	–	(1,271)
Dividend recognized as distribution	–	–	–	(9,227)	(9,227)
Loss for the year	–	–	–	(1,173)	(1,173)
As at December 31, 2014	**1,317,487**	**168,659**	**12,767**	**(640,993)**	**857,920**

41. 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**	**2014** ***RMB'000***	2013 *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	**3,768**	4,110
Starcorp Corporation Pty., Ltd. ("Starcorp")	*(i)*	Sales of upholstered furniture by the Group	**–**	338
Haining Xingying Furniture Co., Ltd. ("Haining Xingying") 海寧星瑩傢俱有限公司	*(i)*	Sales of leather by the Group	**7**	341
		Sales of upholstered furniture by the Group	**61**	809
		Purchase of wooden products by the Group	**8,292**	26,463
Zhejiang Sunbridge Industrial Group Company Limited ("Sunbridge")	*(i)*	Purchase of wooden products by the Group	**3,333**	10,808
Haining Home Point Furniture Co., Ltd ("Haining Home Point") 海寧家典傢俱有限公司	*(i) (iii)*	Sales of leather by the Group	**8,994**	–
		Sales of upholstered furniture by the Group	**4,017**	–
		Purchase of wooden products by the Group	**99**	–

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

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

Related parties	*Notes*	Nature of transactions	2014 *RMB'000*	2013 *RMB'000*
Liema Furniture	*(ii)*	Sales of leather by the Group	**6,663**	5,036
		Sales of upholstered furniture by the Group	**14**	–
		Rental expenses	**–**	1,733
		Utilities expenses	**–**	314
		Purchase of wooden furniture	**313**	56
Youge	*(ii)*	Purchase of kitchen utensils furniture	**–**	2,331

Notes:

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

(ii) Liema Furniture and Youge are associates of the Group before. Investment of Liema Furniture was disposed on September 23, 2014, and no longer be the related party from then on. Investment of Youge was disposed on October 17, 2013, and no longer be the related party from then on.

(iii) Sunbridge acquired Haining Home Point on September 29, 2014, thus, Haining Home Point became the related party of the Group this year.

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

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

Name of related parties	*Notes*	Amount due from related parties		Max amount due from related parties		Amount due to related parties		Max amount due to related parties	
		2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
		RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Trade in nature									
Haining Xingying	*(i)*	**–**	1,004	**–**	1,004	**13,020**	39,697	**19,082**	39,697
Liema Furniture	*(i)*	**–**	4,389	**–**	4,389	**–**	–	**–**	–
Starcorp	*(i)*	**1,393**	1,388	**1,403**	1,388	**–**	–	**–**	–
Yujie	*(i)*	**1,120**	1,094	**1,753**	1,094	**–**	–	**–**	–
Youge	*(i)*	**–**	–	**–**	–	**–**	4,843	**–**	4,843
Haining Home Point	*(i)*	**14,810**	–	**16,111**	–	**1,189**	–	**1,987**	–
Sunbridge	*(i)*	**38**	38	**38**	38	**3,130**	23,591	**4,521**	23,591
		17,361	7,913	**19,305**	7,913	**17,339**	68,131	**25,590**	68,131
Non-trade in nature									
Baiyin Kasen Property Co., Ltd 白銀卡森置業有限公司	*(ii)*	**–**	24	**–**	24	**–**	–	**–**	–
Hangzhou Great Star Industrial Co., Ltd 杭州巨星科技股份有限公司	*(ii)*	**–**	–	**–**	–	**–**	33,100	**–**	33,100
Sunbridge	*(ii)*	**–**	–	**–**	–	**3,432**	–	**55,306**	–
Mr. Zhu	*(ii)*	**–**	–	**–**	–	**9,404**	9,370	**9,404**	9,370
		–	24	**–**	24	**12,836**	42,470	**64,710**	42,470
		17,361	7,937	**19,305**	7,937	**30,175**	110,601	**90,300**	110,601

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.

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

(c) Details of the outstanding share options granted to the directors are set out in note 30.

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

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

(f) Detail of the acquisition of Wuji Kasen are set out in note 32.

42. PRINCIPAL SUBSIDIARIES

The following table lists major subsidiaries of the Company as at December 31, 2014 and 2013 which, in the opinion of the directors, principally affected the results or net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Name of the company	Country of establishment and operations	Issued and fully paid share capital/ registered capital	Proportion of ownership interest and voting power held by the Company		Principal activities
			2014	2013	
			%	%	
Haining Kasen Real Estate Co., Ltd. 海寧卡森地產有限公司 *(note a)*	PRC	RMB60,000,000	**100**	100	Property development
Haining Hainix Sofa Co., Ltd. 海寧漢林沙發有限公司 *(note b)*	PRC	US$6,000,000	**100**	100	Production and sale of sofas, dining chairs and other furniture products
Haining Hengsen Furniture Co., Ltd. 海寧恒森傢俱有限公司 *(note a)*	PRC	RMB50,000,000	**100**	100	Production of furniture and glass fiber reinforced plastic products; wood processing
Haining Hidea Furniture Co., Ltd. 海寧慧達傢俱有限公司 *(note b)*	PRC	US$8,000,000	**100**	100	Production and sale of sofas, dining chairs and other furniture products
Haining Kareno Furniture Co., Ltd. 海寧卡雷諾傢俬有限公司 *(note b)*	PRC	US$3,600,000	**100**	100	Production and sale of upholstered furniture
Haining Kasen Leather Co., Ltd. 海寧卡森皮革有限公司 *(note c)*	PRC	US$750,000	**100**	100	Production and sale of upholstered furniture

42. PRINCIPAL SUBSIDIARIES (cont'd)

Name of the company	Country of establishment and operations	Issued and fully paid share capital/ registered capital	Proportion of ownership interest and voting power held by the Company 2014 %	2013 %	Principal activities
Haining Home Direct Furniture Co., Ltd. 海寧家值傢俬有限公司 *(note b)*	PRC	US$19,450,000	**100**	100	Production and sale of furniture leather
Haining Schinder Tanning Co., Ltd. 海寧森德皮革有限公司 *(note b)*	PRC	US$30,155,000	**100**	100	Production and sale of automotive leather
Hainan Boao Kasen Property Development Co., Ltd. ("Hainan Boao") 海南博鰲卡森置業有限公司 *(note a)*	PRC	RMB100,000,000	**92**	92	Property development
Yancheng Sujia Real Estate Development Co. Ltd. 鹽城市蘇嘉房地產開發有限公司 *(note b)*	PRC	RMB97,750,000	**100**	100	Property development
Zhejiang Kasen Industrial Group Co., Limited 浙江卡森實業集團有限公司 *(note c)*	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	RMB600, 000,000	**100**	100	Investment holding
Changbai Mountain Protection Development Zone Kasen Property Development Co., Ltd. 長白山保護開發區卡森置業有限公司 *(note a)*	PRC	RMB100,000,000	**89**	89	Property development
Jiangsu Kasen Property Development Co., Ltd. 江蘇卡森置業有限公司 *(note a)*	PRC	RMB50, 000,000	**55**	60	Property development
Hangzhou Xinanjiang Hot Spring Resort Development Co., Ltd. ("Xinanjiang") 杭州新安江溫泉度假村開發有限公司 *(note a)*	PRC	RMB100, 000,000	**55**	55	Operation of resort

42. 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 2014 %	2013 %	Principal activities
Dafeng Huasheng Leather Co.,Ltd. 大豐華盛皮業有限公司 *(note a)*	PRC	RMB60,000,000	**100**	100	Production and processing of leather and tailored products
Melx Co.,Ltd 日本美如可思有限公司 *(note c)*	Japan	JPY100,000,000	**100**	100	Production and sale of automotive leather
Foshan Melx Leather Co.,Ltd. 佛山美如可思皮革有限公司 *(note c)*	PRC	US$6,900,000	**100**	100	Production and sale of automotive leather
Hainan Sanya Kasen Property Development Co., Ltd. ("Sanya Kasen") 海南三亞卡森置業有限公司 *(note a)*	PRC	RMB20, 000,000	**77**	77	Property development
Wuji Kasen Industrial Co., Limited. 無極卡森實業有限公司 *(note a)*	PRC	RMB25,000,000	**100**	–	Production and sale of automotive leather

Notes:

(a) The companies are limited liability companies.

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

(c) The companies are foreign owned enterprises.

None of the subsidiaries had issued any debt securities at the end of the year except for 1) Zhejiang Kasen Industrial Group Co., Limited which has issued RMB216 million Exchangeable Bonds at December 29, 2014, details please refer to note 26, and 2) Haining Schinder Tanning which has issued RMB150 million corporate bonds in 2012, in which the Group has no interest.

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

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

Name of subsidiaries	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Profit (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		2014	2013	**2014**	2013	**2014**	2013
		%	*%*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Hainan Boao	PRC	**8**	8	**1,216**	5,105	**26,846**	26,653
Xinanjiang	PRC	**45**	45	**(5,225)**	(5,069)	**32,933**	38,158
Sanya Kasen	PRC	**23**	23	**(3,860)**	–	**57,264**	63,499
Individual immaterial subsidiaries with non-controlling interests				**(6,719)**	(4,243)	**27,558**	28,477
Total				**(14,588)**	(4,207)	**144,601**	156,787

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

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

Hainan Boao

	2014	2013
	RMB'000	*RMB'000*
Current assets	**1,604,664**	1,623,172
Non-current assets	**111,565**	106,123
Current liabilities	**(905,328)**	(1,181,641)
Non-current liabilities	**(475,329)**	(214,494)
Equity attributable to owners of the Company	**308,726**	306,507
Non-controlling interests	**26,846**	26,653

	2014	2013
	RMB'000	*RMB'000*
Revenue	**165,477**	348,347
Expenses	**(150,272)**	(284,540)
Profit and total comprehensive income attributable to the owner of the Company	**13,989**	58,702
Profit and total comprehensive income attributable to non-controlling interests	**1,216**	5,105
Profit and total comprehensive income for the year	**15,205**	63,807
Net cash (outflow) inflow from operating activities	**(237,303)**	13,583
Net cash outflow from investing activities	**(55)**	(899)
Net cash inflow from financing activities	**237,727**	36,721
Net cash inflow	**369**	49,405

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

Xinanjiang

	2014	2013
	RMB'000	*RMB'000*
Current assets	**71,799**	74,003
Non-current assets	**141,924**	138,722
Current liabilities	**(140,539)**	(127,929)
Equity attributable to owners of the Company	**40,251**	46,638
Non-controlling interests	**32,933**	38,158

	2014	2013
	RMB'000	*RMB'000*
Revenue	**14,927**	15,855
Expenses	**(26,539)**	(27,120)
Loss and total comprehensive loss attributable to the owner of the Company	**(6,387)**	(6,196)
Loss and total comprehensive loss attributable to non-controlling interests	**(5,225)**	(5,069)
Loss and total comprehensive loss for the year	**(11,612)**	(11,265)
Net cash inflow from operating activities	**8,051**	1,307
Net cash outflow from investing activities	**(9,973)**	(21,544)
Net cash inflow from financing activities	**–**	16,600
Net cash outflow	**(1,922)**	(3,637)

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

Sanya Kasen became the Group's subsidiary on December 31, 2014, the summarized financial position of Sanya Kasen is set out below.

Sanya Kasen

	2014	2013
	RMB'000	*RMB'000*
Current assets	**762,045**	758,618
Non-current assets	**216,957**	78,542
Current liabilities	**(730,030)**	(561,080)
Equity attributable to owners of the Company	**191,708**	212,581
Non-controlling interests	**57,264**	63,499

	2014
	RMB'000
Revenue	**53**
Expenses	**(16,837)**
Loss and total comprehensive loss attributable to the owner of the Company	**(12,924)**
Loss and total comprehensive loss attributable to non-controlling interests	**(3,860)**
Loss and total comprehensive loss for the year	**(16,784)**
Net cash outflow from operating activities	**(11,814)**
Net cash outflow from investing activities	**(95,381)**
Net cash inflow from financing activities	**104,480**
Net cash outflow	**(2,715)**

44. EVENTS AFTER THE REPORTING PERIOD

On February 17, 2015, the directors of the Company resolved to liquidate Melx Co. Ltd ("Melx"). On February 27, 2015, application to terminate the civil rehabilitation plan was submitted to the Tokyo District Court. On March 3, 2015, the Tokyo District Court has approved the termination of the civil rehabilitation plan for Melx, and appointed an administrator who shall take control over the assets and liabilities of Melx so that the assets should not be disposed for the time being until the commencement of liquidation procedures as declared by the Tokyo District Court. In addition, the operating activities of Foshan Melx Leather Co., Ltd ("FMC"), wholly-owned subsidiary of Melx, have been ceased. As a result of the foregoing, all the assets of Melx and FMC as of December 31, 2014 have been written down to their respective recoverable amount.