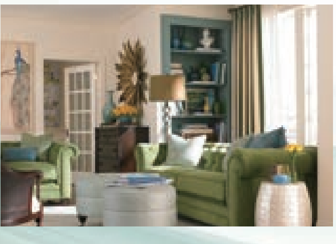
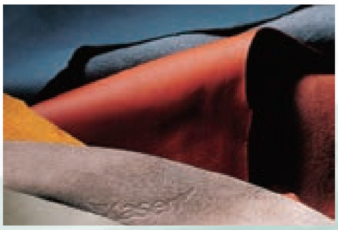
卡森國際控股有限公司

KASEN INTERNATIONAL HOLDINGS LIMITED

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

stock code : 496





Annual Report 2015

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

ZHU Zhangjin, Kasen
(Chairman & Chief Executive Officer)
ZHANG Mingfa, Michael
SUN Hongyang
(appointed on November 2, 2015)

Independent Non-Executive Directors

ZHOU Lingqiang
DU Haibo
(appointed on November 2, 2015)
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
Hang Seng Bank 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

BDO Limited
25th Floor, Wing On Centre
111 Connaught Road Central
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,				
	2015	2014	2013	2012	2011
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**3,237,881**	3,230,327	3,439,200	3,094,552	2,241,475
Profit before taxation	**232,388**	120,324	339,182	400,360	458,627
Profit attributable to owners of the Company	**190,458**	32,418	173,422	203,399	300,491

FINANCIAL POSITION

	At December 31,				
	2015	2014	2013	2012	2011
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cash and cash equivalents	**215,629**	324,388	560,147	560,928	370,744
Total borrowings	**1,900,760**	2,346,630	1,938,214	1,286,546	1,430,889
Total assets	**8,223,605**	9,137,332	9,133,894	8,200,968	6,985,990
Total liabilities	**4,943,508**	6,030,024	5,715,690	5,289,229	4,394,483
Equity attributable to owners of the Company	**3,167,334**	2,962,707	3,261,417	2,815,064	2,518,987

FINANCIAL AND OPERATING RATIOS

	At December 31,				
	2015	2014	2013	2012	2011
Dividend payout ratio (%)[1]	**–**	–	5.3%	–	9.5%
Debt to equity ratio (%)[2]	**57.9%**	75.5%	56.7%	44.2%	55.2%
Net debt to equity ratio (%)[3]	**51.4%**	65.1%	40.3%	24.9%	40.9%
Trade and bills receivable turnover days[4]	**83**	84	84	88	89
Inventory turnover days[5]	**93**	99	98	100	85
Current ratio[6]	**158.7%**	151.9%	149.4%	134.0%	128.3%
Earning per share (RMB)					
Basic	**0.14**	0.02 (restated)	0.15	0.18	0.26
Diluted	**0.14**	0.02 (restated)	0.15	0.17	0.26

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 2015 has no material impact on the Group.

DIRECTORS AND MANAGEMENT PROFILES

EXECUTIVE DIRECTORS

ZHU Zhangjin, Kasen (朱張金), aged 50, 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 28 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 55, 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 35 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 51, 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. He resigned as an executive Director on November 2, 2015. Mr. Lee also held other senior finance positions during his career of over 22 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.

EXECUTIVE DIRECTOR AND CHIEF FINANCIAL OFFICER

SUN Hongyang (孫宏陽), aged 36, joined the Group since July 2015 as an assistant to the chairman of the Board and then was appointed as an executive Director and chief financial officer with effect from November 2, 2015 and December 2, 2015 respectively. Prior to joining the Group, Mr. Sun had worked in other industries for over 16 years where he gained extensive experience in finance-related area. From June 2000 till December 2003, Mr. Sun worked as the finance supervisor in Shanghai New Focus Auto Parts Co., Ltd. From January 2004 to August 2006, he worked as a finance manager of Shanghai JFP Power Equipment Co., Ltd. and during the period from August 2006 to April 2012, Mr. Sun worked as a China finance manager of Baumann Springs (Shanghai) Co., Ltd. Prior to joining the Group from May 2012 till June 2015, Mr. Sun was the China finance controller of Martin Sprocket & Gear (China) Co,. Ltd. Mr. Sun graduated from Henan Finance & Taxation College (河南財政稅務高等專科學校) in 2000, major in computerised accounting and obtained an executive master degree in accounting from The Chinese University of Hong Kong in 2010. Mr. Sun is a certified public accountant of the People's Republic of China and Australia.

NON-EXECUTIVE DIRECTOR

QIU Jian Ping (仇建平), aged 54, was appointed as a non-executive Director on February 22, 2013 and resigned as a non-executive Director on March 18, 2016. 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 52, 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 57, 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS (cont'd)

DU Haibo (**杜海波**), aged 47, joined the Company as the independent non-executive Director with effect from November 2, 2015. From 1990 to 1999, Mr. Du served in several audit firms in the Henan Province of the People's Republic of China. Since 1999, he has been the chairman of Henan Zhengyong CPAs Co., Ltd., Henan Zhengyong Venture Consulting Co., Ltd. and Henan Zhengyong Engineering Consulting Co., Ltd. During the period from February 2005 to August 2013, Mr Du acted as the independent non-executive director of New Focus Auto Tech Holdings Limited, a company listed on the Stock Exchange. From 2007 to 2013, Mr. Du also served as an independent director of Henan Mingtai Aluminum Co., Ltd. (河南明泰鋁業股份有限公司), a company listed on the Shanghai Stock Exchange. During the period from 2008 to 2014, he served as an independent director of Henan Lingrui Pharmaceutical Co., Ltd. (河南羚銳製藥股份有限公司), a company listed on the Shanghai Stock Exchange and as an independent director of SF Diamond Co., Ltd. (河南四方達超硬材料股份有限公司), a company listed on the Shenzhen Stock Exchange. From 2009 to 2015, Mr. Du was an independent director of Star Hi Tech Co., Ltd. (河南思達高科技股份有限公司), a company listed on the Shenzhen Stock Exchange. As at the date of this report, Mr. Du is also the independent non-executive director of Xinxiang Chemical Fiber Co. Ltd. and Sanquan Food Co., Ltd., each a company listed on the Shenzhen Stock Exchange. Mr. Du graduated from the Zhengzhou University in 1989, major in audit studies and obtained an executive master degree in business administration from China Europe International Business School in 2005. He is a certified public accountant of the People's Republic of China.

SUN Steve Xiaodi (**孫曉鏑**), aged 55, joined the Company as an independent non-executive Director on June 1, 2011. He resigned as an independent non-executive Director on November 2, 2015. 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

SUN Hongyang (**孫宏陽**), aged 36, joined the Group since July 2015 as an assistant to the chairman of the Board and then was appointed as an executive Director and chief financial officer with effect from November 2, 2015 and December 2, 2015 respectively. Prior to joining the Group, Mr. Sun had worked in other industries for over 16 years where he gained extensive experience in finance-related area. From June 2000 till December 2003, Mr. Sun worked as the finance supervisor in Shanghai New Focus Auto Parts Co., Ltd. From January 2004 to August 2006, he worked as a finance manager of Shanghai JFP Power Equipment Co., Ltd. and during the period from August 2006 to April 2012, Mr. Sun worked as a China finance manager of Baumann Springs (Shanghai) Co., Ltd. Prior to joining the Group from May 2012 till June 2015, Mr. Sun was the China finance controller of Martin Sprocket & Gear (China) Co,. Ltd. Mr. Sun graduated from Henan Finance & Taxation College (河南財政稅務高等專科學校) in 2000, major in computerised accounting and obtained an executive master degree in accounting from The Chinese University of Hong Kong in 2010. Mr. Sun is a certified public accountant of the People's Republic of China and Australia.

SENIOR MANAGEMENT (cont'd)

CHEN Zhengming (陳爭明), aged 39, 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. He resigned as the chief financial officer on December 2, 2015. 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.

ZHOU Xiaohong (周小紅), aged 47, 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.

SHEN Jianhong (沈建紅), aged 48, joined the Group in 2007 as the manager of purchasing department. She is currently the assistant to the president and she is in charge of the property development division of the Group. Before joining the Group from 2002 to 2007, Ms. Shen served in the senior management team of Haining Pacific Insurance Co., Ltd.

CAO Ying (曹纓), aged 49, 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 45, 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 43, 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 20 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, 2015.

For the year of 2015, the Group's total turnover was approximately RMB3,237.9 million, representing a slight increase of approximately 0.2% as compared to the same period in 2014. Profit attributable to the shareholders was approximately RMB190.5 million, representing an increase of approximately 488.0% as compared to the same period in 2014.

For the year of 2015, the sales of manufacturing business of the Group was RMB2,333.8 million, representing a decrease of 1.8% as compared to the year of 2014. Due to the significant slowdown in the growth rate in China's automotive industry during the year, the Group's automotive leather division was adversely affected. During the year under review, the Group's automotive leather division recorded a sales revenue of RMB1,373.6 million, representing a decrease of approximately 6.0% from RMB1,461.7 million for the year of 2014. The Group continued to strengthen its relationships with major upholstered furniture manufacturers in the US, which helped the sales of upholstered furniture to remain stable. Revenue generated by this division was RMB677.5 million in 2015 as compared to RMB666.1 million in 2014, representing a slight increase of approximately 1.7%.

As at December 31, 2015, the Group had six property and tourism resort projects under different stages of development in the PRC. Due to weakened demand for property resulting from the sluggish domestic real estate industry, the sales of property development of the Group declined by approximately 0.9% to RMB712.0 million for the year of 2015 as compared to RMB718.3 million for the year of 2014.

Following the establishment of the new economic development policies in China, the traditional manufacturing industry that the Group engaged in faced severe challenges. In order to facilitate the realisation of corporate value and create more benefits for its Shareholders, the Group has been exploring ways to transform its business structure. Since February 2016, the Group has made great efforts in adjusting the Group's business structure and entered into a sale and purchase agreement to dispose several of the Group's subsidiaries engaging in leather manufacturing business, with an aim to consolidate the Group's resources and to focus on the development and operation of tourism resort under its development strategy. As one of the strategic emerging industries for China's economy, tourism-related industry has significant potential for growth and considerable investment returns. Meanwhile, the Group has accumulated experiences and developed management teams in tourism and resort related businesses such as water park development, hot spring resort, hotel operation, tourism service and member club. As such, the Company's confident of the Group's long-term development after its business structure transformation.

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 development of 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 31, 2016

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OVERVIEW

Financial Review

For the year ended December 31, 2015, the Group recorded a consolidated turnover of approximately RMB3,237.9 million, representing a slight increase of approximately 0.2% as compared to approximately RMB3,230.3 million for the year ended December 31, 2014.

The Group's gross profit for the year of 2015 was approximately RMB466.8 million, representing an increase of approximately 23.7% as compared to approximately RMB377.5 million in the year of 2014 and the Group's gross profit margin in 2015 was at 14.4%, compared to 11.7% in the year of 2014.

During the year under review, the net profit attributable to owners of the Company was approximately RMB190.5 million, representing an increase of approximately 488.0% as compared to approximately RMB32.4 million in the year of 2014. The increase in the net profit was mainly due to (i) an increase in the gain on disposal of 1.29% (2014: 1.37%) of equity securities in Haining China Leather Market Co., Ltd. ("HCLM") by RMB100.8 million which will be further discussed in the paragraphs headed "Operating Expense, Taxation and Profit Attributable to Owners" and "Disposal of Equity Securities of HCLM" of this section of this annual report, and (ii) the increase in contribution of the net profit from the upholstered furniture business 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 tourism resort-related 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, 2015 together with the comparative figures for the corresponding period of year 2014:

	2015		2014		**Y-O-Y Change**
	RMB'Million	**%**	*RMB'Million*	%	%
Manufacturing	**2,333.8**	**72.1**	2,375.9	73.5	-1.8
Automotive Leather	***1,373.6***	***42.4***	*1,461.7*	*45.2*	*-6.0*
Upholstered Furniture	***677.5***	***20.9***	*666.1*	*20.6*	*1.7*
Furniture Leather	***282.7***	***8.8***	*248.1*	*7.7*	*13.9*
Property Development	**712.0**	**22.0**	718.3	22.2	-0.9
Retail business	**19.6**	**0.6**	17.9	0.6	9.5
Others	**172.5**	**5.3**	118.2	3.7	45.9
Total	**3,237.9**	**100.0**	3,230.3	100.0	0.2

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 RMB2,333.8 million, representing a decrease of approximately 1.8% as compared to RMB2,375.9 million in 2014.

During the year under review, this segment recorded an operating profit of RMB222.5 million, as compared to an operating profit of RMB80.4 million in 2014 (such that both years' segment results included a gain on disposal of HCLM shares). A brief discussion of the performance of the three operating divisions is as follows:

Automotive Leather

Despite the fact that automotive industry in China had maintained a rapid growth for several years, with the economic downturns in China, the development and prosperity of automotive industry and automotive component industry were also affected and as a result the growth has slowed down significantly. For the year under review, the automotive leather business of the Group recorded a decrease in revenue due to the decline in purchase orders of leather from automobile manufacturers, who are the Group's automotive leather customers in the PRC. In 2015, the segment recorded a revenue of approximately RMB1,373.6 million, representing a slight decrease of approximately 6.0% as compared to RMB1,461.7 million in 2014. During the year under review, given the practical difficulty to explore for new customers in a short time, the Group had continued to focus on strengthening the cooperation with the existing customers.

Upholstered Furniture

Sales of upholstered furniture are mostly for export. The US market is still the largest export market for the Group's upholstered furniture. During the year under review, the Group continued to reinforce its communication and relationship with the key customers in the US. The Group achieved remarkable progress on production process, technology, delivery and after-sales service by constantly adopting improvements. In 2015, the turnover from upholstered furniture segment amounted to RMB677.5 million, representing a slight increase of approximately 1.7% as compared to RMB666.1 million in 2014.

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. During the year under review, due to an increase in external orders of furniture leather, the Group's furniture leather segment recorded the sales of approximately RMB282.7 million, representing an increase of approximately 13.9% as compared to RMB248.1 million in the corresponding period of 2014.

RESULTS OVERVIEW (cont'd)

Review by Business Segments (cont'd)

Property Development Business

As of December 31, 2015, the Group had six property development projects at various stages of development in different geographical locations in the PRC. The turnover from the property development segment was RMB712.0 million in 2015, remained at the same level as compared to RMB718.3 million in 2014. An operating loss generated from this segment in 2015 was RMB32.0 million, as compared to an operating loss of RMB11.7 million in 2014.

Group Property Project Portfolio as at December 31, 2015

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 and tourism resort
2	Sanya Project	Sanya, Hainan	80.5%	1,423,987	Under development	Hotel and tourism resort
3	Qianjiang Continent	Yancheng, Jiangsu	100%	335,822	Completed	Residential and commercial
4	Kasen Star City	Haining, Zhejiang	100%	469,867	Under development	Residential and commercial
5	Changbai Paradise	Changbai Mountain, Jilin	89%	291,662	Completed	Residential and hotel
6	Qianjiang Oasis	Yancheng, Jiangsu	55%	108,138	Under development	Residential
Total				3,219,641		

RESULTS OVERVIEW (cont'd)

Review by Business Segments (cont'd)

Property Development Business (cont'd)

Analysis of Properties Under Development as at December 31, 2015

No.	Project Name	Total GFA (sq.m.)	GFA under development (sq.m.)	Total Saleable GFA (sq.m.)	GFA sold as at December 31, 2015 (sq.m.)	GFA delivered as at December 31, 2015 (sq.m.)	Average Selling Price (RMB/sq.m.)
1	Asia Bay	718,665	342,435	590,165	103,117	68,671	27,300
2	Qianjiang Continent	775,292	775,292	670,065	650,902	622,199	8,767
3	Kasen Star City	1,042,588	581,896	709,009	186,743	91,757	7,906
4	Changbai Paradise	179,077	179,077	120,743	23,039	–	–
5	Qianjiang Oasis	335,301	106,235	266,206	36,565	24,420	4,169
Total		3,050,923	1,984,935	2,356,188	1,000,366	807,047	

Operating Expense, Taxation and Profit Attributable to Owners

The selling and distribution costs during the year under review increased to approximately RMB181.4 million, as compared to approximately RMB164.3 million in 2014, mainly attributable to an increase of salary of approximately RMB10.5 million due to increased staff costs in the trial operation of the Group's water park situated in Sanya, Hainan Province in the PRC, as well as the hotel operation. As a result, the Group's selling and distribution costs to turnover in 2015 maintained at approximately 5.6% as compared to approximately 5.1% in 2014.

The administrative costs in 2015 was approximately RMB263.0 million, representing an increase of approximately RMB51.3 million as compared to approximately RMB211.7 million in 2014. The increase was mainly due to (1) an increase of salary and staff welfare of approximately RMB14.2 million due to the increase in discretionary bonus payment to the employees, (2) the recognition of share-based payment expense of approximately RMB11.0 million for the year ended December 31, 2015 in relation to share options granted by the Company on May 26, 2015, (3) increase of store rental expenses of approximately RMB6.3 million and (4) increase of approximately RMB8.5 million for technical consultation fees and the research and development fees for re-designing and re-developing production processes. In addition to the above principal factors causing the increase, there were also a moderate increase in all other administrative costs and expenses.

The Group's finance cost in 2015 was approximately RMB85.3 million, representing an increase of approximately RMB22.3 million, as compared to approximately RMB63.0 million in 2014, mainly due to (1) the increase of loan interests from the exchangeable bond issued in December 2014 by approximately RMB10.1 million and (2) the decrease in capitalisation of interests charged in the bank loans used for financing the Group's property development projects resulted in an increase in finance cost by approximately RMB39.4 million for the year, offset by (3) a decrease of loan interests of approximately RMB19.1 million since the decrease in bank loans made during 2015 as well as the decrease in bank loan interest rates in the PRC and (4) decrease of loan interests from the corporate bond issued in June 2012 by approximately RMB8.1 million because approximately RMB120.0 million of corporate bonds were redeemed in June 2014.

RESULTS OVERVIEW (cont'd)

Operating Expense, Taxation and Profit Attributable to Owners (cont'd)

The Group's other gains and losses in 2015 recorded at a net gain of approximately RMB271.3 million, representing an increase of approximately RMB111.1 million, as compared to a net gain of approximately RMB160.2 million in 2014. Included in the Group's other gains and losses in the year 2015, there was a gain of approximately RMB288.5 million recognised for the disposal of 1.29% (2014: 1.37%) of equity securities in Haining China Leather Market Co., Ltd. ("HCLM") (2014: RMB187.7 million). HCLM operates department stores in the PRC and its shares are listed on the Shenzhen Stock Exchange. The Group disposed such 1.29% of equity securities in HCLM in the open trading market as well as through the block trade platform of the Shenzhen Stock Exchange during the year under review. For details, please refer to note 7 to the consolidated financial statements.

The Group's income tax in 2015 was approximately RMB67.0 million, representing a decrease of approximately RMB35.5 million, as compared to approximately RMB102.5 million in 2014. The decrease was mainly attributable to (1) the decrease in deferred taxation charge of approximately RMB10.0 million, (2) the increase in the reversal of a net amount of approximately RMB39.6 million of over provision in taxation charge for prior years, and (3) the decrease in PRC land appreciation tax of approximately RMB5.1 million from the property development projects, which was offset by (4) an increase in PRC income tax of approximately RMB10.7 million mainly due to an increase in taxable profits generated by the manufacturing business at the subsidiary level.

With the reasons mentioned above, profit attributable to owners of the Company for the year 2015 increased by approximately 488.0% to RMB190.5 million (2014: RMB32.4 million).

CAPITAL EXPENDITURES

Capital expenditure (excluding assets acquired through acquisition of subsidiaries during the year) in 2015 decreased to approximately RMB127.6 million from approximately RMB195.5 million in 2014. The capital expenditure mainly comprised the amount of approximately RMB127.6 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, 2015, the Group's bank and other borrowings amounted to approximately RMB1,900.8 million, representing a decrease of approximately 19.0% from approximately RMB2,346.6 million as at December 31, 2014. In addition, a 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 exchangeable bonds, please refer to note 25 to the consolidated financial statements and the announcement of the Company dated December 24, 2014.

FINANCIAL RESOURCES AND LIQUIDITY (cont'd)

Turnover Period, Liquidity and Gearing

The Group's existing inventory primarily comprised leather crust used for production, accounted for approximately 30.4% of the total inventory of approximately RMB534.1 million in 2015 (2014: approximately RMB601.9 million). In 2015, the inventory turnover period maintained at 93 days (2014: 99 days).

In 2015, 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 83 days in 2015 (2014: 84 days).

The accounts and bills payable turnover days of the Group's manufacturing and retail segments decreased to 67 days in 2015 (2014: 78 days).

As at December 31, 2015, the Group's current ratio was 1.59 (December 31, 2014: 1.52). The Group's cash and cash equivalent balance was approximately RMB215.6 million as at December 31, 2015 (December 31, 2014: approximately RMB324.4 million). This represents a gearing ratio of 53.3% as at December 31, 2015 (December 31, 2014: 77.4%) and a net debt-to-equity ratio of 46.5% as at December 31, 2015 (December 31, 2014: 66.4%). 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 2015, 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

The Group did not have any material acquisitions or disposals during the year ended December 31, 2015.

DISPOSAL OF EQUITY SECURITIES OF HCLM

As at January 1, 2015, the Group held an aggregate of 26,000,000 shares in HCLM ("HCLM Shares"), a domestic company incorporated in the PRC and shares of which are listed on the Shenzhen Stock Exchange. During the year ended December 31, 2015, the Company had disposed an aggregate of 10,000,000 HCLM Shares through on-market transactions or through the block trade platform conducted on the Shenzhen Stock Exchange, and 4,444,446 HCLM Shares through the exchange for HCLM Shares by the bondholders of an exchangeable bond issued by a wholly-owned subsidiary of the Group. The aggregate consideration, after deduction of necessary transaction costs, of the disposals of such HCLM Shares carried out during the year ended December 31, 2015 amounted to approximately RMB327.0 million. The original acquisition costs of the HCLM Shares paid by Zhejiang Kasen was RMB1.04 per HCLM Share. As a result, a gain before deduction of any tax on disposal in the amount of approximately RMB288.5 million was arisen upon completion of the disposal carried out during the year ended December 31, 2015. As at December 31, 2015, the Company had a remaining of 11,555,554 HCLM Shares.

HCLM is indirectly non-wholly owned by 海寧市國有資產監督管理委員會 (State-owned Assets Supervision and Administrative Commission of Haining Municipal Government). Haining Leather Market is principally engaged in the development and operation of large leather product retail malls and was listed on the Shenzhen Stock Exchange on January 26, 2010.

Save as otherwise, the Company had no other significant investments held during the year under review.

ISSUE OF NEW SHARES AND USE OF PROCEEDS FROM PLACING

On November 10, 2015, to manage the then imminent need for the Group to repay bank loans and settlement of overdue payables, the Company entered into a placing agreement (the "Placing Agreement") with Fortune (HK) Securities Limited as placing agent, pursuant to which the Company allotted and issued an aggregate of 348,696,896 ordinary shares of the Company (the "Shares") to no less than six independent placees at the price of HK$0.60 per Share (the "Placing"). The Placing had been completed on December 21, 2015. The placing shares placed under the Placing represent (i) approximately 30.00% of the total number of issued shares of the Company as at the date of the Placing Agreement; and (ii) approximately 23.08% of the total number of issued shares of the Company as enlarged by the issue of such placing shares. The placing shares under the Placing have a market value of approximately HK$435,871,120 based on the closing price of the Shares of HK$1.25 on the date of the Placing Agreement. The placing price of HK$0.60 per placing share represents: (i) a discount of 52.00% to the closing price of HK$1.25 per Share as quoted on the Stock Exchange on the date of the Placing Agreement; (ii) a discount of 52.00% to the average closing price of approximately HK$1.25 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of the Placing Agreement; and (iii) a discount of approximately 53.13% to the average closing price of approximately HK$1.28 per Share as quoted on the Stock Exchange for the last ten consecutive trading days immediately prior to the date of the Placing Agreement.

The gross proceeds of the Placing was approximately HK$209,218,137, and the net proceeds (after deducting all applicable costs and expenses of the Placing) was approximately HK$204,400,000. As disclosed in the circular of the Company dated November 26, 2015, the net proceeds from the Placing will be used in the following manner:

(i) approximately HK$143,100,000, representing approximately 70% of the net proceeds from the Placing, will be used for the repayment of bank loans and payment of overdue accounts payables of the Group; and

(ii) the remaining portion of approximately HK$61,300,000, representing approximately 30% of the net proceeds from the Placing, will be used by the Company as general working capital of the Group.

As at December 31, 2015, the Group had utilised approximately HK$165 million out of the net proceeds and the unutilised portion of the net proceeds from the Placing is currently held in cash and cash equivalents and intended that it will be applied in the manner consistent with the proposed allocations.

CONTINGENT LIABILITIES

As at December 31, 2015, the Group had certain contingent liabilities. For details, please refer to note 38 to the consolidated financial statements.

PLEDGE OF ASSETS

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

CAPITAL COMMITMENTS

As at December 31, 2015, the Group had contracted, but not provided for, a total capital expenditure of RMB1,094.0 million (2014: RMB1,082.4 million), in which an amount of RMB1,018.4 million (2014: RMB997.1 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, 2015, the Group employed a total of approximately 4,800 full time employees (December 31, 2014: approximately 4,960), including management staff, technicians, salespersons and workers. In 2015, the Group's total expense on the remuneration of employees was approximately RMB297.4 million (2014: approximately RMB265.9 million), representing approximately 9.2% (2014: 8.2%) 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 on an annual basis. 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 authorised 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.

ENVIRONMENTAL PROTECTION AND SOCIAL RESPONSIBILITY

With "Harmonious Development Achieved Through Coordinating Our Employees and Corporation to Serve Social Benefits" as its core values, the Group emphasizes great importance to environmental protection and advocates the concept of green manufacturing in its manufacturing process. The Group is one of the first "Eco-Leather Enterprises" certified by the China Leather Industry Association. In the course of production, the Group opts for clean production, energy efficiency and emission reduction, and it has been granted national patents for recycling waste water from the leather-making process. In addition, the Group, for the sake of green development, has collaborated with tertiary academic institutions in China over R&D of key technologies and production processes concerning environmental protection in the field of leather-making and furniture manufacturing.

The Group concerns much to the growth of its employees and harmonious development of social relationships. For the sustainable development of its employees, the Group provides them with a decent working environment, cares about their occupational health and organises regular skill trainings. The Group actively participates in social welfare and charity undertakings by setting up the Kasen Needy Employee Assistance Foundation (卡森困難職工幫扶基金會) and Kasen Group Charity Foundation (卡森集團慈善基金) in an effort to repay and serve the society during the course of its development.

FUTURE PLANS AND PROSPECTS

As China has entered into the period of new normal economy, the Chinese government proposed the development direction of elimination of obsolete production capacity and excess inventory, and due to the continuous in labor cost, it is expected that the manufacturing industry, as a labor-intensive industry, will face a more difficult situation. The Company continued to evaluate the existing business of the Group, so as to streamline its business structure and enhance overall performance, prospects and attraction to market investors. As a result, the Group has initiated its business reorganisation plan and entered into a sale and purchase agreement on February 1, 2016, pursuant to which the Group had conditionally agreed to dispose a number of subsidiaries under the Group engaging in the production of automotive leather and furniture leather in order to lower liability ratio and improve financial position. The said disposal is subject to fulfilment of certain conditions precedent, including the passing of an ordinary resolutions by its shareholders at a general meeting to be convened by the Company. Upon completion of the said disposal, the Group will concentrate its resources on the exploration of opportunities for tourism resorts, hotel operation and property development.

Under the overall background of severe growth pressure exerting on both global and domestic economy, tourism related industry is one of the exceptional emerging industries with great development potential, and a strategic pillar industry explicitly recognised by the Chinese government. The enormous population in China provided a huge customer base, and the continuous growth in household income triggered the enthusiasm in travel expenditure. Under the circumstances of structural adjustment of domestic economy and slowdown in growth speed, the importance of the strategic role of tourism industry on both consumption and investment will become more significant, and it is expected the support by the Chinese government on the development of tourism industry will continue to increase. The Company has accumulated extensive experience and resources over the years engaging in the tourism related business. Currently, the Group has layout its tourism resort projects in Hainan, Zhejiang, Gansu, Changbai Mountain and etc. After the implementation of business reorganisation, the development objective of the Group is positioned as establishing tourism resort complexes with brand recognition in China, and becoming a domestic leading tourism resource developer and tourism resort service provider. Further, on January 26, 2016, the Group entered into a cooperation agreement with Cambo Guilincity Construction Engineering Corporation Co., Ltd, a company incorporated in Cambodia, to establish a joint venture company in Cambodia on a 70:30 basis for the development and operation of a water park located in Phnom Penh, Cambodia. Through focusing on tourism related business and making more investment in such field, we are devoted to enhance the value of the Group and bring greater return to the shareholders.

DIRECTORS' REPORT

The Directors present the annual report and the audited consolidated financial statements of the Company for the year ended December 31, 2015.

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) properties development; (iii) retail of furniture; and (iv) tourism resort-related operations.

BUSINESS REVIEW AND PERFORMANCE

A review of the business of the Group and a discussion and analysis of the Group's performance during the year under review and a discussion on the Group's future business development and outlook of the Company's business, possible risks and uncertainties that the Group may be facing and important events affecting the Company occurred during the year ended December 31, 2015 are provided in the section headed "Chairman's Statement" on page 8, the section headed "Management Discussion and Analysis" on pages 9 to 17 of this annual report and the paragraph headed "Principal Risks and Uncertainties" of this section of this annual report. An analysis of the Group's performance during the year ended December 31, 2015 using financial performance indicators is provided in the section headed "Management Discussion and Analysis" on pages 9 to 17 of this annual report.

An account of the Company's relationships with its key stakeholders is included in the paragraph headed "Relationships with Employees, Suppliers and Customers" of this section of this annual report.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's financial condition, results of operations, businesses and prospects may be affected by a number of risks and uncertainties. The followings are the key risks and uncertainties identified by the Group. There may be other risks and uncertainties in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future.

Business Risk

The Group is contract manufacturer for its customers, accordingly, sales volume of the Group depends on the success of the businesses of its customers, over which the Group does not have any control over. Further, the Group's business is subject to fierce competition, including price and costs of its products. The business of the Group may also be affected by seasonal factors, such as weather and holidays.

PRINCIPAL RISKS AND UNCERTAINTIES (cont'd)

Environmental Risk

In conducting its business, the Group must comply with a variety of environmental protection laws and regulation, including laws and regulations regarding discharge and disposal of waste materials. These laws and regulations stipulates specific quotas for the discharge of waste products, permit the levy of fines and payment of damages for serious environmental offences, and permit the national or local authorises, at their discretion, to require companies to rectify non-compliance within a mandatory period, or suspend its operation if it fails to comply with such relevant laws and regulations. As at the date of this annual report and to the best of the knowledge of the Directors, the Company has complied with the relevant rules and regulations. However, environmental laws and regulations applicable to the Group are constantly evolving. The Group may not be able to always quantify the costs of complying such laws and regulations, and any further changes may also lead to substantial increase in the operational costs of the Group.

Liquidity Risk

Liquidity risk is the potential that the Group will be unable to meet its obligations when they fall due because of an inability to obtain adequate funding. In managing relevant liquidity risk, the Group monitors cash flows and maintains an adequate level of cash and credit facilities to ensure the ability to finance the Group's operations and reduce the effects of fluctuation in cash flows.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2015 are set out in the consolidated statement of profit or loss and other comprehensive income on page 44.

FINAL DIVIDENDS

The Directors do not recommend the payment of any final dividend for the year ended December 31, 2015 (2014: Nil) 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 dividends.

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, 2016 to May 31, 2016 (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, 2016.

DISTRIBUTABLE RESERVES OF THE COMPANY

The amount of the Company's reserves available for distribution to Shareholders as at December 31, 2015, calculated in accordance with International Financial Reporting Standards, was approximately RMB1,053.3 million.

FIVE YEAR FINANCIAL SUMMARY

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

PROPERTY, PLANT AND EQUIPMENT

During the year of 2015, the Group had acquired property, plant and equipment of approximately RMB127.6 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 2015 are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

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

During the year ended December 31, 2015, there was an increase in the issued share capital of the Company due to the completion of the Placing taken place on December 21, 2015. For details about the Placing, please refer to the paragraph headed "Issue of new shares and use of proceeds from Placing in the "Management Discussion and Analysis" section of this annual report, the announcement and the circular of the Company dated November 10, 2015 and November 26, 2015, respectively.

MAJOR CUSTOMERS AND SUPPLIERS

During the year of 2015, the aggregate sale attributable to the Group's five largest customers comprised approximately 64.6% of the Group's manufacturing and retail segments sale and the sale attributable to the Group's largest customer were approximately 28.9% of the Group's manufacturing and retail segments sale.

The aggregate purchases during the year of 2015 attributable to the Group's five largest suppliers were approximately 45.5% of the Group's manufacturing and retail segments purchases and the purchases attributable to the Group's largest supplier were approximately 18.8% of the Group's manufacturing and retail segments purchases.

None of the Directors, their close 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.

RELATIONSHIPS WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

The Group recognises that the employees, customers and suppliers are the key to corporate sustainability and are keen on developing long-term relationships with these stakeholders. The Company places significant emphasis on human capital and strives to foster an environment in which the employees can develop to their fullest potential and can assist their personal and professional growth. The Company provides a fair and safe workplace, promotes diversity to our staff, provides competitive remuneration and benefits and career development opportunities based on their merits and performance. The Group also puts ongoing efforts to provide adequate trainings and development resources to the employees so that they can keep abreast of the latest development of the market and the industry and, at the same time, improve their performance and self-fulfillment in their positions.

The Group understands that it is important to maintain good relationship with customers and provide the products in a way that satisfy needs and requirements of the customers. The Group enhances the relationship by continuous interaction with customers to gain insight on the changing market demand for the products so that the Group can respond proactively. The Group has also established procedures in place for handling customers' complaints to ensure customers' complaints are dealt with in a prompt and timely manner.

The Group is also dedicated to develop good relationship with suppliers and contractors as long-term business partners to ensure stability of the Group's businesses. We reinforce business partnerships with suppliers and contractors by ongoing communication in a proactive and effective manner so as to ensure quality and timely delivery.

COMPLIANCE WITH LAWS AND REGULATIONS

Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations in particular, those have significant impact on the Group. The audit committee of the Company (the "Audit Committee") is delegated by the Board to monitor the Group's policies and practices on compliance with legal and regulatory requirements and such policies are regularly reviewed. Any changes in the applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time, including but not limited to, environment and labour laws.

As far as the Company is aware of, the Group has complied with all relevant rules and regulations promulgated by the relevant regulatory bodies to which the Group operates its business in and holds relevant required licences for provision of its services. The Group's management must ensure that the conduct of business is in conformity with the applicable laws and regulations.

WORKPLACE QUALITY

The Group is an equal opportunity employer and does not discriminate on the basis of personal characteristics. The Group has employee handbooks outlining terms and conditions of employment, expectations for employees' conduct and behavior, employees' rights and benefits. The Group establishes and implements policies that promote a harmony and respectful workplace.

The Group believes that employees are the valuable assets of an enterprise and regards human resources as its corporate wealth. It will continue to provide on-the-job training and development opportunities to enhance its employees' career progression. Through different training, staff's professional knowledge in corporate operations, occupational and management skills are enhanced. The Group also organised charitable and staff-friendly activities for employees, such as outings, outward bound training and distance-running competitions to provide communication opportunities among staff, which are vital to promote staff relationship and physical fitness.

HEALTH AND SAFETY

The Group prides itself on providing a safe, effective and congenial work environment. Adequate arrangements, training and guidelines are implemented to ensure the working environment is healthy and safe. The Group provided health and safety communications for employees to present the relevant information and raise awareness of occupational health and safety issues.

The Group values the health and well-being of staff. In order to provide employees with health coverage, staff are entitled to medical insurance benefits as well as other health awareness programs.

DIRECTORS

The Directors during the year of 2015 and up to the date of this annual report are:

Executive Directors

ZHU Zhangjin, Kasen *(Chairman)*	
ZHANG Mingfa, Michael	
SUN Hongyang	(appointed on November 2, 2015)
LEE Lawrence	(resigned on November 2, 2015)

Non-executive Director

QIU Jian Ping	(resigned on March 18, 2016)

Independent Non-executive Directors

DU Haibo	(appointed on November 2, 2015)
ZHOU Lingqiang	
ZHANG Yuchuan	
SUN Steve Xiaodi	(resigned on November 2, 2015)

In accordance with article 87 of the Company's articles of association (the "Articles"), Mr. Zhang Mingfa, Michael and Mr. Zhu Zhangjin will retire from the office of Directors by rotation and, being eligible, will offer themselves for re-election at the forthcoming AGM. Mr. Du Haibo and Mr. Sun Hongyang will only hold office as Directors until the forthcoming AGM and, being eligible, will offer themselves 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, 2015, 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") *(Note 1)*	12,360,000	514,798,635	527,158,635	34.89%
Lee Lawrence (resigned on November 2, 2015)	205,000	–	205,000	0.01%
Zhang Mingfa, Michael *(Note 2)*	1,980,000	–	1,980,000	0.13%

Notes:

(1) Mr. Zhu Zhangjin, the chairman of the Company, as settlor, and together with persons acting in concert with him as beneficiaries of a family trust (a trust set up to hold interest of family of Mr. Zhu Zhangjin (excluding Mr. Zhu Zhangjin) in the Company), being the substantial shareholders of the Company, are collectively holding 527,158,635 Shares or approximately 34.89% of the total number of issued Shares (including the 514,798,635 Shares or approximately 34.07% of the issued Shares held by Joyview Enterprises Limited ("Joyview") which in turn is wholly owned by the trustee of such family trust). This figure does not include the options granted to Mr. Zhu to subscribe for 3,000,000 shares as at December 31, 2015 under the share option scheme adopted by a resolution of the Shareholders on September 24, 2005 and passed by a resolution of the Board on September 26, 2005 (the "2005 Share Option Scheme"), in which share option grant was approved by the Board on March 9, 2006 and May 26, 2015.

(2) This figure does not include the options granted to Mr. Zhang Mingfa to subscribe for 4,500,000 shares as at December 31, 2015 under the 2005 Share Option Scheme and approved by the Board on March 9, 2006, May 5, 2008 and May 26, 2015 for the share option grant.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (cont'd)

(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 Schemes" 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, 2015.

SHARE OPTION SCHEMES

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

The 2005 Share Option Scheme was adopted for the primary purpose of providing incentives to Directors, eligible employees and third party services providers. The 2005 Share Option Scheme became effective on October 20, 2005 and the options issued pursuant to the 2005 Share Option Scheme will expire no later than 10 years from the date of grant of the option. Under the 2005 Share Option Scheme, the Board may grant options to any employees of the Company or any of its subsidiaries to subscribe shares of the Company. The 2005 Share Option Scheme was terminated on May 29, 2015. As at December 31, 2015, the Company had 46,800,000 outstanding options granted pursuant to the 2005 Share Option Scheme.

On the same date of the termination of the 2005 Share Option Scheme, a new share option scheme was adopted by the Company pursuant to a shareholders resolution passed on May 29, 2015 (the "2015 Share Option Scheme") for the primary purpose of providing incentives to Directors and eligible employees. The 2015 Share Option Scheme became effective on May 29, 2015 and the options issued pursuant to the 2015 Share Option Scheme will expire no later than 10 years from the date of grant of the option. As at the date of this report, no options have been granted by the Company under the 2015 Share Option Scheme.

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 of the Company (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 respectively under the 2005 Share Option 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) and under the 2015 Share Option Scheme is not permitted to exceed 10% of the shares of the Company on May 29, 2015 (representing 116,232,298 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 of 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 both the 2005 Share Option Scheme and the 2015 Share Option 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. Each grantee shall pay a consideration of HK$1.00 at the time the option is granted.

Both the 2005 Share Option Scheme and the 2015 Share Option Scheme do 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).

SHARE OPTION SCHEMES (cont'd)

Unless otherwise terminated by the Board or the Shareholders in general meeting in accordance with the terms of the 2015 Share Option Scheme, the 2015 Share Option Scheme shall be valid and effective for a period of 10 years from the date on which it becomes unconditional which was May 29, 2015, after which no further options will be granted or offered but the provisions of the 2015 Share Option 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 2015 Share Option Scheme.

As at December 31, 2015, the total numbers of shares available for issue under the 2005 Share Option Scheme and the 2015 Share Option Scheme were 46,800,000 shares and 116,232,298 shares, respectively, which represented 3.1% and 7.7% of the shares in issue respectively as at the date of this annual report.

Details of movement of the share options during the year ended December 31, 2015, being share options granted pursuant to the 2005 Share Option Scheme on March 9, 2006, May 5, 2008 and May 26, 2015, respectively, were as follows:

		Number of share options							
Name of Director	**Exercise price** *HK$*	**Outstanding as at January 1, 2015**	**Granted from January 1, 2015 to December 31, 2015**	**Lapsed from January 1, 2015 to December 31, 2015**	**Exercised from January 1, 2015 to December 31, 2015**	**Outstanding as at December 31, 2015**	**Percentage of total issued share capital**	**Exercisable period**	**Notes**
Zhu Zhangjin	2.38	1,000,000	–	–	–	1,000,000	0.06%	1/1/2007 to 8/3/2016	1,6,7
	2.38	1,000,000	–	–	–	1,000,000	0.06%	1/1/2008 to 8/3/2016	2,6,7
	1.37	–	1,000,000	–	–	1,000,000	0.06%	1/1/2016 to 25/5/2025	5,6,7
Lee Lawrence (resigned on November 2, 2015)	1.37	–	3,000,000	(3,000,000)	–	–	–	1/1/2016 to 25/5/2025	5,6,7
Zhang Mingfa, Michael	2.38	500,000	–	–	–	500,000	0.03%	1/1/2007 to 8/3/2016	1,6,7
	2.38	500,000	–	–	–	500,000	0.03%	1/1/2008 to 8/3/2016	2,6,7
	1.18	250,000	–	–	–	250,000	0.02%	1/1/2009 to 4/5/2018	3,6,7
	1.18	250,000	–	–	–	250,000	0.02%	1/1/2010 to 4/5/2018	4,6,7
	1.37	–	3,000,000	–	–	3,000,000	0.20%	1/1/2016 to 25/5/2025	5,6,7
		3,500,000	7,000,000	(3,000,000)	–	7,500,000	0.48%		
Other employees in aggregate	2.38	6,500,000	–	–	–	6,500,000	0.43%	1/1/2007 to 8/3/2016	1,6,7
	2.38	6,500,000	–	–	–	6,500,000	0.43%	1/1/2008 to 8/3/2016	2,6,7
	1.18	1,650,000	–	–	–	1,650,000	0.11%	1/1/2009 to 4/5/2018	3,6,7
	1.18	1,650,000	–	–	–	1,650,000	0.11%	1/1/2010 to 4/5/2018	4,6,7
	1.37	–	23,000,000	–	–	23,000,000	1.54%	1/1/2016 to 25/5/2025	5,6,7
		19,800,000	30,000,000	(3,000,000)	–	46,800,000	3.10%		

SHARE OPTION SCHEMES (cont'd)

Notes:

1. Pursuant to the 2005 Share Option 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. The closing price of shares of the Company immediately before the date of grant of share options was HK$2.30.
2. These share options were granted pursuant to the 2005 Share Option Scheme on March 9, 2006 and are exercisable at HK$2.38 per Share from January 1, 2008 to March 8, 2016. The closing price of shares of the Company immediately before the date of grant of share options was HK$2.30.
3. These share options were granted pursuant to the 2005 Share Option Scheme on May 5, 2008 and are exercisable at HK$1.18 per Share from January 1, 2009 to May 4, 2018. The closing price of shares of the Company immediately before the date of grant of share options was HK$1.18.
4. These share options were granted pursuant to the 2005 Share Option Scheme on May 5, 2008 and are exercisable at HK$1.18 per Share from January 1, 2010 to May 4, 2018. The closing price of shares of the Company immediately before the date of grant of share options was HK$1.18.
5. These share options were granted pursuant to the 2005 Share Option Scheme on May 26, 2015 and are exercisable at HK$1.37 per Share from January 1, 2016 to May 25, 2025. The closing price of shares of the Company immediately before the date of grant of share options was HK$1.38.
6. These share options represent personal interest held by the relevant participants as beneficial owner.
7. Except the lapsed share option stated above, up to December 31, 2015, none of these share options were cancelled and exercised.

SUBSTANTIAL SHAREHOLDERS

As at December 31, 2015, 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	34.07%
Hangzhou Great Star Industrial Co., Ltd. [2]	Interest of controlled corporation	–	235,134,057	235,134,057	15.56%
Hongkong Greatstar International Co., Ltd. [2]	Beneficial owner	–	235,134,057	235,134,057	15.56%

Notes:

1. Mr. Zhu Zhangjin, the chairman of the Company, as settlor, and together with persons acting in concert with him as beneficiaries of a family trust (a trust set up to hold interest of family of Mr. Zhu Zhangjin (excluding Mr. Zhu Zhangjin) in the Company), being the substantial shareholders of the Company, are collectively holding 527,158,635 Shares or approximately 34.89% of the total number of issued Shares (including the 514,798,635 Shares or approximately 34.07% of the issued Shares held by Joyview Enterprises Limited ("Joyview") which in turn is wholly owned by the trustee of such family trust).
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. The non executive director of the Company, Mr. Qiu Jian Ping (resigned on March 18, 2016) is the chairman and president of Hangzhou Great Star Industrial Co., Ltd.

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, 2015.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Other than the share option schemes disclosed in the section "Share Option Schemes", at no time during the year of 2015 was the Company or any of its subsidiaries a party to any arrangements which enables the Directors of the Company acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

CONNECTED TRANSACTIONS

During the year ended December 31, 2015, the Group did not enter into any transactions with its connected persons.

CONTINUING CONNECTED TRANSACTIONS

During the year ended December 31, 2015, 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. 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.

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 RMB3,474,000 and the annual cap amount granted by the Stock Exchange was RMB5,000,000.

Yujie is a subsidiary of Zhejiang Sunbridge Industrial Group Co., Ltd ("Sunbridge") and Sunbridge is a company in which Mr. Zhu Zhangjin indirectly controls 30% of the voting power at its general meetings. Accordingly, Yujie is a connected person of the Company and transaction between the Group and Yujie constitute connected transaction for the Company pursuant to Chapter 14A of the Listing Rules.

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

(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 RMB240,000 and the annual cap amount granted by the Stock Exchange was RMB5,000,000.

Sunbridge is a company in which Mr. Zhu Zhangjin indirectly controls 30% of the voting power at its general meeting. Accordingly, Sunbridge is a connected person of the Company and transaction between the Group and Sunbridge constitutes connected transaction of the Company pursuant to Chapter 14A of the Listing Rules.

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 RMB17,758,000 and the annual cap amount granted by the Stock Exchange was RMB42,000,000.

Sunbridge is a company in which Mr. Zhu Zhangjin indirectly controls 30% of the voting power at its general meeting. Accordingly, Sunbridge is a connected person of the Company and transaction between the Group and Sunbridge constitutes connected transaction of the Company pursuant to Chapter 14A of the Listing Rules.

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

(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 RMB2,362,000 and the annual cap amount granted by the Stock Exchange was RMB55,000,000.

Sunbridge is a company in which Mr. Zhu Zhangjin indirectly controls 30% of the voting power at its general meeting. Accordingly, Sunbridge is a connected person of the Company and transaction between the Group and Sunbridge constitutes connected transaction of the Company pursuant to Chapter 14A of the Listing Rules.

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.

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, 2015.

RELATED PARTY TRANSACTIONS

During the year ended December 31, 2015, 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, 2015.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year under review.

INDEMNITY AND INSURANCE PROVISIONS

The Articles of Association of the Company provides that every Director shall be indemnified out of the assets of the Company against any liability, action, proceeding, claim, demand, costs, damages or expenses as a result of any act or failure to act in carrying out his/her functions. The Company has arranged appropriate directors and officers liability insurance in respect of legal action against Directors.

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, 2015.

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, 2015.

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 (resigned on November 2, 2015), Mr. DU Haibo (appointed on November 2, 2015), 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 an event after the reporting period. For details, please refer to note 44 to the consolidated financial statements.

AUDIT COMMITTEE

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. DU Haibo (appointed on November 2, 2015) is the chairman of the Audit Committee (Mr. SUN Steve Xiaodi was resigned as the chairman of the Audit Committee on November 2, 2015).

The annual results of the Company for the year ended December 31, 2015 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. DU Haibo (appointed on November 2, 2015) is the chairman of the Nomination Committee (Mr. SUN Steve Xiaodi was resigned as the chairman of Nomination Committee on November 2, 2015).

AUDITOR

On December 10, 2015, the Board resolved to appoint Messrs. BDO Limited ("BDO") as the new auditor of the Group with effect from December 10, 2015 to fill the casual vacancy following the resignation of Deloitte Touche Tohmatsu as Deloitte Touche Tohmatsu could not reach a consensus on the audit fee for the financial year ended December 31, 2015. BDO shall hold office as the auditor of the Group until the conclusion of the next annual general meeting of the Company. A resolution will be proposed at the AGM to re-appoint BDO as auditor of the Company.

On behalf of the Board

ZHU Zhangjin, Kasen
Director

The PRC, March 31, 2016

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 Corporate Governance Code (the "CG Code") as stated in Appendix 14 of the Listing Rules throughout the year ended December 31, 2015, 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, 2015, 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, 2015, 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, 2015 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
SUN Hongyang (appointed on November 2, 2015)
LEE Lawrence (resigned on November 2, 2015)

Non-executive Director

QIU Jian Ping (resigned on March 18, 2016)

Independent Non-executive Directors

DU Haibo (appointed on November 2, 2015)
ZHOU Lingqiang
ZHANG Yuchuan
SUN Steve Xiaodi (resigned on November 2, 2015)

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 (in the case for Mr. Qiu Jian Ping who resigned on March 18, 2016), January 1, 2015, March 1, 2015 and November 2, 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, 2015, all Directors of the Company namely, Mr. Zhu Zhangjin, Mr. Lee Lawrence (resigned on November 2, 2015), Mr. Sun Hongyang (appointed on November 2, 2015), Mr. Zhang Mingfa, Michael, Mr. Qiu Jian Ping (resigned on March 18, 2016), Mr. Sun Steve Xiaodi (resigned on November 2, 2015), Mr. Zhou Lingqiang, Mr. Du Haibo (appointed on November 2, 2015) 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. DU Haibo	*(appointed as Chairman of the Audit Committee on November 2, 2015)*
Mr. SUN Steve Xiaodi	*(resigned as Chairman of the Audit Committee on November 2, 2015)*
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, internal control principles and risk management effectiveness 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, internal control procedures and risk management effectiveness 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, 2015, 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, 2015, 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. SUN Hongyang	(appointed on November 2, 2015)
Mr. ZHANG Yuchuan	
Mr. LEE Lawrence	(resigned on November 2, 2015)

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, 2015, 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, 2015 is set out below:

Remuneration band	Number of individuals
Nil to HK$1,000,000	10
HK$1,500,001 – HK$2,000,000	4
HK$2,000,001 – HK$2,500,000	1

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. DU Haibo	*(appointed as Chairman of the Nomination Committee on November 2, 2015)*
Mr. SUN Steve Xiaodi	*(resigned as Chairman of the Nomination Committee on November 2, 2015)*
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, 2015, the Nomination Committee held two meetings to discuss about the appointments of Mr. Sun Hongyang and Mr. Du Haibo as the Company's executive Director and independent non-executive Director respectively, as well as the appointment of BDO Limited as the Company's auditors.

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, 2015 is set out below:

	Attendance/Number of Meetings						
Name of Directors	**Board Meetings**	**Remuneration Committee Meeting**	**Audit Committee Meeting**	**Nomination Committee Meeting**	**Annual General Meeting held on May 29, 2015**	**Extraordinary General Meeting held on June 22, 2015**	**Extraordinary General Meeting held on December 11, 2015**
Executive Directors							
Mr. ZHU Zhangjin, Kasen *(Chairman)*	5/5	N/A	N/A	N/A	1/1	0/1	1/1
Mr. LEE Lawrence *(resigned on November 2, 2015)* *(Member of Remuneration Committee, resigned on November 2, 2015)*	3/4	0/1	N/A	N/A	1/1	1/1	N/A
Mr. ZHANG Mingfa, Michael *(Member of Nomination Committee)*	5/5	N/A	N/A	2/2	1/1	1/1	1/1
Mr. SUN Hongyang *(appointed on November 2, 2015)* *(Member of Remuneration Committee, appointed on November 2, 2015)*	1/1	1/1	N/A	N/A	N/A	N/A	1/1
Non-executive Director							
Mr. QIU Jian Ping *(resigned on March 18, 2016)*	5/5	N/A	N/A	N/A	1/1	0/1	0/1
Independent Non-executive Directors							
Mr. DU Haibo *(appointed on November 2, 2015)* *(Chairman of Audit Committee and Chairman of Nomination Committee, appointed on November 2, 2015)*	1/1	N/A	N/A	1/1	N/A	N/A	0/1
Mr. SUN Steve Xiaodi *(resigned on November 2, 2015)* *(Chairman of Audit Committee and Chairman of Nomination Committee resigned on November 2, 2015)*	3/4	N/A	2/2	0/1	1/1	0/1	N/A
Mr. ZHOU Lingqiang *(Member of Audit Committee, Member of Nomination Committee and Chairman of Remuneration Committee)*	5/5	2/2	2/2	2/2	1/1	0/1	0/1
Mr. ZHANG Yuchuan *(Member of Audit Committee and Remuneration Committee)*	5/5	2/2	2/2	N/A	1/1	0/1	0/1

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, 2015.

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, 2015 amounted to approximately RMB1.7 million and RMB1.0 million, respectively.

RISK MANAGEMENT AND INTERNAL CONTROL

The Company endeavors to implement a sound risk management and internal control systems. 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.

During the year under review, the Board, through the Audit Committee, conducted a review of the effectiveness of the risk management and internal control systems of the Company and its subsidiaries in respect of the material contracts, including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

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, 2015 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, 2015.

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:	Company Secretary
By email:	kasen@kasen.imsbiz.com.hk

BDO

Tel : +852 2218 8288
Fax: +852 2815 2239
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25th Floor Wing On Centre
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香港干諾道中111號
永安中心25樓

TO THE SHAREHOLDERS 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 44 to 130, which comprise the consolidated statement of financial position as at December 31, 2015, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the 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 issued by the International Accountings Standards Board 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. This report is made solely to you, as a body, in accordance with the terms of our 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 financial position of the Group as at December 31, 2015 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BDO Limited
Certified Public Accountants

Ng Wai Man
Practising Certificate Number P05309

Hong Kong, March 31, 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2015

	NOTES	**2015** **RMB'000**	2014 RMB'000
Turnover	*5*	**3,237,881**	3,230,327
Cost of sales		**(2,771,069)**	(2,852,868)
Gross profit		**466,812**	377,459
Other income	*6*	**23,958**	21,578
Selling and distribution costs		**(181,385)**	(164,335)
Administrative expenses		**(262,950)**	(211,651)
Other gains and losses	*7*	**271,328**	160,237
Share of loss of an associate		**(87)**	–
Finance costs	*8*	**(85,288)**	(62,964)
Profit before tax	*9*	**232,388**	120,324
Income tax expenses	*11*	**(67,018)**	(102,494)
Profit for the year		**165,370**	17,830
Other comprehensive income (loss)			
Items that may be subsequently reclassified to profit or loss:			
Fair value gain (loss) on available-for-sale investments		**105,464**	(230,720)
Income tax on fair value change of available-for-sale investments		**(26,366)**	57,680
Exchange difference arising on translation		**54**	(481)
Reclassification from translation reserve to profit or loss on disposal of foreign operation		**728**	–
Reclassification from revaluation reserve to profit or loss on disposal of available-for-sale investments		**(326,835)**	(197,972)
Reclassification from revaluation reserve to profit or loss on income tax relating to disposal of available-for-sale investments		**81,708**	49,493
		(165,247)	(322,000)
Total comprehensive income (loss) for the year		**123**	(304,170)
Profit (loss) for the year attributable to:			
Owners of the Company		**190,458**	32,418
Non-controlling interests		**(25,088)**	(14,588)
		165,370	17,830
Total comprehensive income (loss) attributable to:			
Owners of the Company		**25,211**	(289,582)
Non-controlling interests		**(25,088)**	(14,588)
		123	(304,170)
			(Restated)
Earnings per share	*13*		
Basic		**RMB14.41 cents**	RMB2.46 cents
Diluted		**RMB14.41 cents**	RMB2.46 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 2015

	NOTES	2015 RMB'000	2014 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**961,216**	923,774
Prepaid lease payments – non-current portion	15	**71,667**	73,704
Intangible assets	16	**563**	938
Available-for-sale investments – non-current portion	17	**–**	223,056
Deferred tax assets	18	**73,930**	82,456
Deposits paid for acquisition of land use rights		**48,420**	68,458
		1,155,796	1,372,386
CURRENT ASSETS			
Available-for-sale investments – current portion	17	**177,262**	190,920
Inventories	19	**534,052**	601,911
Properties under development	20	**3,189,256**	3,249,721
Properties held for sale	20	**1,289,901**	1,426,793
Amount due from non-controlling interests of a subsidiary		**10,000**	4,769
Trade, bills and other receivables	21	**1,517,615**	1,655,427
Prepaid lease payments – current portion	15	**2,309**	2,581
Tax recoverable		**6,987**	13,790
Prepaid land appreciation tax		**18,623**	41,050
Pledged bank deposits	22	**104,308**	244,495
Restricted bank deposits for property development business	22	**1,867**	9,101
Bank balances and cash	22	**215,629**	324,388
		7,067,809	7,764,946
CURRENT LIABILITIES			
Trade, bills and other payables	23	**1,359,849**	1,856,171
Deposits received in respect of pre-sale of properties		**1,111,880**	1,044,265
Bank and other borrowings – due within one year	24	**1,583,869**	1,666,765
Exchangeable bonds	25	**137,439**	216,000
Tax payable		**111,323**	166,909
Amounts due to non-controlling interests of subsidiaries	26	**149,405**	127,474
Other long-term liabilities – current portion	27	**–**	33,222
		4,453,765	5,110,806
NET CURRENT ASSETS		**2,614,044**	2,654,140
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,769,840**	4,026,526

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (cont'd)

AT DECEMBER 31, 2015

	NOTES	**2015** **RMB'000**	2014 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*18*	**172,852**	228,369
Bank and other borrowings – due after one year	*24*	**316,891**	679,865
Other long-term liabilities	*27*	**–**	10,984
		489,743	919,218
NET ASSETS		**3,280,097**	3,107,308
CAPITAL AND RESERVES			
Share capital	*28*	**1,735**	1,400
Reserves		**3,165,599**	2,961,307
Equity attributable to owners of the Company		**3,167,334**	2,962,707
Non-controlling interests		**112,763**	144,601
TOTAL EQUITY		**3,280,097**	3,107,308

The consolidated financial statements on pages 44 to 130 were approved and authorised for issue by the Board of Directors on March 31, 2016 and are signed on its behalf by:

Zhu Zhangjin, Kasen
DIRECTOR

Sun Hongyang
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2015

	Attributable to owners of the Company											
	Share capital	Share premium	Statutory reserve	Special reserve	Share option reserve	Other reserve	Available-for-sale investments revaluation reserve	Translation reserve	Retained earnings	Sub-total	Non-controlling interests	Total
	RMB'000	*RMB'000*	*RMB'000* (note 30)	*RMB'000* (note 30)	*RMB'000*	*RMB'000* (note 30)	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At January 1, 2014	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 recognised 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
Profit for the year	–	–	–	–	–	–	–	–	190,458	190,458	(25,088)	165,370
Total other comprehensive loss	–	–	–	–	–	–	(166,029)	782	–	(165,247)	–	(165,247)
Total comprehensive income (loss) for the year	–	–	–	–	–	–	(166,029)	782	190,458	25,211	(25,088)	123
Issue of share capital *(note 28)*	335	172,333	–	–	–	–	–	–	–	172,668	–	172,668
Share issue expenses	–	(3,494)	–	–	–	–	–	–	–	(3,494)	–	(3,494)
Acquisition of additional interests in a subsidiary	–	–	–	–	–	–	–	–	(748)	(748)	(9,252)	(10,000)
Disposal of a subsidiary	–	–	–	–	–	–	–	–	–	–	2,502	2,502
Equity settled share-based transactions	–	–	–	–	10,990	–	–	–	–	10,990	–	10,990
At December 31, 2015	**1,735**	**1,486,326**	**189,309**	**167,983**	**23,757**	**(41,703)**	**123,929**	**70**	**1,215,928**	**3,167,334**	**112,763**	**3,280,097**

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2015

	NOTES	**2015** **RMB'000**	2014 RMB'000
OPERATING ACTIVITIES			
Profit before tax		**232,388**	120,324
Adjustments for:			
(Reversal) provision for allowance for inventories		**(2,079)**	21,594
Amortisation of intangible assets		**330**	460
Release of prepaid lease payments		**2,309**	2,206
Depreciation of property, plant and equipment		**77,900**	65,467
Finance costs		**85,288**	62,964
Net impairment loss recognised in respect of trade and other receivables		**1,246**	5,969
Impairment loss recognised in respect of property under development		**15,911**	9,015
Impairment loss recognised in respect of property, plant and equipment		**4,250**	278
Gain on disposal of available-for-sale investments		**(288,544)**	(190,820)
Dividend income from available-for-sale investments		**(1,920)**	(4,034)
Interest income		**(6,562)**	(7,516)
Loss (gain) on disposal of property, plant and equipment		**2,792**	(2,619)
Share of loss of an associate		**87**	–
Loss on disposal of an associate		**123**	–
Gain on disposal of subsidiaries		**(17,415)**	–
Fair value change of exchangeable bonds		**2,346**	–
Share-based payment expense		**10,990**	–
Operating cash flows before movements in working capital		**119,440**	83,288
Decrease (increase) in inventories		**46,091**	(163,964)
Decrease (increase) in properties under development and held for sale		**181,446**	(215,551)
Decrease (increase) in trade, bills and other receivables		**45,679**	(168,592)
Decrease in trade, bills and other payables		**(384,835)**	(49,220)
Increase in deposits received in respect of pre-sale properties		**67,615**	20,786
Increase in amounts due to non-controlling interest of subsidiaries		**21,931**	13,100
Decrease in restricted bank deposits		**7,234**	20,514
Cash generated from (used in) operations		**104,601**	(459,639)
Land Appreciation Tax ("LAT") paid		**(28,250)**	(71,840)
Income taxes paid		**(57,466)**	(87,600)
NET CASH GENERATED FROM (USED IN) OPERATING ACTIVITIES		**18,885**	(619,079)

CONSOLIDATED STATEMENT OF CASH FLOWS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2015

	NOTES	2015 RMB'000	2014 RMB'000
INVESTING ACTIVITIES			
Release of pledged bank deposits		**140,187**	838,128
Interest received		**6,562**	7,516
Proceeds from disposal of available-for-sale investments		**224,104**	207,325
Dividend income from available-for-sale investments		**1,920**	4,034
Proceeds from disposal of property, plant and equipment		**3,549**	1,714
Addition to pledged bank deposits		**–**	(883,595)
Purchase of property, plant and equipment		**(127,579)**	(150,614)
Acquisition of additional interest in a subsidiary		**(10,000)**	–
Proceeds from refund of deposits paid for acquisition of land use rights		**20,038**	–
Net cash inflow from disposal of subsidiaries		**557**	–
Acquisition of assets through acquisition of a subsidiary		**–**	(23,162)
Purchase of intangible assets		**–**	(236)
Acquisition of investment in an associate		**(450)**	–
Proceeds from disposal of investment in an associate		**240**	–
Increase in amounts due from non-controlling interest of subsidiaries		**(5,231)**	(4,769)
Decrease in other long-term assets		**–**	620
NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES		**253,897**	(3,039)
FINANCING ACTIVITIES			
Repayment of bank and other borrowings		**(2,713,229)**	(2,743,533)
Redemption of exchangeable bonds		**(1,493)**	–
Interest paid		**(84,981)**	(110,551)
Dividend paid	*12*	**–**	(9,227)
Underwriting fee paid in relation to issuance of corporate bonds by a subsidiary		**–**	(570)
Bank and other borrowings raised		**2,278,934**	3,154,920
Proceeds from issuance of exchangeable bonds by a subsidiary		**–**	216,000
Capital contribution from non-controlling interests of subsidiaries		**–**	2,501
Repayment of corporate bonds by a subsidiary		**(30,000)**	(120,000)
Repayment of other long-term liabilities		**–**	(2,700)
Net proceed from issue of shares		**169,174**	–
NET CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES		**(381,595)**	386,840
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(108,813)**	(235,278)
Effect of changes in exchange rates		**54**	(481)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**324,388**	560,147
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**215,629**	324,388
Represented by:			
Bank balances and cash		**215,629**	324,388

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; (iii) retail of furniture; and (iv) tourism resort-related operations.

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

(a) Adoption of new/revised IFRSs – effective from January 1, 2015

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, 2015.

IFRSs (Amendments) Annual Improvements 2010-2012 Cycle
IFRSs (Amendments) Annual Improvements 2011-2013 Cycle

The adoption of these amendments has no material impact on the Group's financial statements.

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

(b) New/revised IFRSs issued but not yet effective

The Group has not early applied the following new/revised IFRSs that have been issued but are not yet effective.

IFRSs (Amendments)	Annual Improvements 2012-2014 Cycle[1]
Amendments to IAS 1	Disclosure Initiative[1]
Amendments to IAS 7	Disclosure Initiative[2]
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[2]
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[1]
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants[1]
Amendments to IAS 27	Equity Method in Separate Financial Statements [1]
IFRS 9 (2014)	Financial Instruments[3]
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[1]
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations[1]
IFRS 14	Regulatory Deferral Accounts[1]
IFRS 15	Revenue from Contracts with Customers[2]
IFRS 16	Leases[4]

1 Effective for annual periods beginning on or after January 1, 2016
2 Effective for annual periods beginning on or after January 1, 2017
3 Effective for annual periods beginning on or after January 1, 2018
4 Effective for annual periods beginning on or after January 1, 2019
5 Effective for annual periods beginning on or after a date to be determined

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 statements except for the application of IFRS 15 and IFRS 16 which may have impacts as described below.

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

(b) New/revised IFRSs issued but not yet effective (cont'd)

IFRS 15 – Revenue from Contracts with Customers

The new standard establishes a single revenue recognition framework. The core principal 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

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.

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

(b) New/revised IFRSs issued but not yet effective (cont'd)

IFRS 16 – Leases

The Group is a lessee of various offices, which are currently classified as operating leases. The Group's current accounting policy for such leases is set out in note 3 – Leasing, with the Group's future operating lease commitments, which are not reflected in the consolidated statement of financial position. IFRS 16 provides new provisions for the accounting treatment of leases and will in the future no longer allow lessees to recognise certain leases outside of the statement of financial position. Instead, all non-current leases must be recognised in the form of an asset (for the right of use) and a financial liability (for the payment obligation). Thus each lease will be mapped in the Group's consolidated statement of financial position. Short-term leases of less than twelve months and leases of low-value assets are exempt from the reporting obligation.

The new standard will therefore result in an increase in property, plant and equipment and an increase in financial liabilities in the consolidated statement of financial position. In the income statement, leases will be recognised in the future as capital expenditure on the purchasing side and will no longer be recorded as an operating expense. As a result, the operating expense under otherwise identical circumstances will decrease, while depreciation and amortisation and the interest expense will increase.

(c) New Companies Ordinance provisions relating to the preparation of financial statements

The Company has adopted the amendments to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") issued by the Stock Exchange relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the current financial year. The main impact on the financial statements is on the presentation and disclosure of certain information in the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. 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.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

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 recognised directly in equity and attributed to owners of the Company.

When the Company loses control of a subsidiary, a gain or loss is recognised 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 recognised 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 recognised in profit or loss as incurred. At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised 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 recognised 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 recognised 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)

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

Interest income from a financial asset is recognised 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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Revenue recognition (cont'd)

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

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

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

Dividend income from investments is recognised 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 recognised 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 recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised 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 derecognised 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 development and held for sale are stated at the lower of cost and net realisable value. Cost includes the cost of land use rights, development expenditures, borrowing costs capitalised 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 recognised 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 recognised as a liability. The aggregate benefit of incentives is recognised 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 recognised 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 recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised 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 recognised 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 recognised 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 capitalisation.

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

Government grants

Government grants are not recognised 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 recognised in profit or loss on a systematic basis over the periods in which the Group recognises 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 recognised 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 recognised as expenses when employees have rendered service entitling them to the contributions.

Share-based payments transactions

Equity-settled share-based payments transactions

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 recognised 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 recognised 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 recognised in share option reserve will be transferred to retained earnings.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit 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 recognised 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 recognised for all taxable temporary differences. Deferred tax assets are generally recognised 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 utilised. Such assets and liabilities are not recognised 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 recognised for taxable temporary differences associated with investments in subsidiaries, 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 realised, 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 recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised 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 amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation 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 derecognised.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised 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 derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs are determined on the weighted average cost method. Net realisable 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 recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount; however, the carrying amount should not be increased above the lower of its recoverable amount and the carrying amount that would have resulted had no impairment loss been recognised for the asset in prior years. All reversals are recognised in the income statement immediately.

Financial instruments

Financial assets and financial liabilities are recognised 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 recognised 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 recognised and derecognised 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.

Loans 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 amortised 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 recognised in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognised 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 recognised 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)*

Effective interest method

The effective interest method is a method of calculating the amortised 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 recognised on an effective interest basis for debt instruments.

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-organisation.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (cont'd)

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

Impairment of financial assets (cont'd)

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 amortised 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 recognised 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 recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

For financial assets measured at amortised 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 recognised, the previously recognised 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 amortised cost would have been had the impairment not been recognised.

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 recognised directly in other comprehensive income and accumulated in available-for-sale investments revaluation reserve.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (cont'd)

Financial liabilities and equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

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 amortised 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 chooses to designate the entire instrument as a whole based on its fair value through profit or loss.

Subsequent to initial recognition, exchangeable bonds are measured at fair value, with changes in fair value and net gain and losses from conversion and redemption are recognised in profit or loss in the period in which they arise.

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

Effective interest method

The effective interest method is a method of calculating the amortised 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 recognised on an effective interest basis for debt instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (cont'd)

Derivative financial instruments

Derivatives are initially recognised 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 recognised 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 recognised in profit or loss.

Derecognition

The Group derecognises 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 recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises 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 recognised in other comprehensive income is recognised in profit or loss.

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Allowance for inventories

Management of the Group reviews the inventories at the end of the reporting period and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. Management estimates the net realisable value for such items based primarily on the latest invoices prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of the reporting period. Where there is obsolete or the net realisable value is lower than its carrying amount in such items, a material impairment loss may arise. As at December 31, 2015, the carrying amount of inventories is approximately RMB534,052,000 (2014: RMB601,911,000) (net of allowance for inventories of RMB27,528,000 (2014: RMB29,607,000)).

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

Estimated impairment of properties under development and held for sale

Net realisable 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 realisable 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, 2015, the aggregate carrying amount of properties under development and held for sale is approximately RMB4,479,157,000 (2014: RMB4,676,514,000) (net of allowance for property under development of RMB24,926,000 (2014: RMB9,015,000)).

As at December 31, 2015, the aggregate carrying amount of deposits paid for acquisition of land for development is approximately RMB707,260,000 (2014: RMB724,007,000), 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, 2015, the aggregate carrying amount of trade and other receivables is RMB594,172,000 (2014: RMB545,334,000), net of allowance for doubtful debts of RMB63,602,000 (2014: RMB64,786,000).

Estimated useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and residual values for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation expenses where useful lives are less than previously estimated lives. It will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives; actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expense in the future periods.

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

Fair value measurement

A number of assets and liabilities included in the Group's financial statements require measurement at fair value.

The fair value measurement of the Group's financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

- Level 1: Quoted prices in active markets for identical items (unadjusted);
- Level 2: Observable direct or indirect inputs other than Level 1 inputs;
- Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

The Group measures a number of items at fair value:

- Available-for-sale investments – listed equity securities (note 17); and
- Exchangeable Bonds (note 25)

For more detailed information in relation to the fair value measurement of the items above, please refer to the applicable notes and note 32(c).

Recognition of deferred tax assets

Deferred tax assets are recognised in respect of deductible temporary difference. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised, management's judgment is required to assess the probability of future taxable profits. Management's assessment is revised as necessary and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

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 and tourism resort-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, 2015

	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	**2,333,849**	**711,991**	**19,583**	**172,458**	**3,237,881**	**–**	**3,237,881**
Inter-segment sales	**1,093**	**–**	**–**	**777**	**1,870**	**(1,870)**	**–**
Total	**2,334,942**	**711,991**	**19,583**	**173,235**	**3,239,751**	**(1,870)**	**3,237,881**

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

5. SEGMENT INFORMATION AND REVENUE (cont'd)

(a) Segment information (cont'd)

Segment revenues and results *(cont'd)*

Results

	2015	2014
	RMB'000	*RMB'000*
Segment results		
– Manufacturing (note)	**222,540**	80,353
– Properties development	**(32,001)**	(11,660)
– Retail	**154**	(1,340)
– Others	**(12,754)**	(45,573)
	177,939	21,780
Unallocated corporate expenses	**(14,641)**	(2,953)
Unallocated other gains and losses	**2,072**	(997)
Profit for the year	**165,370**	17,830

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 CODM 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 RMB288,544,000 (2014: RMB190,820,000) (note 17). 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

	2015	2014
	RMB'000	*RMB'000*
Manufacturing	**2,009,681**	2,547,622
Properties development	**5,900,937**	6,252,332
Retail	**2,327**	20,382
Others	**262,853**	264,508
Total segment assets	**8,175,798**	9,084,844
Unallocated	**47,807**	52,488
Consolidated assets	**8,223,605**	9,137,332

Segment liabilities

	2015	2014
	RMB'000	*RMB'000*
Manufacturing	**1,800,708**	2,531,720
Properties development	**3,003,889**	3,373,871
Retail	**3,124**	12,655
Others	**125,095**	101,982
Total segment liabilities	**4,932,816**	6,020,228
Unallocated	**10,692**	9,796
Consolidated liabilities	**4,943,508**	6,030,024

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,	
	2015	2014	**2015**	2014
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
United States	**516,585**	444,787	**–**	–
PRC, including Hong Kong	**2,563,538**	2,601,400	**1,081,860**	1,066,685
Europe	**105,414**	91,026	**–**	–
Japan	**87**	40,245	**6**	189
Others	**52,257**	52,869	**–**	–
	3,237,881	3,230,327	**1,081,866**	1,066,874

Information about major customers

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

	Revenue Year ended December 31,		Trade receivable At December 31,	
	2015	2014	**2015**	2014
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Customer A[1]	**506,579**	496,976	**132,949**	114,554
Customer B[1]	**680,271**	454,631	**195,274**	163,875

[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:

	2015	2014
	RMB'000	*RMB'000*
Sale of goods		
Manufacturing		
Upholstered furniture	**677,540**	666,059
Furniture leather	**282,752**	248,099
Automotive leather	**1,373,557**	1,461,670
Residential properties	**711,991**	718,348
Retail of upholstered furniture	**19,583**	17,913
	3,065,423	3,112,089
Provision of services		
Others *(note)*	**172,458**	118,238
Total	**3,237,881**	3,230,327

Note: Amounts mainly included income from provision of property management services and tourism resort-related services.

6. OTHER INCOME

Details of other income are as follows:

	2015	2014
	RMB'000	*RMB'000*
Government grants *(note)*	**8,422**	8,053
Income from sales of scrap materials	**5,414**	630
Interest income	**6,562**	7,516
Dividends income from available-for-sale investments	**1,920**	4,034
Rental income	**1,640**	1,345
	23,958	21,578

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

7. OTHER GAINS AND LOSSES

	2015	2014
	RMB'000	*RMB'000*
Impairment loss recognised in respect of properties under development	**(15,911)**	(9,015)
Impairment loss recognised in respect of property, plant and equipment	**(4,250)**	(278)
(Loss) gain on disposal of property, plant and equipment	**(2,792)**	2,619
Net foreign exchange loss	**(3,176)**	(9,517)
Net impairment loss recognised in respect of trade and other receivables	**(1,246)**	(5,969)
Donation	**(83)**	(1,794)
Penalty	**(1,906)**	(138)
Gain on disposal of available-for-sale investments *(note 17)*	**288,544**	190,820
Gain on disposal of subsidiaries *(note 31)*	**17,415**	–
Loss on disposal of an associate	**(123)**	–
Fair value change of exchangeable bonds *(note 25)*	**(2,346)**	–
Others	**(2,798)**	(6,491)
	271,328	160,237

8. FINANCE COSTS

	2015	2014
	RMB'000	*RMB'000*
Interest on:		
Bank and other borrowings	**79,137**	98,296
Exchangeable bonds	**10,132**	–
Corporate bonds	**897**	8,971
Total borrowing costs	**90,166**	107,267
Less: Amounts capitalised in respect of properties under development *(note 20)*	**(4,878)**	(44,303)
	85,288	62,964

The capitalised 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

	2015 RMB'000	2014 RMB'000
Profit before tax has been arrived at after charging:		
Amortisation of intangible assets	**330**	460
Depreciation of property, plant and equipment	**77,900**	65,467
Total depreciation and amortisation	**78,230**	65,927
Release of prepaid lease payments	**2,309**	2,206
Auditor's remuneration	**2,700**	3,800
Cost of inventories recognised as expenses (including reversal for net allowance of inventories of RMB2,079,000 (2014: net allowance for inventories of RMB21,594,000))	**2,154,317**	2,194,915
Cost of properties recognised as cost of sales	**625,518**	573,597
Operating lease rentals in respect of land and buildings	**19,738**	19,525
Employee cost (including directors' emoluments)		
– Wages, salaries and other benefits	**267,769**	254,515
– Contributions on defined contribution retirement plans	**18,690**	11,337
– Equity settled share-based payment expenses	**10,990**	–

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

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

2015

	Zhu Zhangjin, Kasen ("Mr. Zhu") RMB'000 (note i)	Sun Hongyang RMB'000 (note iii)	Zhang Mingfa, Michael RMB'000	Sun Steve Xiaodi RMB'000 (note iii)	Zhou Lingqiang RMB'000	Zhang Yuchuan RMB'000	Lee Lawrence RMB'000 (note iii)	Du Haibo RMB'000 (note iii)	Qiu Jian Ping RMB'000	Total RMB'000
Fees	–	–	–	121	145	145	–	25	–	436
Other emoluments										
Salaries and other benefits	800	150	420	–	–	–	250	–	–	1,620
Share-based payment (note iv)	479	–	1,436	–	–	–	–	–	–	1,915
Contributions to retirement benefits schemes	15	–	15	–	–	–	–	–	–	30
Total emoluments	1,294	150	1,871	121	145	145	250	25	–	4,001

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

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

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.

(iii) Mr. Lee Lawrence and Mr. Sun Steve Xiaodi resigned as an executive director and independent non-executive director of the Company respectively with effect from November 2, 2015. Mr. Sun Hongyang and Mr. Du Haibo were appointed as an executive director and independent non-executive director of the Company respectively on November 2, 2015.

(iv) These amounts represent the estimated value of share options granted to the directors under the Group's 2005 Share Option Scheme. The value of these share options is measured according to the accounting policies for share-based payments as set out in note 3 – share-based payments transactions to the financial statements. Further details of the options granted are set out in note 29 to the consolidated financial statements.

Two (2014: 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 (2014: three) individuals were as follows:

	2015 **RMB'000**	2014 *RMB'000*
Basic salaries and other benefits	**1,115**	1,367
Contributions to retirement benefits schemes	**70**	42
Share-based payment expenses	**3,157**	–
	4,342	1,409

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

Their emoluments were within the following bands:

	2015	2014
Nil to HK$1,000,000	**–**	3
HK$1,000,001 to HK$1,500,000	**–**	–
HK$1,500,001 to HK$2,000,000	**3**	–

During the years ended 2015 and 2014, 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 2015 and 2014.

11. INCOME TAX EXPENSE

	2015	2014
	RMB'000	*RMB'000*
Income tax		
– for current year	**69,673**	58,936
– under (over) provision in respect of prior years	**11,632**	(956)
	81,305	57,980
PRC withholding income tax	**8,548**	–
PRC Land Appreciation Tax ("LAT")		
– for current year	**20,967**	26,115
– over provision in respect of prior years	**(52,153)**	–
	(31,186)	26,115
Deferred tax *(note 18)*	**8,351**	18,399
	67,018	102,494

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.

11. INCOME TAX EXPENSE (cont'd)

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

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.

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:

	2015	2014
	RMB'000	*RMB'000*
Profit before tax	**232,388**	120,324
Tax rate applicable to the major operation of the Group	**25%**	25%
Tax at the domestic income tax rate	**58,097**	30,081
Tax effect of share of result of an associate	**22**	–
Tax effect of disposal of an associate	**31**	(6,241)
Tax effect of expenses not deductible for tax purpose	**8,036**	25,541
Tax effect of income not taxable for tax purpose	**(12,175)**	(12,507)
Tax effect of deductible temporary differences not recognised	**20,421**	9,946
Utilisation of deductible temporary differences previously not recognised	**(14,718)**	(1,876)
PRC withholding tax	**8,548**	–
PRC LAT	**20,967**	26,115
Tax effect of PRC LAT	**(5,242)**	(6,529)
Over provision of LAT in previous years	**(52,153)**	–
Tax effect of over provision of LAT	**13,038**	–
Tax effect of tax losses not recognised	**26,041**	43,819
Utilisation of tax losses previously not recognised	**(12,965)**	(3,006)
Tax effect of tax preference	**(2,562)**	(1,893)
Under (over) provision in previous years	**11,632**	(956)
Taxation for the year	**67,018**	102,494

12. DIVIDENDS

	2015	2014
	RMB'000	*RMB'000*
Dividends recognised as distributions during the year:		
Nil (2014: 2013 final, paid – HKD1.00 cent per share (equivalent to approximately RMB0.79 cent))	**–**	9,227

No dividend has been proposed during 2015 nor has any dividend been proposed 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

	2015	2014
	RMB'000	*RMB'000*
Profit for the purposes of basic and diluted earnings per share, being profit attributable to owners of the Company	**190,458**	32,418

Number of shares

	2015	2014
		(Restated)
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,322,068,471**	1,316,745,896
Effect of dilutive potential ordinary shares – share options	**–**	1,400,675
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,322,068,471**	1,318,146,571

Notes:

(a) The weighted average number of ordinary shares for the purpose of basic earnings per share for 2015 and 2014 has been adjusted for the bonus element of the placing of new shares completed on December 21, 2015.

(b) For the year ended December 31, 2015, the computation of diluted earnings per share does not assume the exercise of all share options of the Company because the exercise prices of all share options were higher than the average market price of the Company's shares during 2015.

(c) For the year ended December 31, 2014, the computation of diluted earnings per share does not assume the exercise of certain share options of the Company because the exercise prices of those share options were higher than the average market price of the Company's shares during 2014.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and equipment	Motor vehicles	Fixtures and equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST						
At January 1, 2014	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	–	500	175	7	31,290	31,972
Disposals	–	(19,118)	(843)	(96)	–	(20,057)
Transfers	1,321	4,548	–	–	(5,869)	–
Transfers from property under development *(note 20)*	10,993	–	–	1,780	–	12,773
At December 31, 2014	698,160	289,866	58,280	44,933	282,077	1,373,316
Additions	20,599	23,016	6,137	2,685	75,142	127,579
Disposal of a subsidiary	(1,621)	–	–	(1,122)	–	(2,743)
Disposals	–	(23,424)	(11,932)	(1,749)	–	(37,105)
Transfers	137,444	135,531	–	–	(272,975)	–
At December 31, 2015	**854,582**	**424,989**	**52,485**	**44,747**	**84,244**	**1,461,047**
DEPRECIATION AND IMPAIRMENT						
At January 1, 2014	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
Depreciation expense	41,781	26,161	5,386	4,572	–	77,900
Impairment loss recognised in profit or loss	–	–	–	–	4,250	4,250
Eliminated on disposal of a subsidiary	(659)	–	–	(438)	–	(1,097)
Eliminated on disposal	–	(18,723)	(10,459)	(1,582)	–	(30,764)
At December 31, 2015	**233,085**	**190,457**	**29,893**	**42,146**	**4,250**	**499,831**
CARRYING AMOUNTS						
At December 31, 2015	**621,497**	**234,532**	**22,592**	**2,601**	**79,994**	**961,216**
At December 31, 2014	506,197	106,847	23,314	5,339	282,077	923,774

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
Fixtures and equipment	5 – 10 years

As at December 31, 2015, the title deeds of buildings with carrying amount of RMB62,333,000 (2014: RMB1,409,000) 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

	2015	2014
	RMB'000	*RMB'000*
Carrying amount at January 1	**76,285**	69,491
Acquired on acquisition of a subsidiary	**–**	9,000
Amortisation recognised during the year	**(2,309)**	(2,206)
Carrying amount at December 31	**73,976**	76,285
Current portion	**(2,309)**	(2,581)
Non-current portion	**71,667**	73,704

16. INTANGIBLE ASSETS

	Computer software *RMB'000*
COST	
At January 1,2014	5,601
Additions	236
At December 31, 2014	5,837
Disposal of a subsidiary	(360)
At December 31, 2015	**5,477**
ACCUMULATED AMORTISATION	
At January 1, 2014	4,439
Provided for the year	460
At December 31, 2014	4,899
Provided for the year	330
Eliminated on disposal of a subsidiary	(315)
At December 31, 2015	**4,914**
CARRYING VALUES	
At December 31, 2015	**563**
At December 31, 2014	938

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

17. AVAILABLE-FOR-SALE INVESTMENTS

	2015	2014
	RMB'000	*RMB'000*
Equity securities:		
– Listed (i)	**177,262**	413,660
– Unlisted (ii)	**–**	316
	177,262	413,976
Analysed for reporting purpose as:		
– Current assets	**177,262**	190,920
– Non-current assets	**–**	223,056
	177,262	413,976

(i) The listed securities represent 11,555,554 shares (1.03% equity interest) (2014: 26,000,000 shares (2.32% 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.

During the year, the Group disposed of certain listed equity securities with carrying amount of RMB341,862,000 (2014: RMB213,892,000). A gain on disposal of RMB288,544,000 (2014: RMB187,747,000) have been recognised in profit or loss for the year.

As detailed in note 25, 12,000,000 shares of HCLM had been provided as collateral to the Exchangeable Bonds. The Exchangeable Bonds 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, which was further adjusted to RMB17.88 due to the cash dividends RMB0.12 per share paid during the year.

On July 22, 2015, the Exchangeable Bonds holders exercised its right to convert the Exchangeable Bonds with principal amount of RMB79,467,000 for 4,444,446 HCLM shares. As such, 7,555,554 (2014: 12,000,000) HCLM shares are presented as current assets as at December 31, 2015.

On May 20, 2015, the board of directors announced that they had the intention to dispose of all the HCLM shares within one year. Therefore, the remaining 4,000,000 HCLM shares held by the Group as at December 31, 2015 are presented as current assets. These 4,000,000 HCLM shares (2014: 14,000,000 HCLM shares) have also been pledged to secure for the Group's bank borrowings (note 35).

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

During the year, the Group derecognised of its unlisted equity securities with carrying amount of RMB316,000 when the Group lost control over its subsidiary, Melx (note 31).

18. DEFERRED TAXATION

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

	Income on relocation of manufacturing plant *RMB'000*	Unrealised profit on intra-group transactions *RMB'000*	Fair value available-for-sale investments *RMB'000*	LAT provision *RMB'000*	Tax losses *RMB'000*	Total *RMB'000*
At January 1, 2014	(90,880)	26,734	(203,826)	25,806	7,479	(234,687)
Charge to other comprehensive income	–	–	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)
Charge to other comprehensive income	–	–	55,342	–	–	55,342
Charge/(credit) to profit or loss	–	1,368	–	(9,719)	–	(8,351)
At December 31, 2015	**(90,880)**	**27,559**	**(41,311)**	**3,511**	**2,199**	**(98,922)**

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

	2015 ***RMB'000***	2014 *RMB'000*
Deferred tax assets	**73,930**	82,456
Deferred tax liabilities	**(172,852)**	(228,369)
	(98,922)	(145,913)

18. DEFERRED TAXATION (cont'd)

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

	2015	2014
	RMB'000	*RMB'000*
Impairment of property, plant and equipment	**12,293**	11,185
Impairment of property under development	**24,926**	9,015
Allowance for bad and doubtful debts	**63,602**	64,786
Allowance for inventories	**27,528**	29,607
	128,349	114,593

No deferred tax asset has been recognised 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 utilised.

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. For the Group, the application rate is 10%. 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 RMB1,289,225,000 (2014: RMB1,410,317,000).

The directors of the Company represent that the undistributed earnings of the PRC subsidiaries as of December 31, 2015 and 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 in the foreseeable future.

18. DEFERRED TAXATION (cont'd)

At the end of the reporting period, the Group has unused tax losses of RMB337,472,000 (2014: RMB360,113,000) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB8,796,000 (2014: RMB8,796,000) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB328,676,000 (2014: RMB351,317,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of RMB24,706,000 (2014: RMB32,384,000) can be carried forward indefinitely. The remaining RMB303,970,000 (2014: RMB318,933,000) expires in the following years:

	2015	2014
	RMB'000	*RMB'000*
2015	**–**	4,888
2016	**26,810**	36,840
2017	**29,157**	49,613
2018	**28,738**	58,229
2019	**120,124**	169,363
2020	**99,141**	–
	303,970	318,933

19. INVENTORIES

	2015	2014
	RMB'000	*RMB'000*
Raw materials	**89,981**	108,202
Work in progress	**289,527**	286,264
Finished goods	**154,544**	207,445
Total, net of allowance for inventories	**534,052**	601,911

20. PROPERTIES UNDER DEVELOPMENT AND HELD FOR SALE

	RMB'000
COST:	
At January 1, 2014	4,495,853
Addition of development expenditure	776,046
Sales of properties held for sale	(573,597)
Transfer to property, plant and equipment	(12,773)
At December 31, 2014	4,685,529
Addition of development expenditure	444,072
Sales of properties held for sale	(625,518)
At December 31, 2015	**4,504,083**
IMPAIRMENT	
At January 1, 2014	–
Provided for the year	(9,015)
At December 31, 2014	(9,015)
Provided for the year	(15,911)
At December 31, 2015	**(24,926)**
CARRYING AMOUNTS	
At December 31, 2015	**4,479,157**
At December 31, 2014	4,676,514

The carrying values are presented as:

	2015	2014
	RMB'000	*RMB'000*
Properties under development	**3,189,256**	3,249,721
Properties held for sale	**1,289,901**	1,426,793
	4,479,157	4,676,514

During the year, interest capitalised in the properties under development was an amount of RMB4,878,000 (2014: RMB44,303,000). The properties under development and property held for sale are located in the PRC and are held under medium term land use rights.

21. TRADE, BILLS AND OTHER RECEIVABLES

	2015	2014
	RMB'000	*RMB'000*
Trade receivables	**588,847**	554,210
Less: Allowance for doubtful debts	**(43,051)**	(42,458)
	545,796	511,752
Bills receivables	**200**	44,751
Deposits paid for acquisition of land for development *(Note a)*	**707,260**	724,007
Advance payment for purchase of inventory *(Note b)*	**80,605**	63,956
Deposit and prepayments *(Note c)*	**67,606**	89,270
Prepaid other taxes	**67,772**	87,841
Prepaid land demolishing expenses *(Note d)*	**–**	100,268
Other receivables	**68,927**	55,910
Less: allowance for doubtful debts for other receivables	**(20,551)**	(22,328)
	1,517,615	1,655,427

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. As of December 31, 2015, the amounts mainly included (i) RMB636,856,000 (2014: RMB636,856,000) as deposits for the land acquisition through Hainan Sanya Kasen Property Development Co., Ltd. ("Sanya Kasen"), a 80.5% subsidiary of the Company; (ii) RMB42,700,000 (2014: RMB40,200,000) as deposit paid for acquisitions of two pieces of reclaimed land in Malaysia; and (iii) RMB5,900,000 (2014: RMB5,900,000) as deposit paid for land acquisition in Hangzhou, PRC ("Land B") (details of which are set out in note (c) below).

At December 31, 2015, the reclamation of the land in Malaysia was suspended due to the dispute on the works progress between the Group and the vendor. The Group had engaged a lawyer to follow up the case and intended to seek for a professional surveyor to measure the progress.

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

(c) The amounts mainly included deposits of RMB20,000,000 (2014: RMB20,000,000) paid to Shenjianong Equity Cooperative Company ("Shenjianong") for the development of one plot of land in Hangzhou, PRC ("Land A") and deposits of RMB19,500,000 (2014: RMB19,500,000) paid to Hangzhou Zhuantang Street Hengqiao Equity Cooperative Company ("Zhuantang") for the development of Land B as mentioned above. However, as at December 31, 2015, the development of Land A and Land B had not yet been commenced in accordance with the agreements entered into with Shenjianong and Zhuantang. On January 6, 2016, the Group started legal proceedings against Shenjianong and Zhuantang for refund of deposits paid. Up to the date of this report, the legal cases are still in progress.

(d) The Group proposed to acquire certain land and had prepaid expenses to the local government for demolishing the buildings located on the land. The amount was refundable if the Group does not proceed with the acquisition. During the year, the amount was refunded by the local government.

21. 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:

	2015	2014
	RMB'000	*RMB'000*
Aged:		
Within 60 days	**420,344**	439,594
61 – 90 days	**66,485**	92,944
91 – 180 days	**22,593**	19,576
181 – 365 days	**32,874**	3,154
Over 1 year	**3,700**	1,235
	545,996	556,503

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

Before accepting any new customers under the manufacturing segment, the Group reviews the credit quality and defines credit limits by customer. Limits attributed to customers are reviewed once a year. The Group maintains a defined credit policy to assess the credit quality of the trade customers. The collection is closely monitored to minimise any credit risk associated with these trade debtors. There has not been significant change in credit quality of the debtors. 86% (2014: 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 RMB74,980,000 (2014: RMB18,950,000) which are past due but not impaired at the end of the reporting period.

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

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

	2015	2014
	RMB'000	*RMB'000*
Aged:		
Within 60 days	**4,052**	–
61 – 90 days	**11,361**	2,674
91 – 180 days	**22,993**	11,887
181 – 365 days	**32,874**	3,154
Over 1 year	**3,700**	1,235
	74,980	18,950

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:

	2015	2014
	RMB'000	*RMB'000*
Balance at beginning of the year	**64,786**	130,926
Amounts written off during the year as uncollectible *(note)*	**(2,430)**	(72,109)
Net impairment loss recognised in profit or loss	**1,246**	5,969
Balance at end of the year	**63,602**	64,786

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

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

Aging of impaired trade and other receivables:

	2015	2014
	RMB'000	*RMB'000*
Aged:		
Within 60 days	**21,519**	20,348
61 – 90 days	**3,500**	4,518
91 – 180 days	**1,691**	694
181 – 365 days	**1,443**	363
Over 1 year	**35,449**	38,863
	63,602	64,786

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.

22. 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 0.35% to 2.52% (2014: 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 from 0.3% to 0.385% (2014: 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% (2014: 0.35%) per annum and cash on hand.

23. TRADE, BILLS AND OTHER PAYABLES

	2015	2014
	RMB'000	*RMB'000*
Trade payables	**990,059**	1,291,137
Bills payables	**68,000**	284,876
Other payables *(Note a)*	**159,374**	152,980
Deposit received for partial disposal of interests in a subsidiary *(Note b)*	**25,000**	25,000
Advance from a director *(note 40(b))*	**9,980**	9,404
Advance from a related company *(note 40(b))*	**3,453**	3,432
Other tax payable	**41,288**	38,244
Accruals	**62,695**	51,098
	1,359,849	1,856,171

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

Note b: 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, 2015.

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

	2015	2014
	RMB'000	*RMB'000*
Within 60 days	**785,054**	1,155,932
61 – 90 days	**35,855**	64,710
91 – 180 days	**124,209**	261,314
181 – 365 days	**41,442**	39,856
1 – 2 years	**54,473**	27,885
Over 2 years	**17,026**	26,316
	1,058,059	1,576,013

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

24. BANK AND OTHER BORROWINGS

	2015	2014
	RMB'000	*RMB'000*
Bank borrowings	**1,686,924**	2,292,848
Other borrowings	**213,836**	53,782
Total	**1,900,760**	2,346,630
Analysed as:		
Secured	**1,556,979**	2,067,446
Unsecured	**343,781**	279,184
	1,900,760	2,346,630
Denominated in United States Dollars (foreign currency)	**151,445**	184,105
Denominated in Renminbi	**1,749,315**	2,150,710
Denominated in Japanese Yen (foreign currency)	**–**	11,815
	1,900,760	2,346,630

Carrying amount repayable*:

	2015	2014
	RMB'000	*RMB'000*
Within one year	**1,583,869**	1,666,765
One to five years	**316,891**	634,865
After five years	**–**	45,000
	1,900,760	2,346,630
Less: Amount due within one year shown under current liabilities	**(1,583,869)**	(1,666,765)
Amount due after one year	**316,891**	679,865

* 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 1.02% to 8.26% (2014: 1.73% to 13%) per annum.

24. 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 13% (2014: 3% to 12.5%) per annum.

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 RMB694,500,000 (2014: RMB673,500,000). An amount of RMB71,500,000 (2014: RMB45,000,000) were guaranteed by an independent third party.

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

25. 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.

25. EXCHANGEABLE BONDS (cont'd)

On June 30, 2015, the board of directors of Zhejiang Kasen paid RMB1,493,000 to the bondholders to redeem RMB1,440,000 principal amount of Exchangeable Bonds due to the cash dividends paid on HCLM shares. The conversion price was then adjusted to RMB17.88.

On July 22, 2015, bondholders have exercised its right to exchange principal amount of RMB79,467,000 Exchangeable Bonds for 4,444,446 units of HCLM shares base on conversion price of RMB17.88.

The Exchangeable Bonds is a financial liability, and on initial recognition, the management has designated to measure the entire instrument as a whole based its fair value through profit and loss.

The fair value of the Exchangeable Bonds as of December 31, 2015 was RMB137,439,000, which was determined according to the valuation techniques using the Binomial tree model. A fair value loss of RMB2,346,000 was recognised in profit or loss (2014: nil).

The movements of the Exchangeable Bonds during the year were shown as follows:

	2015	2014
	RMB'000	*RMB'000*
As at January 1	**216,000**	–
Issue of Exchangeable Bonds	**–**	216,000
Redemption of principal	**(1,440)**	–
Conversion of HCLM shares	**(79,467)**	–
Fair value changes recognised in profit or loss	**2,346**	–
As at December 31	**137,439**	216,000

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 and 2015.

26. AMOUNTS DUE TO NON-CONTROLLING INTERESTS OF SUBSIDIARIES

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

27. OTHER-LONG TERM LIABILITIES

Haining Schinder Leather Co., Ltd. ("Haining Schinder Leather"), 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 Leather 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 Leather 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 Leather 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 liabilities. The Corporate Bonds have been fully repaid during the year on its maturity.

The issue of the Corporate Bonds was guaranteed by the Company, Zhejiang Kasen, and Mr. Zhu.

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 ("Melx") amounting to RMB14,459,000, of which RMB3,475,000 was classified as current liabilities. Both of the amounts have been derecognised during the year as the Group has lost control over Melx (note 31).

28. SHARE CAPITAL

	Number of ordinary shares at US$0.00015 each	*US$'000*
Authorised share capital of the Company:		
At January 1, 2014, December 31, 2014 and December 31, 2015	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, 2014 and December 31, 2014	1,162,322,985	174,348	1,400
Issue of share capital *(note)*	348,696,896	52,305	335
At December 31, 2015	**1,511,019,881**	**226,653**	**1,735**

Note: The Company placed 348,696,896 new ordinary shares at a placing price of HK$0.60 per share. The ordinary shares were issued on December 21, 2015 under specific mandate pursuant to the placing agreement dated November 10, 2015. The new shares rank pari passu with the existing shares in all respects.

29. SHARE OPTION

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

A new share option scheme was adopted by the Company pursuant to a shareholders resolution passed on May 29, 2015 (the "2015 Share Option Scheme") for the primary purpose of providing incentive to directors and eligible employees, thus, the 2005 Share Option Scheme was terminated on the same day but the options issued under the 2005 Share Option Scheme would remain effective pursuant to terms of its issuance. The 2015 Share Option Scheme became effective on May 29, 2015 and the options issued pursuant to the 2015 Share Option Scheme will expire no later than 10 years from the date of grant of the option. As at December 31, 2015, no options have been granted by the Company under the 2015 Share Option Scheme.

At December 31, 2015, the number of shares in respect of which options had been granted and remained outstanding under the 2005 Share Option Scheme was 46,800,000 (2014: 19,800,000), representing 3.10% (2014: 1.70%) 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 2005 Share Option 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 for options granted under the 2005 Share Option Scheme 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 2005 Share Option Scheme.

29. SHARE OPTION (cont'd)

The following tables disclose details of the Company's share options granted under the 2005 Share Option Scheme held by the directors and eligible employees of the Company and its subsidiaries. The tables disclose movements in such holdings during the years ended December 31, 2014 and 2015:

Exercise Price *HK$*	Date of grant	Vesting period	Exercisable period	Outstanding at January 1, 2014	Lapsed during the year	Outstanding at December 31, 2014	Granted during the year	Forfeit during the year (note a)	Outstanding at December 31, 2015
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	–	–	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	–	–	8,000,000
				16,200,000	(200,000)	16,000,000	–	–	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	–	–	1,900,000
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	–	–	1,900,000
				6,800,000	(3,000,000)	3,800,000	–	–	3,800,000
1.37	May 26, 2015	26.5.2015 – 31.12.2015	1.1.2016 – 25.5.2025	–	–	–	30,000,000	(3,000,000)	27,000,000
Total				23,000,000	(3,200,000)	19,800,000	30,000,000	(3,000,000)	46,800,000
Exercisable at the end of the reporting period						19,800,000			46,800,000
Weighted average exercise price (HKD)						2.15			1.72

29. SHARE OPTION (cont'd)

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

Exercise Price *HK$*	Date of grant	Vesting period	Exercisable period	Outstanding at January 1, 2014	Changed from director to employee during the year (note b)	Outstanding at December 31, 2014	Granted during the year	Forfeit during the year (note a)	Outstanding at December 31, 2015
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	–	–	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	–	–	1,500,000
1.18	May 5, 2008	5.5.2008 – 31.12.2008	1.1.2009 – 4.5.2018	750,000	(500,000)	250,000	–	–	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	–	–	250,000
1.37	May 26, 2015	26.5.2015 – 31.12.2015	1.1.2016 – 25.5.2025	–	–	–	7,000,000	(3,000,000)	4,000,000

Notes:

(a) Mr. Lee Lawrence resigned as a director of the Company with effect from November 2, 2015. The share options granted to him have forfeited since the vesting conditions have not been met at the time of his resignation.

(b) Mr. Zhou Xiaosong resigned as a director of the Company with effect from August 8, 2014, but he is still an employee in the Group as of December 31, 2014.

29. SHARE OPTION (cont'd)

The fair value of the options granted on May 26, 2015 determined at the date of grant using the Binomial model were RMB12,142,000 (equivalent to HK$15,387,000). The following assumptions were used to calculate the fair value of share options:

Grant date share price	HK$1.37
Exercise price	HK$1.37
Expected life	10 years
Expected volatility	53.57%
Dividend yield	0.34%
Risk-free interest rate	1.41%

The variables and assumptions used in computing the fair value of the share options under the Binomial model are based on the directors' best estimate. Changes in variables and assumptions may result in change in fair value of the options.

The Group recognised share-based payment expense of approximately RMB10,990,000 for the year ended December 31, 2015 in relation to options granted by the Company on May 26, 2015 to the directors and employees of the Group as incentive for their services.

No share-based payment expense has been recorded during the year ended December 31, 2014 as the share options granted by the Company on March 9, 2006 and May 5, 2008 were fully vested in prior years.

30. RESERVES

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

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

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

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

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

31. DISPOSAL OF SUBSIDIARIES

On March 3, 2015, the Tokyo District Court approved the application to terminate 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. Accordingly, the Group lost control over Melx and deconsolidated Melx and its subsidiary, Foshan Melx Leather Co., Ltd ("FMC"), from March 3, 2015. A gain on deconsolidation of subsidiaries amounting to RMB19,682,000 was recognised in profit or loss for the year ended December 31, 2015 as Melx and FMC were in net liabilities position on the date the Group lost control. Net outflow of RMB2,433,000 cash and cash equivalents was result from the disposal.

On November 9, 2015, the Group disposed of its 100% equity interest in Haining Jinjue Furniture Co. Ltd. for a cash consideration of RMB8,000,000, of which RMB4,000,000 is receivable in 2016. A gain on disposal of subsidiary of RMB82,000 was recognised in the profit or loss for the year ended December 31, 2015 with net inflow of RMB3,830,000 cash and cash equivalents was result from the disposal.

On December 21, 2015, the Group disposed of its 96.85% equity interest in Hangzhou Kasen Information Technology Co. Ltd. for a cash consideration of RMB6,159,000, of which RMB6,159,000 is receivable in 2016. A loss on disposal of subsidiary of RMB2,349,000 was recognised in the profit or loss for the year ended December 31, 2015 with net outflow of RMB840,000 cash and cash equivalents was result from the disposal.

A net gain on disposal of subsidiaries of RMB17,415,000 has been recognised in profit or loss for the year ended December 31, 2015 (note 7).

32. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2015	2014
	RMB'000	*RMB'000*
Financial assets		
Loans and receivables (including cash and cash equivalents)	**926,176**	1,268,337
Available-for-sale investments	**177,262**	413,976
Financial liabilities		
Amortised cost	**3,281,031**	4,245,680
Fair value through profit or loss	**137,439**	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, exchangeable bonds 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 summarised below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

32. FINANCIAL INSTRUMENTS (cont'd)

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

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 22, 24 and 27 respectively. It is the Group's policy to keep its borrowings at fixed rate of interest so as to minimise 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.

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 (2014: 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 (2014: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended December 31, 2015 would increase/decrease by RMB1,207,000 (2014: increase/decrease by RMB2,167,000). This is mainly attributable to the Group's exposure to interest rates on its bank balances and restricted bank balances variable-rate.

32. FINANCIAL INSTRUMENTS (cont'd)

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

Market risk *(cont'd)*

Foreign currency risk

The functional currency of the Company and majority of its subsidiaries is RMB since 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**	
	2015	2014	**2015**	2014
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
USD	**172,803**	178,032	**201,492**	272,469
HKD	**33,981**	651	**17**	15
GBP	**2,303**	1,076	**–**	–
EURO	**–**	–	**103**	17,108

Sensitivity analysis

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

5% (2014: 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, 2015, if the functional currency of the entities had been strengthened by 5% against USD and Euro, profit for the year would have been decreased by RMB1,076,000 (2014: RMB3,541,000) and decreased by RMB4,000 (2014: RMB642,000) 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.

32. FINANCIAL INSTRUMENTS (cont'd)

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

Market risk *(cont'd)*

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 RMB6,647,000 (2014: RMB15,512,000) for the Group as a result of the changes in fair value of available-for-sale investments.

Credit risk

As at December 31, 2015, 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 recognised financial assets as stated in the consolidated statement of financial position and the amount of contingent liabilities in relation to financial guarantee issued by the Group as disclosed in note 38.

In order to minimise 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, and 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.

32. FINANCIAL INSTRUMENTS (cont'd)

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

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 utilisation 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, 2015, the Group has available unutilised short-term bank loan facilities of approximately RMB548,962,000 (2014: RMB671,890,000) as a liquidity management resource.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms or the earliest date on which the Group can be required to pay. The table has been drawn up based on the undiscounted cash flows of financial liabilities and include both interest and principal cash flows. 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	Within 1 year or on demand	1 – 2 years	Over 2 years	Total undiscounted cash flow	Carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2015						
Non-derivative financial liabilities						
Trade, bills and other payables		1,230,866	–	–	1,230,866	1,230,866
Bank and other borrowings	6.25	1,717,633	107,634	264,170	2,089,437	1,900,760
Amounts due to non-controlling interests of a subsidiaries		149,405	–	–	149,405	149,405
Exchangeable Bonds	7.5	147,747	–	–	147,747	137,439
Total		3,245,651	107,634	264,170	3,617,455	3,418,470

32. FINANCIAL INSTRUMENTS (cont'd)

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

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

	Weighted average effective interest rate	Within 1 year or on demand	1 – 2 years	Over 2 years	Total undiscounted cash flow	Carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*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	1,794,701	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		3,712,634	827,755	154,557	4,694,946	4,461,680

(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 amortised cost in the consolidated financial statements approximate their fair values.

Fair value measurements recognised 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 year ended December 31, 2015 and 2014.

32. FINANCIAL INSTRUMENTS (cont'd)

(c) Fair-value (cont'd)

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

– 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 12/31/2015 *RMB'000*	Fair value as at 12/31/2014 *RMB'000*	Fair value hierarchy	Valuation technique and key input
Financial assets				
Available for sale investments (AFS) listed in a stock exchange	**177,262**	413,660	Level 1	Quoted bid prices in an active market
Financial liabilities				
Exchangeable Bonds	**N/A *(note (ii))***	216,000	Level 2	Based on quoted bid price in an active market indirectly *(note (i))*
Exchangeable Bonds	**137,439**	N/A *(note (ii))*	Level 3	Based on valuation techniques with unobservable inputs

Notes:

(i) As at December 31, 2014, the directors of the Company estimate that the fair value approximate to that of the initial recognition value, which is determined with reference to the issuance price at initial recognition.

(ii) For the year ended December 31, 2015, due to a lack of active and observable market data of the Exchangeable Bonds, valuation techniques and unobservable inputs have been used for the fair value measurement as at December 31, 2015.

32. FINANCIAL INSTRUMENTS (cont'd)

(c) Fair-value (cont'd)

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

The fair value of the Exchangeable Bonds as of December 31, 2015 was determined according to the valuation techniques using the Binomial tree model. The following significant observable inputs have been included in the fair value measurement:

As at December 31, 2015

Valuation technique	Significant unobservable inputs	Range of inputs	Increase/ (decrease) in unobservable inputs	Decrease/ (increase) in fair value
				RMB'000
Binomial tree model	Expected discount rate for underlying bonds ("discount rate")	24.61%	5% (5%)	2,146 (2,306)
	Expected stock price volatility ("volatility")	46.74%	10% (10%)	(1,701) 3,424

Reconciliation for financial instruments carried at fair value based on significant unobservable inputs (Level 3) are as follows:

Exchangeable Bonds	**2015** ***RMB'000***
At January 1	**–**
Transfer into Level 3	**216,000**
Redemption	**(1,440)**
Conversion	**(79,467)**
Total gains or losses:	
– in profit or loss (included in other gain and losses)	**2,346**
At December 31	**137,439**

33. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to equity holders through the optimisation 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 24, advances from a director and a related company disclosed in note 40(b), other long-term liabilities disclosed in note 27 and equity attributable to owners of the Company, comprising issued share capital and reserves.

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

34. RETIREMENT BENEFITS PLAN

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

In addition, the Group operates a Mandatory Provident Fund ("MPF") Scheme for its qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes at the lower of HK$1,500 (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 RMB18,690,000 (2014: RMB11,337,000) represents contributions paid and payable to the above schemes by the Group in respect of the current accounting period.

35. PLEDGE OF ASSETS

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

	2015	2014
	RMB'000	*RMB'000*
Buildings	**218,059**	300,048
Prepaid lease payments	**43,707**	68,611
Pledged bank deposits	**104,631**	244,495
Available-for-sale investments	**61,360**	222,740
Properties under development and held for sale	**2,192,702**	2,260,130
	2,620,459	3,096,024

36. LEASE COMMITMENT

As lessee

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

	2015	2014
	RMB'000	*RMB'000*
Within one year	**7,409**	18,053
In the second to fifth year inclusive	**15,802**	21,368
Over five years	**10,405**	13,147
	33,616	52,568

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 ten years.

37. CAPITAL AND OTHER COMMITMENTS

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

	2015	2014
	RMB'000	*RMB'000*
Commitments for acquisition/addition of:		
– Property, plant and equipment	**43,171**	52,861
– Properties under development	**1,018,390**	997,106
– Land use rights	**32,405**	32,405
	1,093,966	1,082,372

38. CONTINGENT LIABILITIES

The Group provided guarantees of RMB335,469,000 at December 31, 2015 (2014: RMB450,465,000) to banks in favour of its customers in respect of the mortgage loans provided by the banks to those customers for the purchase of the Group's properties. These guarantees provided by the Group to the banks will be released upon receiving the building ownership certificate of the respective properties by the banks from the customers as a pledge for security to the mortgage loans granted. The directors consider that the fair value of the above guarantees is insignificant on initial recognition and at the report dates as it is not probable that an outflow in settlement will be required.

39. INFORMATION OF FINANCIAL POSITION OF THE COMPANY

The information of financial position of the Company as at December 31, 2015 is as follows:

	Note	**2015** *RMB'000*	2014 *RMB'000*
Non-current assets			
Long term equity investments in subsidiaries		**839,844**	816,439
Total non-current assets		**839,844**	816,439
Current assets			
Other receivables		**261**	325
Amounts due from subsidiaries		**215,830**	37,807
Bank balances and cash		**771**	6,142
Total current assets		**216,862**	44,274
Total assets		**1,056,706**	860,713
Current liabilities			
Other payables		**1,706**	1,393
Total current liabilities		**1,706**	1,393
Net current assets		**215,156**	42,881
Total assets less current liabilities		**1,055,000**	859,320
NET ASSETS		**1,055,000**	859,320
CAPITAL AND RESERVES			
Share capital		**1,735**	1,400
Reserves	*(a)*	**1,053,265**	857,920
TOTAL EQUITY		**1,055,000**	859,320

On behalf of the directors

Zhu Zhangjin, Kasen
DIRECTOR

Sun Hongyang
DIRECTOR

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

The information of financial position of the Company as at December 31, 2015 is as follows: (cont'd)

Note:

(a) Reserve of the Company

	The Company				
	Share premium *RMB'000*	**Special reserve** *RMB'000*	**Share option reserve** *RMB'000*	**Accumulated losses** *RMB'000*	**Total** *RMB'000*
As at January 1, 2014	1,317,487	168,659	14,038	(630,593)	869,591
Release upon lapse of share options	–	–	(1,271)	–	(1,271)
Dividend recognised 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
Equity settled share-based transactions	–	–	10,990	–	10,990
Issue of share capital	172,333	–	–	–	172,333
Share issue expenses	(3,494)	–	–	–	(3,494)
Profit for the year	–	–	–	15,516	15,516
As at December 31, 2015	**1,486,326**	**168,659**	**23,757**	**(625,477)**	**1,053,265**

40. CONNECTED AND RELATED PARTY DISCLOSURES

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

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

Connected persons and related parties	*Notes*	**Nature of transactions**	**2015** **RMB'000**	2014 *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	**3,474**	3,768
Haining Xingying Furniture Co., Ltd. ("Haining Xingying") 海寧星瑩傢俱有限公司	*(i)(iii)*	Sales of leather by the Group	**3**	7
		Sales of upholstered furniture by the Group	**–**	61
		Purchase of wooden products by the Group	**2,362**	8,292
Zhejiang Sunbridge Industrial Group Company Limited ("Sunbridge")	*(i)*	Purchase of wooden products by the Group	**–**	3,333
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	**17,755**	8,994
		Sales of upholstered furniture by the Group	**240**	4,017
		Purchase of wooden products by the Group	**–**	99
Zhejiang Liema Furniture Co., Ltd. ("Liema Furniture")	*(ii)*	Sales of leather by the Group	**–**	6,663
		Sales of upholstered furniture by the Group	**–**	14
		Purchase of wooden furniture by the Group	**–**	313

40. 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)

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, Haining Xingying and Haining Home Point through Sunbridge during 2014 and 2015 prior to the disposal as noted in (iii) below. The directors of the Company confirmed the transactions are in accordance to the Chapter 14A of the Listing Rules.

(ii) Liema Furniture was an associate of the Group. Investment of Liema Furniture was disposed in September 23, 2014, and no longer be the related party from then on.

(iii) Sunbridge disposed Haining Xingying and Haining Home Point in May 2015, and no longer be the related party from then on.

(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	
		2015	2014	**2015**	2014	**2015**	2014
		RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Trade in nature							
Haining Xingying	*(i)*	**–**	–	**–**	–	**–**	13,020
Starcorp	*(i)*	**1,478**	1,393	**1,478**	1,403	**–**	–
Yujie	*(i)*	**1,082**	1,120	**1,399**	1,753	**–**	–
Haining Home Point	*(i)*	**–**	14,810	**14,810**	16,111	**–**	1,189
Sunbridge	*(i)*	**38**	38	**38**	38	**47**	3,130
		2,598	17,361	**17,725**	19,305	**47**	17,339
Non-trade in nature							
Sunbridge	*(ii)*	**–**	–	**–**	–	**3,453**	3,432
Mr. Zhu	*(ii)*	**–**	–	**–**	–	**9,980**	9,404
		–	–	**–**	–	**13,433**	12,836
		2,598	17,361	**17,725**	19,305	**13,480**	30,175

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

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

Notes:

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

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

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

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

(e) Detail of the financial guarantees granted by related parties are set out in note 24.

41. MAJOR NON-CASH TRANSACTION

On July 22, 2015, the holders of the Group's Exchangeable Bonds exercised their right to exchange the bonds with carrying amounts of RMB79,467,000 for 4,444,446 HCLM shares with carrying amount of RMB80,933,000, which were classified as available-for-sales investments.

42. PRINCIPAL SUBSIDIARIES

The following table lists major subsidiaries of the Company as at December 31, 2015 and 2014 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
			2015	2014	
			%	%	
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 and furniture leather
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 upholstered furniture
Haining Schinder Leather 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

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 2015 %	2014 %	Principal activities
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**	55	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
Yancheng Dafeng Huasheng Leather Co., Ltd. 鹽城市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

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 2015 %	2014 %	Principal activities
Melx Co.,Ltd 日本美如可思有限公司 *(note c)*	Japan	JPY100,000,000	–	100	Production and sale of automotive leather
Foshan Melx Leather Co.,Ltd. 佛山美如可思皮革有限公司 *(note c)*	PRC	US$6,900,000	–	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	**80.5**	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**	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 current reporting period except for Zhejiang Kasen Industrial Group Co., Limited which has issued RMB216 million Exchangeable Bonds at December 29, 2014, details please refer to Note 25.

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		(Loss) profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2015	2014	**2015**	2014	**2015**	2014
		%	*%*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Hainan Boao	PRC	**8**	8	**(2,141)**	1,216	**25,815**	27,956
Xinanjiang	PRC	**45**	45	**(4,086)**	(5,225)	**28,847**	32,933
Sanya Kasen	PRC	**19.5**	23	**(7,352)**	(3,860)	**43,034**	59,638
Individual immaterial subsidiaries with non-controlling interests				**(11,509)**	(6,719)	**15,067**	24,074
Total				**(25,088)**	(14,588)	**112,763**	144,601

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised 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

	2015	2014
	RMB'000	*RMB'000*
Current assets	**1,503,701**	1,604,664
Non-current assets	**102,541**	111,564
Current liabilities	**(651,226)**	(905,328)
Non-current liabilities	**(632,329)**	(475,329)
Equity attributable to owners of the Company	**296,872**	307,615
Non-controlling interests	**25,815**	27,956

	2015	2014
	RMB'000	*RMB'000*
Revenue	**98,740**	165,477
Expenses	**(125,505)**	(150,272)
(Loss) profit and total comprehensive income attributable to the owner of the Company	**(24,624)**	13,989
(Loss) profit and total comprehensive income attributable to non-controlling interests	**(2,141)**	1,216
(Loss) profit and total comprehensive income for the year	**(26,765)**	15,205
Net cash outflow from operating activities	**(203,092)**	(237,303)
Net cash outflow from investing activities	**(5,883)**	(55)
Net cash inflow from financing activities	**157,000**	237,727
Net cash (outflow) inflow	**(51,975)**	369

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

Xinanjiang

	2015	2014
	RMB'000	*RMB'000*
Current assets	**55,351**	71,799
Non-current assets	**146,945**	141,924
Current liabilities	**(138,192)**	(140,539)
Equity attributable to owners of the Company	**35,257**	40,251
Non-controlling interests	**28,847**	32,933

	2015	2014
	RMB'000	*RMB'000*
Revenue	**14,056**	14,927
Expenses	**(23,136)**	(26,539)
Loss and total comprehensive expense attributable to the owner of the Company	**(4,994)**	(6,387)
Loss and total comprehensive expense attributable to non-controlling interests	**(4,086)**	(5,225)
Loss and total comprehensive income for the year	**(9,080)**	(11,612)
Net cash inflow from operating activities	**14,367**	8,051
Net cash outflow from investing activities	**(11,026)**	(9,973)
Net cash inflow (outflow)	**3,341**	(1,922)

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

Sanya Kasen

	2015	2014
	RMB'000	*RMB'000*
Current assets	**768,046**	762,045
Non-current assets	**257,025**	216,957
Current liabilities	**(798,825)**	(730,030)
Equity attributable to owners of the Company	**183,212**	189,334
Non-controlling interests	**43,034**	59,638

	2015	2014
	RMB'000	*RMB'000*
Revenue	**–**	53
Expenses	**(37,702)**	(16,837)
Loss and total comprehensive income attributable to the owner of the Company	**(30,350)**	(12,924)
Loss and total comprehensive income attributable to non-controlling interests	**(7,352)**	(3,860)
Loss and total comprehensive income for the year	**(37,702)**	(16,784)
Net cash inflow (outflow) from operating activities	**55,478**	(11,814)
Net cash outflow from investing activities	**(55,729)**	(95,381)
Net cash inflow from financing activities	**–**	104,480
Net cash outflow	**(251)**	(2,715)

44. EVENTS AFTER THE REPORTING PERIOD

On February 1, 2016, Zhejiang Kasen Industrial Group Co., Limited and Cardina International Company Limited (collectively referred to as the "Vendors"), Ms. Zhu Jiayun and Ms. Zhu Lingren (collectively referred to as the "Purchasers"), the Company and Mr. Zhu entered into a conditional sales and purchase agreement (the "SPA"), pursuant to which (i) the Vendors have conditionally agreed to sell and the Purchasers have conditionally agreed to acquire the entire equity interest of Yancheng Dafeng Huasheng Leather Co., Limited, Haining Home Direct Furniture Co., Limited, Haining Kasen Automotive Interior Materials Co., Limited, Haining Kasen Leather Co., Limited, Haining Schinder Leather Co., Limited, Haining Senmei Trading Co., Limited and Wuji Kasen Industrial Co. Limited (collectively referred to as the "Disposal Group" and the Group excluding the Disposal Group as "Remaining Group") at total consideration of RMB492,755,687 (the "Disposal"); (ii) the Purchasers shall assume all liabilities and obligations in respect of the debts due and owing by the Remaining Group to the Disposal Group with effect from the completion of the Disposal whereby the Remaining Group shall be released and discharged from its liabilities and obligations in respect of the debts with effect from the Completion of the Disposal; and (iii) Mr. Zhu has agreed to irrevocably and unconditionally guarantee to the Vendors and the Company the due and punctual performance, observance and discharge by the Purchasers of all of their obligations, representations, warranties and agreements under or pursuant to the SPA. Further details of the Disposal were set out in the announcement of the Company dated February 1, 2016.

45. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the directors on March 31, 2016.