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 2017

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

ZHU Zhangjin, Kasen
(Chairman & Chief Executive Officer)
SHEN Jianhong
(appointed on February 20, 2017)
ZHOU Xiaohong
(appointed on June 30, 2017)
ZHANG Mingfa, Michael
(resigned on February 20, 2017)
SUN Hongyang
(resigned on June 30, 2017)

Independent Non-Executive Directors

ZHOU Lingqiang
DU Haibo
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
China Construction Bank, Qionghai Sub branch
Communication Bank of China, Qionghai Sub branch
Bank of China, Yancheng Sub branch
Bank of Communications Co., Limited, Hong Kong Branch

LEGAL ADVISORS

As to Hong Kong law
Sidley Austin

As to Cayman Islands law
Conyers Dill & Pearman

PRINCIPAL SHARE REGISTRAR

SMP Partners (Cayman) Limited
3rd Floor, Royal Bank House
24 Shedden Road, P.O. Box 1586
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

SHEN Jianhong
YIU Hoi Yan, Kate

COMPANY WEBSITE

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

FINANCIAL HIGHLIGHTS

RESULTS[1]

	For the year ended December 31,				
	2017	2016	2015	2014	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**1,605,880**	3,305,105	3,261,129	3,230,327	3,439,200
(Loss) profit before taxation	**(187,545)**	24,466	232,388	120,324	339,182
(Loss) profit attributable to owners of the Company	**(203,351)**	(39,896)	190,458	32,418	173,422

FINANCIAL POSITION

	At December 31,				
	2017	2016	2015	2014	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cash and cash equivalents	**439,931**	339,731	215,629	324,388	560,147
Total borrowings	**492,974**	780,947	1,900,760	2,346,630	1,938,214
Total assets	**8,730,032**	6,301,860	8,223,605	9,137,332	9,133,894
Total liabilities	**5,831,561**	3,175,789	4,943,508	6,030,024	5,715,690
Equity attributable to owners of the Company	**2,814,419**	3,034,173	3,167,334	2,962,707	3,261,417

FINANCIAL AND OPERATING RATIOS

	At December 31,				
	2017	2016	2015	2014	2013
Dividend payout ratio (%)[2]	**–**	–	–	–	5.3%
Debt to equity ratio (%)[3]	**17.0%**	25.0%	57.9%	75.5%	56.7%
Net debt to equity ratio (%)[4]	**1.8%**	14.1%	51.4%	65.1%	40.3%
Trade and bills receivable turnover days[5]	**83**	65	78 (restated)	84	84
Inventory turnover days[6]	**50**	51	45 (restated)	99	98
Current ratio[7]	**133.5%**	189.9%	158.7%	151.9%	149.4%
(Loss) earning per share (RMB)					
Basic	**(0.13)**	(0.03)	0.14	0.02	0.15
Diluted	**(0.13)**	(0.03)	0.14	0.02	0.15

Notes:

1. The figures in 2015 and 2016 included those of both the continuing operations and the discontinued operation.
2. The dividend per ordinary share divided by the profit (loss) attributable to owners of the Company per ordinary share.
3. Interest-bearing debt divided by total equity as at the end of the year.
4. Interest-bearing debt minus bank balances and cash divided by the total equity as at the end of each year.
5. Trade and bills receivables as at the end of the year divided by turnover and multiplied by 365 days. 2015 figure has been restated to the Group's manufacturing segment from continuing operations in order to be consistent with the presentation of the 2016 figure.
6. Inventories as at the end of the year divided by cost of sales and multiplied by 365 days. 2015 figure has been restated to the Group's manufacturing segment from continuing operations in order to be consistent with the presentation of the 2016 figure.
7. Current assets divided by current liabilities as at the end of each year.
8. The adoption of new accounting standards (as shown in note 2 to the consolidated financial statements) in 2017 has no material impact on the Group.

DIRECTORS AND MANAGEMENT PROFILES

EXECUTIVE DIRECTORS

ZHU Zhangjin, Kasen（朱張金）("Mr. Zhu"), aged 52, 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 30 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.

ZHOU Xiaohong（周小紅）, aged 49, joined the Group in 1995 as the cashier, treasury manager and vice president of the Group. Ms. Zhou is currently the vice president of the Group in charge of the treasury operation, information centre and organizational promotional work. Ms. Zhou was appointed as an executive Director with effect from June 30, 2017. Ms. Zhou obtained a diploma in management from China University of Geosciences in 2003.

SHEN Jianhong（沈建紅）, aged 50, joined the Group in 2007 as the manager of the purchasing department. She is currently the assistant to the president and she is in charge of the property development division of the Group. Ms. Shen was appointed as an executive Director with effect from February 20, 2017. Before joining the Group, from 2002 to 2007, Ms. Shen served as a member of the senior management team of Haining Pacific Insurance Co., Ltd. Ms. Shen graduated from East China Normal University（華東師範大學）in 1998, major in pre-school education.

ZHANG Mingfa, Michael（張明發）, aged 57, 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 was appointed as an executive Director on November 10, 2008 and resigned as an executive Director on February 20, 2017. He has more than 36 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.

EXECUTIVE DIRECTOR AND CHIEF FINANCIAL OFFICER

SUN Hongyang (孫宏陽), aged 38, 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. He resigned as an executive Director and chief financial officer on June 30, 2017. 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

ZHOU Lingqiang (周玲強), aged 54, 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS (cont'd)

ZHANG Yuchuan（張玉川）, aged 59, 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.

DU Haibo（杜海波）, aged 49, 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 of Hong Kong Limited. 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.（河南羚鋭製藥股份有限公司）, 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.

SENIOR MANAGEMENT

PENG Weijun（彭偉軍）, aged 42, joined the Group on June 30, 2017 as the chief financial officer. Mr. Peng has over 17 years of corporate finance and accounting experience. Prior to joining the Group, Mr. Peng worked for Qianjiang Water Resources Development Co., Ltd, a company listed on the Shanghai Stock Exchange from 2004 to 2017 and held various positions as the financial accountant, the deputy manager and the finance manager of the finance department. Mr. Peng has obtained the qualification of senior accountant in the PRC. Mr. Peng graduated from Central South Institute of Technology (currently known as University of South China) in 2000 with a bachelor degree in accounting.

DIRECTORS AND MANAGEMENT PROFILES (cont'd)

SENIOR MANAGEMENT (cont'd)

SUN Hongyang（孫宏陽）, aged 38, 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. He resigned as an executive Director and chief financial officer on June 30, 2017. 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.

ZHOU Xiaohong（周小紅）, aged 49, joined the Group in 1995 as the cashier, treasury manager and vice president of the Group. Ms. Zhou is currently the vice president of the Group in charge of the treasury operation, information centre and organizational promotional work. Ms. Zhou was appointed as an executive Director with effect from June 30, 2017. Ms. Zhou obtained a diploma in management from China University of Geosciences in 2003.

PAN Yougen（潘幼根）, aged 54, the General Manager of Yancheng Sujia Real Estate Development Co., Ltd, a subsidiary of the Group. Mr. Pan joined the Group in 2008 and is responsible for the operation of the property projects in Yancheng, Jiangsu Province. He has years of experience in the property development industry. Before joining the Group, he was the vice president of Jiaxing Zhongfang Design Institute from May 1988 to November 1998, the chairman and general manager of Zhejiang Jingjian Engineering Co., Ltd from November 1998 to September 2000 and the vice president of Zhejiang Sujia Property Development Co., Ltd from September 2000 to April 2006. Mr. Pan graduated from Southeast Jiaotong University with a bachelor degree in Engineering in 1985 and received a master degree in Architecture from Shanghai Tongji University in 1988.

WANG Dong（王冬）, aged 50, the General Manager of Hainan Boao Kasen Property Development Co., Ltd and Hainan Sanya Kasen Property Development Co., Ltd, both are subsidiaries of the Group. Mr. Wang joined the Group in 2011 and is responsible for the operation of projects in Hainan Province. He has years of experience in the property development industry. Before joined the Group, Mr. Wang worked in Sichuan Zigong City Planning and Designing Institute from 1989 to 1993, in Hainan International Tourism Investment and Development Co. Ltd from March 1993 to November 1999, in Shenzhen Heneng Group from November 1999 to April 2006. From April 2006 to August 2009, he was the general manager of Chengdu Jiashida Property Development Co. Ltd. From August 2009 to June 2011, he took the position of general manager of Chengdu Longteng Shoes Market Development Co., Ltd. Mr. Wang graduated from Chongqing Institute of Architecture and Engineering with a bachelor degree in Architecture in 1989.

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

YIU Hoi Yan, Kate（姚凱欣）, aged 45, 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 22 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, 2017.

In 2017, the Group is principally engaged in property development, tourism resort-related operation (comprising operation of water parks, hot spring resorts, hotels and restaurants, etc.) and manufacturing and trading of upholstered furniture. In 2017, the Group recorded a consolidated turnover of approximately RMB1,605.9 million from its continuing operations, representing a decrease of approximately 24.6% as compared to the same period in 2016. The loss attributable to the shareholders from continuing operations was approximately RMB203.4 million, representing an increase in loss by approximately RMB155.3 million as compared to the same period in 2016 (2016: a net loss of RMB48.1 million). The increase in loss was principally attributable to the sharp increase in the relevant selling and distribution costs resulting from the large increase in the number of pre-sale properties for the property development segment of the Group during the year ended December 31, 2017, which are expected to be delivered in 2018 and 2019.

As of December 31, 2017, the Group had six property and tourism resort projects under different stages of development in Mainland China. In 2017, revenue from property development amounted to RMB756.2 million, representing a decrease of approximately 45.3% as compared to RMB1,383.4 million in 2016, due to the decrease in properties delivered as compared to that in 2016. In 2017, due to significant locality advantage of the properties developed by and more flexible and effective marketing tactics adopted by the Group, the pre-sale of various property development projects are performing well (especially the Kasen Star City in Haining), with contracted sales for all projects amounting to RMB4,485.8 million. The pre-sale properties are expected to be delivered in 2018 and 2019 in batches, and will generate continuous revenue and bring more cash funding to the Group.

In respect of tourism resort-related operation, the Group focused on the development and operation of water parks and built a chain brand of "Dream Water World". In 2017, the water park located in Boao, Hainan was in sound operation and the one located in Sanya, Hainan was basically completed. The water park located in Yancheng, Jiangsu was under pre-development stage.

The manufacturing segment of the Group comprising manufacturing of upholstered furniture, most of which were exported to the U.S. market. By continuously consolidating our cooperation with customers and strengthening product quality control, we are devoted to develop new products that cater for customers' needs better. The revenue generated from the upholstered furniture segment was RMB696.3 million in 2017, representing an increase of approximately 15.4% as compared to the revenue of RMB603.3 million in 2016.

Following the Disposal (details are set out on page 10) in 2016, no income attributable to owners of the Company from the discontinued operation was recognised during the year under review (year ended December 31, 2016: RMB8.2 million).

In 2018, the emphasis of development strategy of the Group will remain on the tourism resorts operations and the development of ancillary properties, especially the construction and operation of water parks located in various regions, aiming to establish water parks which will serve as the Group's benchmark for tourism resorts operations. In terms of property development business, its development will be guided by accelerated selling progress and delivery time to ensure sustainable cash flow. The "One Belt and One Road" initiative promulgated by the Chinese government has provided support for the Group's overseas expansion. The Group will focus its investment in Cambodia and identify other suitable investment opportunities so as to expand its revenue sources and generate greater returns for its shareholders.

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 to the development of the Group.

ZHU Zhangjin, Kasen
Chairman

The PRC, March 28, 2018

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OVERVIEW

Financial Review

On February 1, 2016, Kasen International Holdings Limited (the "Company"), Cardina International Company Limited, a wholly-owned subsidiary of the Company, Zhejiang Kasen Industrial Group Company Limited, a wholly-owned subsidiary of the Company, and Mr. Zhu Zhangjin entered into the sale and purchase agreement (the "Sale and Purchase Agreement") with Ms. Zhu Jiayun and Ms. Zhu Lingren (daughters of Mr. Zhu Zhangjin) to dispose of seven subsidiaries (collectively the "Disposed Group") engaging in automotive leather and furniture leather manufacturing businesses (the "Disposal"), which are presented as "discontinued operation" for the presentation of financial information of 2016 in this annual report. In November 2016, the transfer of control of the Disposed Group was completed and therefore its results were de-consolidated from the Group's financial statements since the respective dates of transfer of control. For further details relating to the Disposal, please refer to the announcements dated February 1, 2016 and November 25, 2016, respectively, and the circular of the Company dated April 29, 2016.

For the year ended December 31, 2017, the Company together with its subsidiaries (the "Group") recorded a consolidated turnover of RMB1,605.9 million (2016: RMB2,129.6 million) from its continuing operations, i.e. operations of the Group other than the Disposed Group, representing a decrease of approximately 24.6% when compared with the year of 2016.

The Group's gross profit from its continuing operations for the year ended December 31, 2017 was RMB332.4 million (2016: RMB367.9 million) with an average gross profit margin of 20.7% (2016: 17.3%), which resulted in a decrease of approximately RMB35.5 million, representing a decrease of approximately 9.7% when compared with the year of 2016.

The net loss attributable to owners of the Company from continuing operations was approximately RMB203.4 million in the year ended December 31, 2017 (2016: a net loss of RMB48.1 million). The increase in the net loss by approximately RMB155.3 million was mainly attributable to the sharp increase in the selling and distribution costs incurred during the year under review in relation to the substantially large number of pre-sale properties for the property development segment of the Group, which are expected to be delivered in 2018 and 2019. Further detailed discussions on the financial results were set out in the remaining parts of this section. Following the Disposal in 2016, there was no profit (year ended December 31, 2016: RMB13.7 million) and no loss on disposal of subsidiaries (year ended December 31, 2016: RMB5.5 million) from discontinued operation recognised during the year under review. Taking into account of the aforesaid, no income attributable to owners of the Company from the discontinued operation was recognised for the year ended December 31, 2017 (year ended December 31, 2016: RMB8.2 million). As a result, the overall net loss attributable to owners of the Company for the year ended December 31, 2017 was approximately RMB203.4 million (year ended December 31, 2016: overall net loss of RMB39.9 million), representing an increase of losses by approximately RMB163.5 million when compared with the year of 2016.

RESULTS OVERVIEW (cont'd)

Review by Business Segments of Continuing Operations

The Group's reportable business segments of continuing operations principally consist of manufacturing and trading of upholstered furniture, property development and others (comprising mainly tourism resort-related operation, operation of restaurant, hotel and provision of travel-related services).

The table below shows the total turnover of the Group by business segments of continuing operations for the year ended December 31, 2017 together with the comparative figures for the year ended December 31, 2016:

	2017		2016		**Y-O-Y Change**
	RMB'Million	***%***	*RMB'Million*	*%*	*%*
Manufacturing	**696.3**	**43.3**	603.3	28.3	15.4
Property Development	**756.2**	**47.1**	1,383.4	65.0	-45.3
Others	**153.4**	**9.6**	142.9	6.7	7.3
Total	**1,605.9**	**100.0**	2,129.6	100.0	-24.6

Manufacturing Business

The Group's manufacturing business was upholstered furniture segment. Sales of upholstered furniture included finished sofa and sofa cut-and-sew, most of which were exported to the U.S. market. By continuously consolidating the cooperation with customers and strengthening product quality control, the Group is devoted to develop new products that cater for customers' needs better. The turnover from upholstered furniture segment amounted to RMB696.3 million in 2017, representing an increase of approximately 15.4% as compared to RMB603.3 million in 2016. Due to the rapid increase in cost of materials (wood, sponge and carton, etc.) for upholstered furniture manufacturing in the PRC and RMB strengthened against USD, as well as the absence of a gain on disposal of available-for-sale investments amounting to approximately RMB74.8 million (refer to note 5(a) to the consolidated financial statements), the profit generated from such business segment decreased to RMB31.5 million, representing a decrease of approximately 72.9% as compared to the profit of RMB116.4 million in 2016.

Property Development Business

As at December 31, 2017, the Group had in total six property development projects under different stages of development in Mainland China. The Group had no new property development project commenced in 2017. The turnover from the property development segment was RMB756.2 million in 2017, representing a decrease of approximately 45.3% as compared to RMB1,383.4 million in 2016. The decrease in turnover was mainly due to a significant decline of properties delivered in 2017. An operating loss generated from this segment in 2017 was RMB217.0 million, as compared to an operating loss of RMB119.4 million in 2016. The increase in the operating loss was mainly due to the increase in selling and distribution costs incurred in the substantially large number of pre-sale properties by around RMB180.8 million during the year, offset by the decrease in the impairment loss recognised for properties under development and held for sale and deposits paid for certain development projects in total of approximately RMB107.9 million (refer to note 7 to the consolidated financial statements) in the segment as compared with 2016.

RESULTS OVERVIEW (cont'd)

Review by Business Segments of Continuing Operations (cont'd)

Property Development Business (cont'd)

On the other hand, due to significant locality advantage of the properties developed by and more flexible and effective marketing tactics adopted by the Group, the pre-sale of various property development projects have been performing well. In 2017, the contracted sales in gross floor area was approximately 509,000 square meters with a contracted pre-sales for all projects amounted to RMB4,485.8 million.

The Group's Property Project Portfolio as at December 31, 2017

No.	Project Name	Location/Postal address	Interests Attributable to the Group	Total Site Area (sq.m.)	Status	Estimated year/actual year of completion *(Note)*	Usage
1	Asia Bay	Boao. Asia Bay, Binhai Avenue, Boao Town, Qionghai City, Hainan Province	92%	590,165	Under development	2023	Residential and tourism resort
2	Sanya Project	Dream Water Park, Shibu Nongchang Road, Tianya District, Sanya City, Hainan Province	80.5%	1,423,987	Under development	2028	Hotel and tourism resort
3	Qianjiang Continent	No.66 Middle Dongjin Road, Tinghu District, Yancheng City, Jiangsu Province	100%	335,822	Completed	2015	Residential and commercial
4	Kasen Star City	No. 1 Haiyun Road, Haining City, Zhejiang Province	100%	469,867	Under development	2019	Residential and commercial
5	Changbai Paradise	Baihe Town, Er Dao, Antu County, Yanji City, Jilin Province	89%	118,195	Completed	2015	Residential and hotel
6	Qianjiang Oasis	No.29 Kaichuang Road, Yandu District, Yancheng City, Jiangsu Province	55%	108,138	Under development	2020	Residential and commercial
Total				3,046,174			

Note: The estimated year of completion is made based on the present situation and progress of each project.

Analysis of Properties Under Development as at December 31, 2017

No.	Project Name	Total GFA (sq.m.)	GFA under development (sq.m.)	Total Saleable GFA (sq.m.)	GFA sold as at December 31, 2017 (sq.m.)	GFA delivered as at December 31, 2017 (sq.m.)	Average Selling Price (RMB/sq.m.)
1	Asia Bay	718,665	342,435	590,165	156,654	141,109	14,565
2	Qianjiang Continent	775,292	775,292	669,717	660,752	649,408	5,889
3	Kasen Star City	958,422	958,422	711,893	686,632	228,435	6,668
4	Changbai Paradise	122,412	122,412	122,010	30,972	22,851	–
5	Qianjiang Oasis	347,483	347,483	293,635	167,361	81,086	4,261
Total		2,922,274	2,546,044	2,387,420	1,702,371	1,122,889	

RESULTS OVERVIEW (cont'd)

Operating Expense, Taxation and Loss Attributable to Owners

The Group's selling and distribution costs from its continuing operations during the year under review increased to approximately RMB317.7 million, as compared to approximately RMB156.0 million in 2016, mainly attributable to the sharp increase of approximately RMB161.7 million in the selling and distribution costs incurred by all segments during the year ended December 31, 2017. The sharp increase was mainly due to the substantially large number of pre-sale properties for the property development segment of the Group, which are expected to be delivered in 2018 and 2019. As a result, the Group's selling and distribution costs to turnover in 2017 increased to approximately 19.8% as compared to approximately 7.3% in 2016.

The administrative costs from its continuing operations in 2017 was approximately RMB203.8 million, representing an increase of approximately RMB21.7 million as compared to approximately RMB182.1 million in 2016. The increase was mainly due to an increase in the administrative expenses incurred by the property development segment of the Group.

The Group's finance cost from its continuing operations in 2017 was approximately RMB17.0 million, representing a decrease of approximately RMB9.7 million, as compared to approximately RMB26.7 million in 2016. The finance cost for the year under review was mainly incurred in relation to the Group's bank borrowings. The decrease in the finance costs was mainly due to the absence of the exchangeable bond interests of approximately RMB10.2 million arising in year 2016 in relation to the exchangeable bonds which were issued in December 2014 by Zhejiang Kasen Industrial Group Co., Limited ("Zhejiang Kasen"), a wholly-owned subsidiary of the Company incorporated in the PRC, and then repurchased and cancelled in November 2016.

The Group's other gains and losses from its continuing operations in 2017 recorded at a net gain of approximately RMB0.8 million, representing a decrease in net loss of approximately RMB18.4 million, as compared to a net loss of approximately RMB17.6 million in 2016. For details, please refer to note 7 to the consolidated financial statements.

The Group's income tax from its continuing operations in 2017 was approximately RMB31.8 million, representing a decrease of approximately RMB43.7 million, as compared to approximately RMB75.5 million in 2016. The decrease was mainly attributable to (1) a decrease in PRC income tax of approximately RMB18.2 million mainly due to a decrease in taxable profits generated at the subsidiary level; (2) the net decrease of approximately RMB9.1 million in the over/under provision in taxation charge for prior years; and (3) a decrease in PRC land appreciation tax of approximately RMB16.3 million from the property development projects.

For reasons mentioned above, the net loss attributable to owners of the Company from continuing operations for the year 2017 increased by approximately RMB155.3 million to RMB203.4 million (2016: loss of RMB48.1 million).

As the Disposal was completed in 2016, there were no income generated from the discontinued operation for the year ended December 31, 2017 (2016: RMB8.2 million).

Based on the aforesaid factors, the overall net loss attributable to owners of the Company for the year ended December 31, 2017 was approximately RMB203.4 million (2016: overall net loss of RMB39.9 million), representing an increase of losses by approximately RMB163.5 million when compared with the year of 2016.

CAPITAL EXPENDITURE

Capital expenditure (excluding assets acquired through acquisition of subsidiaries during the year) in 2017 increased to approximately RMB90.7 million from approximately RMB82.0 million in 2016 (from both continuing operations and discontinued operation). The capital expenditure mainly comprised the amount of approximately RMB90.7 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, 2017, the Group's bank and other borrowings amounted to approximately RMB493.0 million, (in which approximately 3.0% (2016: 2.6%) was denominated in USD and approximately 97.0% (2016: 97.4%) was denominated in RMB) representing a decrease of approximately 36.9% from approximately RMB780.9 million as at December 31, 2016. Furthermore, in November 2016, a wholly-owned subsidiary of the Company, Zhejiang Kasen, repurchased and then cancelled exchangeable bonds in the PRC which were issued on December 29, 2014 with an issue size of RMB216 million with a term of two years. For details of the repurchase of the exchangeable bonds, please refer to the announcement of the Company dated November 7, 2016.

Turnover Period, Liquidity and Gearing

In 2017, the inventory turnover period from continuing operations maintained at 50 days (2016: 51 days).

In 2017, the Group continued to maintain a strict credit policy. The account and bills receivables turnover days of the Group's manufacturing segments from continuing operations increased to 83 days in 2017 (2016: 65 days).

The accounts and bills payable turnover days of the Group's manufacturing segments from continuing operations increased to 94 days in 2017 (2016: 76 days).

As at December 31, 2017, the Group's current ratio was 1.34 (December 31, 2016: 1.90). The Group's cash and cash equivalent balance was approximately RMB439.9 million as at December 31, 2017 (December 31, 2016: approximately RMB339.7 million). As at December 31, 2017, included in cash and bank balance of the Group was approximately 95.6% (2016: 97.7%) of bank balance denominated in RMB, approximately 4.1% (2016: 2.1%) denominated in USD, and approximately 0.3% (2016: 0.2%) denominated in HKD and Japanese Yen currency. This represents a gearing ratio of 15.7% as at December 31, 2017 (December 31, 2016: 22.1%) and a net debt-to-equity ratio of 0.1% as at December 31, 2017 (December 31, 2016: 10.9%). 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 2017, the Group's credit facilities were renewed on an on-going basis, which provided sufficient cash to finance the Group's working capital requirement during the year under review.

MATERIAL ACQUISITION AND DISPOSAL

On March 17, 2017, Haining Hengsen Furniture Co., Ltd.（海寧恒森傢俱有限公司）, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Haining Kasen Home Furniture Materials Technology Co., Ltd.（海寧卡森家居材料科技有限公司）, a connected party of the Company, to dispose a parcel of land with a total floor area of 10,094.9 square meters situated at No. 5, Jianshe Road, Xieqiao Town, Haining Province, PRC（海寧市斜橋鎮建設路5號）and together with the immovable properties thereon with a total site area of 6,314.26 square meters (the "Land Disposal"), at an aggregate consideration of approximately RMB8,710,000. For further details, please refer to the announcement of the Company dated March 17, 2017.

As at December 21, 2016, the Company entered into an agreement in relation to acquisition of 51% equity interest in Hunan Province Zhongnan Stamp Trading Center Company Limited（湖南省中南郵票交易中心有限公司）. The acquisition constituted a major transaction under Chapter 14 of the Listing Rules, and the Company had convened an extraordinary general meeting for the shareholders on March 29, 2017, under which the acquisition agreement and the transactions contemplated thereunder were approved. However, the acquisition has not been materialized and was subsequently terminated. For further details, please refer to the announcements and circular of the Company dated June 7, 2016, December 21, 2016, March 14, 2017, March 29, 2017 and October 27, 2017 respectively.

On September 1, 2017, Zhejiang Kasen Property Development Co., Limited（浙江卡森置業有限公司）, a wholly-owned subsidiary of the Company, entered into the Equity Transfer Agreement with Hangzhou Yuyou E-commerce Co., Ltd.（杭州余悠電子商務有限公司）("Hangzhou Yuyou"), an independent third party, pursuant to which Zhejiang Kasen Property Development Co., Limited agreed to transfer, and Hangzhou Yuyou agreed to acquire at a consideration of RMB4,086,000 for 3,006,000 shares of Hangzhou Zoutianxia International Travel Agency Co., Ltd.（杭州走天下國際旅行社有限公司）, representing approximately 60% equity interest in together with all rights, obligations and duties thereunder.

Save as otherwise, the Group did not have any material acquisitions or disposals during the year ended December 31, 2017.

DISPOSAL OF EQUITY SECURITIES OF HCLM

As at January 1, 2017, the Group held an aggregate of 4,000,554 shares in HCLM (the "HCLM Shares"), a company incorporated in the PRC and shares of which are listed on the Shenzhen Stock Exchange. During the year ended December 31, 2017, the Company did not dispose of any HCLM Shares. The original acquisition costs of the HCLM Shares paid by Zhejiang Kasen was RMB1.04 per HCLM Share. As at December 31, 2017, the Company held 4,000,554 HCLM Shares.

HCLM is indirectly non-wholly owned by the State-owned Assets Supervision and Administrative Commission of Haining Municipal Government（海寧市國有資產監督管理委員會）. HCLM 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.

CONTINGENT LIABILITIES

As at December 31, 2017, the Group had certain contingent liabilities. For details, please refer to note 37 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 34 to the consolidated financial statements.

CAPITAL COMMITMENTS

As at December 31, 2017, the Group had contracted, but not provided for, a total capital expenditure of RMB1,062.1 million (2016: RMB1,338.3 million), in which an amount of RMB1,021.7 million (2016: RMB1,286.5 million) was in respect of properties under development.

FOREIGN EXCHANGE EXPOSURE

The upholstered furniture export-related business of the Group (including sales and procurements) were mainly denominated in U.S. dollars, and most of the trade receivables were exposed to exchange rate fluctuation. The Group currently does not engage in any hedging activities but will continue to monitor the situation and make necessary arrangement as and when appropriate.

EMPLOYEES AND EMOLUMENT POLICIES

As at December 31, 2017, from continuing operations, the Group employed a total of approximately 3,400 full time employees (December 31, 2016: approximately 3,300), including management staff, technicians, salespersons and workers. In 2017, the Group's total expense on the remuneration of employees was approximately RMB172.8 million (2016: approximately RMB166.1 million), representing approximately 10.8% (2016: 7.8%) 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 (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 share option schemes for the purpose of providing incentives to Directors, eligible employees and third party service providers. Further details in relation to the schemes are set out in the "Directors' Report" section of this report.

ENVIRONMENTAL PROTECTION AND SOCIAL RESPONSIBILITY

Having "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 for the 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

Leveraging on the development and experience accumulated over the past few years, the tourism resorts operations of the Group are taking shape. The emphasis of the development strategy of the Group will be on promoting the chain brand of "Dream Water World" for its tourism resorts operations. Apart from the water park located in Boao, Hainan that was currently in operation, the Group's water parks located in Sanya, Hainan, Yancheng, Jiangsu and Phnom Penh, Cambodia are under construction. These water parks, along with the ancillary restaurants, hotels and property development projects, will form a collection of the Group's comprehensive tourism resorts with local features.

With respect to property development, the Group will also explore new projects when appropriate to ensure the sustainable development of property development business on the basis of accelerated selling progress for existing projects and delivery time of properties.

With the implementation of the "One Belt and One Road" initiative, the prospects for Chinese enterprises to conduct overseas investment are more optimistic. Through site visits, the Group believes that Cambodia is an investment destination with great potential for development. In addition to the development plan of a water park in Phnom Penh, Cambodia, the Group is also evaluating and looking for more investment opportunities in Cambodia to step into new business scope, with a view to expand its revenue sources and seek greater returns for 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, 2017.

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "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 and trading of upholstered furniture; (ii) properties development; and (iii) 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, 2017 are provided in the section headed "Chairman's Statement" on pages 8 to 9, the section headed "Management Discussion and Analysis" on pages 10 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, 2017 using financial performance indicators is provided in the section headed "Management Discussion and Analysis" on pages 10 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 a 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 stipulate 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 authorities, at their discretion, to require companies to rectify non-compliance within a mandatory period, or suspend their operations if they fail 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 a 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, 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 65 to 66.

FINAL DIVIDEND

The Directors do not recommend the payment of any final dividend for the year ended December 31, 2017 (2016: Nil).

There is no arrangement that a Shareholder 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 28, 2018 to May 31, 2018 (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 registrar 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 25, 2018.

DISTRIBUTABLE RESERVES OF THE COMPANY

The amount of the Company's reserves available for distribution to Shareholders as at December 31, 2017, calculated in accordance with International Financial Reporting Standards, was approximately RMB1,042.7 million.

FIVE YEAR FINANCIAL SUMMARY

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

PROPERTY, PLANT AND EQUIPMENT

During the year of 2017, the Group had acquired property, plant and equipment of approximately RMB90.7 million for the purpose of expanding its production capacity.

Details of these and other movements in the property, plant and equipment of the Group during the year of 2017 are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of the Company's share capital are set out in note 27 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year of 2017 (2016: from both continuing operations and discontinued operation), the aggregate sale attributable to the Group's five largest customers comprised approximately 59.8% of the Group's manufacturing segments sale and the sale attributable to the Group's largest customer were approximately 34.4% of the Group's manufacturing segments sale.

The aggregate purchases during the year of 2017 (2016: from both continuing operations and discontinued operation) attributable to the Group's five largest suppliers were approximately 28.4% of the Group's manufacturing segments purchases and the purchases attributable to the Group's largest supplier were approximately 16.2% of the Group's manufacturing 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 provides 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.

RELATIONSHIPS WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS (cont'd)

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 strives to 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 harmonic 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 2017 and up to the date of this annual report are:

Executive Directors

ZHU Zhangjin, Kasen *(Chairman)*
SHEN Jianhong *(appointed on February 20, 2017)*
ZHOU Xiaohong *(appointed on June 30, 2017)*
SUN Hongyang *(resigned on June 30, 2017)*
ZHANG Mingfa, Michael *(resigned on February 20, 2017)*

Independent Non-executive Directors

DU Haibo
ZHOU Lingqiang
ZHANG Yuchuan

In accordance with article 87 of the Company's articles of association (the "Articles"), Mr. Zhu Zhangjin and Mr. Du Haibo will retire from the office of Directors by rotation and, being eligible, will offer themselves for re-election at the forthcoming AGM. Pursuant to article 86(3) of the Articles, Ms. Zhou Xiaohong will only hold office as Director until the forthcoming AGM and, being eligible, will offer herself for re-election at such meeting.

None of the Directors, including 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. The existing Directors (including the independent non-executive Directors) were appointed for a term of three years commenced from September 26, 2017 for Mr. Zhu Zhangjin; June 30, 2017 for Ms. Zhou Xiaohong; February 20, 2017 for Ms. Shen Jianhong; January 1, 2015 (subsequently renewed on January 1, 2018) for Mr. Zhou Lingqiang; March 1, 2015 (subsequently renewed on March 1, 2018) for Mr. Zhang Yuchuan and November 2, 2015 for Mr. Du Haibo respectively and are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Articles. Particulars regarding Directors' emoluments are set out in note 10 to the consolidated financial statements.

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

As at December 31, 2017, 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	518,919,635	531,279,635	35.16%
Zhou Xiaohong *(Note 2)*	9,214,561	–	9,214,561	0.61%

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 531,279,635 Shares or approximately 35.16% of the total number of issued Shares (including the 518,919,635 Shares or approximately 34.34% 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 1,000,000 shares as at December 31, 2017 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 May 26, 2015.

(2) This figure does not include the options granted to Ms. Zhou Xiaohong to subscribe for 3,500,000 shares as at December 31, 2017 under the 2005 Share Option Scheme and approved by the Board on 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, 2017.

SHARE OPTION SCHEMES

Particulars of the Company's share option schemes are set out in note 28 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, 2017, the Company had 27,600,000 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).

SHARE OPTION SCHEMES (cont'd)

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 (i.e. 101,404,536 shares of the Company) and the total number of shares in respect of which options may be granted under the 2015 Share Option Scheme is not permitted to exceed 10% of the shares of the Company on May 29, 2015 (i.e. 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).

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, 2017, the total numbers of shares available for issue (including the outstanding options already granted) under the 2005 Share Option Scheme and the 2015 Share Option Scheme were 27,600,000 shares and 116,232,298 shares, respectively, which represented 1.87% and 7.87% of the shares in issue respectively as at the date of this annual report.

SHARE OPTION SCHEMES (cont'd)

Details of movement of the share options during the year ended December 31, 2017, being share options granted pursuant to the 2005 Share Option Scheme on May 5, 2008 and May 26, 2015, respectively, were as follows:

Name of Director	Exercise price *HK$*	Number of share options: Outstanding as at January 1, 2017	Forfeited from January 1, 2017 to December 31, 2017	Lapsed from January 1, 2017 to December 31, 2017	Exercised from January 1, 2017 to December 31, 2017	Outstanding as at December 31, 2017	Percentage of total issued share capital	Exercisable period	Notes
Zhu Zhangjin	1.37	1,000,000	–	–	–	1,000,000	0.06%	1/1/2016 to 25/5/2025	3,4,5
Zhou Xiaohong	1.18	250,000	–	–	–	250,000	0.02%	1/1/2009 to 4/5/2018	1,4,5
(appointed on	1.18	250,000	–	–	–	250,000	0.02%	1/1/2010 to 4/5/2018	2,4,5
June 30, 2017)	1.37	3,000,000	–	–	–	3,000,000	0.20%	1/1/2016 to 25/5/2025	3,4,5
Zhang Mingfa, Michael	1.18	250,000	–	–	–	250,000	0.02%	1/1/2009 to 4/5/2018	1,4,5
(resigned on	1.18	250,000	–	–	–	250,000	0.02%	1/1/2010 to 4/5/2018	2,4,5
February 20, 2017)	1.37	3,000,000	–	–	–	3,000,000	0.20%	1/1/2016 to 25/5/2025	3,4,5
		8,000,000	–	–	–	8,000,000	0.54%		
Other employees in	1.18	1,300,000	–	–	–	1,300,000	0.08%	1/1/2009 to 4/5/2018	1,4,5
aggregate	1.18	1,300,000	–	–	–	1,300,000	0.08%	1/1/2010 to 4/5/2018	2,4,5
	1.37	17,000,000	–	–	–	17,000,000	1.12%	1/1/2016 to 25/5/2025	3,4,5
		27,600,000	–	–	–	27,600,000	1.82%		

Notes:

1. 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.

2. 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.

3. 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.

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

5. Up to December 31, 2017, none of these share options were exercised, lapsed or forfeited.

SUBSTANTIAL SHAREHOLDERS

As at December 31, 2017, 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	–	518,919,635	518,919,635	34.34%
China Postal Code Card Trading Management Limited[2]	Beneficial owner	–	235,043,057	235,043,057	15.56%
Qin Xuetong (秦雪桐)[2]	Beneficial owner (50%)	–	235,043,057	235,043,057	15.56%
Xu Helin (許合林)[2]	Beneficial owner (50%)	–	235,043,057	235,043,057	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 531,279,635 Shares or approximately 35.16% of the total number of issued Shares (including the 518,919,635 Shares or approximately 34.34% of the issued Shares held by Joyview Enterprises Limited ("Joyview") which in turn is wholly owned by the trustee of such family trust).

2. China Postal Code Card Trading Management Limited is a company 50% beneficially owned by Qin Xuetong and Xu Helin respectively.

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, 2017.

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 2017 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

Except for the Land Disposal, during the year ended December 31, 2017, the Group did not enter into any transactions which constituted connected transactions of the Company under the Listing Rules with its connected persons.

CONTINUING CONNECTED TRANSACTIONS

During the year ended December 31, 2017, 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 28, 2016, Yujie entered into a renewal agreement with the Group (the "Renewal Agreement") which will be expired on December 31, 2018 and, subject to compliance with the Listing Rules requirements regarding connected transactions, is renewable for a term of 2 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; and (ii) the expected costs to be incurred by the Group in providing such products.

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 (the "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 production wastes. Given that no direct 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, price movement will be regularly monitored by the Group. During the year under review, the aggregate amount of the transactions under the Renewal Agreement was approximately RMB1.8 million and the annual cap amount was RMB5,000,000.

CONTINUING CONNECTED TRANSACTIONS (cont'd)

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

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 28, 2016.

(2) Agreement for providing guarantee to the CCT Group

On September 12, 2016, Mr. Zhu Zhangjin, Ms. Zhu Jiayun, Ms. Zhu Lingren, Haining Lingjia New Material Technology Company Limited ("Lingjia New Material"), Haining Kasen Leather Company Limited ("Haining Kasen Leather"), Haining Schinder Leather Company Limited ("Haining Schinder") and Yancheng Dafeng Huasheng Leather Company Limited ("Dafeng Huasheng") entered into an agreement with the Group which will be expired on December 31, 2018 and, subject to compliance with the Listing Rules requirements regarding connected transactions, is renewable for a term of 2 years thereafter.

Pursuant to this agreement, the Group agreed to provide the guarantee to Haining Kasen Leather, Haining Schinder and Dafeng Huasheng (collectively named as the "CCT Group"), which formed part of the Disposal Group; and each of Mr. Zhu Zhangjin, Ms. Zhu Jiayun, Ms. Zhu Lingren, Lingjia New Material (collectively named as the "CCT Counter Guarantors") agreed to jointly and severally provide the counter guarantee to fully indemnify the Company, for the performance and repayment obligations of bank facilities to the CCT Group up to the amount of the annual caps, subject to the terms and conditions of the agreement. During the year under review, the aggregate value of bank facilities guaranteed by the Group to the CCT Group and the associated costs under the agreement did not exceed the annual cap amount of RMB675,600,000.

Mr. Zhu is a Director and the controlling shareholder of the Company. Ms. Zhu Jiayun and Ms. Zhu Lingren are the daughters of Mr. Zhu and wholly own Lingjia New Material. Therefore, Mr. Zhu, Ms. Zhu Jiayun, Ms. Zhu Lingren and Lingjia New Material, being the CCT Counter Guarantors, are connected persons of the Company under the Listing Rules and transaction under the agreement constitutes connected transaction of the Company pursuant to Chapter 14A of the Listing Rules.

For further details, please refer to the announcement and the circular of the Company dated September 12, 2016 and October 4, 2016 respectively.

CONTINUING CONNECTED TRANSACTIONS (cont'd)

(3) Agreement for Purchase of Raw Materials from Lingjia New Material

On November 28, 2016, Lingjia New Material entered into an agreement with the Group which will be expired on December 31, 2018 and, subject to compliance with Listing Rules requirements regarding connected transactions, is renewable for a term of 2 years thereafter. The price and terms of the individual orders in respect of this agreement will be on normal commercial terms, negotiated on an arm's length basis, on similar basis as the Group transacts business with other independent third party suppliers and shall be on terms which are no less favourable to the Group than those provided by independent third party suppliers. Subject to the general principle disclosed above, the Group will also take into account the following factors when determining the prices payable by the Group for the transactions: (i) the comparable market prices of similar products based on the raw materials or types of leather involved as well as information obtained through internal checks and research conducted by the Company; (ii) the quality and prices of the products offered by independent third party suppliers; and (iii) the expected costs to be incurred by Lingjia New Material in providing such products. In addition, the Group will also obtain market prices of the products through publicly available sources on an annual basis.

Pursuant to this agreement, the Group agreed to purchase from Lingjia New Material and its subsidiaries certain raw materials for production of upholstered furniture (including materials such as sofa leather, faux leather and decorative fabrics). Lingjia New Material is a company established under the laws of the PRC with limited liability. Its principal business is research and development of new material. Owing to the nature of business of the Group, the Group requires a reliable supply of raw materials in order to meet the Group's operation needs for production of upholstered furniture. During the year under review, the aggregate value of the transaction under this agreement was approximately RMB39.4 million and the annual cap amount was RMB70,000,000.

Lingjia New Material is wholly-owned by Ms. Zhu Jiayun and Ms. Zhu Lingren, the daughters of Mr. Zhu, an executive Director and the controlling Shareholder of the Company. Ms. Zhu Jiayun and Ms. Zhu Lingren are therefore associates of Mr. Zhu, and hence Ms. Zhu Jiayun, Ms. Zhu Lingren and Lingjia New Material are connected persons of the Company and transaction between the Group and Lingjia New Material 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 28, 2016.

CONTINUING CONNECTED TRANSACTIONS (cont'd)

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 or services 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 September 12, 2016 and November 28, 2016 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, 2017.

RELATED PARTY TRANSACTIONS

During the year ended December 31, 2017, the Group had certain transactions with "related parties" as defined under the applicable accounting standards. Except for the Land Disposal, 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 Transactions" 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, 2017.

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, 2017.

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, 2017.

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.

DONATIONS

During the year under review, donations made by the Group were approximately RMB395,000.

INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION OF INDEPENDENCE

The Company has received, from each of its independent non-executive Directors, namely Mr. Du Haibo, 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 events after the reporting period. For details, please refer to note 43 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 is the chairman of the Audit Committee.

The annual results of the Company for the year ended December 31, 2017 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 is the chairman of the Nomination Committee.

AUDITOR

A resolution will be proposed at the AGM to re-appoint BDO Limited as auditor of the Company.

On behalf of the Board

ZHU Zhangjin, Kasen
Director

The PRC, March 28, 2018

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 (the "CG Code Provisions") set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Listing Rules throughout the year ended December 31, 2017, except for the following deviation:

CODE PROVISION A.2.1

Under CG Code Provision A.2.1, the roles of chairman and chief executive 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. 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, 2017, 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. The Board may from time to time delegate certain functions to the management of the Group if and when considered appropriate. The management is mainly responsible for the execution of the business plans, strategies and policies adopted by the Board from time to time. As at the year ended December 31, 2017, the Board comprised six members, including three executive Directors and three independent non-executive Directors. The Board members for the year ended December 31, 2017 and up to the date of this annual report are shown below:

Executive Directors

ZHU Zhangjin, Kasen *(Chairman and Chief Executive Officer)*
SHEN Jianhong *(appointed on February 20, 2017)*
ZHOU Xiaohong *(appointed on June 30, 2017)*
SUN Hongyang *(resigned on June 30, 2017)*
ZHANG Mingfa, Michael *(resigned on February 20, 2017)*

Independent Non-executive Directors

DU Haibo
ZHOU Lingqiang
ZHANG Yuchuan

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

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

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

NON-EXECUTIVE DIRECTOR

The existing non-executive Directors (including the independent non-executive Directors) were appointed for a term of three years commenced from January 1, 2015 (subsequently renewed on January 1, 2018 for Mr. Zhou Lingqiang), March 1, 2015 (subsequently renewed on March 1, 2018 for Mr. Zhang Yuchuan) and November 2, 2015 (for Mr. Du Haibo) 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, 2017, all Directors of the Company namely, Mr. Zhu Zhangjin, Ms. Zhou Xiaohong, Ms. Shen Jianhong, Mr. Sun Hongyang (resigned on June 30, 2017), Mr. Zhang Mingfa, Michael (resigned on February 20, 2017), Mr. Zhou Lingqiang, Mr. Du Haibo 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 *(Chairman of the Audit Committee)*
Mr. ZHOU Lingqiang
Mr. ZHANG Yuchuan

The Audit Committee was set up in compliance with Rules 3.21 and 3.22 of the Listing Rules with written terms of reference prepared based on "A Guide for Effective Audit Committees" published by the Hong Kong Institute of Certified Public Accountants and the CG Code adopted. The primary duties of the Audit Committee are to review and monitor the Company's financial reporting, 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.

During the year ended December 31, 2017, 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.

BOARD COMMITTEES (cont'd)

Audit Committee (cont'd)

During the year ended December 31, 2017, the Audit Committee held three meetings to review the annual and interim results, and to make recommendations to improve the Company's internal control. The chief financial officer, internal audit officer and representatives of the external auditors attended the meetings.

Remuneration Committee

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

Mr. ZHOU Lingqiang	*(Chairman of the Remuneration Committee)*
Ms. ZHOU Xiaohong	*(appointed on June 30, 2017)*
Mr. SUN Hongyang	*(resigned on June 30, 2017)*
Mr. ZHANG Yuchuan	

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.

During the year ended December 31, 2017, the Remuneration Committee held three meetings to review and approve the remuneration package of the Board members and the senior management.

BOARD COMMITTEES (cont'd)

Remuneration Committee (cont'd)

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, 2017 is set out below:

Remuneration band	Number of individuals
Nil to HK$1,000,000	12

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	*(Chairman of the Nomination Committee)*
Mr. ZHOU Lingqiang	
Ms. SHEN Jianhong	*(appointed on February 20, 2017)*
Mr. ZHANG Mingfa, Michael	*(resigned on February 20, 2017)*

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, 2017, the Nomination Committee held three meetings to discuss about the re-appointment of directors.

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, 2017 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 31, 2017**	**Extraordinary General Meeting held on March 29, 2017**
Executive Directors						
Mr. ZHU Zhangjin, Kasen *(Chairman)*	4/4	N/A	N/A	N/A	1/1	0/1
Ms. SHEN Jianhong *(Member of Nomination Committee)* *(appointed on February 20, 2017)*	3/4	N/A	N/A	2/3	1/1	1/1
Ms. ZHOU Xiaohong *(Member of Remuneration Committee)* *(appointed on June 30, 2017)*	1/4	N/A	N/A	N/A	N/A	N/A
Mr. ZHANG Mingfa, Michael *(Member of Nomination Committee)* *(resigned on February 20, 2017)*	1/4	N/A	N/A	1/3	1/1	1/1
Mr. SUN Hongyang *(Member of Remuneration Committee)* *(resigned on June 30, 2017)*	3/4	2/3	N/A	N/A	1/1	1/1
Independent Non-executive Directors						
Mr. DU Haibo *(Chairman of Audit Committee and Chairman of Nomination Committee)*	4/4	N/A	3/3	3/3	1/1	1/1
Mr. ZHOU Lingqiang *(Member of Audit Committee, Member of Nomination Committee and Chairman of Remuneration Committee)*	2/4	3/3	1/3	3/3	1/1	0/1
Mr. ZHANG Yuchuan *(Member of Audit Committee and Remuneration Committee)*	4/4	3/3	3/3	N/A	1/1	1/1

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the year ended December 31, 2017.

The statement of the external auditors of the Company about their reporting responsibilities on the consolidated 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, 2017 amounted to approximately RMB1.5 million and RMB0.6 million, respectively. The non-audit services included services in interim review performed by the external auditors.

RISK MANAGEMENT AND INTERNAL CONTROL

The Company has established a sound risk management and internal control system. The Board is responsible for assessing, maintaining and improving the effectiveness of our internal control system to safeguard Shareholders' investments and Company's assets. The Audit Committee reports to the Board on any material issues and makes recommendations to the Board, so as to ensure strict compliance with relevant rules and regulations.

To facilitate and support the Audit Committee and the Board in the maintenance of a good risk management and internal control system, the internal control department has been established and delegated to implement the Company's risk management and internal control systems specifically, to report to the Audit Committee and the Board about any internal control issues, as well as to evaluate and improve our internal control policy continually.

As the principal business of the Company is located in the Mainland China, we have formulated our risk management and internal control system based on the Standards for Enterprise Internal Control and the Complementary Guidelines for Enterprises Internal Control promulgated by China's Ministry of Finance. Our system is designed to manage rather than to eliminate the risk of failure to achieve business objectives, and provide reasonable but not absolute assurance against material misstatement or loss.

During the year under review, the Company implemented risk management and internal control based on five indicators including internal environment, risk assessment, information and communication and internal oversight. Under the guidance of the Board and the Audit Committee, the internal control department has developed annual internal audit plans and targets to oversee and evaluate the operations of each business segment, including financial data review, economic obligation of management, fund functioning condition, execution of material contracts, financial budgets review as well as business risk oversight. At the beginning of the year, the Board and the Audit Committee, based on a comprehensive assessment of the risks arising from the previous year's operation, have determined the significant risks we faced with and prepared a risk warning report according to a review on the Group's strategic objectives, operation objectives and conditions of each business segment. Under the guidance of the risk warning report, the internal control department implemented significant risk control plans for the purpose of assessing the effectiveness of the risk management and the internal control of the Group, so as to ensure an effective management has been conducted on those identified risks. During the internal monitoring process, the internal control department conducts an independent periodic audit every month to test whether the internal monitoring procedures are valid. The internal control department conducts a comprehensive annual audit in each year to review and assess whether the risk is effectively managed and whether the internal control system is functioning effectively. The internal control department shall investigate, discover and evaluate the significant risks in the operation of the Company promptly, report to the Audit Committee and the Board in a timely manner, and take effective measures to correct and improve the internal control in the business activities. During the year, the internal control department has conducted internal audits on the financial data, compliance operations, fund management, information systems and human resources involved in the Group's business activities. In addition, the Group's business segments are required to assess the effectiveness of their risk management and internal control systems on a monthly basis based on the five elements stated in the Basic Internal Control Norms for Enterprises, to review the risks identified and to report to the Board. The Board and the Audit Committee continue to monitor the effectiveness of the Group's risk management and internal control systems through monthly reports, annual reports submitted by the internal control department and review reports from business segments. For the year ended December 31, 2017, the Audit Committee and the Board were not aware of any significant internal control deficiencies and considered that the Company's risk management and internal control systems were effective and fully operational.

PROCEDURE AND INTERNAL CONTROLS FOR THE HANDLING AND DISSEMINATION OF INSIDE INFORMATION

The Company formulated its own policy and procedure on disclosure of inside information in accordance with the Guidelines on Disclosure of Inside Information and other relevant regulations issued by the Securities and Futures Commission, and conducted regular review to ensure the properly implementation on mechanisms of the handling and dissemination of inside information. For the year ended December 31, 2017, our dissemination of inside information has been fully complied with our inside information policies and the applicable laws and regulations.

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, 2017 and will be explained during the proceedings of meetings. Poll results, if any, will be posted on both the websites of the Stock Exchange and the Company no later than 30 minutes before the earlier of the morning session or any pre-opening session on the next business day of the shareholders' meeting.

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

There has been no changes in the Articles during the year ended December 31, 2017.

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Being dedicated to the manufacturing of upholstered furniture for over 16 years, Kasen International Holdings Limited (hereafter "Kasen", "We", "the Company") has grown into one of the top enterprises in upholstered furniture manufacturing, and tourism property developments in recent years. During the business growth of Kasen, we always emphasise on fulfilling our corporate social responsibility ("CSR"), which is deep-rooted in our core value — "Harmonious Development Achieved Through Coordinating Our Employees and Corporation to Serve Social Benefits". This core value is the cornerstone to guide us in turning our operation and sustainability into action, and ultimately to be responsible to our stakeholders.

This report is also the second environmental, social & governance ("ESG") report prepared according to appendix 27 of the Rules Governing the Listing of Securities set by the Hong Kong Exchanges and Clearing Limited ("HKEx") for the reporting period from January 1, 2017 to December 31, 2017 ("FY2017"). The ESG report, which has been reviewed and approved by the Board, include data on environmental key performance indicators ("KPI"), focuses on the activities that are of material significance to the Company—mainly the upholstered furniture factory in Haining, the property development projects (mainly at Asia Bay and Sanya Project), and include the following key subsidiaries:

- Hainan Sanya Kasen Property Development Co., Ltd.
- Hainan Boao Kasen Property Development Co., Ltd.
- Haining Kareno Furniture Co., Ltd
- Zhejiang Kasen Industrial Group Co., Limited

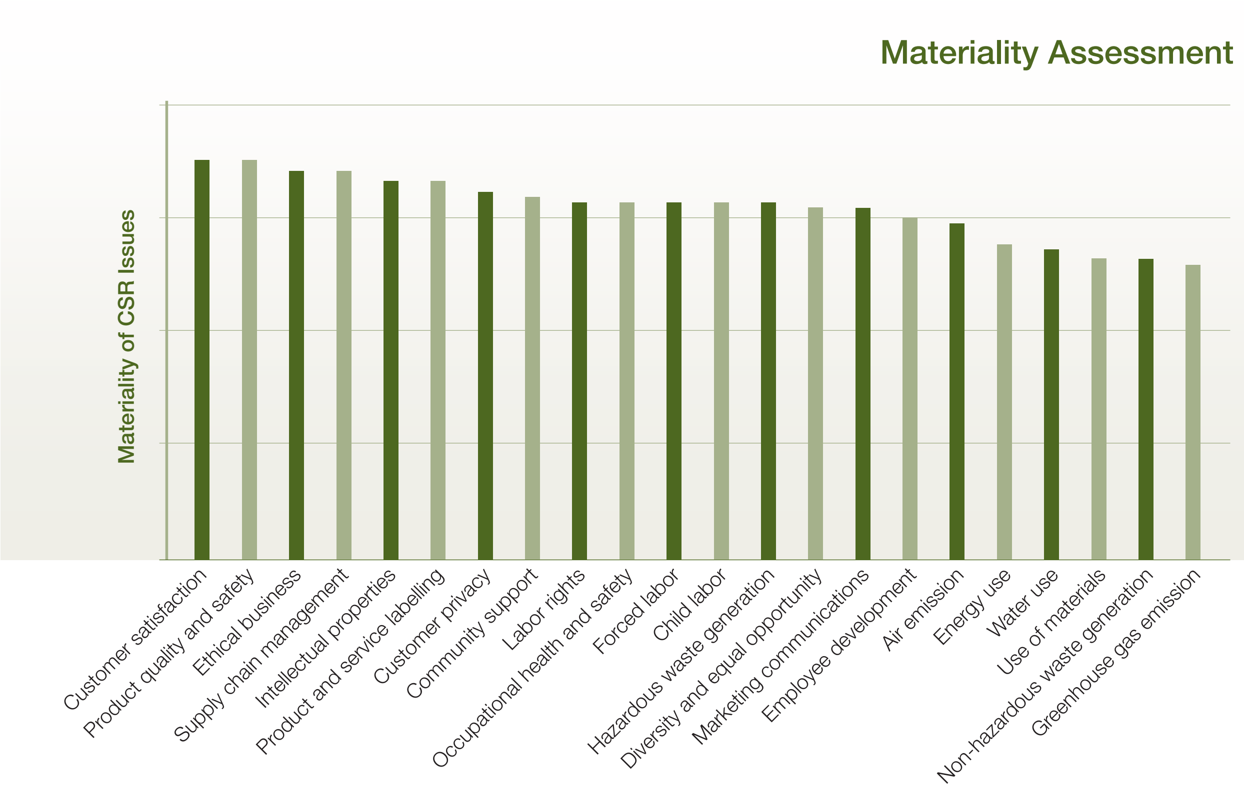
STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT

Stakeholder Engagement

Engaging stakeholders is a critical process for us to identify the most material ESG topics in our operation. This year, we conducted an online questionnaire to obtain the opinions from all key stakeholders on the ESG issues within the Group. The key stakeholder groups that we have engaged included the Board of Director, top management, employees, customers, investors, and shareholders.

Materiality Assessment

Among different ESG issues, we have to prioritise the issues that are most material to us and our stakeholders. The survey allowed our stakeholders to rate the sustainability issues according to their relative importance. Then we conducted a materiality assessment to identify those issues that are with the greatest impact to our business and significance to our stakeholders. The result is presented in the following graph:



Among the various ESG topics, customer satisfaction, product quality and safety, ethical business, supply chain management and intellectual properties were identified to be the most material issues from the result of the materiality assessment. We will continually improve our sustainability practices to fulfill the expectations of our stakeholders in the coming years.

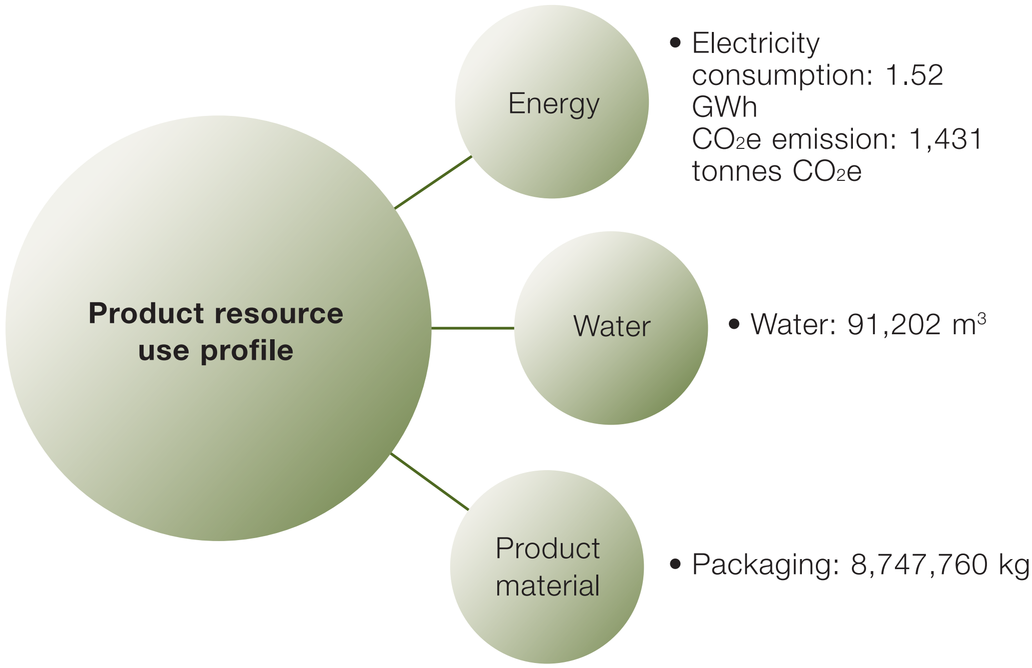
RUNNING GREEN OPERATIONS

Facing global challenges such as climate change and other environmental disruptions, we realise the importance of being an environmental responsible enterprise to fight against these challenges. Throughout these years we remain committed to protecting the environment and reducing the carbon operational footprint in order to stay green in our manufacturing and tourism development businesses, as well as at our office. In doing so, we have several approaches incorporated in our daily operations—to use the resources in a sustainable way; to limit the emissions to the environment; as well as to work together with others.

Utilising Resources Sustainably

Our growing business relies a lot on valuable resources to manufacture products and develop property projects for our customers. We want to make sure we use our resources in a way that is good for the planet and reduces environmental impacts as much as possible.

We have established various approaches in running green operations by categorising our resource management into three aspects: energy, water, and product materials:



RUNNING GREEN OPERATIONS (cont'd)

Utilising Resources Sustainably (cont'd)

Green procurement

Sourcing green materials and building green a supply chain is what we aim for in the procurement stage during manufacturing operations. To achieve that, we have developed the "Green Procurement Guide" to apply our goals into our daily practices in operation. When we source raw materials, we consider not only the related environmental standards of the materials, but also the performance in terms of recyclability, pollution level and hazards of the materials.

Taking the application of leather as an example, we strictly constrict the level of hazardous chemicals in leather, including chromium, azo dyes, pentachlorophenol ("PHP"), and formaldehyde, as they are the major raw materials in our upholstered furniture production and are thus fundamental to our business. As a good reflection of our efforts, we have been recognised and certified as "Eco Leather Enterprise" by the China Leather Industry Association.

Energy and water use

Energy and water are the two major resources that are essential to our operations. As part of our goals to increase their efficiencies in the production stage, we closely monitor the use of energy and water, and ultimately, reduce the greenhouse gas emissions ("GHG") within the operation.

We have established our Resource Management Steering Team to oversee the usage of energy and water in the factories with the aim to improve the performance or the resource use continuously. We also focus on promoting energy conservation through education and training, to raise awareness and to make sure our people are fully aware of the goals, and that they are competent to fulfill the respective energy saving responsibilities and to thus participate constructively in relevant activities. No industrial wastewater is produced in our manufacturing operations. Sewage generated are tertiary-treated within our in-house wastewater treatment facilities before being discharged to connected sewage network, in accordance with the environmental requirements.

RUNNING GREEN OPERATIONS (cont'd)

Utilising Resources Sustainably (cont'd)

Energy and water use *(cont'd)*

In our tourism property development business, developing sustainable properties that are in harmony with the natural surroundings is what we are striving for. During the design phase of the projects, we always look for the opportunities to incorporate energy saving features into our buildings to lower the carbon footprint. For instance, in the Asia Bay project, a number of energy-efficient designs have been incorporated into the development of the buildings, as outlined as follows:

Making use of renewable energy

We have installed solar water heating system on rooftop, which can reduce the energy used to heat up the water.

Energy efficient lighting

To improve the energy efficiency and reduce energy consumption, we have incorporated natural lightling in the interior environment of our design, opted for energy-efficient lights such as fluorescent tube with electrical ballast, and installed Building Management System (BMS) for controlling the lights in public and outdoor areas.

Integrating green elements in building structure

We have designed the walls, windows and rooftops to have ability to trap heat. This can reduce the heat leaving the buildings as well as the need for heating in winter.

RUNNING GREEN OPERATIONS (cont'd)

Utilising Resources Sustainably (cont'd)

Energy and water use *(cont'd)*

Having taken major and essential steps to enhance the green practices in our operations, we have closely monitored and summarised our environmental performance in FY 2017 as below.

Greenhouse gas ("GHG") emissions[1]	Unit	FY 2017
Direct emissions ("Scope 1")[2]	Tonnes CO_2e	426.02
Energy indirect emissions ("Scope 2")[3]	Tonnes CO_2e	1,005.16
Total Scopes 1 & 2 emissions	Tonnes CO_2e	1,431.18
Intensity		
Employee	Tonnes CO_2e/employee	2.48
Revenue	Tonnes CO_2e/RMB$m	3.63

Resource use[1]	Unit	FY 2017
Consumed electricity	GWh	1.52
Energy intensity		
Employee	kWh/employee	2,639
Product sold	kWh/product unit	4.56
Consumed water	m^3	91,202
Water intensity		
Employee	m^3/employee	158
Product sold	m^3/product sold	0.27
Packaging	kg	8,747,760
Packaging intensity		
Product sold	kg/product sold	26.17

[1] Our FY 2017 environmental data including greenhouse gas emissions, energy, water, packaging and waste data presented in the environmental performance table covered our core operations that pose material impacts to the environment.

[2] Direct emissions ("Scope 1") only covered the greenhouse gas emissions generated from the combustion of fuels in mobile sources owned by Kasen International Holdings Limited.

[3] Energy indirect emissions ("Scope 2") only covered the greenhouse gas emissions generated from the imported electricity.

RUNNING GREEN OPERATIONS (cont'd)

Limiting Emissions to the Environment

Manufacturing is often associated with environmental issues such as air and water pollutions and generation of wastes. Being committed to environmental protection, we have therefore prioritise our efforts to reduce our negative impacts to the environment. Through implementation of various environmental control measures, we make sure our operations are running in a way that create positive benefits to the planet—not only by merely securing compliance with applicable laws and regulations, but also going a step further by minimising our direct and indirect environmental impacts from the various emissions.

During the reporting period, the Group did not breach any relevant laws and regulations in environmental protection relating to air and greenhouse gases emissions, discharges into water and land, and generation of hazardous and non-hazardous wastes.

Industrial waste

Landfills are usually the destination where much of the waste ends up in after disposal. We are trying to prevent this from happening within Kasen — to make good use of it where possible. The major streams of waste coming from our factory operation are waste leather and waste foam. They are separated and extensively utilised through recycling. In FY 2017, we have diverted 206 tonnes of waste from landfills and sold them for recycling where possible.

Industrial waste management[1]	Unit	FY 2017
Total waste recycled	Tonnes	205.95
Waste leather	Tonnes	89.08
Waste foam	Tonnes	116.87

Air pollutants

Most of the air pollutants come from emissions in our manufacturing processes and kitchen fume from the staff kitchen. We have taken effective measures and have installed various equipment and devices that reduce the level of air pollutants emitted to the environment. For example, an oil fume purifier is installed for treating fume in the kitchen; moreover, we have the movable exhaust hoods installed to collect the exhaust gas from spray adhesive which is then connected to a plasma purification device for further treatment for removal of substantial pollutants before releasing them back to the atmosphere. These treated gases are vented via stacks with suitable heights to ensure maximum dilution and minimal impacts to the environment.

RUNNING GREEN OPERATIONS (cont'd)

Engaging with Others

Bringing positive impacts to the planet is not something we can do alone. We have continued to collaborate with our suppliers as well our employees to promote the most environmentally friendly and sustainable operations.

Suppliers play an important role across the supply chain — from sourcing and procurement of materials to creating great products for customers. We believe that we have to advocate the principles of protecting the environment in order to build a green supply chain. Starting from the supplier selection stage, this principle has been incorporated as one of the assessing criteria to ensure we work with environmentally responsible suppliers. We take into their environmental performance into consideration, namely, by seeing whether they are acquired with international ISO 14001 and ISO 50001 certification for environmental and energy management systems, as well as whether they are recognised as the Environmental Integrity Enterprise by the National Environmental Protection Authority.

We want to engage, at the same time, our employees to make our day-to-day operation sufficiently environmentally friendly. Placing great importance on protecting the environment, we have the Green Office Policy to encourage three focus areas of environmental friendly practices — conserving paper, conserving water, and conserving electricity — among all of the office employees:

PAPER CONSERVATION

- Double-sided printing
- Encouraging paperless communication by using electronic communication and electronic copy of documents

WATER CONSERVATION

- Reminders to switch off faucets after use in pantries and washrooms
- Regular check for leaks in water pipes and faucets to keep them drip-free

ELECTRICITY CONSERVATION

- Reminders to turn off unused lights and electrical appliance such as computers
- Maintaining proper temperature of air conditioning system to cut down unnecessary energy consumption

VALUING OUR PEOPLE

Employees are our greatest asset and are whom we value. We believe that, with the concerted efforts of each employee, Kasen is able to achieve a brilliant future. Hence, the Group strives to provide employees with good working conditions, attractive salaries, benefits, and career development.

Training

We strongly believe employees' personal and professional skills are the fundamental drive for our long-term growth. We strive to create a platform of growth for our staff members, and aim to enable all employees to apply and realise their strengths and potential at work – not only to contribute to the continuous development of Kasen, but also to optimise employee satisfaction at work.

We have a clear training policy and the associated procedures to realise our goals. Each year, apart from basic induction training for newcomers and job related training, we develop a training plan with the consideration of the training needs to meet employees' career development as well as our business goals. In addition to organising internal training for both new and existing employees on areas such as corporate culture and principle, job specific skills, occupational health and safety, and language, we offer external training for eligible employees to obtain academic and professional qualification certification. After each training, opinions and suggestions, as well as evaluation on training effectiveness are obtained from relevant parties for assessment and future improvement.

Since 2016, an e-learning programme has been specifically provided for our newly joined management staff. We also place focus on providing various professional management training for management staff — on job role level to update their technical skills and knowledge, as well as personal competency training to strengthen the ability on critical thinking, management, leadership, and communication. These training include instructions on business and human resources management, productions, quality, procurement, and supply chain management.

VALUING OUR PEOPLE (cont'd)

The continuous development and success of Kasen depend on the efforts of each employee. Apart from giving attractive remuneration package to our staff members, we strictly comply with all labour and employment regulations, including minimum wage, labour insurance, provision of statutory holidays and leaves, working hours, etc. Moreover, good compensation is offered for any overtime work, and additional paid leaves such as marriage, nursing, and compassionate are also granted to employees on top of ordinary annual leaves.

Besides, in additional to standard staff benefits such as retirement scheme and medical insurance, various allowances are also provided to eligible employees, such as those related to transport, food, housing, and benefits based on better academic qualifications. To further motivate our staff at work, attractive rewards in terms of performance bonus, promotions, or other fringe benefits are provided according to the individual performance and contribution.

We strive to provide a fair and harmonious working environment and hire talents on the basis of fairness and openness. We make employment decisions solely based on merits of the candidates—people who are best suited for a job, with adequate job knowledge and work experience. An appraisal and performance system is in place in order to maintain a fair, reasonable, and effective system for the Company for the implementation of all work-related promotion, incentives, training, and disciplinary actions. The system is reviewed regularly to ensure effectiveness and continuous improvement.

We fully respect human rights and thus strictly prohibit child and forced labour in our workplace. Policies and procedures are in place to ensure our strict compliance with relevant laws and regulations—no worker is employed at ages under 16, and any restrictions on labour freedom, such as detention of salary and forced overtime are strictly prohibited. To prevent any violation, we have implemented suitable measures both during the recruitment process and monitoring methods such as conducting spot checks and provide whistle-blowing channels for reporting of cases.

During the reporting period, the Group did not breach any laws and regulations in respect of employment which relate to compensation and dismissal, recruitment and promotion, working hours, rest period, equal opportunity, diversity, anti-discrimination, other benefits and welfare, and child and forced labour.

Health and Safety

It is always our core commitment to operate our business with respect and care for employees' health and safety at work, and we expect every employee to comply with this commitment.

We constantly improve the working conditions of our workplace and we strive to provide our employees a safe and healthy working environment. We provide regular safety education and training for our employees to keep afresh their safety awareness and skills at work. Beside, apart from providing protective equipment as a basic measure to protect our employees at work where necessary, an annual health check is also provided to ensure timely detection of illness such that prompt treatment can be carried out.

Moreover, an emergency plan which sets out guidelines on how to prevent and control accidents and emergencies is also established, to prepare our staff and to minimise potential damage from undesirable incidents such as fire, explosion, chemical leakage, mechanical safety damage, and even natural disasters. During the reporting period, the Group did not breach any laws and regulations relating to providing a safe working environment and protecting employees from occupation hazards.

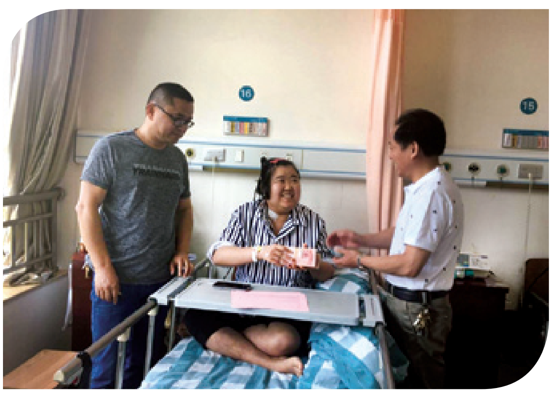
VALUING OUR PEOPLE (cont'd)

Health and Safety (cont'd)

We also advocate a care and loving working environment and encourage our staff members to establish good working relationship among them, and to care for their colleagues. Apart from organising regular activities to build team cooperation and relationships, such as skills competition, competing in team singing competitions etc., we also help to organise staff donations for those staff who urgently require assistance. During 2017, over 800 staff members participated in Kasen's staff medical co-assistance activities, an increase of 34% over last year. These activities promote staff to take care of those colleagues who require financial aid to get medical care. A total of 20 staff members received the benefits, with a total donations of over RMB30,000.

The Kasen singing team won the Gold Awards during the Haining City's Labour Day Singing Competition.

Kasen organises work related techniques and skills competition to raise awareness and interests of staff at work. These activities promotes the importance of excellence and skills, and to provide a platform where staff members can interact and build team relationships.



The daughter of a staff member suffered from serious illness, had received the donations of RMB15,000 from staff members organised by the Company to pay for the urgent medical care.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (cont'd)

VALUING OUR PEOPLE (cont'd)

Health and Safety (cont'd)

In addition, to maintain a good work-life balance, we actively encourage our employees to read and participate in sport activities during leisure time. Recreational facilities such as staff library are provided, and leisure activities, such as annual dinner, festival celebrations, company travels, and skills competitions are organised to promote the employees' physical and mental health.

Kasen 2017 Annual Dinner where staff members fully enjoyed a wonderful entertaining night to mark the commencement of a fruitful year.

On March 8 International Women's Day our Company's Lady Union has organised an outdoor activity at a beautiful lake at Haining, with over 100 ladies of the Company participated to celebrate the festival.

Various departments of the Company organised Mid-autumn Festival/National Day celebrations.

Staff library with relaxing atmosphere within the Company to promote work-life balance.

UPHOLDING INTEGRITY AND EXCELLENCE

"Integrity" is the foundation on how we conduct our business, and "Excellence" is the value we pursue. These core values, together, lead to the success of our business. With the upholding of integrity and excellence at our business, we detail these values into three aspects: "integrity in business; responsibilities to our business partners; and repaying the community".

Integrity in Business

We strictly prohibit any form of corruption, bribery, or fraud in business. In order to prevent such cases from happening, our "Anti-corruption, Anti-bribery, and Anti-Fraud Policy" sets out clear guidance in defining acceptable and non-acceptable behaviours and situations in business that our employees should follow. Likewise, we take confidentiality seriously to maintain our reputation. Rules are set up on how to handle confidential information, as well as to restrict all our employees from leaking out any confidential information of Kasen or our customers to others.

It is the responsibility of all our employees to report any suspected improprieties in business, therefore we have secured several whistle-blowing channels for anonymous reporting. If any case of corruption or breach of confidentiality was found, disciplinary actions would be taken on those employees involved, including suitable legal actions where necessary.

Responsibility to Our Business Partners

Providing quality products and services to our business partners and customers is one of our core responsibilities. We also seek to promote value of sustainability through the activities we perform to them.

UPHOLDING INTEGRITY AND EXCELLENCE (cont'd)

Responsibility to Our Business Partners (cont'd)

Customers

Providing quality products and services to meet our customers' satisfaction is the prime objective of our business. In our upholstered furniture business, apart from always giving best quality products, it is also our responsibility to ensure the Health and Safety ("H&S") of our products to end users.

Product Design

- Starting from the early stage of our product design, besides the consideration of meeting product quality standards, we also identify H&S risks due to different nature and function of products to end users by conducting Process Failure Mode and Effects Analysis ("PFMEA"), and seek any further improvement.

Raw Material

- In the raw material supply, our supply chain management is designed to ensure the quality and H&S of the raw material to meet our standards.
- For suppliers of high H&S risk materials, suppliers are required to provide testing reports and relevant documents for each supply to ensure traceability of our products.
- Regular assessment is conducted to existing suppliers to ensure continuous quality supply.

Production

- After the manufacturing of products, our Quality Department inspects the quality and safety of products.
- Training related to product H&S responsibility is also provided to staff whose work are directly related to the H&S of products.

To Customers

- During the transportation and storage of products, safety label is marked on products if necessary.
- For products that require a proper and safe operation by end users, clear instructions are given on the product manuals.
- For the sold products, one year of warranty period is offered for any presence of quality issues in the product.

UPHOLDING INTEGRITY AND EXCELLENCE (cont'd)

Responsibility to Our Business Partners (cont'd)

Suppliers and Contractors

In the mutual business relationships with suppliers, we aim to create shared values in CSR with suppliers and contractors. In our supplier assessment, we put emphasis on assessing their CSR performance, for instance, apart from the performance of environmental protection and resource management, we also inspect on any child labour or forced labour circumstances in the workplace of the suppliers. Health and safety is one of the major concerns in the construction industry. We encourage our contractors to have proper site management to ensure compliance with the safety regulations in construction and to maintain a tidy construction site, and most importantly, to protect the health and safety of workers.

During the reporting period, the Group did not breach any laws and regulations relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.

REPAYING THE COMMUNITY

We strive to give back to the communities in which we operate, and support the people in need. Apart from actively participating in various kinds of social welfare activities, such as cleaning the natural environment, singing competition, and making donations to charity, we have also set up the Employee Assistance Foundation for providing medical financial assistance to our employees and their families. During 2017, a total amount of RMB59,210 subsidy has been granted to a dozen of staff members.

Kasen's staff took part in clearing garbage from the waters.

ESG REPORTING GUIDE INDEX

HKEx ESG Reporting Guide	General Disclosures	Policies & Procedures	Explanation/ Reference section
Aspect A Environmental			
A1 Emissions	Information on: – the policies; and – compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous wastes.	Air Emission Policy Solid Waste Management Policy	Running Green Operations – Limiting Emissions to the Environment
A2 Use of Resources	Policies on efficient use of resources, including energy, water and other raw materials.	Energy Management Policy Green Office Policy	Running Green Operations – Utilising Resources Sustainably
A3 The Environment and Natural Resources	Policies on minimising the issuer's significant impact on the environment and natural resources.	Green Procurement Policy	Running Green Operations – Utilising Resources Sustainably
Aspect B Social			
B1 Employment	Information on: – the policies; and – compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Human Resource Policy	Valuing our People – Employment
B2 Health and Safety	Information on: – the policies; and – compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Occupational Health and Safety Policy	Valuing our People – Health and Safety

ESG REPORTING GUIDE INDEX (cont'd)

HKEx ESG Reporting Guide	General Disclosures	Policies & Procedures	Explanation/ Reference section
B3 Development and Training	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. Training refers to vocational training. It may include internal and external courses paid by the employer.	Employee's Training and Development Policy	Valuing our People – Training
B4 Labour Standards	Information on: – the policies; and – compliance with relevant laws and regulations that have significant impact on the issuer relating to preventing child and forced labour.	Anti-Forced Labour Policy Anti-Child Labour Policy	Valuing our People – Employment
B5 Supply Chain Management	Policies on managing environmental and social risks of the supply chain.	Procurement Management Policy	Running Green Operations – Engaging with Others
B6 Product Responsibility	Information on: – the policies; and – compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Product Safety Control Procedure	Upholding Integrity and Excellence – Responsibilities to our business partners
B7 Anti-corruption	Information on: – the policies; and – compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Anti-corruption, Anti-bribery and Anti-Fraud Policy	Upholding Integrity and Excellence – Integrity in Business
B8 Community Investment	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	It is under our consideration to develop the community investment policy	Returning to Community

INDEPENDENT AUDITOR'S REPORT

Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話：+852 2218 8288
傳真：+852 2815 2239
www.bdo.com.hk

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)

OPINION

We have audited the consolidated financial statements of Kasen International Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 65 to 160, which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, of the consolidated financial position of the Group as at December 31, 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS (cont'd)

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of properties under development and held for sale Refer to note 21 to the consolidated financial statements	
The carrying value of the Group's properties under development and held for sale located in the People's Republic of China (the "PRC") as at December 31, 2017 was RMB4,630 million, net of provision for impairment loss for properties under development and held for sale of RMB63 million, represented approximately 53% of the total assets of the Group. For impairment assessment purposes, the management of the Group determined the net realisable value of properties under development and held for sale by reference to estimates of the selling prices based on prevailing market conditions in the PRC, applicable variable selling expenses and anticipated costs to completion. We identified the impairment of properties under development and held for sale as a key audit matter due to the determination of net realisable value involves significant degree of judgments by the management.	Our audit procedures in relation to the management's assessment for impairment of properties under development and held for sale included: • Evaluating the appropriateness of the management's methods for the assessment of net realisable value of properties under development and held for sale. • Assessing the net realisable value of properties under development and held for sale determined by the management on a sample basis, by reviewing the latest selling prices achieved in the similar projects, management's estimates for selling prices, management's anticipated costs to completion and estimates on selling expenses. • Challenging the reasonableness of key assumptions and critical judgments used by management in the determination of net realisable value based on our knowledge in the real estate industry in the PRC.

OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRSs issued by the IASB 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibility in this regard.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

BDO Limited
Certified Public Accountants

Ng Wai Man
Practising Certificate Number P05309

Hong Kong, March 28, 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2017

	NOTES	2017 RMB'000	2016 RMB'000
Continuing operations			
Revenue	5	**1,605,880**	2,129,645
Cost of sales		**(1,273,520)**	(1,761,768)
Gross profit		**332,360**	367,877
Other income	6	**17,833**	21,183
Selling and distribution costs		**(317,679)**	(156,047)
Administrative expenses		**(203,835)**	(182,131)
Other gains and losses	7	**789**	(17,644)
Finance costs	8	**(17,013)**	(26,699)
(Loss) profit before tax	9	**(187,545)**	6,539
Income tax expenses	11	**(31,832)**	(75,470)
Loss for the year from continuing operations		**(219,377)**	(68,931)
Discontinued operation:			
Income from discontinued operation	13	**–**	8,170
Loss for the year		**(219,377)**	(60,761)
Other comprehensive loss			
Items that may be subsequently reclassified to profit or loss:			
Fair value loss on available-for-sale investments		**(22,003)**	(45,924)
Income tax on fair value change of available-for-sale investments		**5,501**	11,481
Exchange difference arising on translation		**99**	(178)
Reclassification from revaluation reserve to profit or loss on disposal of available-for-sale investments		**–**	(78,192)
Reclassification from revaluation reserve to profit or loss on income tax relating to disposal of available-for-sale investments		**–**	19,548
		(16,403)	(93,265)
Total comprehensive loss for the year		**(235,780)**	(154,026)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2017

	NOTES	2017 RMB'000	2016 RMB'000
Loss for the year attributable to:			
– Owners of the Company			
– Loss from continuing operations		**(203,351)**	(48,066)
– Income from discontinued operation		**–**	8,170
		(203,351)	(39,896)
– Non-controlling interests			
– loss from continuing operations		**(16,026)**	(20,865)
		(219,377)	(60,761)
Total comprehensive loss for the year attributable to:			
– Owners of the Company		**(219,754)**	(133,161)
– Non-controlling interests		**(16,026)**	(20,865)
		(235,780)	(154,026)
Basic and diluted (loss) earnings per share	14		
– Continuing operations		**(RMB13.46 cents)**	(RMB3.18 cents)
– Discontinued operation		**N/A**	RMB0.54 cents
– Continuing and discontinued operations		**(RMB13.46 cents)**	(RMB2.64 cents)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 2017

	NOTES	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**916,156**	807,310
Prepaid lease payments – non-current portion	16	**34,980**	38,944
Intangible assets	17	**234**	337
Deferred tax assets	19	**68,122**	58,802
Prepayment for acquisition of leasehold land		**89,085**	–
Deposits paid for acquisition of property, plant and equipment		**–**	56,679
		1,108,577	962,072
CURRENT ASSETS			
Available-for-sale investments	18	**48,503**	70,506
Inventories	20	**81,038**	64,864
Properties under development for sale	21	**3,554,601**	2,615,891
Properties held for sale	21	**1,075,101**	1,182,308
Amounts due from non-controlling interests of subsidiaries		**20,000**	23,000
Trade and other receivables	22	**1,325,486**	1,019,685
Prepaid lease payments – current portion	16	**1,012**	1,074
Tax recoverable		**5,186**	9
Prepaid land appreciation tax		**75,086**	13,491
Pledged bank deposits	23	**161,000**	5,506
Restricted bank deposits for property development business	23	**834,511**	3,723
Bank balances and cash	23	**439,931**	339,731
		7,621,455	5,339,788
CURRENT LIABILITIES			
Trade, bills and other payables	24	**1,293,048**	1,223,531
Deposits received in respect of pre-sale of properties		**3,741,311**	848,421
Bank and other borrowings – due within one year	25	**407,974**	462,002
Tax payable		**149,072**	149,709
Amounts due to non-controlling interests of subsidiaries	26	**117,288**	128,905
		5,708,693	2,812,568
NET CURRENT ASSETS		**1,912,762**	2,527,220
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,021,339**	3,489,292

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (cont'd)

AT DECEMBER 31, 2017

	NOTES	2017 RMB'000	2016 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	19	**37,868**	44,276
Bank and other borrowings – due after one year	25	**85,000**	318,945
		122,868	363,221
NET ASSETS		**2,898,471**	3,126,071
CAPITAL AND RESERVES			
Share capital	27	**1,735**	1,735
Reserves		**2,812,684**	3,032,438
Equity attributable to owners of the Company		**2,814,419**	3,034,173
Non-controlling interests		**84,052**	91,898
TOTAL EQUITY		**2,898,471**	3,126,071

The consolidated financial statements on pages 65 to 160 were approved and authorised for issue by the Board of Directors on March 28, 2018 and are signed on its behalf by:

Zhu Zhangjin, Kasen	**Zhou Xiaohong**
DIRECTOR	*DIRECTOR*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2017

	Attributable to owners of the Company											
	Share capital *RMB'000*	Share premium *RMB'000*	Statutory reserve *RMB'000* *(note 29)*	Special reserve *RMB'000* *(note 29)*	Share option reserve *RMB'000*	Other reserve *RMB'000* *(note 29)*	Available-for-sale investments revaluation reserve *RMB'000*	Translation reserve *RMB'000*	Retained earnings *RMB'000*	Sub-total *RMB'000*	Non-controlling interests *RMB'000*	Total *RMB'000*
At January 1, 2016	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
Loss for the year	–	–	–	–	–	–	–	–	(39,896)	(39,896)	(20,865)	(60,761)
Total other comprehensive loss	–	–	–	–	–	–	(93,087)	(178)	–	(93,265)	–	(93,265)
Total comprehensive loss for the year	–	–	–	–	–	–	(93,087)	(178)	(39,896)	(133,161)	(20,865)	(154,026)
Release upon lapse of share options	–	–	–	–	(11,364)	–	–	–	11,364	–	–	–
Release upon share options being forfeited	–	–	–	–	(1,231)	–	–	–	1,231	–	–	–
Transfer upon disposal of subsidiaries	–	–	(18,033)	–	–	–	–	–	18,033	–	–	–
At December 31, 2016	1,735	1,486,326	171,276	167,983	11,162	(41,703)	30,842	(108)	1,206,660	3,034,173	91,898	3,126,071
Loss for the year	–	–	–	–	–	–	–	–	(203,351)	(203,351)	(16,026)	(219,377)
Total other comprehensive loss	–	–	–	–	–	–	(16,502)	99	–	(16,403)	–	(16,403)
Total comprehensive loss for the year	–	–	–	–	–	–	(16,502)	99	(203,351)	(219,754)	(16,026)	(235,780)
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	–	(2,310)	(2,310)
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	–	10,490	10,490
At December 31, 2017	**1,735**	**1,486,326**	**171,276**	**167,983**	**11,162**	**(41,703)**	**14,340**	**(9)**	**1,003,309**	**2,814,419**	**84,052**	**2,898,471**

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2017

	NOTES	2017 RMB'000	2016 RMB'000
OPERATING ACTIVITIES			
(Loss) profit before tax – continuing operations		**(187,545)**	6,539
Profit before tax – discontinued operation		**–**	15,392
Adjustments for:			
Provision of (reversal for) allowance for inventories		**47**	(3,560)
Amortisation of intangible assets		**103**	233
Release of financial guarantees		**(10,735)**	(3,670)
Release of prepaid lease payments		**1,073**	2,230
Depreciation of property, plant and equipment		**56,320**	76,462
Finance costs		**17,013**	49,616
Net provision of impairment loss recognised in respect of trade and other receivables		**7,041**	67,266
Impairment loss recognised in respect of property under development and held for sale		**10,793**	62,324
Gain on disposal of available-for-sale investments		**–**	(74,808)
Dividend income from available-for-sale investments		**(200)**	(404)
Interest income		**(6,934)**	(8,347)
Loss (gain) on disposal of property, plant and equipment		**3,582**	(862)
Gain on disposal of prepaid lease payment		**(7,977)**	–
Gain on disposal of subsidiaries		**(16,414)**	(14,628)
Fair value change of exchangeable bonds		**–**	(2,448)
Operating (loss) profit before movements in working capital		**(133,833)**	171,335
Increase in inventories		**(16,221)**	(18,466)
(Increase) decrease in properties under development and held for sale		**(1,029,112)**	473,609
(Increase) decrease in trade and other receivables		**(373,830)**	39,647
Increase in trade, bills and other payables		**197,504**	176,619
Increase (decrease) in deposits received in respect of pre-sale properties		**2,892,890**	(263,459)
Increase in restricted bank deposits		**(830,788)**	(1,856)
Cash generated from operations		**706,610**	577,429
Land Appreciation Tax ("LAT") paid		**(85,891)**	(24,720)
Income taxes paid		**(24,376)**	(96,033)
NET CASH GENERATED FROM OPERATING ACTIVITIES		**596,343**	456,676

CONSOLIDATED STATEMENT OF CASH FLOWS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2017

	NOTES	2017 RMB'000	2016 RMB'000
INVESTING ACTIVITIES			
Increase of pledged bank deposits		**(155,494)**	(8,404)
Interest received		**6,934**	8,347
Proceeds from disposal of available-for-sale investments		**–**	82,665
Dividend income from available-for-sale investments		**200**	404
Proceeds from disposal of property, plant and equipment		**18,902**	16,911
Purchase of property, plant and equipment		**(90,748)**	(81,985)
Proceeds from disposal of leasehold land		**10,930**	–
Deposits refunded (paid) for acquisition of property, plant and equipment		**56,679**	(61,235)
Deposits paid for acquisition of leasehold land		**(49,543)**	–
Net cash inflow from disposal of subsidiaries	30(c)	**12,766**	222,320
Purchase of intangible assets		**–**	(29)
Decrease (increase) in amounts due from non-controlling interest of subsidiaries		**3,000**	(13,000)
NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES		**(186,374)**	165,994
FINANCING ACTIVITIES			
Repayment of bank and other borrowings		**(865,264)**	(2,196,282)
Redemption of exchangeable bonds		**–**	(134,991)
Interest paid		**(20,980)**	(52,744)
Bank and other borrowings raised		**578,468**	1,904,331
Decrease in amounts due to non-controlling interest of subsidiaries		**(11,617)**	(20,500)
Capital contribution from non-controlling interest of subsidiaries		**10,490**	–
NET CASH USED IN FINANCING ACTIVITIES		**(308,903)**	(500,186)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**101,066**	122,484
Effect of changes in exchange rates		**(866)**	1,618
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**339,731**	215,629
CASH AND CASH EQUIVALENTS AT END OF YEAR		**439,931**	339,731
Represented by:			
Bank balances and cash		**439,931**	339,731

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 and trading of upholstered furniture, (ii) properties development; and (iii) tourism resort-related operations.

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

In the current year, the Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board ("IASB") for the first time, which are effective from the Group's financial period beginning on January 1, 2017.

(a) Adoption of new/revised IFRSs – effective from January 1, 2017

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Annual Improvements to IFRSs 2014-2016 Cycle	Amendments to IFRS 12, Disclosure of Interests in Other Entities

Except for the impact from amendments to IAS 7, the adoption of these amendments has no material impact on the consolidated financial statements.

Amendments to IAS 7 – Disclosure Initiative

The amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Disclosure of the changes in liabilities arising from financing activities is provided in note 42 to the consolidated financial statements. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year.

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

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

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

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers[1]
IFRS 16	Leases[2]
IFRS 17	Insurance Contracts[4]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
IFRIC 23	Uncertainty over Income Tax Treatments[2]
IFRSs (Amendments)	Annual Improvements to IFRSs 2015-2017 Cycles[2]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[2]
Amendments to IAS 28	Long term Interests in Associates and Joint Ventures[2]
Amendments to IAS 28	As part of the Annual Improvements to IFRSs 2014-2016 Cycle[1]
Amendments to IAS 40	Transfers of Investment Property[1]
Amendments to IFRS 2	Classification and Measurement of Share-Based Payment Transactions[1]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]

1 Effective for annual periods beginning on or after January 1, 2018

2 Effective for annual periods beginning on or after January 1, 2019

3 The amendments were originally intended to be effective for periods beginning on or after January 1, 2016. The effective date has now been deferred/removed. Early application of the amendments continue to be permitted.

4 Effective for annual periods beginning on or after January 1, 2021

The directors of the Company anticipate that the application of the above new and revised IFRSs will have no material impact on the consolidated financial statement except for the application of IFRS 9, IFRS 15 and IFRS 16 may have impacts as described below.

IFRS 9 – Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment for financial assets.

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

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

IFRS 9 – Financial Instruments *(cont'd)*

Key requirements of IFRS 9 that are expected to be relevant to the Group are:

(i) Classification and measurement

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods.

Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at fair value through other comprehensive income (FVTOCI). All other debt instruments and equity investments are measured at fair value through profit or loss (FVTPL) at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

(ii) Impairment of financial assets

IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39 "Financial Instruments: Recognition and Measurement". The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for an impairment loss event to have occurred before credit losses are recognised.

Based on the preliminary assessment by the directors of the Company, the application of IFRS 9 in the future may have impact on the classification and measurement of the Group's financial assets. The Group's available-for-sale investments, including those currently stated at cost less impairment loss will either be measured at FVTPL or be designated at FVTOCI. In addition, the expected credit loss model may result in early provision of credit loss which are not yet incurred in relation of the Group's financial assets measured at amortised cost.

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

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

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

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

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

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

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.

Based on the preliminary assessment by the directors of the Company, the application of IFRS 15 in the future may result in more disclosures. However, it is not expect to have a material impact on the timing and amounts of revenue recognised in respective reporting periods.

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

(b) New and 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.

Based on the preliminary assessment by the directors of the Company, the application of IFRS 16 in the future will 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.

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 package and related services is recognised on gross basis when the services such as package tours are directly conducted by the Group as a principal and exposure to the significant risks and rewards associated with the services rendered, and recognized on net basis when the services such as sales of air tickets are rendered by the Group as an agent.

Revenue from the operation of resort, provision of tourism resort-related services, and provision of property management services are recognised when 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)

Non-current assets and disposal groups held for sale and discontinued operation

Non-current assets and disposal groups are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The non-current assets, except for certain assets as explained below, or disposal groups, are stated at the lower of carrying amount and fair value less costs of disposal. Deferred tax assets, financial assets (other than investments in subsidiaries and associates), even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in Note 3.

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographic area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

When an operation is classified as discontinued, a single amount is presented in the statement of profit or loss and other comprehensive income, which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognised in the measurement to fair value less costs of disposal, or on the disposal, of the assets or disposal groups constituting the discontinued operation.

Properties under development and held for sale

Properties under development for sale represent leasehold land and building which are developed for future sale in the ordinary course of business. Properties under development for sale are transferred to properties held for sale upon completion of development. Properties under development and held for sale are transferred to Property, plant and equipment at carrying amount upon commencement of owner-occupation. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Leasing

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

Operating lease payments are 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Foreign currencies (cont'd)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at cost less accumulated amortization and accumulated impairment losses. 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.

Inventories

Inventories are stated at the lower of cost and net realizable 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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Impairment of tangible and intangible assets (cont'd)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (cont'd)

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

Loans and receivables

Loans and receivables, including trade 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. They are included in non-current assets unless management able and intends to dispose of it within twelve months of the end of the reporting period.

Equity 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).

For available-for-sales investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at end of each reporting period subsequent to initial recognition.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (cont'd)

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

Impairment of financial assets (cont'd)

For financial assets carried at 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (cont'd)

Financial liabilities and equity *(cont'd)*

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

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.

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.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with "IAS 37 – Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with "IAS 18 – Revenue".

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.

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 collateralised 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 recognised 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.

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

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.

Estimated impairment of properties under development and held for sale

As explained in note 3, the Group's properties under development and held for sale are stated at the lower of cost and net realisable value. Based on the Group's recent experience and the nature of the subject properties, the Group's management makes estimates of the selling prices, the costs of completion in cases for properties under development, and the costs to be incurred in selling the properties based in prevailing market conditions.

If there is an increase in costs to completion or a decrease in estimated selling prices, the net realisable value will decrease and this may result in impairment loss of the properties under development and held for sale. Such impairment loss requires the use of judgment and estimates. Where the expectation is different from the management's original estimates, the carrying value and impairment loss for properties in the periods in which such estimate is changed will be adjusted accordingly.

In addition, given the volatility of the property market and the unique nature of individual properties, the actual outcomes in terms of costs and revenue may be higher or lower than that estimated at the end of the reporting period. Any increase or decrease in the estimates would affect profit or loss in future years. As at December 31, 2017, the aggregate carrying amount of properties under development and held for sale is approximately RMB4,629,702,000 (2016: RMB3,798,199,000) (net of allowance of RMB63,344,000 (2016: RMB53,953,000)).

Determination of impairment loss event and estimated impairment of trade and other receivables

The Group's management determines whether there is objective evidence that an impairment loss event has occurred and, if so, the management would measure the allowance for doubtful debts by considering the estimation for present value of future cash flows for the impaired financial assets. 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, 2017, the aggregate carrying amount of trade and other receivables is RMB1,325,486,000 (2016: RMB1,019,685,000), net of allowance for doubtful debts of RMB108,062,000 (2016: RMB104,517,000).

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 18)

For more detailed information in relation to the fair value measurement of the items above, please refer to the applicable notes and note 31(c).

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

Income taxes and deferred taxation

Significant judgment is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

PRC land appreciation tax ("LAT")

The Group is subject to LAT in the PRC. The provision for LAT is based on management's best estimates according to its understanding of the requirements set forth in the relevant PRC tax laws and regulations. The actual LAT liabilities are subject to the determination by the tax authorities upon the completion of the property development projects. The Group has not finalised its LAT calculation and payments with the tax authorities for certain property development projects. The final outcome could be different from the amounts that were initially recorded, and any differences will have impact on the land appreciation tax expense and the related provision in the period in which the differences realise.

5. SEGMENT INFORMATION AND REVENUE

(a) Segment information

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

Continuing operations:

– Manufacturing and trading of upholstered furniture ("Manufacturing");

– Properties development; and

– Others, comprising mainly retailing of furniture, operation of resort, provision of tourism resort-related services, and provision of property management service ("Others")

5. SEGMENT INFORMATION AND REVENUE (cont'd)

(a) Segment information (cont'd)

Discontinued operation:

– Manufacturing of furniture leather and automotive leather ("Manufacturing – Leather")

During year ended December 31, 2016, the Manufacturing – Leather segment was disposed of and was presented as discontinued operation which details were set out in note 13 to the financial statements.

During year ended December 31, 2017, due to decrease in significance for operation of furniture retailing to the Group, the retailing of furniture segment has been aggregated with the Others segment. Corresponding information for 2016 has been re-presented.

Segment revenues and results

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

Revenue

For the year ended December 31, 2017

	Manufacturing *RMB'000*	Properties development *RMB'000*	Others *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
External sales	**696,314**	**756,188**	**153,378**	**–**	**1,605,880**
Inter-segment sales	**–**	**–**	**20,098**	**(20,098)**	**–**
Total	**696,314**	**756,188**	**173,476**	**(20,098)**	**1,605,880**

For the year ended December 31, 2016 (re-presented)

	Manufacturing *RMB'000*	Properties development *RMB'000*	Others *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
External sales	603,335	1,383,428	142,882	–	2,129,645
Inter-segment sales	7,984*	–	5,765	(13,749)	–
Total	611,319	1,383,428	148,647	(13,749)	2,129,645

* *Included sales of RMB7,984,000 to Manufacturing – Leather segment*

5. SEGMENT INFORMATION AND REVENUE (cont'd)

(a) Segment information (cont'd)

***Segment revenues and results** (cont'd)*

Results

	2017 RMB'000	2016 RMB'000 (re-presented)
Segment profit (loss) from continuing operations		
– Manufacturing *(note)*	**31,476**	116,382
– Properties development	**(216,966)**	(119,355)
– Others	**(35,431)**	(46,989)
	(220,921)	(49,962)
Unallocated corporate expenses	**(2,658)**	(8,765)
Unallocated other gains and losses	**4,202**	(10,204)
Loss for the year from continuing operations	**(219,377)**	(68,931)

Note: Included in the result of Manufacturing segment in 2016 was a gain on disposal of available-for-sale investments amounting to RMB74,808,000 (note 7). The available-for-sale investments were invested and managed under the Manufacturing segment.

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.

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

	2017	2016
	RMB'000	*RMB'000*
		(re-presented)
Manufacturing	**660,824**	616,358
Properties development	**7,681,013**	5,403,838
Others	**281,517**	252,819
Total segment assets	**8,623,354**	6,273,015
Unallocated	**106,678**	28,845
Consolidated assets	**8,730,032**	6,301,860

5. SEGMENT INFORMATION AND REVENUE (cont'd)

(a) Segment information (cont'd)

Segment assets and liabilities *(cont'd)*

Segment liabilities

	2017	2016
	RMB'000	*RMB'000*
		(re-presented)
Manufacturing	**536,866**	532,297
Properties development	**5,156,350**	2,480,134
Others	**127,195**	127,715
Total segment liabilities	**5,820,411**	3,140,146
Unallocated	**11,150**	35,643
Consolidated liabilities	**5,831,561**	3,175,789

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 from continuing operations 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,	
	2017	2016	**2017**	2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
United States	**574,651**	434,468	**–**	–
PRC, including Hong Kong	**976,676**	1,599,818	**1,040,449**	903,264
Europe	**51,789**	90,746	**–**	–
Others	**2,764**	4,613	**6**	6
	1,605,880	2,129,645	**1,040,455**	903,270

Information about major customer

The following table summarises revenue for customer which accounted for 10% or more of net revenue:

	Revenue Year ended December 31,	
	2017	2016
	RMB'000	*RMB'000*
Customer A[1]	**239,411**	224,283

[1] Revenue from Manufacturing segment

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 from continuing operations for the year:

	2017	2016
	RMB'000	*RMB'000*
Sale of goods		
Upholstered furniture	**696,314**	603,361
Residential properties	**756,188**	1,383,428
	1,452,502	1,986,789
Provision of services		
Others *(note)*	**153,378**	142,856
	1,605,880	2,129,645

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

6. OTHER INCOME

An analysis of other income from continuing operations is as follows:

	2017	2016
	RMB'000	*RMB'000*
Government grants *(note)*	**8,304**	8,808
Interest income	**6,934**	6,482
Dividends income from available-for-sale investments	**200**	404
Rental income	**2,271**	3,184
Sub-contracting fee income	**124**	2,305
	17,833	21,183

Note: Government grants represent various incentives received from government for business development. There were no other specific conditions attached to the incentives.

7. OTHER GAINS AND LOSSES

An analysis of other gains and losses from continuing operations is as follows:

	2017	2016
	RMB'000	*RMB'000*
Impairment loss recognised in respect of properties under development and held for sale *(note a)*	**(10,793)**	(62,324)
(Loss) gain on disposal of property, plant and equipment	**(3,582)**	862
Gain on disposal of leasehold land	**7,977**	–
Net foreign exchange (loss) gain	**(10,993)**	8,137
Net provision for impairment loss recognised in respect of trade and other receivables *(note b)*	**(7,041)**	(65,938)
Donation	**(395)**	(922)
Penalty	**(663)**	(2,429)
Gain on disposal of available-for-sale investment *(note 18)*	**–**	74,808
Gain on disposal of subsidiaries *(note 30)*	**16,414**	20,100
Net gain (loss) from sale of scrap materials	**1,731**	(837)
Fair value change of exchangeable bonds	**–**	2,448
Release of financial guarantees	**10,735**	3,670
Others	**(2,601)**	4,781
	789	(17,644)

Note a: Impairment loss represents the estimated written down of properties under development and held for sale to net realisable value at the end of the reporting period with reference to prevailing market conditions, anticipated variable selling expenses and cost of completion.

Note b: During the year ended December 31, 2017, there was no refund of RMB5,900,000 deposit paid for acquisition of land in PRC from the counterparty since the judgement announced by the local court in 2017. Management has provided an impairment loss of RMB5,900,000, based on its best estimates of outcomes, in profit or loss for the year. Details refer to note 22(d)(i) to the consolidated financial statements.

During the year ended December 31, 2016, the Group entered into two legal proceedings for deposits paid for development of land in the PRC and one legal proceeding for acquisition of land for development in Malaysia. Management provided impairment losses of RMB39,500,000 and RMB22,808,000 respectively, based on its best estimates of outcomes, in profit or loss. Details refer to note 22(d)(i) and 22(a)(ii) to the consolidated financial statements respectively.

8. FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

	2017	2016
	RMB'000	*RMB'000*
Interest on:		
Bank and other borrowings	**20,980**	19,600
Exchangeable bonds	**–**	10,227
Total borrowing costs	**20,980**	29,827
Less: Amounts capitalised in respect of properties under development for sale *(note 21)*	**(3,967)**	(3,128)
	17,013	26,699

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

9. (LOSS) PROFIT BEFORE TAX

	2017	2016
	RMB'000	*RMB'000*
(Loss) profit before tax from continuing operations has been arrived at after charging:		
Amortisation of intangible assets	**103**	190
Depreciation of property, plant and equipment	**56,320**	58,853
Total depreciation and amortisation	**56,423**	59,043
Release of prepaid lease payments	**1,073**	1,222
Auditor's remuneration	**2,050**	2,200
Cost of inventories under Manufacturing segment recognised as expenses (including net allowance of inventories of RMB47,000 (2016: reversal of allowance for inventories of RMB3,560,000))	**559,029**	444,817
Cost of properties under properties development segment recognised as cost of sale	**633,533**	1,267,404
Operating lease rentals in respect of land and buildings	**15,530**	14,263
Employee cost (including directors' emoluments)		
– Wages, salaries and other benefits	**156,559**	153,984
– Contributions to defined contribution retirement plans	**16,284**	12,154
	172,843	166,138

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

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

2017

	Zhu Zhangjin, Kasen ("Mr. Zhu")	Sun Hongyang	Zhang Mingfa, Michael	Shen Jianhong	Zhou Lingqiang	Zhang Yuchuan	Zhou Xiaohong	Du Haibo	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(note i)	*(note iii)*	*(note ii)*	*(note ii)*			*(note iii)*		
Fees	–	–	–	–	155	155	–	155	465
Other emoluments									
Salaries and other benefits	800	150	70	385	–	–	210	–	1,615
Contributions to retirement benefits schemes	15	3	2	13	–	–	7	–	40
Total emoluments	815	153	72	398	155	155	217	155	2,120

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

2016

	Zhu Zhangjin, Kasen ("Mr. Zhu") *RMB'000* *(note i)*	Sun Hongyang *RMB'000* *(note iii)*	Zhang Mingfa, Michael *RMB'000* *(note ii)*	Zhou Lingqiang *RMB'000*	Zhang Yuchuan *RMB'000*	Du Haibo *RMB'000*	Qiu Jian Ping *RMB'000* *(note iv)*	Total *RMB'000*
Fees	–	–	–	155	155	155	–	465
Other emoluments								
Salaries and other benefits	800	300	420	–	–	–	–	1,520
Contributions to retirement benefits schemes	15	6	15	–	–	–	–	36
Total emoluments	815	306	435	155	155	155	–	2,021

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. Zhang Ming Fa, Michael resigned as an executive director of the Company with effect from February 20, 2017. Ms. Shen Jianhong has been appointed as an executive director on February 20, 2017.

(iii) Mr. Sun Hong Yang has resigned as an executive director of the Company with effect from June 30, 2017. Ms. Zhou Xiaohong has been appointed as an executive director on June 30, 2017.

(iv) Mr. Qiu Jian Ping has resigned as an non-executive director of the Company with effect from March 18, 2016.

Two (2016: 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 (2016: three) individuals were as follows:

	2017 **RMB'000**	2016 *RMB'000*
Basic salaries and other benefits	**1,641**	1,459
Contributions to retirement benefits schemes	**45**	44
	1,686	1,503

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

Their emoluments were within the following bands:

	2017	2016
Nil to HK$1,000,000	**3**	3
HK$1,000,001 to HK$1,500,000	**–**	–
HK$1,500,001 to HK$2,000,000	**–**	–

During the years ended 2017 and 2016, 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 2017 and 2016.

11. INCOME TAX EXPENSES

The amount of income tax expenses relating to continuing operations in the consolidated statement of profit or loss and other comprehensive income represents:

	2017	2016
	RMB'000	*RMB'000*
Income tax		
– for the current year	**20,061**	115,519
– (over) under provision in respect of prior years	**(2,298)**	6,783
	17,763	122,302
LAT		
– for the current year	**24,296**	40,645
Deferred tax *(note 19)*	**(10,227)**	(87,477)
	31,832	75,470

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%.

Hong Kong profits tax calculated at 16.5% on the estimated assessable profit for the year.

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

11. INCOME TAX EXPENSES (cont'd)

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 (loss) profit before tax from continuing operations per the consolidated statement of profit or loss and other comprehensive income as follows:

	2017	2016
	RMB'000	*RMB'000*
(Loss) profit before tax	**(187,545)**	6,539
Tax rate applicable to the major operation of the Group	**25%**	25%
Tax at the domestic income tax rate	**(46,886)**	1,635
Effect of different tax rates of subsidiaries operating in other jurisdictions	**2,498**	(551)
Tax effect of expenses not deductible for tax purpose	**11,654**	5,776
Tax effect of income not taxable for tax purpose	**(351)**	(4,309)
Tax effect of deductible temporary differences not recognized	**4,651**	27,466
Utilization of deductible temporary differences previously not recognised	**(1,461)**	(1,211)
LAT	**24,296**	40,645
Tax effect of LAT	**(6,074)**	(10,161)
Tax effect of tax losses not recognised	**67,042**	14,324
Utilization of tax losses previously not recognised	**(21,239)**	(4,927)
(Over) under provision in previous years	**(2,298)**	6,783
Taxation for the year	**31,832**	75,470

12. DIVIDENDS

No dividend has been proposed during 2016 and 2017 nor has any dividend been proposed since the end of the reporting period.

13. DISCONTINUED OPERATION

On February 1, 2016, the Group entered into a conditional sales and purchase agreement to sell its entire manufacturing – leather division (the "Disposal"), which was resolved in the Company's Extraordinary General Meeting held on May 18, 2016. Details of the Disposal are disclosed in the announcement and circular of the Company dated February 1, 2016 and April 29, 2016, respectively. The Disposal was completed during the year ended December 31, 2016. No disposal of subsidiaries represent a separate major line of business of the Group for the year ended December 31, 2017 and therefore no discontinued operation presented in 2017.

Income from discontinued operation for the year ended December 31, 2016 is analysed as follows:

	1/1/2016 to the dates of disposal *RMB'000*
Profit for the period	13,642
Loss arising from the disposal *(note 30(d))*	(5,472)
	8,170

13. DISCONTINUED OPERATION (cont'd)

The results of the discontinued operation for the relevant period, which have been included in the consolidated statement of profit or loss and other comprehensive income for the year ended December 31, 2016, were as follows:

	1/1/2016 to the dates of disposal *RMB'000*
Revenue*	1,175,460
Expenses	(1,157,533)
Profit before income tax	17,927
Income tax expenses	(4,285)
Profit for the period from discontinued operation	13,642

* *After elimination of sales to Manufacturing segment amounting to RMB49,548,000 in 2016.*

Cash flows generated from discontinued operation for the year ended December 31, 2016 were shown as follows:

Operating cash flows	223,711
Investing cash flows	(5,180)
Financing cash flows	(197,474)
Total cash flows	21,057

14. (LOSS) EARNINGS PER SHARE

For continuing and discontinued operations:

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

Loss for the year

	2017	2016
	RMB'000	*RMB'000*
Loss for the purposes of basic and diluted loss per share, being loss attributable to owners of the Company	**(203,351)**	(39,896)

Number of shares

	2017	2016
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**1,511,019,881**	1,511,019,881

For the year ended December 31, 2017 and 2016, diluted loss per share was the same as basic loss per share as the effect of the Company's outstanding share options were anti-dilutive.

14. (LOSS) EARNINGS PER SHARE (cont'd)

For continuing operations:

The calculation of the basic and diluted loss per share from continuing operations attributable to the owners of the Company are based on the following data:

	2017	2016
	RMB'000	*RMB'000*
Loss for the year attributable to owners of the Company	**(203,351)**	(39,896)
Less: Profit for the year from discontinued operation	**–**	(8,170)
Loss for the purposes of basic and diluted loss per share from continuing operations	**(203,351)**	(48,066)

The denominators used are the same as those detailed above for both basic and diluted loss per share.

For discontinued operation:

For the year ended December 31, 2016, basic and diluted earnings per share for the discontinued operation is RMB0.54 cents per share, based on the profit for the year from the discontinued operation of RMB8.2 million and the denominators of 1,511,019,881 ordinary shares.

15. 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, 2016	854,582	424,989	52,485	44,747	84,244	1,461,047
Additions	3,070	14,974	488	1,099	62,354	81,985
Disposal of subsidiaries	(183,050)	(198,666)	(3,279)	(10,692)	(43,886)	(439,573)
Disposals	(19,927)	(75,134)	(810)	(852)	–	(96,723)
Transfers from properties under development and held for sale	109,544	–	–	13,392	–	122,936
At December 31, 2016	764,219	166,163	48,884	47,694	102,712	1,129,672
Additions	–	2,377	1,843	3,522	83,006	90,748
Disposal of subsidiaries	–	–	(418)	(276)	–	(694)
Disposals	(34,810)	(429)	(6,286)	(1,514)	–	(43,039)
Transfers from properties under development and held for sale	91,729	–	–	–	5,300	97,029
Transfers	101,723	63,512	–	10,403	(175,638)	–
At December 31, 2017	**922,861**	**231,623**	**44,023**	**59,829**	**15,380**	**1,273,716**
DEPRECIATION AND IMPAIRMENT						
At January 1, 2016	233,085	190,457	29,893	42,146	4,250	499,831
Depreciation expense	43,392	24,379	4,552	4,139	–	76,462
Eliminated on disposal of subsidiaries	(55,295)	(102,278)	(2,288)	(9,146)	(4,250)	(173,257)
Eliminated on disposal	(19,688)	(59,498)	(692)	(796)	–	(80,674)
At December 31, 2016	201,494	53,060	31,465	36,343	–	322,362
Depreciation expense	36,265	12,959	2,887	4,209	–	56,320
Eliminated on disposal of subsidiaries	–	–	(399)	(168)	–	(567)
Eliminated on disposal	(12,901)	(412)	(5,825)	(1,417)	–	(20,555)
At December 31, 2017	**224,858**	**65,607**	**28,128**	**38,967**	**–**	**357,560**
CARRYING AMOUNTS						
At December 31, 2017	**698,003**	**166,016**	**15,895**	**20,862**	**15,380**	**916,156**
At December 31, 2016	562,725	113,103	17,419	11,351	102,712	807,310

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

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

Buildings	20 – 40 years
Plant and equipment	10 – 15 years
Motor vehicles	4 – 5 years
Fixtures and equipment	5 – 10 years

As at December 31, 2017, the title deeds of buildings with carrying amount of RMB62,608,000 (2016: RMB57,700,000) has not been obtained. The directors believe that the relevant title deeds will be granted in the due course and the absence of official certificate does not impair the value of the relevant properties of the Group.

16. PREPAID LEASE PAYMENTS

	2017	2016
	RMB'000	*RMB'000*
Carrying amount at January 1	**40,018**	73,976
Disposal	**(2,953)**	–
Disposal of subsidiaries	**–**	(31,728)
Amortisation recognised during the year	**(1,073)**	(2,230)
Carrying amount at December 31	**35,992**	40,018
Current portion	**(1,012)**	(1,074)
Non-current portion	**34,980**	38,944

17. INTANGIBLE ASSETS

	Computer software *RMB'000*
COST	
At January 1, 2016	5,477
Additions	29
Disposal of subsidiaries	(1,032)
At December 31, 2016 and 2017	**4,474**
ACCUMULATED AMORTISATION	
At January 1, 2016	4,914
Provided for the year	233
Eliminated on disposal of a subsidiary	(1,010)
At December 31, 2016	4,137
Provided for the year	103
At December 31, 2017	**4,240**
CARRYING VALUES	
At December 31, 2017	**234**
At December 31, 2016	337

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

18. AVAILABLE-FOR-SALE INVESTMENTS

	2017	2016
	RMB'000	*RMB'000*
Equity securities:		
– Listed (i)	**23,283**	45,286
– Unlisted (ii)	**25,220**	25,220
	48,503	70,506

(i) The listed securities represent 4,000,554 shares (0.31% equity interest) (2016: 4,000,554 shares (0.31% 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, no listed securities were disposed of.

At December 31, 2017, 4,000,000 (2016: 4,000,000) of the HCLM shares have been pledged to secure the banking facilities of the CCT Group (note 39(e)).

(ii) In year 2016, the Group entered into an equity investment agreement with an independent third party for formation of a new company with registered capital of RMB141,220,000. The Group injected a piece of land classified as properties under development in exchange for 17.85% unlisted equity interest of the new company. The Group recognised the unlisted equity interest initially at fair value of RMB25,220,000.

At December 31, 2017 and 2016, the 17.85% unlisted equity security was stated at cost less impairment loss of RMB25,220,000 because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair value cannot be measured reliably.

19. 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	Unrealised profit on intra-group transactions	Fair value change of available-for-sale investments	LAT provision	Tax losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At January 1, 2016	(90,880)	27,559	(41,311)	3,511	2,199	(98,922)
Credit to other comprehensive income	–	–	31,029	–	–	31,029
Credit (charge) to profit or loss	90,880	(722)	–	(482)	(2,199)	87,477
Disposal of subsidiaries	–	(5,058)	–	–	–	(5,058)
At December 31, 2016	–	21,779	(10,282)	3,029	–	14,526
Credit to other comprehensive income	–	–	5,501	–	–	5,501
Credit to profit or loss	–	5,765	–	4,462	–	10,227
At December 31, 2017	**–**	**27,544**	**(4,781)**	**7,491**	**–**	**30,254**

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

	2017	2016
	RMB'000	*RMB'000*
Deferred tax assets	**68,122**	58,802
Deferred tax liabilities	**(37,868)**	(44,276)
	30,254	14,526

19. DEFERRED TAXATION (cont'd)

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

	2017	2016
	RMB'000	*RMB'000*
Impairment of property, plant and equipment	**2,960**	2,960
Impairment of property under development and held for sale	**98,043**	87,250
Allowance for bad and doubtful debts	**85,254**	81,709
Allowance for inventories	**1,530**	3,108
	187,787	175,027

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 RMB1,170,528,000 (2016: RMB1,326,756,000).

The directors of the Company represent that the undistributed earnings of the PRC subsidiaries as of December 31, 2017 and 2016 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.

19. DEFERRED TAXATION (cont'd)

At the end of the reporting period, the Group has unused tax losses of RMB379,341,000 (2016: RMB196,109,000) available for offset against future profits. No deferred tax asset has been recognised for these tax losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of RMB23,830,000 (2016: RMB20,379,000) can be carried forward indefinitely. The remaining RMB355,511,000 (2016: RMB175,730,000) expires in the following years:

	2017	2016
	RMB'000	*RMB'000*
2017	**–**	24,888
2018	**8,126**	27,419
2019	**28,737**	42,424
2020	**22,319**	23,705
2021	**31,596**	57,294
2022	**264,733**	–
	355,511	175,730

20. INVENTORIES

	2017	2016
	RMB'000	*RMB'000*
Raw materials	**50,125**	38,176
Work in progress	**17,784**	17,056
Finished goods	**13,129**	9,632
Total, net of allowance for inventories	**81,038**	64,864

21. PROPERTIES UNDER DEVELOPMENT AND HELD FOR SALE

	RMB'000
COST	
At January 1, 2016	4,504,083
Addition of development expenditure	796,926
Transfer to available-for-sale investments *(note 18)*	(58,517)
Transfer to property, plant and equipment *(note 15)*	(122,936)
Sales of properties held for sale	(1,267,404)
At December 31, 2016	3,852,152
Addition of development expenditure	1,666,612
Transfer to property, plant and equipment *(note 15)*	(98,431)
Sales of properties held for sale	(633,533)
Disposal of subsidiaries *(note 30)*	(93,754)
At December 31, 2017	**4,693,046**
IMPAIRMENT	
At January 1, 2016	(24,926)
Provided for the year	(62,324)
Eliminated on transfer to available-for-sale investments *(note 18)*	33,297
At December 31, 2016	(53,953)
Provided for the year	(10,793)
Eliminated on transfer to property, plant and equipment *(note 15)*	1,402
At December 31, 2017	**(63,344)**
CARRYING AMOUNTS	
At December 31, 2017	**4,629,702**
At December 31, 2016	3,798,199

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

The carrying values are presented as:

	2017 RMB'000	2016 RMB'000
Properties under development for sale	**3,554,601**	2,615,891
Properties held for sale	**1,075,101**	1,182,308
	4,629,702	3,798,199

As at December 31, 2017, RMB279,460,000 (2016: RMB252,535,000) of the properties under development for sale are expected to be realised after more than twelve months from the end of the reporting period.

During the year, interest capitalised in the properties under development for sale was an amount of RMB3,967,000 (2016: RMB3,128,000). The properties under development and property held for sale are located in the PRC.

22. TRADE AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade receivables	**179,253**	135,535
Less: allowance for doubtful debts	**(21,028)**	(20,832)
	158,225	114,703
Deposits paid for acquisition of land for development for sale *(Note a)*	**656,119**	710,176
Advance payment for purchase of inventories *(Note b)*	**63,350**	40,755
Costs to obtain contracts *(Note c)*	**77,373**	–
Deposit and prepayments *(Note d)*	**110,772**	114,834
Prepaid other taxes	**252,545**	54,905
Other receivables	**94,136**	67,997
Less: allowance for doubtful debts for other receivables, deposit and prepayments, deposit paid for acquisition of land for development	**(87,034)**	(83,685)
	1,325,486	1,019,685

22. TRADE AND OTHER RECEIVABLES (cont'd)

Notes:

(a) The Group had made deposits in respect of proposed acquisition of certain land use rights for property development for sale. The amounts are refundable if the Group does not proceed with the acquisitions.

As at December 31, 2017, the amounts mainly included (i) RMB607,314,000 (2016: RMB636,856,000) as principal amount of deposits for the land acquisition in the PRC through Hainan Sanya Kasen Property Development Co., Ltd. ("Sanya Kasen"), a 80.5% subsidiary of the Company ("Sanya Deposits") (note a(i)); (ii) deposit with principal amount equivalent to RMB42,280,000 (2016: RMB45,616,000) paid for acquisitions of two pieces of reclaimed land in Malaysia ("Malaysia Deposits") (note a(ii)); and (iii) RMB5,900,000 (2016: RMB5,900,000) as principal amount of deposit paid for land acquisition in Hangzhou, PRC ("Land B") ("Land B deposit") as disclosed in note d(i).

(i) In prior years, the Group made RMB636,856,000 deposits for land acquisition in the PRC. During 2017, the Group paid an additional deposit of RMB10,000,000 to the vendor. In February 2017, the Group received a notice from local government for approval of land acquisition of certain area on which the water park resort has been constructed, and made a further payment of RMB49,543,000 to local government for obtaining relevant title deeds of such area. The deposits of RMB39,542,000 relating to such area, together with the payment of RMB49,543,000 made to local government, totally RMB89,085,000 were reclassified as prepayment for acquisition of leasehold land under non-current assets. In March 2018, the Group obtained relevant title deeds of such area. Management considers the land acquisition is in progress and the Group would be able to complete the land acquisition of remaining area, no impairment loss has been recognised for the Sanya Deposits.

(ii) In prior years, the Group paid deposits for acquisitions of two pieces of reclaimed land in Malaysia to the vendor. In 2016, due to disputes on the work progress of the reclaimed land in Malaysia performed by the vendor, the Group started legal proceeding against the default by vendor. Management determined this as an impairment loss event and provided an impairment loss of RMB22,808,000, based on its best estimates of outcomes, in profit or loss for the year ended December 31, 2016.

During the year ended December 31, 2017, an agreement was reached between the Group and the vendor, through the Court in Malaysia, for termination of the legal proceeding. The vendor agreed to refund part of the Malaysia Deposits to the Group of approximately RMB29,668,000 by 12 monthly instalments. Around RMB1,912,000 was settled during 2017. Management reassessed, based on its best estimates of outcomes, no change for the impairment loss of RMB22,808,000 for Malaysia Deposits for the year ended December 31, 2017.

(b) The Group had made advance payments for purchase of inventories to secure the inventory supply. These advance payments are expected to be realised within twelve months from the end of the reporting period.

(c) The Group had paid commission to properties agents in PRC in advance after entering into pre-sales agreements and receiving deposits from customers. These payments are refundable to the Group if the customers do not complete the purchase of properties and are expected to be realised within twelve months from the end of the reporting period.

22. TRADE AND OTHER RECEIVABLES (cont'd)

Notes: (cont'd)

(d) The amounts mainly included (i) deposits with principal amount of RMB20,000,000 (2016: RMB20,000,000) paid to Shenjianong Equity Cooperative Company ("Shenjianong") for cooperation of development of one plot of land in Hangzhou, PRC ("Land A") through formation of a joint venture company ("JV deposit A") (note d (i)); (ii) deposits with principal amount of RMB19,500,000 (2016: RMB19,500,000) paid to Hangzhou Zhuantang Street Hengqiao Equity Cooperative Company ("Zhuantang") for cooperation of development of Land B through formation of a joint venture company ("JV deposit B") (note d(i)) (JV deposit A and JV deposit B together as "JV deposits"); (iii) deposits with principal amount of RMB12,962,000 (2016: RMB32,962,000) paid for acquisition of land use rights in Hangzhou, PRC with local government ("Land C") (note d(ii)).

(i) As the development of Land A and Land B had not yet been commenced in accordance with the agreements entered into with Shenjianong and Zhuantang since the Group made the JV deposits in prior years. The Group started legal proceedings against Shenjianong and Zhuantang for refund of JV deposits and Land B deposit during 2016. On March 21, 2017, the local Court in the PRC sentenced the Group lose both the legal proceedings against Shenjianong and Zhuantang. The JV deposits were also sentenced by the local Court as being forfeited under the agreements. However, the local Court sentenced the Group entitled to recover the Land B deposit from Zhuantang. Management determined the losses in the legal proceedings against Shenjianong and Zhuantang for refund of JV deposits as impairment loss events and provided an impairment loss of RMB39,500,000 for JV deposits, based on its best estimates of outcomes, in profit or loss for the year ended December 31, 2016.

During year ended December 31, 2017, the Group appealed for the legal cases and on February 11, 2018, an intermediate Court in the PRC overridden the judgement on JV deposits made by local Court and sentenced Shenjianong and Zhuantang to refund the JV deposits to the Group. Up to the date of this report, the JV deposits have not been refunded by Shenjianong and Zhuantang. Management determined no objective event that the impairment loss recognised in 2016 for JV deposits has been decreased although the Group has successfully appealed. No reversal for impairment loss of the JV deposits was made for the year ended December 31, 2017.

For Land B deposit, as there was no refund from Zhuantang since the judgement announced by local Court in 2017. Management determined this as an impairment loss event and provided an impairment loss of RMB5,900,000, based on its best estimates of outcomes, in profit or loss for the year ended December 31, 2017.

(ii) In prior years, the Group paid deposits of RMB63,925,000 for acquisition of Land C. Due to change of the Group's investment plan, the Group had terminated the acquisition of Land C and collected part of the deposits from local government amounting to RMB30,963,000 and RMB20,000,000 during 2016 and 2017 respectively. Up to date of this report, RMB5,000,000 has been further collected from local government. Management determined no objective evidence of impairment loss.

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

	2017	2016
	RMB'000	*RMB'000*
Aged:		
Within 60 days	**117,208**	76,566
61 – 90 days	**13,691**	9,993
91 – 180 days	**15,732**	16,179
181 – 365 days	**8,435**	8,863
Over 1 year	**3,159**	3,102
	158,225	114,703

The Group's trade receivable balances included debtors which are related parties, details of which are set out in note 39(b).

Before accepting any new customers under the manufacturing segment, the Group reviews the credit quality and defines credit limits by customer. Limits attributed to customers are reviewed once a year. The Group maintains a defined credit policy to assess the credit quality of the trade customers. The collection is closely monitored to minimize any credit risk associated with these trade debtors. There has not been significant change in credit quality of the debtors. 75% (2016: 70%) of the debts are neither past due nor impaired. Those customers are mainly engaged in manufacturing of upholstered furniture with good repayment history.

Included in the Group's trade receivable balances are debtors with aggregate carrying amount of RMB39,526,000 (2016: RMB34,880,000) which are past due but not impaired at the end of the reporting period.

22. TRADE AND OTHER RECEIVABLES (cont'd)

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

	2017	2016
	RMB'000	*RMB'000*
Aged:		
Within 60 days	**973**	69
61 – 90 days	**11,227**	6,690
91 – 180 days	**15,732**	16,156
181 – 365 days	**8,435**	8,863
Over 1 year	**3,159**	3,102
	39,526	34,880

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 as recoverable. The Group does not hold any collateral over these balances.

Movement in the allowance for doubtful debts for trade and other receivables, deposit and prepayments, and deposits paid for acquisition of land for development:

	2017	2016
	RMB'000	*RMB'000*
Balance at beginning of the year	**104,517**	63,602
Amounts written off during the year as uncollectible	**(3,496)**	–
Net impairment loss recognised in profit or loss	**7,041**	67,266
Disposal of subsidiaries	**–**	(26,351)
Balance at end of the year	**108,062**	104,517

22. TRADE AND OTHER RECEIVABLES (cont'd)

Aging of impaired trade and other receivables:

	2017	2016
	RMB'000	*RMB'000*
Aged:		
Within 60 days	**4,331**	3,072
61 – 90 days	**698**	529
91 – 180 days	**851**	863
181 – 365 days	**719**	630
Over 1 year	**101,463**	99,423
	108,062	104,517

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

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

(a) Pledged bank deposits

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

The deposits carry a fixed interest rate range from 0.35% to 1.35% (2016: 0.35% to 3.05%) 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 0.35% (2016: 0.3% to 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% (2016: 0.35%) per annum and cash on hand.

As at December 31, 2017, included in cash and bank balance of the Group was RMB1,344,318,000 (2016: RMB332,325,000) of bank balance denominated in RMB placed with bank in the PRC. RMB is not a freely convertible currency.

24. TRADE, BILLS AND OTHER PAYABLES

	2017	2016
	RMB'000	*RMB'000*
Trade payables	**900,200**	884,108
Bills payable	**13,900**	–
Other payables *(Note a)*	**291,706**	228,351
Deposit received for partial disposal of interests in a subsidiary *(Note b)*	**25,000**	25,000
Advance from a director of the Company *(note 39(b))*	**5,337**	10,661
Advance from a related company *(note 39(b))*	**21**	3,453
Other tax payable	**14,917**	16,189
Accruals	**31,232**	34,299
Financial guarantees *(note 37(b))*	**10,735**	21,470
	1,293,048	1,223,531

Note a: Other payables mainly included guarantee deposits from the contractors and receipt in 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 disposal of Hainan Boao were approximately RMB43,910,000. The disposal of Hainan Boao was not yet completed at December 31, 2017.

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

	2017	2016
	RMB'000	*RMB'000*
Aged:		
Within 60 days	**737,567**	646,350
61 – 90 days	**29,550**	18,456
91 – 180 days	**40,998**	91,726
181 – 365 days	**32,022**	50,306
1 – 2 years	**33,313**	48,706
Over 2 years	**40,650**	28,564
	914,100	884,108

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

The Group's trade payables balance included creditors which are related parties, details of which are set out in note 39(b).

25. BANK AND OTHER BORROWINGS

	2017	2016
	RMB'000	*RMB'000*
Bank borrowings	**442,029**	669,056
Other borrowings	**50,945**	111,891
Total	**492,974**	780,947
Analyzed as:		
Secured	**330,267**	647,056
Unsecured	**162,707**	133,891
	492,974	780,947
Denominated in United States Dollars (foreign currency)	**15,029**	20,256
Denominated in Renminbi	**477,945**	760,691
	492,974	780,947

Carrying amount repayable*:

	2017	2016
	RMB'000	*RMB'000*
Within one year	**407,974**	462,002
More than one year, but not exceeding two years	**40,000**	243,945
More than two years, but not exceeding five years	**45,000**	75,000
After five years	**–**	–
	492,974	780,947
Less: Amount due within one year shown under current liabilities	**(407,974)**	(462,002)
Amount due after one year	**85,000**	318,945

* 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 3.46% to 8.48% (2016: 4.13% to 8.26%) per annum.

25. BANK AND OTHER BORROWINGS (cont'd)

Other borrowings mainly represent loans advanced by independent financial institutions and carry fixed interest rate ranged from 3% to 13% (2016: 3% to 11%) per annum.

Included in unsecured bank borrowings are borrowings guaranteed by (i) Mr. Zhu, the director and controlling shareholder of the Company, and a related company in which Mr. Zhu has significant influence and benefit interests. The total guarantee amount is RMB466,000,000 (2016: RMB461,000,000); (ii) a former subsidiary disposed of in the year 2016 and certain independent third parties of RMB244,500,000 (2016: RMB266,500,000).

Certain borrowings were also secured by the assets owned by the Group and details of the assets are set out in note 34.

26. AMOUNTS DUE TO NON-CONTROLLING INTERESTS OF SUBSIDIARIES

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

27. SHARE CAPITAL

	Number of ordinary shares at US$0.00015 each	*US$'000*
Authorised share capital of the Company:		
At January 1, 2016, December 31, 2016 and December 31, 2017	**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, 2016, December 31, 2016 and 2017	**1,511,019,881**	**226,653**	**1,735**

28. 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 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, 2017, no options have been granted by the Company under the 2015 Share Option Scheme.

At December 31, 2017, the number of shares in respect of which options had been granted and remained outstanding under the 2005 Share Option Scheme was 27,600,000 (2016: 27,600,000), representing 1.83% (2016: 1.83%) 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.

28. 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, 2016 and 2017:

Exercise Price *HK$*	Date of grant	Vesting period	Exercisable period	Outstanding at January 1, 2016	Lapsed during 2016	Forfeit during 2016	Outstanding at December 31, 2016 and 2017
2.38	March 9, 2006	9.3.2006 – 31.12.2006	1.1.2007 – 8.3.2016	8,000,000	(7,900,000)	(100,000)	–
2.38	March 9, 2006	9.3.2006 – 31.12.2007	1.1.2008 – 8.3.2016	8,000,000	(7,900,000)	(100,000)	–
				16,000,000	(15,800,000)	(200,000)	–
1.18	May 5, 2008	5.5.2008 – 31.12.2008	1.1.2009 – 4.5.2018	1,900,000	–	(100,000)	1,800,000
1.18	May 5, 2008	5.5.2008 – 31.12.2009	1.1.2010 – 4.5.2018	1,900,000	–	(100,000)	1,800,000
				3,800,000	–	(200,000)	3,600,000
1.37	May 26, 2015	26.5.2015 – 31.12.2015	1.1.2016 – 25.5.2025	27,000,000	–	(3,000,000)	24,000,000
Total				46,800,000	(15,800,000)	(3,400,000)	27,600,000
Exercisable at December 31, 2016 and 2017							27,600,000
Weighted average exercise price (HK$)							1.35

28. SHARE OPTION (cont'd)

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

Exercise Price *HK$*	Date of grant	Vesting period	Exercisable period	Outstanding at January 1, 2016	Lapsed during 2016	Outstanding at December 31, 2016 and 2017
2.38	March 9, 2006	9.3.2006 – 31.12.2006	1.1.2007 – 8.3.2016	1,500,000	(1,500,000)	–
2.38	March 9, 2006	9.3.2006 – 31.12.2007	1.1.2008 – 8.3.2016	1,500,000	(1,500,000)	–
1.18	May 5, 2008	5.5.2008 – 31.12.2008	1.1.2009 – 4.5.2018	250,000	–	250,000
1.18	May 5, 2008	5.5.2008 – 31.12.2009	1.1.2010 – 4.5.2018	250,000	–	250,000
1.37	May 26, 2015	26.5.2015 – 31.12.2015	1.1.2016 – 25.5.2025	4,000,000	–	4,000,000

29. RESERVES

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

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

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

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

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

30. DISPOSAL OF SUBSIDIARIES

(a) On May 10, 2017, the Group disposed of 89% equity interest in Changbai Mountain Protection Development Zone Xinhai Kasen Real Estate Development Co., Ltd. for a consideration of RMB17,800,000 ("Changbai Disposal"). A gain on disposal of a subsidiary of RMB15,334,000 was recognised in profit or loss for the year ended December 31, 2017. Assets and liabilities disposed of as at the date of disposal are as follows:

	RMB'000
Property, plant and equipment	96
Property under development	93,754
Trade and other receivables	17,233
Bank balances and cash	4,417
Tax recoverable	798
Trade and other payables	(113,526)
Net assets	2,772
Less: net asset attributable to non-controlling interests	306
Net assets disposed of	2,466
Total consideration satisfied by cash	17,800
Gain on disposal of a subsidiary	15,334

30. DISPOSAL OF SUBSIDIARIES (cont'd)

(b) On September 1, 2017, the Group disposed of 60% equity interest in Hangzhou Zoutianxia International Travel Agency Co., Ltd. for a consideration of RMB4,086,000 ("Hangzhou Disposal"). A gain on disposal of a subsidiary of RMB1,080,000 was recognised in profit or loss for the year ended December 31, 2017. Assets and liabilities disposed of as at the date of disposal are as follows:

	RMB'000
Property, plant and equipment	31
Trade and other receivables	4,213
Bank balances and cash	4,703
Trade and other payables	(3,937)
Net assets	5,010
Less: net asset attributable to non-controlling interests	2,004
Net assets disposed of	3,006
Total consideration satisfied by cash	4,086
Gain on disposal of a subsidiary	1,080

(c) An analysis of the net cash flow:

	RMB'000
An analysis of the net cash inflow of cash and cash equivalents in respect of Changbai Disposal and Hangzhou Disposal (together "2017 Disposal") are as follows:	
Total cash consideration received from 2017 Disposal	21,886
Total cash and bank balances disposal of from 2017 Disposal	(9,120)
	12,766

30. DISPOSAL OF SUBSIDIARIES (cont'd)

(d) As disclosed in note 13, the Disposal were completed during the year ended December 31, 2016 and a loss arising from the disposal of subsidiaries of RMB5,472,000 was recognised in profit or loss of discontinued operation. Assets and liabilities disposed of at the dates of disposal are as follows:

	RMB'000
Property, plant and equipment	221,329
Prepaid lease payment	24,366
Intangible assets	22
Deposit for land use rights	4,458
Deposit paid for acquisition of property, plant and equipment	4,556
Deferred tax assets	5,719
Inventories	491,214
Trade, bills and other receivable	1,146,806
Tax recoverable	1,077
Pledged bank deposits	107,206
Bank balances and cash	37,392
Trade, bills and other payables	(744,431)
Bank borrowing	(831,057)
Deferred tax liabilities	(661)
Net assets disposed of	467,996
Total consideration	492,755
Less:	
Direct cost of disposal	(2,154)
Income tax for gain on disposal	(2,937)
	487,664
Gain on disposal of subsidiaries	19,668
Recognition of financial guarantees on the Disposal	(25,140)
	(5,472)
Satisfied by:	
Cash consideration	247,990
Waiver of amounts due to subsidiaries of Manufacturing-Leather Division	244,765
	492,755
An analysis of the net inflow of cash and cash equivalents in respect of the Disposal is as follow:	
Cash consideration received	247,990
Cash and bank balances disposed of	(37,392)
	210,598

30. DISPOSAL OF SUBSIDIARIES (cont'd)

(e) On September 26, 2016, the Group disposed of its entire equity interest in Haining Libero Sofa Company Limited for a consideration of RMB15,930,000. A gain on disposal of a subsidiary of RMB20,100,000 was recognised in profit or loss for the year ended December 31, 2016. Assets and liabilities disposed of as at the date of disposal are as follows:

	RMB'000
Property, plant and equipment	44,987
Prepaid lease payment	7,362
Trade, bills and other receivable	2
Bank balances and cash	71
Trade, bills and other payables	(56,592)
Net liabilities disposed of	(4,170)
Gain on disposal of a subsidiary	20,100
Total consideration	15,930
Satisfied by:	
Cash consideration *(note)*	15,930
An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiary is as follows:	
Cash consideration received	11,793
Cash and bank balances disposed of	(71)
	11,722

Note: Cash consideration of RMB11,793,000 has received during the year ended December 31, 2016.

31. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2017	2016
	RMB'000	*RMB'000*
Financial assets		
Loans and receivables		
(including cash and cash equivalents)	**1,689,482**	492,407
Available-for-sale investments	**48,503**	70,506
Financial liabilities		
Amortised cost	**1,832,161**	2,057,895

(b) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, trade 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 and bank and other borrowings. Details of these financial instruments are disclosed in respective notes. The Group's activities expose it to a variety of financial risks: market risk (including interest rate risk, foreign currency risk and other price risk), credit risk and liquidity risk.

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

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

Market risk

Interest rate risk

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

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

31. FINANCIAL INSTRUMENTS (cont'd)

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

Market risk *(cont'd)*

Interest rate risk (cont'd)

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 (2016: 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.

As at December 31, 2017, if interest rates had been 50 basis points higher and all other variables were held constant, the Group's loss for the year would decrease by RMB5,382,000 (2016: RMB1,309,000), and there would be equal and opposite impact on loss for the year (2016: loss) if interest rates had been 50 basis points lower. This is mainly attributable to the Group's exposure to interest rates on its bank balances and restricted bank balances variable rate.

Foreign currency risk

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

The Group's exposure to foreign currency risk related primarily to the sales and purchases that are denominated in US dollars ("USD") and such related bank balances and cash, trade 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 USD.

31. FINANCIAL INSTRUMENTS (cont'd)

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

Market risk *(cont'd)*

Foreign currency risk (cont'd)

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

	Assets		Liabilities	
	2017	2016	**2017**	2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
USD	**124,204**	72,571	**24,833**	36,849
HKD	**1,179**	230	**17**	17
Other currencies	**426**	–	**105**	100

Sensitivity analysis

The Group is mainly exposed to currency of USD.

5% (2016: 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, 2017, if RMB had been strengthened by 5% against USD and all other variables were held constant, loss for the year would have been increased by RMB3,726,000 (2016: RMB1,340,000) and there would be equal and opposite impact on loss for the year (2016: loss) if RMB has been weakened by 5% against USD.

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 revaluation reserve would increase/decrease by RMB873,000 (2016: RMB1,698,000) for the Group as a result of the changes in fair value of available-for-sale investments, and there would be equal and opposite impact on available-for-sale investments revaluation reserve if the price of the listed equity instrument had been 5% lower.

31. FINANCIAL INSTRUMENTS (cont'd)

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

Credit risk

As at December 31, 2017, 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 guarantees issued by the Group as disclosed in note 37.

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 guarantees 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 financial guarantee provided to the banks in respect of banking facilities granted as disclosed in note 37(b) is limited because the financial guarantees are supported by the CCT Counter Guarantors as disclosed in the announcement and circular of the Company dated September 12, 2016 and October 4, 2016.

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 accounted for 20.4% (2016: 50.6%) of the balances at the end of the reporting period, 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.

31. 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 utilization of bank borrowings and ensure compliance with loan covenants.

Other than continuously monitoring the actual cash flows by management, the Group also relies on bank and other borrowings as a significant source of liquidity. As at December 31, 2017, the Group has available unutilised short-term bank loan facilities of approximately RMB135,891,000 (2016: RMB77,945,000) 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.

	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*
2017						
Non-derivative financial liabilities						
Trade, bills and other payables		1,221,899	–	–	1,221,899	1,221,899
Bank and other borrowings	6.53%	440,393	47,167	50,443	538,003	492,974
Amounts due to non-controlling interests of a subsidiaries		117,288	–	–	117,288	117,288
Total		1,779,580	47,167	50,443	1,877,190	1,832,161
Financial guarantees issued: Maximum amount guaranteed *(note 37(b))*		1,067,800	–	–	1,067,800	10,735

31. 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*
2016						
Non-derivative financial liabilities						
Trade, bills and other payables		1,148,043	–	–	1,148,043	1,148,043
Bank and other borrowings	6.78%	519,285	285,753	100,816	905,854	780,947
Amounts due to non-controlling interests of subsidiaries		128,905	–	–	128,905	128,905
Total		1,796,233	285,753	100,816	2,182,802	2,057,895
Financial guarantees issued:						
Maximum amount guaranteed *(note 37(b))*		1,067,800	–	–	1,067,800	21,470

(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 to 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, 2017 and 2016.

– 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).

31. FINANCIAL INSTRUMENTS (cont'd)

(c) Fair-value (cont'd)

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

Financial assets	**Fair value as at 12/31/2017** ***RMB'000***	Fair value as at 12/31/2016 *RMB'000*	**Fair value hierarchy**
Available-for-sale investments (AFS) listed in a stock exchange	**N/A**	45,286	Level 1
	23,283	N/A	Level 3

Valuation techniques used and key inputs

Due to trading suspension of the AFS at end of reporting period which lead to a lack of active market and observable inputs for the fair value measurement of the AFS, the fair value of the AFS as at December 31, 2017 was determined by using quoted bid price in an active market before trading suspension, adjusted with share price performances of similar listed equity securities between the trading suspension date and measurement date, discount for lack of marketability ("DLOM"). The fair value of the AFS as at December 31, 2016 was determined base on unadjusted quoted bid prices in an active market.

The following significant unobservable input has been included in the fair value measurement of the AFS in 2017:

Significant unobservable input	**Increase (decrease) in unobservable input**	**Increase (decrease) in fair value** *RMB'000*
15% DLOM	5%	(1,360)
	(5%)	1,360

31. FINANCIAL INSTRUMENTS (cont'd)

(c) Fair-value (cont'd)

***Valuation techniques used and key inputs** (cont'd)*

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

AFS

	2017
	RMB'000
At January 1	**–**
Transfer into Level 3 at November 1, 2017 *(Note 1)*	**31,724**
Change in fair value recognised in other comprehensive income for the period from November 1, 2017 to December 31, 2017	**(8,441)**
At December 31	**23,283**

Note 1: The Group transferred the AFS from Level 1 to Level 3 at the date of suspension of trading as at November 1, 2017. The decrease in fair value between January 1, 2017 and October 31, 2017 of RMB13,562,000 was recognised in other comprehensive income.

32. 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 optimization of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debts, which includes the bank and other borrowings disclosed in note 25, advances from a director of the Company and a related company disclosed in note 39(b) and equity attributable to owners of the Company, comprising issued share capital and reserves.

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

33. 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 (2016: HK$1,500) 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 RMB16,284,000 (2016: RMB18,039,000) represents contributions paid and payable to the above schemes by the Group in respect of the current accounting period.

34. 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 and the CCT Group (note 39(e)). The aggregate carrying amounts of the pledged assets of the Group at the end of the reporting period are as follows:

	2017	2016
	RMB'000	*RMB'000*
Buildings	**225,735**	114,402
Prepaid lease payments	**–**	19,097
Pledged bank deposits	**161,000**	5,506
Available-for-sale investments	**23,283**	45,279
Properties under development and held for sale	**1,114,103**	1,783,307
	1,524,121	1,967,591

35. 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:

	2017	2016
	RMB'000	*RMB'000*
Within one year	**5,170**	4,427
In the second to fifth year inclusive	**17,559**	15,014
Over five years	**6,420**	6,985
	29,149	26,426

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.

36. CAPITAL AND OTHER COMMITMENTS

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

	2017	2016
	RMB'000	*RMB'000*
Commitments for acquisition/addition of:		
– Property, plant and equipment	**40,447**	51,766
– Properties under development for sale	**1,021,667**	1,286,533
	1,062,114	1,338,299

37. CONTINGENT LIABILITIES

(a) Guarantee in respect of mortgage facilities for certain properties customers

The Group provided guarantees of RMB2,038,471,000 at December 31, 2017 (2016: RMB782,069,000) 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.

(b) Financial guarantee issued

Due to the Disposal during year ended December 31, 2016 as disclosed in note 13 and note 30(d), the Group recognized financial guarantees issued to banks until December 31, 2018 in respect of banking facilities granted to CCT Group (note 39(e)) ("Financial Guarantee A") and Haining Home Direct Furniture Company Limited, a subsidiary prior to the Disposal ("Financial Guarantee B") (Financial Guarantee A and Financial Guarantee B together the "Financial Guarantees"). Details of the Financial Guarantees are disclosed in the announcement and circular of the Company dated September 12, 2016 and October 4, 2016.

As at December 31, 2017 and 2016, the directors do not consider it probable that a claim will be made against the Group under the Financial Guarantees, and therefore the Financial Guarantees are measured at its fair values initially recognized less cumulative amortization. The carrying amount of the Financial Guarantees recognized at the balance sheet date is disclosed in note 24.

The maximum liabilities of the Group as at December 31, 2017 in respect of the Financial Guarantee A and Financial Guarantee B is RMB675,600,000 (2016: RMB675,600,000) and RMB392,200,000 (2016: RMB392,200,000) respectively.

38. INFORMATION OF FINANCIAL POSITION OF THE COMPANY

The information of financial position of the Company as at December 31, 2017 is as follows:

	Note	**2017**	2016
		RMB'000	*RMB'000*
Non-current assets			
Investments in subsidiaries		**840,920**	855,037
Total non-current assets		**840,920**	855,037
Current assets			
Other receivables		**325**	405
Amounts due from subsidiaries		**374,131**	454,610
Bank balances and cash		**82,643**	381
Total current assets		**457,099**	455,396
Total assets		**1,298,019**	1,310,433
Current liabilities			
Other payables		**1,414**	2,362
Amounts due to subsidiaries		**252,163**	244,565
Total current liabilities		**253,577**	246,927
Net current assets		**203,522**	208,469
Total assets less current liabilities		**1,044,442**	1,063,506
NET ASSETS		**1,044,442**	1,063,506
CAPITAL AND RESERVES			
Share capital		**1,735**	1,735
Reserves	*(a)*	**1,042,707**	1,061,771
TOTAL EQUITY		**1,044,442**	1,063,506

On behalf of the directors

Zhu Zhangjin, Kasen
DIRECTOR

Zhou Xiaohong
DIRECTOR

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

Note:

(a) Reserve of the Company

	The Company				
	Share premium	**Special reserve**	**Share option reserve**	**Accumulated losses**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at January 1, 2016	1,486,326	168,659	23,757	(625,477)	1,053,265
Release upon lapse of share options	–	–	(11,364)	11,364	–
Release upon forfeited of share options	–	–	(1,231)	–	(1,231)
Profit for the year	–	–	–	9,737	9,737
As at December 31, 2016	1,486,326	168,659	11,162	(604,376)	1,061,771
Loss for the year	–	–	–	(19,064)	(19,064)
As at December 31, 2017	**1,486,326**	**168,659**	**11,162**	**(623,440)**	**1,042,707**

39. 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) In addition to the transactions detailed elsewhere in these financial statements during the year, the Group entered into the following significant transactions with its related parties:

Connected persons and related parties	*Notes*	**Nature of transactions**	**2017** ***RMB'000***	2016 *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	**1,765**	2,594
Haining Kasen Leather Company Limited ("Haining Kasen") 海寧卡森皮革有限公司	*(ii)*	Purchase of raw material for production of upholstered furniture by the Group	**39,396**	12,744
Haining Kasen Home Furniture Materials Technology Co., Ltd ("Haining Kasen Home") 海寧卡森家居材料科技有限公司	*(iii)*	Disposal of properties by the Group	**8,710**	–

Notes:

(i) Mr. Zhu, controlling shareholder and director of the Company, indirectly controls more than 30% of the voting power at Zhejiang Sunbridge Industrial Group Company Limited ("Sunbridge")'s general meeting. Mr. Zhu has significant influence and beneficial interests in Yujie, through Sunbridge during 2017 and 2016. The directors of the Company confirmed the transactions are in accordance to the Chapter 14A of the Listing Rules.

(ii) Haining Kasen is a subsidiary of Lingjia New Material Technology Company Limited ("Lingjia"), which is wholly owned by Ms. Zhu Jiayun and Ms. Zhu Lingren, the daughters of Mr Zhu. Ms. Zhu Jiayun and Ms. Zhu Lingren are therefore associate of Mr. Zhu, and hence related parties of the Group. The directors of the Company confirmed the transactions are in accordance to the Chapter 14A of the Listing Rules.

(iii) Haining Kasen Home is wholly owned by Ms. Zhu Jiayun and Ms. Zhu Lingren, and therefore associate of Mr. Zhu, and hence related parties of the Group. The directors of the Company confirmed the transactions are in accordance to the Chapter 14A of the Listing Rules.

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

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

Name of related parties	Notes	Amounts due from related parties		Amounts due to related parties	
		2017	2016	**2017**	2016
		RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade in nature					
Haining Kasen	*(i)*	**20,054**	9,748	**–**	5,888
Starcorp	*(i)*	**1,488**	1,579	**–**	–
Yujie	*(i)*	**–**	242	**–**	–
Sunbridge	*(i)*	**–**	–	**–**	47
		21,542	11,569	**–**	5,935
Non-trade in nature					
Haining Kasen	*(ii)*	**–**	209	**–**	–
Sunbridge	*(ii)*	**–**	700	**21**	3,453
Mr. Zhu	*(ii)*	**–**	–	**5,337**	10,661
		–	909	**5,358**	14,114
		21,542	12,478	**5,358**	20,049

Notes:

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

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

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

(c) Details of the outstanding share options granted to the directors are set out in note 28.

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

(e) Due to the Disposal during year ended December 31, 2016 as disclosed in note 13 and note 30(d), the Group provided financial guarantees to banks until December 31, 2018 for an amount upto RMB675,600,000, and each of Mr. Zhu, Ms. Zhu Jiayun, Ms. Zhu Lingren, Lingjia (the "CCT Counter Guarantors") agreed to jointly and severally provide the CCT Counter Guarantee to fully indemnify the Company, for the performance and repayment obligations of bank facilities to Haining Kasen, Haining Schinder Leather Company Limited and Yancheng Dafeng Huasheng Leather Company Limited, (collectively as "CCT Group"). CCT Group are wholly owned by Ms. Zhu Jiayun and Ms. Zhu Lingren on completion of the Disposal. Details of the financial guarantees are disclosed in the announcement and circular of the Company dated September 12, 2016 and October 4, 2016.

40. PRINCIPAL SUBSIDIARIES

The following table lists principal subsidiaries of the Company as at December 31, 2017 and 2016 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 equity interest held by the Group 2017 %	2016 %	Principal activities
Kasen International Co., Ltd. 卡森國際有限公司	Cayman Islands	USD10	**100**	100	Investment holding
Cardina International Co., Ltd. 凱迪納國際有限公司	Cayman Islands	USD1	**100**	100	Investment holding
Richmond (Hong Kong) International Company Limited 富華(香港)國際有限公司	Hong Kong	HKD100	**100**	100	Trading of leather, furniture and sofas

40. PRINCIPAL SUBSIDIARIES (cont'd)

Name of the company	Country of establishment and operations	Issued and fully paid share capital/ registered capital	Proportion of equity interest held by the Group 2017 %	2016 %	Principal activities
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
Haining Kareno Furniture Co., Ltd. 海寧卡雷諾傢俬有限公司 *(note b)*	PRC	USD3,600,000	**100**	100	Production and sale of upholstered furniture
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
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
Haining Hainix Sofa Co., Ltd 海寧漢林沙發有限公司 *(note b)*	PRC	USD6,000,000	**100**	100	Production and sale of sofas, dining chairs and other furniture products
Haining Hidea Furniture Co., Ltd. 海寧慧達傢俱有限公司 *(note b)*	PRC	USD8,000,000	**100**	100	Production and sale of sofas, dining chairs and other furniture products
Haining Kasen Real Estate Co., Ltd 海寧卡森地產有限公司 *(note a)*	PRC	RMB260,000,000	**100**	100	Property development

40. PRINCIPAL SUBSIDIARIES (cont'd)

Name of the company	Country of establishment and operations	Issued and fully paid share capital/ registered capital	Proportion of equity interest held by the Group 2017 %	2016 %	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
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	RMB80,000,000	**89**	89	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

40. PRINCIPAL SUBSIDIARIES (cont'd)

Name of the company	Country of establishment and operations	Issued and fully paid share capital/ registered capital	Proportion of equity interest held by the Group 2017 %	2016 %	Principal activities
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
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**	80.5	Property development

Notes:

(a) The companies are limited liability companies.

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

(c) The companies are foreign owned enterprises.

41. 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 interest	
		2017	2016	**2017**	2016	**2017**	2016
		%	%	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Hainan Boao	PRC	**8**	8	**3,584**	5,117	**34,516**	30,932
Xinanjiang	PRC	**45**	45	**(4,520)**	(3,133)	**21,194**	25,714
Sanya Kasen	PRC	**19.5**	19.5	**(5,668)**	(3,575)	**33,791**	39,459
Individual immaterial subsidiaries with non-controlling interests				**(9,422)**	(19,274)	**(5,449)**	(4,207)
Total				**(16,026)**	(20,865)	**84,052**	91,898

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 intra-group eliminations.

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

Hainan Boao

	2017	2016
	RMB'000	*RMB'000*
Current assets	**1,316,487**	1,464,733
Non-current assets	**110,336**	117,861
Current liabilities	**(845,369)**	(865,946)
Non-current liabilities	**(150,000)**	(330,000)
Equity attributable to owners of the Company	**396,938**	355,716
Non-controlling interests	**34,516**	30,932

	2017	2016
	RMB'000	*RMB'000*
Revenue	**386,449**	480,889
Expenses	**(341,643)**	(416,928)
Profit and total comprehensive income attributable to the owner of the Company	**41,222**	58,844
Profit and total comprehensive income attributable to non-controlling interests	**3,584**	5,117
Profit and total comprehensive income for the year	**44,806**	63,961
Dividend paid to non-controlling interests	**–**	–
Net cash inflow from operating activities	**265,359**	316,849
Net cash outflow from investing activities	**(135)**	(21,598)
Net cash outflow from financing activities	**(180,000)**	(302,329)
Net cash inflow/(outflow)	**85,224**	(7,078)

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

Xinanjiang

	2017 RMB'000	2016 RMB'000
Current assets	**27,697**	46,991
Non-current assets	**145,720**	148,746
Current liabilities	**(126,321)**	(138,596)
Equity attributable to owners of the Company	**25,902**	31,427
Non-controlling interests	**21,194**	25,714

	2017 RMB'000	2016 RMB'000
Revenue	**14,953**	12,885
Expenses	**(24,998)**	(19,848)
Loss and total comprehensive expense attributable to the owner of the Company	**(5,525)**	(3,830)
Loss and total comprehensive expense attributable to non-controlling interests	**(4,520)**	(3,133)
Loss and total comprehensive income for the year	**(10,045)**	(6,963)
Dividend paid to non-controlling interests	**–**	–
Net cash inflow from operating activities	**1,878**	10,023
Net cash outflow from investing activities	**(4,254)**	(7,261)
Net cash (outflow)/inflow	**(2,376)**	2,762

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

Sanya Kasen

	2017	2016
	RMB'000	*RMB'000*
Current assets	**845,753**	774,340
Non-current assets	**332,351**	273,127
Current liabilities	**(999,256)**	(839,553)
Equity attributable to owners of the Company	**145,057**	168,455
Non-controlling interests	**33,791**	39,459

	2017	2016
	RMB'000	*RMB'000*
Revenue	**–**	–
Expenses	**(29,066)**	(18,332)
Loss and total comprehensive income attributable to the owner of the Company	**(23,398)**	(14,757)
Loss and total comprehensive income attributable to non-controlling interests	**(5,668)**	(3,575)
Loss and total comprehensive income for the year	**(29,066)**	(18,332)
Dividend paid to non-controlling interests	**–**	–
Net cash inflow from operating activities	**78,528**	34,776
Net cash outflow from investing activities	**(77,901)**	(34,831)
Net cash inflow/(outflow)	**627**	(55)

42. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Bank and other borrowings *RMB'000* *(note 25)*	**Financial guarantees** *RMB'000* *(note 37(b))*
At January 1, 2017	780,947	21,470
Changes from cash flows:		
Repayment of bank and other borrowings	(865,264)	–
Bank and other borrowings raised	578,468	–
Exchange adjustments	(1,177)	–
Other change:		
Amortisation of financial guarantees	–	(10,735)
At December 31, 2017	492,974	10,735

43. EVENTS AFTER THE REPORTING PERIOD

On January 2, 2018, the Group entered into a joint venture agreement with Mr. Fan Dehua ("Mr. Fan"), and Madam Oknha Lim Chhiv Ho ("Ms. Lim") (Mr. Fan and Ms. Lim together as "JV Partners"), pursuant to which the Group and the JV Partners agreed to cooperate in the development and operation of a water park through formation of a joint venture company and acquisition of land in Cambodia from Phnom Penh Silver Sand Co., Ltd (the "Vendor"), a company wholly owned by Ms. Lim. The sale and purchase agreement for the acquisition of land was entered into between the joint venture company and the Vendor on January 12, 2018. Details of the formation of joint venture company and acquisition of land in Cambodia are disclosed in the announcements of the Company dated January 2, 2018, January 3, 2018 and January 12, 2018 respectively.

Pursuant to the general mandate granted by the Shareholders, the Board resolved on February 9, 2018 to repurchase up to 10% of the total number of issued shares of the Company as at the date of May 31, 2017. From February 9, 2018 to February 27, 2018, the Company had repurchased 33,933,000 ordinary shares on the Stock Exchange at an aggregate consideration of HK$48,967,170 (not including all necessary charges). All of such shares have been subsequently cancelled.

Except for the above, no other material event after the reporting period is required to be accounted for or disclosed.

44. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the directors of the Company on March 28, 2018.