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 2018

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

ZHU Zhangjin, Kasen
(Chairman & Chief Executive Officer)
SHEN Jianhong
ZHOU Xiaohong

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

Unit 1111, 11/F
COSCO Tower
183 Queen's Road Central
Sheung Wan
Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Bank of Communications Co., Limited, Hong Kong Branch
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

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,				
	2018	2017	2016	2015	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**3,608,540**	1,605,880	3,305,105	3,261,129	3,230,327
Profit (loss) before taxation	**599,600**	(187,545)	24,466	232,388	120,324
Profit (loss) attributable to owners of the Company	**449,799**	(203,351)	(39,896)	190,458	32,418

FINANCIAL POSITION

	At December 31,				
	2018	2017	2016	2015	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cash and cash equivalents	**457,708**	439,931	339,731	215,629	324,388
Total borrowings	**899,997**	492,974	780,947	1,900,760	2,346,630
Total assets	**8,152,573**	8,730,032	6,301,860	8,223,605	9,137,332
Total liabilities	**5,233,615**	5,831,561	3,175,789	4,943,508	6,030,024
Equity attributable to owners of the Company	**2,849,292**	2,814,419	3,034,173	3,167,334	2,962,707

FINANCIAL AND OPERATING RATIOS

	At December 31,				
	2018	2017	2016	2015	2014
Dividend payout ratio (%)[2]	**86.3%**	–	–	–	–
Debt to equity ratio (%)[3]	**30.8%**	17.0%	25.0%	57.9%	75.5%
Net debt to equity ratio (%)[4]	**15.2%**	1.8%	14.1%	51.4%	65.1%
Trade and bills receivable turnover days[5]	**43**	83	65	78 (restated)	84
Inventory turnover days[6]	**53**	50	51	45 (restated)	99
Current ratio[7]	**130.2%**	133.5%	189.9%	158.7%	151.9%
Earnings (loss) per share (RMB)					
Basic	**0.30**	(0.13)	(0.03)	0.14	0.02
Diluted	**0.30**	(0.13)	(0.03)	0.14	0.02

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 2018 has no material impact on the Group.

DIRECTORS AND MANAGEMENT PROFILES

EXECUTIVE DIRECTORS

ZHU Zhangjin, Kasen（朱張金）("Mr. Zhu"), aged 53, 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 31 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 50, 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 51, 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

ZHOU Lingqiang（周玲強）, aged 55, 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.

DIRECTORS AND MANAGEMENT PROFILES (cont'd)

INDEPENDENT NON-EXECUTIVE DIRECTORS (cont'd)

ZHANG Yuchuan（張玉川）, aged 60, 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 50, 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.（河南羚銳製藥股份有限公司）, a company listed on the Shanghai Stock Exchange and as an independent director of SF Diamond Co., Ltd.（河南四方達超硬材料股份有限公司）, a company listed on the Shenzhen Stock Exchange. From 2009 to 2015, Mr. Du was an independent director of Star Hi Tech Co., Ltd.（河南思達高科技股份有限公司）, a company listed on the Shenzhen Stock Exchange. As at the date of this report, Mr. Du is also the independent non-executive director of Xinxiang Chemical Fiber Co. Ltd. and Sanquan Food Co., Ltd., each a company listed on the Shenzhen Stock Exchange. Mr. Du graduated from the Zhengzhou University in 1989, major in audit studies and obtained an executive master degree in business administration from China Europe International Business School in 2005. He is a certified public accountant of the People's Republic of China.

SENIOR MANAGEMENT

PENG Weijun（彭偉軍）, aged 43, joined the Group on June 30, 2017 as the chief financial officer. Mr. Peng has over 18 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.

SENIOR MANAGEMENT (cont'd)

ZHOU Xiaohong (周小紅), aged 50, 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 55, 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 Southwest 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 51, 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 46, 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 23 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, 2018.

In 2018, 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 2018, the Group recorded a consolidated turnover of approximately RMB3,608.5 million, representing an increase of approximately 124.7% as compared to the same period in 2017. The profit attributable to the shareholders was approximately RMB449.8 million in 2018 (loss of approximately RMB203.4 million in 2017), representing a turnaround from loss to profit, which was largely attributable to (1) the significant increase in the overall gross profit of approximately RMB723.6 million, which included the increase in gross profit of the property development segment of approximately RMB668.2 million resulted from the increase in the delivery of residential buildings for the Group's property development projects in the PRC; and (2) the sharp decrease of approximately RMB93.9 million in the selling costs incurred in relation to the sales and the pre-sale properties in 2018 as compared with the same period in 2017.

As of December 31, 2018, the Group had six property and tourism resort projects under different stages of development in Mainland China. In 2018, revenue from property development amounted to RMB2,708.1 million, representing an increase of approximately 258.1% as compared to RMB756.2 million in 2017, due to the increase in properties delivered as compared to that in 2017.

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 2018, the water park located in Boao, Hainan was in sound operation and the two waterparks located in Sanya, Hainan and Yancheng, Jiangsu respectively were under trial operation.

The manufacturing segment of the Group comprising manufacturing of upholstered furniture, most of which was exported to the U.S. market. The Group had a well-established and broad customer base in the United States and its products fully met the demands of the U.S. purchasers. Therefore, the Group's upholstered furniture business kept growing steadily. The revenue generated from the upholstered furniture segment was RMB719.0 million in 2018, representing an increase of approximately 3.3% as compared to the revenue of RMB696.3 million in 2017.

CHAIRMAN'S STATEMENT (cont'd)

The Group has actively responded to the "One Belt, One Road" development strategy promoted by the PRC government, planned to establish economic zones in all countries along the "One belt, One Road" initiative and committed to setting up a platform to cooperate with international firms for China's enterprises. Taking Cambodia as the starting point of special economic zone development, the Group will at the same time seek for projects meeting the requirements of the Company in other countries in Southeast Asia such as Indonesia, to construct large-scale economic zones. The Group will follow the industrial policy and direction of the country where the project locates. The Group will introduce industrial projects which are urgently needed by the local communities and construct infrastructure facilities including electricity, ports and terminals. In the economic zones, the Group will moderately participate in the local industrial projects with comparative advantages according to the actual situation of the country, so as to build the special economic zones into iconic projects with significant influence in terms of economic and social benefits and create better returns to its shareholders.

For its property development segment and tourism resort services, the Group will continuously focus on the development and operation of its existing property projects and tourism projects.

In the field of upholstered furniture segment, the Group will closely monitor the latest developments of trade disputes between China and the United States and make timely adjustments to upholstered furniture segment, with an aim to cope with the increasingly complicated export situation.

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 8, 2019

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OVERVIEW

Financial Review

For the year ended December 31, 2018, the Company together with its subsidiaries (the "Group") recorded a consolidated turnover of RMB3,608.5 million (2017: RMB1,605.9 million), representing a significant increase of approximately 124.7% when compared with the year of 2017.

The Group's gross profit for the year ended December 31, 2018 was RMB1,056.0 million (2017: RMB332.4 million) with an average gross profit margin of 29.3% (2017: 20.7%), which resulted in an increase of approximately RMB723.6 million, representing an increase of approximately 217.7% when compared with the year of 2017.

The net profit attributable to owners of the Company was approximately RMB449.8 million in the year ended December 31, 2018 (2017: a net loss of RMB203.4 million). The turnaround from loss to profit was largely attributable to (1) the significant increase in the overall gross profit of approximately RMB723.6 million, which included the increase in gross profit of the property development segment of approximately RMB668.2 million resulted from the increase in the delivery of residential buildings for the Group's property development projects in the PRC; and (2) the sharp decrease of approximately RMB93.9 million in the selling costs incurred in relation to the sales and the pre-sale properties in 2018 as compared with the same period in 2017.

Review by Business Segments

The Group's reportable business segments in 2018 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 for the year ended December 31, 2018 together with the comparative figures for the year ended December 31, 2017:

	2018		2017		**Y-O-Y Change**
	RMB'Million	***%***	*RMB'Million*	*%*	*%*
Manufacturing	**719.0**	**20.0**	696.3	43.3	3.3
Property Development	**2,708.1**	**75.0**	756.2	47.1	258.1
Others	**181.4**	**5.0**	153.4	9.6	18.3
Total	**3,608.5**	**100.0**	1,605.9	100.0	124.7

RESULTS OVERVIEW (cont'd)

Review by Business Segments (cont'd)

Manufacturing Business

The Group's manufacturing business was upholstered furniture segment. Sales of upholstered furniture included finished sofa, most of which were exported to the U.S. market. With increasing efforts in expanding the overseas market, focusing on the U.S. market, optimising product structure and improving product quality, the Group's upholstered furniture are recognised by customers and maintained stable performance. The turnover from upholstered furniture segment amounted to RMB719.0 million in 2018, representing an increase of approximately 3.3% as compared to RMB696.3 million in 2017. The profit generated from such business segment increased to RMB37.8 million, representing an increase of approximately 20.0% as compared to the profit of RMB31.5 million in 2017.

Property Development Business

As at December 31, 2018, 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 2018. The turnover from the property development segment was RMB2,708.1 million in 2018, representing an increase of approximately 258.1% as compared to RMB756.2 million in 2017. The increase in sales was mainly due to the significant increase of delivery of properties from the Group's existing projects. As a result, an operating profit generated from this segment in 2018 was RMB437.0 million, as compared to an operating loss of RMB217.0 million in 2017.

The Group's Property Project Portfolio as at December 31, 2018

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	Residential, 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.

RESULTS OVERVIEW (cont'd)

Review by Business Segments (cont'd)

Property Development Business (cont'd)

Analysis of Properties Under Development as at December 31, 2018

No.	Project Name	Total GFA (sq.m.)	GFA under development /completed (sq.m.)	Total Saleable GFA (sq.m.)	Accumulated GFA sold as at December 31, 2018 (sq.m.)	Accumulated GFA delivered as at December 31, 2018 (sq.m.)	Average Selling Price (RMB/sq.m.)
1	Asia Bay	718,665	342,435	590,165	174,087	154,540	11,612
2	Qianjiang Continent	775,292	775,292	669,717	660,161	657,753	9,473
3	Kasen Star City	956,576	956,576	711,893	696,892	530,005	7,395
4	Changbai Paradise	122,412	122,412	122,010	38,519	37,944	3,410
5	Qianjiang Oasis	337,125	337,125	283,053	197,696	116,862	5,719
Total		2,910,070	2,533,840	2,376,838	1,767,355	1,497,104	

Operating Expenses, Taxation and Profit Attributable to Owners

The Group's selling and distribution costs during the year under review decreased to approximately RMB228.9 million, as compared to approximately RMB317.7 million in 2017, mainly attributable to the decrease of approximately RMB88.8 million in the selling and distribution costs incurred by all segments during the year ended December 31, 2018. The decrease was mainly due to the fact that significant high selling cost were recognised in 2017 in relation to the large number of pre-sale properties made for the property development segment of the Group in 2017. As a result, there was a decrease of approximately RMB93.9 million in the selling costs incurred in relation to the sales and the pre-sale properties in 2018. The Group's selling and distribution costs to turnover in 2018 decreased to approximately 6.3% as compared to approximately 19.8% in 2017.

The administrative costs in 2018 was approximately RMB232.7 million, representing an increase of approximately RMB28.9 million as compared to approximately RMB203.8 million in 2017. The increase was mainly due to an increase in the staff costs incurred by the furniture manufacturing segment of the Group by approximately RMB10.1 million and the Group's waterpark operation in the PRC by approximately RMB8.3 million respectively.

The Group's finance cost in 2018 was approximately RMB17.6 million, representing a slight increase of approximately RMB0.6 million, as compared to approximately RMB17.0 million in 2017. The finance cost for the year under review was mainly incurred in relation to the Group's bank borrowings, and maintained at a relatively stable level as compared with 2017.

The Group recorded a net gain of approximately RMB34.9 million in other gains and losses in 2018, while it recorded a net gain of approximately RMB7.8 million in 2017. For details of the other gains and losses, please refer to note 8 to the consolidated financial statements.

RESULTS OVERVIEW (cont'd)

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

The Group's income tax in 2018 was approximately RMB164.9 million, representing a sharp increase of approximately RMB133.1 million, as compared to approximately RMB31.8 million in 2017. The sharp increase was mainly attributable to (1) an increase in PRC income tax of approximately RMB71.4 million mainly due to an increase in taxable profits generated at the subsidiary level especially for property development segment with significantly increased operating profit; and (2) an increase in PRC land appreciation tax of approximately RMB39.5 million from the property development projects.

Based on the aforesaid factors, there was a turnaround from loss to profit, such that the overall net profit attributable to owners of the Company in 2018 was approximately RMB449.8 million (2017: net loss of RMB203.4 million).

CAPITAL EXPENDITURE

Capital expenditure (excluding assets acquired through acquisition of subsidiaries during the year) in 2018 increased to approximately RMB585.7 million (including transfer from construction in progress of approximately RMB391.8 million) from approximately RMB90.7 million in 2017. The capital expenditure mainly comprised the amount of approximately RMB585.7 million spent on the purchase of property, plant and equipment for operational purpose during the year under review.

FINANCIAL RESOURCES, LIQUIDITY AND CAPITAL STRUCTURE

Bank and Other Borrowings

As at December 31, 2018, the Group's bank and other borrowings amounted to approximately RMB900.0 million, (in which approximately 1.8% (2017: 3.0%) was denominated in USD and approximately 98.2% (2017: 97.0%) was denominated in RMB) representing an increase of approximately 82.6% from approximately RMB493.0 million as at December 31, 2017.

Turnover Period, Liquidity and Gearing

In 2018, the inventory turnover period maintained at 53 days (2017: 50 days).

In 2018, the Group continued to maintain a strict credit policy. The account and bills receivables turnover days of the Group's manufacturing segments decreased to 43 days in 2018 (2017: 83 days).

The accounts and bills payable turnover days of the Group's manufacturing segments decreased to 73 days in 2018 (2017: 94 days).

FINANCIAL RESOURCES, LIQUIDITY AND CAPITAL STRUCTURE (cont'd)

Turnover Period, Liquidity and Gearing (cont'd)

As at December 31, 2018, the Group's current ratio was 1.30 (December 31, 2017: 1.34). The Group's cash and cash equivalent balance was approximately RMB457.7 million as at December 31, 2018 (December 31, 2017: approximately RMB439.9 million). As at December 31, 2018, included in cash and cash equivalent balance of the Group was approximately 96.4% (2017: 95.6%) of bank balance denominated in RMB, approximately 3.1% (2017: 4.1%) denominated in USD, and approximately 0.5% (2017: 0.3%) denominated in HKD and Japanese Yen currency. This represents a gearing ratio of 31.6% as at December 31, 2018 (December 31, 2017: 15.7%) and a net debt-to-equity ratio of 15.5% as at December 31, 2018 (December 31, 2017: 0.1%). The gearing ratio is based on bank borrowings to shareholders' equity and the net debt-to-equity ratio is based on bank borrowings net of cash and cash equivalent to shareholders' equity. In 2018, 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.

Capital Structure

The capital structure of the Group consists of debts, which includes the bank and other borrowings, and advances from a director of the Company and a related company, and equity attributable to owners of the Company, comprising issued share capital and reserves.

MATERIAL ACQUISITION AND DISPOSAL

On January 2, 2018, Cardina International Company Limited, a wholly-owned subsidiary of the Company, entered into a joint venture agreement with the then independent third parties of the Company, namely Mr. Fan Dehua ("Mr. Fan") and Madam Oknha Lim Chhiv Ho ("Ms. Lim"), in relation to the formation of a joint venture, Fun Waterpark Co. Ltd. ("Fun Waterpark"), for the purpose of the development and operation of the water park in Cambodia (the "Water Park"). Fun Waterpark is a company established in Cambodia with limited liability which is held as to 49% by Cardina, 36% by Mr. Fan and 15% by Ms. Lim, and an indirect non-wholly owned subsidiary of the Company. The initial capital commitment towards Fun Waterpark was approximately US$27.4 million. For further details, please refer to the announcements of the Company dated January 2, 2018 and January 3, 2018.

On January 12, 2018, Fun Waterpark entered into a sale and purchase agreement with Ms. Lim to acquire eight plots of adjoining lands located at Toulkey Village, Phnom Penh, Cambodia with a total site area of 154,886 square metres, at an aggregate consideration of approximately US$16.4 million, for the purpose of utilising it as potential site of the Water Park. For further details, please refer to the announcement of the Company dated January 12, 2018.

MATERIAL ACQUISITION AND DISPOSAL (cont'd)

On April 24, 2018, Zhejiang Kasen Industrial Group Co. Ltd., a wholly-owned subsidiary of the Company, entered into an agreement with an independent third party to purchase the equipment which consists of two sets of 300 mega-watts coal-fired generators together with certain ancillary components, at an aggregate consideration of approximately RMB218,000,000, to be used for a thermal power plant to be developed in Cambodia. For further details, please refer to the announcement of the Company dated April 24, 2018.

On May 8, 2018, Fun Waterpark entered into an agency agreement with an independent third party and Ms. Lim, being connected person of the Company at the subsidiary level under Chapter 14A of the Listing Rules, to entrust Ms. Lim to procure the acquisition of around 20 plots of land adjoining to the land acquired by the Group on January 12, 2018 located at Toulkey Village, Phnom Penh, Cambodia with a total site area of approximately 120,000 square metres, at an aggregate consideration of approximately US$13.08 million, to further complement the development of the Water Park. For further details, please refer to the announcement of the Company dated May 8, 2018.

On May 23, 2018, Fun Waterpark entered into an agency agreement with Ms. Lim to entrust Ms. Lim to procure the acquisition of one plot of land located at Kom Penh sub-district, Steung Hav district, Cambodia with a total site area of approximately 90,000 square meters, at a consideration of approximately US$3,780,000, to be used for construction of power plant or other approved industrial project in Cambodia. For further details, please refer to the announcement of the Company dated May 23, 2018.

On July 5, 2018, Kasen International Eco-Manufacture Co., Ltd. ("Kasen Cambodia"), a wholly-owned subsidiary of the Company, entered into an agency agreement with Ms. Lim to entrust Ms. Lim to procure the acquisition of one plot of land located at Kom Penh subdistrict, Steung Hav district, Cambodia with a total site area of approximately 100,000 square meters, at a consideration of approximately US$3 million. For further details, please refer to the announcement of the Company dated July 5, 2018.

On July 10, 2018, Kasen Cambodia entered into a joint venture agreement with Mr. Fan, being connected person of the Company at the subsidiary level under Chapter 14A of the Listing Rules, and Attwood Investment Group Co., Ltd. (being wholly-owned by Ms. Lim) ("Attwood Investment") for the purpose of the development and operation of the power project in Cambodia. The total capital commitment was approximately US$180 million. For further details, please refer to the announcement of the Company dated July 10, 2018.

MATERIAL ACQUISITION AND DISPOSAL (cont'd)

On July 10, 2018, Kasen Cambodia entered into another joint venture agreement with Mr. Fan for the purpose of the development and operation of the paper-making project in Cambodia. The initial capital commitment was approximately US$1 million. For further details, please refer to the announcement of the Company dated July 10, 2018.

On July 19, 2018, the Group entered into a sale and purchase agreement with Ms. Lim to acquire one plot of land located at Phum 2, Kampenh Commune, Steung Hav district, Cambodia with a total site area of approximately 800,000 square meters, at a consideration of US$24 million. For further details, please refer to the announcement of the Company dated July 19, 2018.

On November 12, 2018, Kasen Cambodia entered into a joint venture agreement with Mr. Fan and Attwood Investment for the purpose of the development and operation of the industrial real estate business in Cambodia. The initial capital commitment was approximately US$5 million. For further details, please refer to the announcement of the Company dated November 12, 2018.

On November 14, 2018, the Group and 中國能源建設集團西北電力建設工程有限公司 (China Energy Engineering Group Northwest Power Construction Engineering Co., Ltd.) entered into the agreements in relation to the provision of the engineering, procurement and construction work for the power project in Cambodia. For further details, please refer to the announcement of the Company dated November 14, 2018.

Save as otherwise, the Group did not have any material acquisitions or disposals during the year ended December 31, 2018.

SIGNIFICANT INVESTMENTS

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

CONTINGENT LIABILITIES

As at December 31, 2018, the Group had certain contingent liabilities. For details, please refer to note 43 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 40 to the consolidated financial statements.

CAPITAL COMMITMENTS

As at December 31, 2018, the Group had contracted, but not provided for, a total capital expenditure of RMB2,331.1 million (2017: RMB1,062.1 million), in which an amount of RMB1,111.7 million (2017: RMB1,021.7 million) was in respect of properties under development.

FOREIGN EXCHANGE EXPOSURE

The upholstered furniture export-related business of the Group (including sales and procurements) was 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, 2018, the Group employed a total of approximately 3,400 full time employees (December 31, 2017: approximately 3,400), including management staff, technicians, salespersons and workers. In 2018, the Group's total expense on the remuneration of employees was approximately RMB206.4 million (2017: approximately RMB172.8 million), representing approximately 5.7% (2017: 10.8%) 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.

FUTURE PLANS AND PROSPECTS

In respect of water park and real estate development business in Phnom Penh, after careful measurement and analysis, the Group proposed to develop the water park in Phnom Penh, Cambodia in 2018, with an aim to promote the value of real estate development nearby driven by the popularity of the water park. By the end of 2018, land collection was still in progress but the rapid rise of land price in Phnom Penh has brought difficulties in land collection. The Group will pay close attention to the development of the land and the real estate market in Phnom Penh and adopt appropriate measures.

The Group is considering to establish itself as a "Professional Operator in One Belt One Road Economic Zone".

In the field of upholstered furniture, uncertainty is seen regarding whether additional tariffs will be imposed on furniture products exported from the Mainland China to the United States arising from trade fights between China and the United States. The Group's upholstered furniture export-related business will be adversely affected if tariffs are imposed. The Group will closely keep track of changes in policies. Through taking proactive production cost saving initiatives, negotiating with customers regarding product pricing and considering the feasibility of moving part of its production capacity to Cambodia, the Group aims to offset the adverse effect of additional tariffs.

In the field of tourism resort services, in 2019, the Group will further promote its performance and enhance its influence in the field. The Group will strengthen its resource consolidation, leverage the competitive strengths of its various tourism projects and enhance its brand effect.

In respect of property development business, the Group will focus on the continuous development of its existing projects to ensure the timely delivery of sold properties, and accelerate the construction of Sanya Project.

DIRECTORS' REPORT

The Directors present the annual report and the audited consolidated financial statements of the Company for the year ended December 31, 2018.

The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 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, 2018 are provided in the section headed "Chairman's Statement" on pages 7 to 8, the section headed "Management Discussion and Analysis" on pages 9 to 17 of this annual report and the paragraph headed "Principal Risks and Uncertainties" of this section of this annual report. An analysis of the Group's performance during the year ended December 31, 2018 using financial performance indicators is provided in the section headed "Management Discussion and Analysis" on pages 9 to 17 of this annual report.

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

PRINCIPAL RISKS AND UNCERTAINTIES

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

Business Risk

The Group is 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, 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 66 to 67.

At a Board meeting held on August 9, 2018, the Board recommended the declaration and payment of a special dividend of HK$0.30 (equivalent to approximately RMB0.26) per ordinary share, which were payable in two tranches of HK$0.17 and HK$0.13, respectively. Further details of the special dividend have been set out in the Company's announcement dated August 9, 2018.

FINAL DIVIDEND

The Directors do not recommend the payment of any final dividend for the year ended December 31, 2018 (2017: 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, 2019 to May 31, 2019 (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 27, 2019.

DISTRIBUTABLE RESERVES OF THE COMPANY

The amount of the Company's reserves available for distribution to Shareholders as at December 31, 2018, calculated in accordance with International Financial Reporting Standards, was approximately RMB1,601.9 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 2018, the Group had acquired property, plant and equipment of approximately RMB585.7 million (including transfer from construction in progress of approximately RMB391.8 million) for the purpose of expanding its operation capacity.

Details of these and other movements in the property, plant and equipment of the Group during the year of 2018 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 33 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year of 2018, the aggregate sale attributable to the Group's five largest customers comprised approximately 69.6% of the Group's manufacturing segments sale and the sale attributable to the Group's largest customer were approximately 38.3% of the Group's manufacturing segments sale.

The aggregate purchases during the year of 2018 attributable to the Group's five largest suppliers were approximately 24.1% of the Group's manufacturing segments purchases and the purchases attributable to the Group's largest supplier were approximately 10.8% 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 2018 and up to the date of this annual report are:

Executive Directors

ZHU Zhangjin, Kasen *(Chairman)*
SHEN Jianhong
ZHOU Xiaohong

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. Zhou Lingqiang and Mr. Zhang Yuchuan will retire from the office of Directors by rotation and, being eligible, will offer themselves for re-election at the forthcoming AGM.

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 6. 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, 2018 for Mr. Zhou Lingqiang; March 1, 2018 for Mr. Zhang Yuchuan and November 2, 2018 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 11 to the consolidated financial statements.

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

As at December 31, 2018, 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	526,861,635	539,221,635	36.10%
Zhou Xiaohong *(Note 2)*	9,514,561	–	9,514,561	0.64%

Notes:

(1) Mr. Zhu, 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 (excluding Mr. Zhu) in the Company), being the substantial shareholders of the Company, were collectively holding 539,221,635 Shares or approximately 36.10% of the total number of issued Shares (including the 526,861,635 Shares or approximately 35.27% 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, 2018 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 the grant of share option 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 3,000,000 shares as at December 31, 2018 under the 2005 Share Option Scheme and approved by the Board on 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 had 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, 2018.

SHARE OPTION SCHEMES

Particulars of the Company's share option schemes are set out in note 34 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, 2018, the Company had 10,850,000 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, 2018, 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 10,850,000 shares and 116,232,298 shares, respectively, which represented 0.7% and 7.8% 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, 2018, being share options granted pursuant to the 2005 Share Option Scheme on May 5, 2008 and May 26, 2015, respectively, were as follows:

		Number of share options							
Name of Director	Exercise price *HK$*	Outstanding as at January 1, 2018	Granted from January 1, 2018 to December 31, 2018	Exercised from January 1, 2018 to December 31, 2018	Forfeited from January 1, 2018 to December 31, 2018	Outstanding as at December 31, 2018	Percentage of total issued share capital	Exercisable period	Notes
Zhu Zhangjin	1.37	1,000,000	–	–	–	1,000,000	0.07%	1/1/2016 to 25/5/2025	3,4,5
Zhou Xiaohong	1.18	250,000	–	(250,000)	–	–	–	1/1/2009 to 4/5/2018	1,4,5
	1.18	250,000	–	(50,000)	(200,000)	–	–	1/1/2010 to 4/5/2018	2,4,5
	1.37	3,000,000	–	–	–	3,000,000	0.20%	1/1/2016 to 25/5/2025	3,4,5
		4,500,000	–	(300,000)	(200,000)	4,000,000	0.27%		
Other employees in aggregate	1.18	1,550,000	–	(1,550,000)	–	–	–	1/1/2009 to 4/5/2018	1,4,5
	1.18	1,550,000	–	(1,550,000)	–	–	–	1/1/2010 to 4/5/2018	2,4,5
	1.37	20,000,000	–	(13,150,000)	–	6,850,000	0.46%	1/1/2016 to 25/5/2025	3,4,5
		27,600,000	–	(16,550,000)	(200,000)	10,850,000	0.73%		

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. Save for the forfeited or exercised share options stated above, during the year ended December 31, 2018, none of these share options were lapsed nor cancelled.

SUBSTANTIAL SHAREHOLDERS

As at December 31, 2018, 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	–	526,861,635	526,861,635	35.27%
Prosperity and Wealth Limited[1]	Trustee	–	526,861,635	526,861,635	35.27%
Team Ease Limited[2]	Beneficial owner	–	235,043,057	235,043,057	15.74%
Chen Dianer (陳鈿兒)[2]	Interest in controlled corporation	–	235,043,057	235,043,057	15.74%
Lee Yu Leung	Beneficial owner	–	128,400,000	128,400,000	8.60%

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 539,221,635 Shares or approximately 36.10% of the total number of issued Shares (including the 526,861,635 Shares or approximately 35.27% of the issued Shares held by Joyview Enterprises Limited ("Joyview") which in turn is wholly owned by Prosperity and Wealth Limited, being the trustee of such family trust).

2. Team Ease Limited is a company beneficially owned by Chen Dianer.

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, 2018.

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 2018 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 those land acquisitions and set up of joint ventures with connected parties as stated on pages 13 to 15 under "Material Acquisition and Disposal" and the continuing connected transactions set forth below, during the year ended December 31, 2018, 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, 2018, 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 "2016 Yujie Renewal Agreement") for a term of 2 years which has expired on December 31, 2018. The pricing under this agreement was determined with reference to, among others, (i) comparable market prices 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 the 2016 Yujie 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 independent third parties. Since Haining Yujie Transactions have been made for many years, price movement had been regularly monitored by the Group.

During the year under review, the aggregate amount of the transactions under the 2016 Yujie Renewal Agreement was approximately RMB2.0 million and the annual cap amount was RMB5,000,000.

On November 20, 2018, as the 2016 Yujie Renewal Agreement was due to expire on December 31, 2018, the Company and Yujie entered into a renewal agreement (the "2018 Yujie Renewal Agreement") for the sale of certain production wastes by the Group to Yujie for a fixed term of three years commencing from January 1, 2019 to December 31, 2021. The pricing terms under the 2018 Yujie Renewal Agreement was substantially similar to those in the 2016 Yujie Renewal Agreement.

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

For further details of the 2016 Yujie Renewal Agreement, please refer to the announcement of the Company dated November 28, 2016.

For further details of the 2018 Yujie Renewal Agreement, please refer to the announcement of the Company dated November 20, 2018.

CONTINUING CONNECTED TRANSACTIONS (cont'd)

(2) Agreement for providing guarantee to the CCT Group

On September 12, 2016, Mr. Zhu Zhangjin ("Mr. Zhu"), 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 for a term of 2 years which has expired on December 31, 2018 (the "2016 CCT Master Agreement").

On November 20, 2018, as the 2016 CCT Master Agreement was due to expire on December 31, 2018, the Company, the CCT Group and the CCT Counter Guarantors entered into a renewal agreement (the "2018 CCT Master Agreement") for a fixed term of three years commencing from January 1, 2019 to December 31, 2021.

Pursuant to the 2016 CCT Master Agreement and the 2018 CCT Master Agreement, the Group agreed to provide the guarantee to Haining Kasen Leather, Haining Schinder and Dafeng Huasheng (collectively named as the "CCT 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 relevant 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 2016 CCT Master 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 transactions under the 2016 CCT Master Agreement and the 2018 CCT Master Agreement constitute continuing connected transactions for the Company pursuant to Chapter 14A of the Listing Rules.

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

For further details of the 2018 CCT Master Agreement, please refer to the announcement and the circular of the Company dated November 20, 2018 and December 12, 2018, 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 for a term of 2 years which has expired on December 31, 2018 (the "2016 Lingjia Agreement").

The price and terms of the individual orders in respect of this agreement were agreed to be on normal commercial terms, negotiated on 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 also took 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 also obtained market prices of the products through publicly available sources on an annual basis.

Pursuant to the 2016 Lingjia 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 the 2016 Lingjia Agreement was approximately RMB59.4 million and the annual cap amount was RMB70,000,000.

On November 20, 2018, as the 2016 Lingjia Agreement was due to expire on December 31, 2018, the Company and Lingjia New Material entered into a renewal agreement (the "2018 Lingjia Agreement") for the purchase of certain raw materials for production of upholstered furniture by the Group from Lingjia New Material and its subsidiaries for a fixed term of three years commencing from January 1, 2019 to December 31, 2021. The pricing terms under the 2018 Lingjia Agreement was substantially similar to those in the 2016 Lingjia Agreement.

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 under the 2016 Lingjia Agreement constitutes continuing connected transactions for the Company pursuant to Chapter 14A of the Listing Rules.

For further details of the 2016 Lingjia Agreement, please refer to the announcement of the Company dated November 28, 2016.

For further details of the 2018 Lingjia Agreement, please refer to the announcement of the Company dated November 20, 2018.

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, 2018.

RELATED PARTY TRANSACTIONS

During the year ended December 31, 2018, the Group had certain transactions with "related parties" as defined under the applicable accounting standards. Except for those land acquisitions and set up of joint ventures with connected parties as stated on pages 13 to 15 under "Material Acquisition and 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, 2018.

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 the Company's annual general meeting held on May 31, 2017, the shareholders of the Company approved a general mandate to authorise the directors of the Company to repurchase the Company's shares of up to 10% of the issued shares of the Company as at the date of May 31, 2017. During the year ended December 31, 2018, the Company had repurchased 33,933,000 ordinary shares in total on the Stock Exchange at an aggregate consideration of HK$48,967,170 and such shares were subsequently cancelled in March 2018. The Directors believe that such share buy-back may lead to an enhancement of the net asset value per Share and/or the earning per Share. Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended December 31, 2018.

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, 2018.

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, 2018.

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 RMB745,000.

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 to be independent.

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, 2018 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 8, 2019

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, 2018, 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, 2018, 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, 2018, the Board comprised six members, including three executive Directors and three independent non-executive Directors. The Board members for the year ended December 31, 2018 and up to the date of this annual report are shown below:

Executive Directors

ZHU Zhangjin, Kasen *(Chairman and Chief Executive Officer)*
SHEN Jianhong
ZHOU Xiaohong

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 6 of this annual report, the Company's website: http://www.kasen.com.cn, and http://www.irasia.com/listco/hk/kasen/index.htm. None of the Directors has any financial, business, family or other material or relevant relationships among members of the Board.

The Company has received an annual confirmation of independence from each of its independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules. Based on 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 of 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 (all being independent non-executive Directors) were appointed for a term of three years which respectively commenced from January 1, 2018 (for Mr. Zhou Lingqiang), March 1, 2018 (for Mr. Zhang Yuchuan) and November 2, 2018 (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, 2018, all Directors of the Company namely, Mr. Zhu Zhangjin, Ms. Zhou Xiaohong, Ms. Shen Jianhong, 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, 2018, 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, 2018, 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	
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, 2018, the Remuneration Committee held one meeting 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, 2018 is set out below:

Remuneration band	Number of individuals
Nil to HK$1,000,000	10

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 11 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

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, 2018, the Nomination Committee held one meeting 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, 2018 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, 2018**	**Extraordinary General Meeting held on December 31, 2018**
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)*	4/4	N/A	N/A	1/1	1/1	1/1
Ms. ZHOU Xiaohong *(Member of Remuneration Committee)*	4/4	1/1	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	1/1	1/1	0/1
Mr. ZHOU Lingqiang *(Member of Audit Committee, Member of Nomination Committee and Chairman of Remuneration Committee)*	4/4	1/1	3/3	1/1	1/1	0/1
Mr. ZHANG Yuchuan *(Member of Audit Committee and Remuneration Committee)*	4/4	1/1	3/3	N/A	1/1	0/1

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the year ended December 31, 2018.

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".

DIVIDEND POLICY

Pursuant to code provision E.1.5 of the CG Code, the Company has adopted a dividend policy ("Dividend Policy"). Subject to the Companies Act of the Cayman Islands and the memorandum and articles of association of the Company, the Company may from time to time declare dividends in any currency to be paid to the members of the Company but no dividend shall be declared in excess of the amount recommended by the Board. The Board may also from time to time pay to the members of the Company such interim dividends as appear to the Board to be justified by the profits of the Company. Declaration of dividends is subject to the discretion of the Board, taking into consideration of, among others, (i) the Group's financial performance; (ii) the Group's capital requirements and debt level; (iii) the Group's liquidity position; (iv) retained earnings and distributable reserves of the Group; (v) the Group's business operations, business strategies and future development needs; (vi) any contractual, statutory and regulatory restrictions; and (vii) the general economic conditions and other factors that may have an impact on the performance and position of the Group. The Board will review the dividend policy from time to time and may exercise at its sole and absolute discretion to update, amend and/or modify the dividend policy at any time as it deems fit and necessary.

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, 2018 amounted to approximately RMB1.6 million and RMB0.7 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, 2018, 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, adequate 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, 2018, 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, 2018 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, 2018.

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:	Unit 1111, 11/F., COSCO Tower, 183 Queen's Road Central, Sheung Wan, Hong Kong
Attention:	Company Secretary
By email:	kasen@kasen.imsbiz.com.hk

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Kasen International Holdings Limited (hereinafter referred as "Kasen", "we", and the "Company") has been the industry leader in upholstered furniture manufacturing for over 20 years, and has also recently expanded our business into tourism development. As our business evolves, we recognise our corporate social responsibility ("CSR") in creating a sustainable future for not simply our business operations and also for the people working with us, for the environment and communities that we operate in, as well as for our next generations.

With that said, we are delighted to present our third environmental, social and governance ("ESG") report. This report describes our material environmental and social performance of the Company as well as the subsidiaries (collectively, the "Group") from January 1, 2018 to December 31, 2018 ("FY 2018"). This ESG report is prepared in accordance with Appendix 27 of the Rules Governing the Listing of Securities set out by the Hong Kong Exchanges and Clearing Limited ("HKEx"). The information covered in this ESG report focuses on the two main property development projects - "Asia Bay" and "Sanya Project", a factory for upholstered furniture and furniture leather in Zhejiang Province, as well as an office in Hong Kong.

With our great efforts, we are very pleased to receive a number of charity awards throughout the years. In FY 2018, the Haining's government honoured us with a "Corporate Charity Giving Award". This award recognises our commitment and efforts in making positive contribution to the community.

Continuous improvement is vital to us for the sustainable growth in our business. Through this ESG reporting, we would like to share our CSR journey with all of our stakeholders, as well as using it as a platform where stakeholders are able to share their opinion about our sustainability efforts. We welcome your feedback on this ESG report, please feel free to contact us through email at kasen@kasen.imsbiz.com.hk.

STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT

We like to know more about what stakeholders think towards us. In order to continuously improve our business and build sustainable business, this year, an online questionnaire is conducted to collect the key stakeholders' feedback on our sustainability issues. In the questionnaire, it contained a set of rating questions that allow the key stakeholders to determine the importance and relevance of each sustainability indicator to our business operations. We have engaged various key stakeholder groups included not only internal parties such as the board of directors, top management people and employees, but also external parties such as investors and shareholders, customers, suppliers and contractors, government bodies as well as regulators throughout the process. Based on the results collected, we have developed a list showing which sustainability issues are of high importance from our stakeholders' perspective as follows.

High Priority Topics	Medium Priority Topics	Low Priority Topics
Occupational health and safety	Ethical business	Customer privacy
Product quality and safety	Intellectual properties	Air emission
Employee development	Hazardous waste generation	Use of materials
Customer satisfaction	Energy use	Marketing communications
Supply chain management	Product and service labelling	Non-hazardous waste generation
Labour rights	Water use	Forced labour
Community support		Child labour
Diversity and equal opportunities		Greenhouse gas ("GHG") emission

Eight topics have been identified to be the most material issues - half of them are related to employees' wellbeing, product quality and safety as well as community support. Having the results in mind, we will continue to improve our operations to achieve sustainability. Details of our sustainability efforts in FY 2018 are presented in later sections.

RESPONSIBLE PRODUCER

As a responsible producer, we strive to be responsible for our natural environment and also accountable for our business partners with whom we work.

Engaging with Business Partners

We know we can do more, as a responsible producer, by collaborating with our employees, contractors as well as suppliers for making a more sustainable business.

RESPONSIBLE PRODUCER (cont’d)

Engaging with Business Partners (cont’d)

Delivering satisfying products to our customers

Seeing product quality as a priority in our daily operations, apart from complying with applicable regulatory requirements, we strive to make our customers satisfied with our high quality products and services, as well as identifying opportunities for continuous improvement.

In our upholstered furniture business, we set targets on various aspects, such as requirements for finished products, to maintain the high quality standards. Customers’ satisfaction questionnaire is conducted to understand if our products and services meet the expectations of our customers, and to continuously look for rooms for improvement. In case we receive complaints from customers, we follow our standardised procedures to conduct analysis and develop corrective action plan promptly to avoid recurrence of similar problem in the future.

In addition to product quality, it is also our responsibility to ensure the products are safe and healthy to use for the end users.

Product Design

- Starting from the early stage of our product design, besides the consideration of meeting product quality standards, we also identify health and safety (“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 Supply

- 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 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 works are directly related to the H&S of products.

To Customers

- During transportation and storage of products, safety labelling 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 products.

In FY 2018, we were not aware of any material non-compliance with laws and regulations relating to health and safety, advertising and labelling matters of products and services in Hong Kong and Mainland China.

RESPONSIBLE PRODUCER (cont'd)

Engaging with Business Partners (cont'd)

Working with suppliers and contractors

We want our suppliers and contractors to share the same view towards CSR with us. To do so, new suppliers from our upholstered furniture business are screened using environmental and social criteria - for instance, checking on their environmental and energy management systems and if the systems are certified with international ISO14001 or ISO50001 standards. We also check if they are a member of the National Environmental Protection Authority's "Environmental Integrity Enterprise", and see whether they engage in any child or forced labour at work. In addition, we are greatly concerned about our workers' wellness and safety in the construction sites. We therefore encourage our contractors to have decent site management in compliance with the safety regulations in construction. To maintain a tidy construction site, above all, is to safeguard the health and safety of the workers.

Making Green Operations

Climate change is increasingly threatening to the natural environment and the societies in which we live and operate. Being an environmentally responsible corporate, we have an important role in helping sustain the environment for our future generations and are committed to minimising the environmental footprint arising from our operational activities.

To build an environmentally-friendly business, we aim not only to pay close attention to our production process and limit our impacts on the environment, but also to utilise the natural resources in an efficient manner and to incorporate green elements when designing property projects.

In FY 2018, we were not aware of any material non-compliance with laws and regulations relating to air and GHG emissions, discharges into water and land, generation of waste and use of resources in Hong Kong and Mainland China.

Operational emission reduction

We are aware that our daily operations can impact the natural environmental and cause environmental pollutions without proper handling, so we work hard to reduce these impacts by limiting the air emissions and proper waste management.

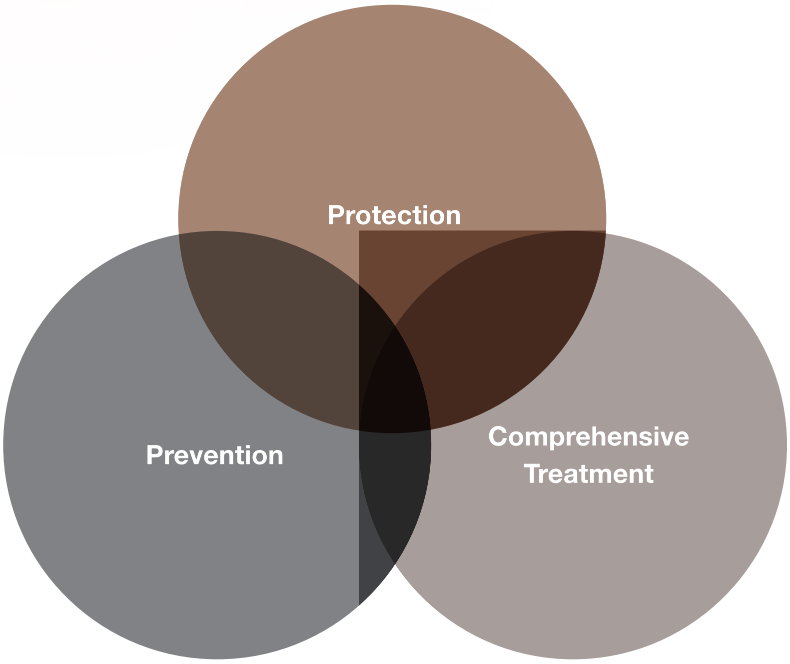
We generate different types of wastes, including leather and fabric pieces, foam and spray-bonded cotton left from furniture production, in our operations. While most would simply send the wastes directly to landfills, at Kasen, we see wastes as a sort of valuable resources and always strive to give them a second life by reusing or recycling them where we can.

RESPONSIBLE PRODUCER (cont'd)

Making Green Operations (cont'd)

Operational emission reduction (cont'd)

Air pollutants are inevitably generated during the manufacturing process of upholstered furniture. Guided by the principles of "giving priority to protection, focusing on prevention, conducting comprehensive treatment", we keep on controlling the air pollutants emitted from our operational activities to minimise the adverse impact on the environment. To reduce the emissions, we install movable exhaust hoods for the collection of exhaust gas generated from spray adhesive process. A plasma purification device is connected to the hoods for extensively treating the exhaust gas to make sure the level of emissions complies with the regulatory requirements and standards.



Responsible use of resources

We focus on the use of resources such as energy, water and other materials, while we continue to reduce emissions, because we know utilising resources in an efficient manner not only brings economic benefits but is also good for our natural environment.

Starting from the procurement stage during manufacture, we always place efforts on sourcing environmentally-friendly materials to make the upholstered furniture products. In doing so, our Kasen's green procurement guidelines are set up for sourcing green materials and building green supply chains. In sourcing green materials for production, we consider not just the environmental standards of the material itself but also its performance in terms of recyclability, pollution level and hazards. In particular, leather is the fundamental part of raw materials that we use when making upholstered furniture. Strictly restricting the use of hazardous chemicals - no matter azo dyes, chromium, formaldehyde and pentachlorophenol - in our leather products, we have again been awarded the China Leather Industry Association's "Eco Leather Enterprise" certification in recognition of our commitment to protect the natural environment.

RESPONSIBLE PRODUCER (cont'd)

Making Green Operations (cont'd)

Responsible use of resources (cont'd)

Energy and water are important resources to our daily operations. We want to increase the efficiency of using these resources in our productions, and hence, reduce the GHG emissions within our operations. A working group is set up to oversee resource usage and to provide guidance on implementing improvement plans of our resource management in factory, while providing training to employees to raise their awareness and competence on resource conservation and environmental protection. We also measure and analyse the resource consumption pattern in factory, helping us implement effective corrective measures and save these precious resources.

Within our operation, apart from encouraging our people to conserve resources through providing incentives, we would always like to explore opportunities for saving. In our tourism property development business, we look for opportunities to develop sustainable properties which are harmonised with the natural surroundings. It is our focus to incorporate energy saving features into our building design and to reduce our operational footprint. For instance, our residential and tourism resort project in Asia Bay has several green designs, embodied the ideas of saving energy and reducing emission.

Use of renewable energy

We install solar water heating system on the building rooftop, which can save the energy required for central water heating.

Energy efficient lighting

To improve the energy efficiency and reduce energy consumption, we incorporate natural lighting in the interior environment of our design. We opt for energy-efficient lights such as fluorescent tube with electrical ballast, and install building management system to control lights in the public and outdoor areas.

Integration of green elements in building structure

Walls, windows and rooftops are designed to be well insulated so that they can slow down the heat escaping from the buildings and keep the room warm, saving the energy required for heating in winter time.

RESPONSIBLE PRODUCER (cont'd)

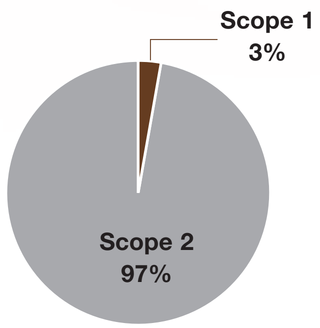
Making Green Operations (cont'd)

Our environmental performance

As a responsible producer in the industry, we strive to minimise our operational impacts on the natural environment. This year, we conducted carbon accounting in order to understand our overall footprint performance and look for rooms of improvement.

Heavily linked with climate change and other environmental issues such as global warming and extreme weather, GHG is usually generated during energy production. Carbon accounting is a vital tool in understanding our overall footprint performance and helping us explore saving opportunities for continuous improvement.

GHG Emission by Scope



In FY 2018, we measured 1,498 tonnes CO_2e of GHG emissions from our operations, and in particular, most of them was generated from the electricity that we purchased from power companies. Compared with the previous year, the GHG emission intensity was slightly decreased by 1.6%, demonstrating our focused efforts on reducing carbon footprint and making our operations greener.

Total amount[1]	Unit	FY 2018	FY 2017
GHG emissions[2]	Tonnes CO_2e	**1,498**	1,431
Intensity[3]	Tonnes CO_2e/FTE	**2.44**	2.48

In addition to GHG emissions, we continued to track and record the resources consumed in our operations - including electricity, water and packaging – as well as the wastes generation from our business.

Total amount[1]	Unit	FY 2018	FY 2017
Electricity consumed	MWh	**1,759**	1,523
Intensity[4]	MWh/FTE	**2.86**[5]	2.64
Water consumed	m^3	**75,740**	91,202
Intensity[4]	m^3/FTE	**123.35**	158.06
Packaging consumed[6]	Tonnes	**9,058**	8,716
Intensity[7]	Tonnes/product piece	**0.03**	0.03
Waste recycled[8]	Tonnes	**216**	206
Intensity[4]	Tonnes/FTE	**0.38**	0.39

RESPONSIBLE PRODUCER (cont'd)

Making Green Operations (cont'd)

Our environmental performance (cont'd)

Overall, we have made good progress towards sustainability. Despite our achievement this year, we want to strengthen our efforts on reducing our environmental impacts and use the precious resources in a more responsible and sustainable manner in the coming years so that we can make greener operations for our people and the next generations.

1 We collected the data from our core operations that were considered material to our business operations in FY 2018.

2 Our recorded GHG emissions include direct ("Scope 1") and energy indirect ("Scope 2") emissions generated from our core operations in FY 2018 - Scope 1 emission consisted of the GHG emissions generated from the combustion of fuels in mobile sources owned by Kasen; and Scope 2 emission consisted of the GHG emissions generated from the imported electricity. We do not report the data of other indirect ("Scope 3") emissions as they are insignificant in our business.

3 Our recorded GHG intensity is the sum of Scope 1 and Scope 2 emissions, divided by the total number of the full-time employees ("FTE") in the core operations in FY 2018.

4 Our intensity data presented is the sum of the recorded data, divided by the total number of the FTE in the core operations in FY 2018.

5 We have seen a slight increase in electricity consumption intensity by 8.3%, compared to FY 2017. The increase was due to more consumption from our core operations in FY 2018. We will use this insight to look into other potential solutions to continuously improve our energy efficiency.

6 Our recorded packaging data includes the cardboard boxes consumed in the core operations in FY 2018.

7 Our packaging is usually used on products, hence, our packaging consumption intensity presented is the sum of the recorded data, divided by the total piece of sofa produced in the core operations in FY 2018.

8 Our recorded waste data includes the industrial waste recycled from the core operations in FY 2018. This refers to the leather and fabric pieces left from furniture production, foam, as well as spray-bonded cotton.

RESPONSIBLE EMPLOYER

A company can never truly function without the inputs from its employees. Valuing their contribution, as a responsible employer, we strive to provide employees with decent work conditions and career development.

Health and Safety

Workplace safety is essential in our business. As part of our commitment to respect and care for employees' well-being and safety, we set out relevant guidelines and programmes to ensure a safe and healthy place for our people to work in.

We always explore opportunities to improve our work conditions. To make Kasen a truly safe workplace, apart from safety reminders and personal protective equipment provided for employees engaging in activities with potential occupational risks, we provide annual medical checkup to ensure timely treatment can be given when necessary. Safety education and training are also provided for our employees to improve their awareness and skills.

"Giving priority to safety, focusing on prevention" guides us in how we work for ensuring safe workplace and safeguarding employees' well-being.

Our "Kasen Cup" brought companies across Xieqiao Town together in a competitive yet interesting fire safety race last year, aiming to promote and draw public awareness to fire safety.

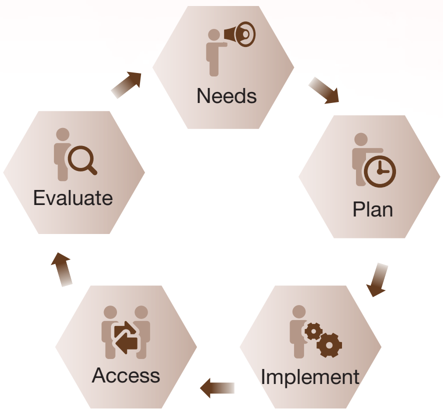
Although we work hard to ensure workplace safety and employee well-being, accidents may arise. An emergency plan, which sets out guidelines on how to prevent and control accidents and emergencies, was established to minimise potential damage from incidents such as fire, explosion, chemical leakage, mechanical safety damage and natural disasters.

In FY 2018, we were not aware of any material non-compliance with laws and regulations relating to providing a safe working environment and protecting employees from occupational hazards in Hong Kong and Mainland China.

RESPONSIBLE EMPLOYER (cont'd)

Training and Development

Professional development of our employees is fundamental to our overall growth in the business. We strive to provide development and training opportunities for our employees so that they can grow and use their strengths at work.



Every year, having considered the training needs of every employee, we develop a training plan for their future career development as well as meeting our business goal. A wide range internal and external training programmes are provided - covering the topics on job specific skills and knowledge, occupational health and safety, management skills as well as personal development. We encourage employees to earn professional qualification certifications so that they can evolve in ways that are good for their personal growth and career development. After every training, we review the programmes by obtaining opinions and suggestions for our continuous improvement in planning training programmes in future.

Employment

We believe all employees should enjoy a respectful, fair and inclusive work environment. Strictly following relevant laws and regulations, we set out guidelines on labour standards and human rights to ensure everyone is respected and fairly treated at work. These cover compensation, dismissal, recruitment, working hour, rest periods, benefits and welfare, as well as anti-discrimination.

Attractive remuneration package is offered to help motivate and retain our people. This includes not merely bonus and other fringe benefits, medical insurance, retirement scheme and paid leaves such as marriage and compassionate, and also overtime compensation as well as various allowances for education and housing. In addition to these benefits and welfare, we work to build a workplace culture supporting better work-life balance by organising a range of activities for our people and their families.

RESPONSIBLE EMPLOYER (cont'd)

Employment (cont'd)

Over 100 staff and their families joined our "Kasen's Family Day" in September 2018, allowing them to spend quality family time with each other while strengthening the bond with us.

We always advocate for and support gender diversity at work. Last year, we celebrated the International Woman's Day with our female employees and hosted rope skipping competition for them.

Held in November 2018, our "Kasen Cup" successfully brought our people together for a series of sporting competition such as table tennis and badminton to get them physically active.

We believe everyone deserves being fairly treated. At Kasen, we support anti-discrimination at work and work hard to provide equal opportunities to all employees. Fair recruitment is promoted - talents are hired on the basis of openness and fairness and our decisions are made based on merit principles. During employment, we consider job-related criteria such as adequate knowledge at work, relevant work experience as well as suitability towards the job position.

In addition to supporting equal opportunities, we respect human rights and strictly eliminate child and forced labour at work. Our policies and procedures are in place to ensure strict compliance with relevant laws and regulations - we do not employ people aged under 16 and prohibit any form of restriction on labour freedom, such as wage detention and forced overtime work. To prevent any violation, measures are implemented throughout the recruitment process, monitoring methods, for example, spot checks are conducted, and compliant channels are set up.

In FY 2018, we were not aware of any material non-compliance with laws and regulations relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, other benefits and welfare, child and forced labour in Hong Kong and Mainland China.

RESPONSIBLE CITIZEN

We are not merely a company, but also a citizen in the community that we operate in. Being an ethical and responsible corporate, we strive to uphold community values by acting with integrity when doing business as well as investing in our communities.

Investing in Community

We endeavour to practise good corporate citizenship, and work hard to support and cooperate with the community.

Employees are critically important to us. Sometimes, unfortunately, they may be facing substantial financial hardship and not able to afford medical and other basic living expenses due to certain unpredictable circumstances. Established in 2011, our Kasen Employee Assistance Foundation is always here to help through internal fundraising and financially support the employees in need during their tough times. We are extremely proud of the huge support from our staff that have contributed to approximately RMB140,000 to the Foundation's endowment in FY 2018, creating better daily lives for every Kasen staff.

We believe a thriving community helps us grow better. Being mindful of this, over the past year, we actively supported the local community and engaged our employees to contribute through volunteering work.

Last year, our staff voluntarily took part in a community cleanup event to conserve our natural environment and to make our local community more decent to live in.

We held a volunteering blood donation campaign in July 2018 in collaboration with a local hospital in Haining City. About 80 of our people generously participated in this activity to save or improve lives of people in need.

RESPONSIBLE CITIZEN (cont'd)

Upholding Integrity in Business

Complying with relevant laws and regulations, we prohibit any form of corruption, bribery and fraud. In order to let all employees understand and act in the way we do business, we set out guidelines to define the situations and behaviour that our employees should be aware of. In addition, we always take confidentiality seriously to protect the Group's interest. We, therefore, set up rules on how to handle confidential information, as well as restricting our people from leaking out any of customers' or Kasen's confidential information to others.

We believe all of our employees have responsibility to report any suspected business improprieties. Several whistleblowing channels are secured for anonymous reporting. In case of corruption or confidentiality breaches, employees involved may be subject to legal actions.

In FY 2018, we were not aware of any material non-compliance with laws and regulations relating to bribery, extortion, fraud and money laundering in Hong Kong and Mainland China.

HKEX 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 Environmental Management Guidelines Solid Waste Management Policy	RESPONSIBLE PRODUCER – Making Green Operations
A2 Use of Resources	Policies on efficient use of resources, including energy, water and other raw materials.	Energy Management Policy Green Office Policy	RESPONSIBLE PRODUCER – Making Green Operations
A3 The Environment and Natural Resources	Policies on minimising the issuer's significant impact on the environment and natural resources.	Green Procurement Policy	RESPONSIBLE PRODUCER – Engaging with Business Partners

HKEX ESG REPORTING GUIDE INDEX (cont'd)

HKEx ESG Reporting Guide	General Disclosures	Policies & Procedures	Explanation/ Reference Section
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	RESPONSIBLE EMPLOYER – 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	RESPONSIBLE EMPLOYER – Health and Safety
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	RESPONSIBLE EMPLOYER – Training and Development
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-Child Labour Policy Anti-Forced Labour Policy	RESPONSIBLE EMPLOYER – Employment

HKEX ESG REPORTING GUIDE INDEX (cont'd)

HKEx ESG Reporting Guide	General Disclosures	Policies & Procedures	Explanation/ Reference Section
B5 Supply Chain Management	Policies on managing environmental and social risks of the supply chain.	Procurement Management Policy	RESPONSIBLE PRODUCER – Engaging with Business Partners
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 Quality Handbook Product Safety Control Procedure	RESPONSIBLE PRODUCER – Engaging with 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, Bribery and Fraud Policy	RESPONSIBLE CITIZEN – Upholding 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.	RESPONSIBLE CITIZEN – Investing in Community

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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 66 to 176, which comprise the consolidated statement of financial position as at December 31, 2018, 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, 2018, 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 MATTER (cont'd)

Key Audit Matter

Impairment of properties under development and held for sale

Refer to note 24 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, 2018 was RMB3,647 million, net of provision for impairment loss for properties under development and held for sale of RMB44.7 million, represented approximately 44.7% 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.

How our audit addressed the Key Audit Matter

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.

KEY AUDIT MATTER (cont'd)

Key Audit Matter	How our audit addressed the Key Audit Matter
Recoverability of trade and other receivables Refer to note 25 to the consolidated financial statements The carrying value of the Group's trade and other receivables as at December 31, 2018 was RMB1,178 million, net of allowance for doubtful debt of RMB139.6 million, represented approximately 14.4% of the total assets of the Group. RMB147 million of these balances are financial assets and subject to impairment loss assessment under IFRS 9. The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment loss on financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. The measurement of ECL requires the application of significant judgement and increased complexity which include the identification of exposures with a significant deterioration in credit quality, and assumptions used in the ECL models (for exposures assessed individually or collectively), such as the expected future cash flows and forward-looking macroeconomic factors. We identified the measurement of impairment loss of financial assets under ECL approach as a key audit matter due to the estimation of ECL involves significant uncertainty inherent and judgments by the management.	Our audit procedures in relation to the management's assessment for impairment of trade and other receivables included: • Checking, on a sample basis, whether items in the trade and other receivables ageing report were classified within the appropriate ageing bracket by comparing individual items in the report with the relevant supporting documents; • Checking, on a sample basis the past repayment history and historical write-off experience; and assessing customers' and debtors' creditworthiness by reference to their financial information, where available; • Assessing the reasonableness of management's loss allowance estimates by examining the information used by management to form such judgements, including testing the accuracy of the historical default data, evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information and examining the actual losses recorded during the current financial year and assessing whether there was an indication of management bias when recognising loss allowances; • Inspecting cash receipts from customers after the financial year end relating to balances as at December 31, 2018, on a sample basis, to assess the reasonableness of the ECL provided by management; • Reviewing the Group's assumptions on the expected future cash inflows arising from the trade and other receivables based on the available market information.

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 8, 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2018

	NOTES	**2018** ***RMB'000***	2017 *RMB'000*
Revenue	*6*	**3,608,540**	1,605,880
Cost of sales		**(2,552,510)**	(1,273,520)
Gross profit		**1,056,030**	332,360
Other income	*7*	**20,388**	17,833
Selling and distribution costs		**(228,908)**	(317,679)
Administrative expenses		**(232,733)**	(203,835)
Net provision for impairment loss recognised in respect of trade and other receivables	*10*	**(32,422)**	(7,041)
Other gains and losses	*8*	**34,875**	7,830
Finance costs	*9*	**(17,630)**	(17,013)
Profit/(loss) before tax	*10*	**599,600**	(187,545)
Income tax expenses	*12*	**(164,941)**	(31,832)
Profit/(loss) for the year		**434,659**	(219,377)
Other comprehensive income/(loss) for the year			
Items that will not be reclassified to profit or loss:			
Fair value loss on financial assets through other comprehensive income		**(5,080)**	–
Income tax relating to fair value change of financial assets through other comprehensive income		**1,270**	–
		(3,810)	–
Items that may be subsequently reclassified to profit or loss:			
Fair value loss on available-for-sale investments		**–**	(22,003)
Income tax relating to fair value change of available-for-sale investments		**–**	5,501
Exchange difference arising on translation		**672**	99
		672	(16,403)
Total comprehensive income/(loss) for the year		**431,521**	(235,780)
Profit/(loss) for the year attributable to:			
– Owners of the Company		**449,799**	(203,351)
– Non-controlling interests		**(15,140)**	(16,026)
		434,659	(219,377)

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

FOR THE YEAR ENDED DECEMBER 31, 2018

	NOTES	**2018**	2017
		RMB'000	*RMB'000*
Total comprehensive income/(loss) for the year attributable to:			
– Owners of the Company		**446,684**	(219,754)
– Non-controlling interests		**(15,163)**	(16,026)
		431,521	(235,780)
Earnings/(loss) per share	*14*		
– Basic		**RMB30.10 cents**	(RMB13.46 cents)
– Diluted		**RMB29.93 cents**	(RMB13.46 cents)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 2018

	NOTES	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**1,429,707**	916,156
Prepaid lease payments – non-current portion	16	**132,896**	34,980
Intangible assets	17	**830**	234
Deferred tax assets	21	**50,529**	68,122
Prepayment for acquisition of property, plant and equipment	18	**95,980**	–
Financial assets at fair value through other comprehensive income	20	**18,203**	–
Prepayment for acquisition of freehold and leasehold land	19	**351,579**	89,085
		2,079,724	1,108,577
CURRENT ASSETS			
Available-for-sale investments	20	**–**	48,503
Inventories	22	**85,756**	81,038
Properties under development for sale	24	**2,881,767**	3,554,601
Properties held for sale	24	**765,579**	1,075,101
Amounts due from non-controlling interests of subsidiaries	28	**52,650**	20,000
Trade and other receivables	25	**1,177,848**	1,325,486
Prepaid lease payments – current portion	16	**3,554**	1,012
Prepaid income tax	26	**28,050**	5,186
Prepaid land appreciation tax	27	**50,429**	75,086
Pledged bank deposits	29	**83,652**	161,000
Restricted bank deposit for property development business	29	**485,856**	834,511
Bank balances and cash	29	**457,708**	439,931
		6,072,849	7,621,455
CURRENT LIABILITIES			
Trade, bills and other payables	30	**1,113,512**	1,293,048
Contract liabilities	23	**2,846,605**	–
Deposits received in respect of pre-sale of properties	23	**–**	3,741,311
Bank and other borrowings – due within one year	31	**354,997**	407,974
Tax payable		**223,206**	149,072
Amounts due to non-controlling interests of subsidiaries	32	**123,228**	117,288
		4,661,548	5,708,693
NET CURRENT ASSETS		**1,411,301**	1,912,762
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,491,025**	3,021,339

	NOTES	**2018**	2017
		RMB'000	*RMB'000*
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*21*	**27,067**	37,868
Bank and other borrowings – due after one year	*31*	**545,000**	85,000
		572,067	122,868
NET ASSETS		**2,918,958**	2,898,471
CAPITAL AND RESERVES			
Share capital	*33*	**1,712**	1,735
Reserves		**2,847,580**	2,812,684
Equity attributable to owners of the Company		**2,849,292**	2,814,419
Non-controlling interests		**69,666**	84,052
TOTAL EQUITY		**2,918,958**	2,898,471

The consolidated financial statements on pages 66 to 176 were approved and authorised for issue by the Board of Directors on March 8, 2019 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, 2018

	Attributable to owners of the Company												
	Share capital	Share premium	Statutory reserve	Special reserve	Share option reserve	Other reserve	Available-for-sale investments revaluation reserve	FVTOCI reserve	Translation reserve	Retained earnings	Sub-total	Non-Controlling interests	Total
	RMB'000	*RMB'000*	*RMB'000* *(Note 35)*	*RMB'000* *(Note 35)*	*RMB'000*	*RMB'000* *(Note 35)*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance as at December 31, 2017 as originally presented	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
Initial application of IFRS 9 *(Note 2)*	–	–	–	–	–	–	(14,340)	14,340	–	–	–	–	–
Restated balances at January 1, 2018	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
Profit for the year	–	–	–	–	–	–	–	–	–	449,799	449,799	(15,140)	434,659
Other comprehensive income/(loss)	–	–	–	–	–	–	–	(3,810)	695	–	(3,115)	(23)	(3,138)
Total comprehensive income for the year	–	–	–	–	–	–	–	(3,810)	695	449,799	446,684	(15,163)	431,521
Payment of dividends	–	–	–	–	–	–	–	–	–	(389,885)	(389,885)	–	(389,885)
Repurchase of shares	(39)	(39,851)	–	–	–	–	–	–	–	–	(39,890)	–	(39,890)
Shares issued under share option scheme	16	24,417	–	–	(6,469)	–	–	–	–	–	17,964	–	17,964
Lapse of share options	–	–	–	–	(75)	–	–	–	–	75	–	–	–
Disposal of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(858)	(858)
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	1,635	1,635
At December 31, 2018	**1,712**	**1,470,892**	**171,276**	**167,983**	**4,618**	**(41,703)**	**–**	**10,530**	**686**	**1,063,298**	**2,849,292**	**69,666**	**2,918,958**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2018

	Attributable to owners of the Company											
	Share capital *RMB'000*	Share premium *RMB'000*	Statutory reserve *RMB'000* *(Note 35)*	Special reserve *RMB'000* *(Note 35)*	Share option reserve *RMB'000*	Other reserve *RMB'000* *(Note 35)*	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, 2017	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 a subsidiary	–	–	–	–	–	–	–	–	–	–	(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, 2018

	NOTES	2018 RMB'000	2017 RMB'000
OPERATING ACTIVITIES			
Profit/(loss) before tax		**599,600**	(187,545)
Adjustments for:			
Provision of allowance for inventories		**441**	47
Amortisation of intangible assets		**80**	103
Release of financial guarantees		**(10,735)**	(10,735)
Release of prepaid lease payments		**3,091**	1,073
Depreciation of property, plant and equipment		**70,798**	56,320
Finance costs		**17,630**	17,013
Net provision of impairment loss recognised in respect of trade and other receivables		**32,422**	7,041
Impairment loss realised on sale of properties		**(15,053)**	–
(Reversal of)/impairment loss recognised in respect of property under development and held for sale, net		**(3,584)**	10,793
Dividend income from equity investments classified as financial assets at fair value through other comprehensive income		**(480)**	–
Dividend income from available-for-sale investments		**–**	(200)
Interest income		**(5,221)**	(6,934)
Loss on disposal of property, plant and equipment		**295**	3,582
Gain on disposal of prepaid lease payment		**–**	(7,977)
Gain on disposal of subsidiaries		**(793)**	(16,414)
Operating profit/(loss) before movements in working capital		**688,491**	(133,833)
Increase in inventories		**(5,612)**	(16,221)
Decrease/(increase) in properties under development and held for sale		**1,030,878**	(1,029,112)
Decrease/(increase) in trade and other receivables		**62,343**	(373,830)
(Decrease)/increase in trade, bills and other payables		**(164,345)**	197,504
(Decrease)/increase in deposits received in respect of pre-sale properties		**(894,706)**	2,892,890
Decrease/(increase) in restricted bank deposits		**348,655**	(830,788)
Cash generated from operations		**1,065,704**	706,610
Land Appreciation Tax ("LAT") paid		**(39,106)**	(85,891)
Income taxes paid		**(41,848)**	(24,376)
NET CASH GENERATED FROM OPERATING ACTIVITIES		**984,750**	596,343

CONSOLIDATED STATEMENT OF CASH FLOWS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2018

	NOTES	2018 RMB'000	2017 RMB'000
INVESTING ACTIVITIES			
Decrease/(increase) of pledged bank deposits		**77,348**	(155,494)
Interest received		**5,221**	6,934
Proceeds from disposal of equity instrument at fair value through other comprehensive income		**25,220**	–
Dividend income from equity investments classified as financial assets at fair value through other comprehensive income		**480**	–
Dividend income from available-for-sale investment		**–**	200
Proceeds from disposal of property, plant and equipment		**904**	18,902
Purchase of property, plant and equipment		**(585,736)**	(90,748)
Proceeds from disposal of leasehold land		**–**	10,930
Deposits (paid)/refunded for acquisition of property, plant and equipment		**(95,980)**	56,679
Prepayment for acquisition of freehold and leasehold land		**(315,637)**	(49,543)
Net cash inflow from disposal of subsidiaries	36	**895**	12,766
Purchase of intangible assets		**(676)**	–
(Increase)/decrease in amounts due from non-controlling interest of subsidiaries		**(32,650)**	3,000
NET CASH USED IN INVESTING ACTIVITIES		**(920,611)**	(186,374)
FINANCING ACTIVITIES			
Repayment of bank and other borrowings		**(611,555)**	(865,264)
Interest paid		**(47,515)**	(20,980)
Bank and other borrowings raised		**1,017,822**	578,468
Proceeds from issuance of new shares under share option scheme	33	**17,964**	–
Payment on repurchase of shares	33	**(39,890)**	–
Dividend paid to owners of the Company	13	**(389,885)**	–
Increase/(decrease) in amounts due to non-controlling interest of subsidiaries		**5,940**	(11,617)
Capital contribution from non-controlling interest of subsidiaries		**1,635**	10,490
NET CASH USED IN FINANCING ACTIVITIES		**(45,484)**	(308,903)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**18,655**	101,066
Effect of changes in exchange rates		**(878)**	(866)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**439,931**	339,731
CASH AND CASH EQUIVALENTS AT END OF YEAR		**457,708**	439,931
Represented by:			
Bank balances and cash		**457,708**	439,931

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

(a) In the current year, the Group has applied the following new 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, 2018.

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRIC-Interpretation 22	Foreign Currency Transactions and Advance Considerations
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions

The impact of the adoption of IFRS 9 Financial Instruments (see note 2A below) and IFRS 15 Revenue from Contracts with Customers (see note 2B below) have been summarised below. The Directors of the Company consider, other new or amended IFRSs that are effective from January 1, 2018 did not have any material impact on the Group's accounting policies.

A. IFRS 9 Financial Instruments ("IFRS 9")

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment and (3) hedge accounting. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 Financial Instruments — Disclosures.

The Group has applied IFRS 9 retrospectively to items that existed at January 1, 2018 in accordance with the transition requirements set out in IFRS 9. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at January 1, 2018. Therefore, comparative information has not been restated and continues to be reported under IAS 39.

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

(a) (cont'd)

A. IFRS 9 Financial Instruments ("IFRS 9") (cont'd)

The following table summarised the impact (increase/(decrease)), net of tax, of transition to IFRS 9 on the opening balances of reserves as at January 1, 2018:

	RMB'000
Available-for-sales investments revaluation reserve	
Reserve balances as at December 31, 2017	14,340
Transfer to FVTOCI reserve	(14,340)
Restated reserve balance as at January 1, 2018	–
FVTOCI reserve	
Reserve balances as at December 31, 2017	–
Transfer from available-for-sale investments revaluation reserve	14,340
Restated reserve balance as at January 1, 2018	14,340

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

i. Classification and measurement of financial instruments

IFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from IAS 39, except for financial liabilities designated at fair value through profit or loss ("FVTPL"), where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, IFRS 9 retains the requirements in IAS 39 for derecognition of financial assets and financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets.

Under IFRS 9, a financial asset is classified as: (i) financial assets at amortised cost ("amortised costs"); (ii) financial assets at fair value through other comprehensive income ("FVTOCI"); or (iii) FVTPL (as defined in above). The classification of financial assets under IFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the "solely payments of principal and interest" criterion, also known as "SPPI criterion").

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

(a) (cont'd)

A. IFRS 9 Financial Instruments ("IFRS 9") (cont'd)

i. *Classification and measurement of financial instruments* (cont'd)

The following table summarizes the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at January 1, 2018:

Financial assets	Original classification under IAS 39	New classification under IFRS 9	Carrying amount as at January 1, 2018 under IAS 39 *RMB'000*	Carrying amount as at January 1, 2018 under IFRS 9 *RMB'000*
Listed equity investment *(note (a))*	Available-for-sale (at fair value)	FVTOCI	23,283	23,283
Unlisted equity investment *(note (b))*	Available-for-sale (at cost)	FVTOCI	25,220	25,220
Amounts due from non-controlling interests of subsidiaries	Loans and receivables	Amortised cost	20,000	20,000
Trade and other receivables	Loans and receivables	Amortised cost	1,325,486	1,325,486
Pledged bank deposits	Loans and receivables	Amortised cost	161,000	161,000
Restricted bank deposits for property development business	Loans and receivables	Amortised cost	834,511	834,511
Bank balances and cash	Loans and receivables	Amortised cost	439,931	439,931

Notes:

(a) As of January 1, 2018, the Group's investment in listed equity investment was reclassified from available-for-sale financial assets to financial assets at FVTOCI. Under IFRS 9, the Group has designated such listed equity investment at the date of initial application (i.e. January 1, 2018) as measured at FVTOCI and classified as non-current assets after reassessment of business model of holding the assets as the Group intends to hold this listed equity investment for long term strategic purposes. As a result, financial assets with a fair value of RMB23,283,000 were reclassified from available-for-sale financial assets at fair value to FVTOCI and the accumulated fair value gains of RMB14,340,000 were reclassified from the available-for-sale investments revaluation reserve to the FVTOCI reserve on January 1, 2018 upon the application of IFRS 9.

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

(a) (cont'd)

A. IFRS 9 Financial Instruments ("IFRS 9") (cont'd)

i. Classification and measurement of financial instruments (cont'd)

Notes: (cont'd)

(b) As of January 1, 2018, the Group's investment in unlisted equity investment was reclassified from available-for-sale financial assets at cost less impairment under IAS 39 to financial assets at FVTOCI. The unlisted equity instrument has no quoted price in an active market. The Group has designated such unquoted equity instrument at the date of initial application (i.e. January 1, 2018) as measured at FVTOCI. The fair value gain/losses relating to the equity instrument previously carried at cost less impairment was not material and no adjustment was made to retained earnings as at January 1, 2018 upon the application of IFRS 9.

For an explanation of how the Group classifies and measures financial assets and recognises related gains and losses under IFRS 9, see respective accounting policy for financial instruments in note 4.

The measurement categories for all financial liabilities remain the same for the Group, the carrying amounts for all financial liabilities at January 1, 2018 have not been impacted by the initial application of IFRS 9.

The Group did not designate or re-designate any financial asset or financial liability at FVTPL at January 1, 2018.

ii. Impairment of financial assets

The adoption of IFRS 9 has changed the Group's impairment model by replacing the IAS 39 "incurred loss model" with the "expected credit losses ("ECLs") model". IFRS 9 requires the Group to recognise ECL for trade receivables and financial assets at amortised costs earlier than IAS 39.

Impact of the ECL model

(a) Impairment of trade receivables
The Group applies the IFRS 9 simplified approach to measure ECLs which adopts a life time ECLs for all trade receivables. To measure the ECLs, trade receivables have been grouped based on shared credit risk characteristics and the days past due. No additional impairment for trade receivables as at January 1, 2018 is recognised as the amount of additional impairment measured under the life time ECLs model is immaterial.

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

(a) (cont'd)

A. IFRS 9 Financial Instruments ("IFRS 9") (cont'd)

ii. Impairment of financial assets *(cont'd)*

Impact of the ECL model (cont'd)

(b) Impairment of other financial assets at amortised cost

Other financial assets at amortised cost of the Group include amount due from non-controlling interests of subsidiaries, cash and cash equivalent, deposits and other receivables (excluding prepayments and other items which were not financial instruments). Applying the ECLs model, no additional impairment for these financial instruments as at January 1, 2018 is recognised as no material additional impairment measured under the ECLs model.

For further details on the Group's accounting policy for accounting for credit losses, see accounting policy for financial instruments in note 4.

iii. Hedge accounting

Hedge accounting under IFRS 9 has no impact on the Group as the Group does not apply hedge accounting in its hedging relationships.

Transition

The Group has applied the transitional provision in IFRS 9 such that IFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECLs rules are therefore not reflected in the statement of financial position as at December 31, 2017, but are recognised in the statement of financial position on January 1, 2018. This means that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at January 1, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 but rather those of IAS 39.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application of IFRS 9 (the "DIA"):

- The determination of the business model within which a financial asset is held;
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL; and
- The designation of certain investments in equity investments not held for trading as at FVTOCI.

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

(a) (cont'd)

B. IFRS 15 Revenue from Contracts with Customers ("IFRS 15")

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations. IFRS 15 has established a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group elected to use a modified retrospective approach for transition which allows the Group to recognise the cumulative effects of initially applying IFRS 15, if any, as an adjustment to the opening balance of equity as at January 1, 2018. Therefore, comparative information has not been restated and continues to be reported under IASs 11 and 18. As allowed by practical expedient in IFRS 15, the Group has applied the new requirements only to contracts that were not completed before January 1, 2018.

Management of the Company reviewed the business model of the Group and contracts with customers and concluded that except for the reclassification of receipt in advances from customer under other payables, and deposits received in respect of pre-sale of properties as contract liabilities as at January 1, 2018 due to new terminology used under IFRS 15, the initial application of IFRS 15 does not have significant impact on the Group. Management of the Company also consider that the application of IFRS 15 does not have a material impact on the timing and amounts of revenue recognised for contracts with customers from (i) manufacture and trading of upholstered furniture; (ii) properties development in the PRC; and (iii) other services including hotel management, travel & tourism management, catering & entertainment and property management.

Impact (increase/(decrease)) on the consolidated statement of financial position by the application of IFRS 15 as of January 1, 2018 are summarized as below. Line items that were not affected by the changes have not been included. There is no impact on retained earnings of transition to IFRS 15 as at January 1, 2018.

	RMB'000
Current liabilities	
Deposits received in respect of pre-sale of properties	(3,741,311)
Trade, bills and other payables	(21,015)
Contract liabilities	3,762,326
	–

For further details on the Group's accounting policy for revenue recognition, see accounting policy for revenue from contracts with customers in note 4.

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

(a) (cont'd)

B. IFRS 15 Revenue from Contracts with Customers ("IFRS 15") (cont'd)

The following table summarizes the impacts for each line items affected when applying IFRS 15 on the Group's consolidated statement of financial position as at December 31, 2018. Line items that were not affected by the changes have not been included.

	As reported under IFRS 15	Adjustments	Amount without application of IFRS 15
	RMB'000	*RMB'000*	*RMB'000*
Current liabilities			
Deposits received in respect of pre-sale of properties	–	2,826,844	2,826,844
Trade, bills and other payables	1,113,512	19,761	1,133,273
Contract liabilities	2,846,605	(2,846,605)	–
	3,960,117	–	3,960,117

There was no significant effect from adoption of IFRS 15 on the consolidated statement of profit or loss and other comprehensive income, and consolidated statement of cash flow for the year ended December 31, 2018.

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

(b) New and revised IFRSs that have been 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 16	Leases[1]
IFRS 17	Insurance Contracts[4]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
IFRIC 23	Uncertainty over Income Tax Treatments[1]
Amendments to IFRS 3 (Revised)	Business Combinations[3]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to IAS 1 (Revised)	Presentation of Financial statements[2]
Amendments to IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors[2]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to IAS 28	Long term Interests in Associates and Joint Ventures[1]
IFRSs (Amendments)	Annual Improvements to IFRSs 2015-2017 Cycles[1]

1 Effective for annual periods beginning on or after January 1, 2019
2 Effective for annual periods beginning on or after January 1, 2020
3 Business combinations for which the acquisition date is on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period
4 Effective for annual periods beginning on or after January 1, 2021
5 No mandatory effective date yet determined but available for early adoption

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

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

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

IFRS 16 – Leases

IFRS 16, which upon the effective date will supersede IAS 17 "Leases" and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more 12 months, unless the underlying asset is of low value. Specifically, under IFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, IAS 17.

In respect of the lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group plans to adopt the transitional provisions in IFRS 16 retrospectively by recognising the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at January 1, 2019 and will not restate the comparatives. As a practical expedient permitted by IFRS 16, the Group plans to apply the new requirements to contracts that were previously identified as leases applying IAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group also plans to use the practical expedient allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application.

As at December 31, 2018, the Group had non-cancellable operating lease commitments of RMB29,058,000. The directors of the Company expect the adoption of IFRS 16 in future will result in recognition of right-of-use assets with an offsetting liability in the statement of financial position. As for the statement of profit or loss and other comprehensive income, there will be a decrease in operating lease payments while increase in depreciation and interest expenses. The directors of the Company is still in the process of assessment for the impact from adoption of IFRS 16, and based on the result of preliminary assessment, the net impact on the Group's financial performance is limited.

3. BASIS OF PREPARATION

(a) Statement of compliance

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 the Hong Kong Companies Ordinances.

(b) Basis of measurement

The financial statements have been prepared under 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.

4. SIGNIFICANT ACCOUNTING POLICIES

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Basis of consolidation (cont'd)

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 note to the consolidated financial statements that disclose 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 IFRS 9 or IAS 39 as applicable, as the cost on initial recognition of an investment in an associate or a joint venture.

Revenue from contracts with customers (accounting policies applied from January 1, 2018)

Income is classified by the Group as revenue when it arises from the sale of goods or the provision of services in the ordinary course of the Group's business.

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Revenue from contracts with customers (accounting policies applied from January 1, 2018) (cont'd)

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Consideration from contracts with customers is recognised as revenue over a period of time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the Group applies the practical expedient in IFRS 15 of not adjusting the transaction price for the effects of any significant financing component.

Further details of the Group's revenue and other income recognition policies are as follows:

Manufacture and trading of upholstered furniture

Revenue from sale of upholstered furniture is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the product and accepted by the customers. No right of return by customers is allowed based on either contractual terms or in business practices. Revenue is thus recognised when the products are delivered to the customers and the customers accepted upholstered furniture. There is generally only one performance obligation and the consideration includes no variable amount. Invoices are usually payable ranging between 30 and 120 days.

Properties development in the PRC

Revenue from sale of properties developed for sale in the PRC in the ordinary course of business is recognised at the point in time when the properties development completed and control of completed property is transferred to and accepted by the customers, and the Group has present right to payment and the collection of the consideration is probable. No revenue is recognised over time since the contract does not give the Group an enforceable right to payment for performance completed to date.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Revenue from contracts with customers (accounting policies applied from January 1, 2018) (cont'd)

Properties development in the PRC (cont'd)

Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the consolidated statement of financial position under contract liabilities (see below). There is generally only one performance obligation (which is delivery of completed properties) and the consideration include no variable amount.

Other services

Revenue from provision of travel and tourism-related services (including package tours services conducted by the Group as the principal), resort operation and provision of property management services by the Group itself are recognised over time by input method during the period of relevant services rendered as management consider it would faithfully depict the ways customers simultaneously receive and consume the benefits provided by the Group's performance.

Revenue from catering operation is recognised at the point in time when control of the asset is transferred to the customer, generally on services have been rendered to customers. Invoices for above services are generally issued on completion of services rendered.

When another party is involved in providing goods or services to its customer, the Group determines whether it is a principal or an agent in these transactions by evaluating the nature of its promise to the customer. The Group is a principal and records revenue on a gross basis (i.e. package tours services conducted by the Group) if it controls the promised goods or services before transferring them to the customer. However, if the Group's role is only to arrange for another entity to provide the goods or services, then the Group is an agent and will need to record revenue at the net amount that it retains for its agency services.

Other income

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Contract balances

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Incremental cost to obtain a contract

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

The Group recognises such costs (mainly sales commissions) as an asset if it expects to recover these costs. The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate.

Revenue recognition (accounting policies applied until December 31, 2017)

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.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Revenue recognition (accounting policies applied until December 31, 2017) (cont'd)

Deposits and instalments 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.

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 recognised 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 and freehold land 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.

Freehold land are not depreciated, and are carried at cost less accumulated impairment loss, if any.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Property, plant and equipment (cont'd)

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.

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Foreign currencies (cont'd)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Taxation (cont'd)

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

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

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

Intangible assets

Intangible assets acquired separately 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. The amortisation expense is recognised in profit or loss and included in administrative expenses.

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.

4. 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 (accounting policies applied from January 1, 2018)

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

i) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (accounting policies applied from January 1, 2018) (cont'd)

i) Financial assets (cont'd)

Debt instruments (cont'd)

FVTOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Debt investments at FVTOCI are subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

FVTPL: Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI and are mandatorily required to be measured at fair value since the contractual cash flows of the financial assets are not solely payments of principal and interest on the principal amount outstanding. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Equity instruments

On initial recognition of an equity investment that is not held for trading and this is not contingent consideration recognised by an acquirer within the scope of IFRS 3, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis at i) January 1, 2018 (date of initial application of IFRS 9) based on the specified transitional provisions under IFRS 9; or ii) initial recognition date of the equity instrument. Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits. Dividends from investments in equity instruments at FVTOCI are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. All other equity instruments are classified as FVTPL, whereby changes in fair value, dividends and interest income are recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (accounting policies applied from January 1, 2018) (cont'd)

ii) Impairment loss

The Group recognises a loss allowance for ECL on financial instruments which are subject to impairment under IFRS 9 (including trade receivables and other receivables and debt financial instruments, contract assets, and financial guarantee contracts). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for forward-looking factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables and contract assets without significant financing component. The ECL on these assets are assessed individually for debtors with significant balances or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(a) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from financial analysts and governmental bodies (if available), as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (accounting policies applied from January 1, 2018) (cont'd)

ii) Impairment loss (cont'd)

(a) Significant increase in credit risk (cont'd)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread the credit default swap prices for the debtors;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor; and

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date.

A debt instrument is determined to have low credit risk if i) the debt instrument has a low risk of default (i.e. no default history), ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of "investment grade" as per globally understood definition.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (accounting policies applied from January 1, 2018) (cont'd)

ii) Impairment loss *(cont'd)*

(a) Significant increase in credit risk (cont'd)

For financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contract, the Group considers the changes in the risk that the specified debtor will default on the contract.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(b) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(c) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(1) significant financial difficulty of the issuer or the borrower;

(2) a breach of contract, such as a default or past due event;

(3) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (accounting policies applied from January 1, 2018) (cont'd)

ii) Impairment loss (cont'd)

(c) Credit-impaired financial assets (cont'd)

(4) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(5) the disappearance of an active market for that financial asset because of financial difficulties.

(d) Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

iii) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

For a financial guarantee contract, the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the expected losses is the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped based on similar shared credit risk characteristics.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (accounting policies applied from January 1, 2018) (cont'd)

iii) Measurement and recognition of ECL (cont'd)

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

For financial guarantee contracts, the loss allowances are recognised at the higher of the amount of the loss allowance determined in accordance with IFRS 9; and the amount initially recognised less, where appropriate, cumulative amount of income recognised over the guarantee period.

The Group recognises an impairment gain or loss in profit or loss for all financial assets by adjusting their carrying amount through a loss allowance account.

iv) Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments of the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

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

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

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

Financial liabilities

Financial liabilities at amortised cost

Financial liabilities, including trade, bills and other payables, bank and other borrowings and amount due to non-controlling interests of subsidiaries, are subsequently measured at amortised cost using the effective interest method.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (accounting policies applied from January 1, 2018) (cont'd)

iv) Financial liabilities and equity *(cont'd)*

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 payments when due in accordance with the terms of a debt instrument. Financial guarantee contract liabilities are measured initially at their fair values. It is subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and

- the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

v) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with IFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

Financial instruments (accounting policies applied until December 31, 2017)

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.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (accounting policies applied until December 31, 2017) (cont'd)

Financial assets

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

Loans and receivables

Loans and receivables, including trade 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.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (accounting policies applied until December 31, 2017) (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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (accounting policies applied until December 31, 2017) (cont'd)

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

Impairment of financial assets (cont'd)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (accounting policies applied until December 31, 2017) (cont'd)

***Financial liabilities and equity** (cont'd)*

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".

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.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (accounting policies applied until December 31, 2017) (cont'd)

***Derecognition** (cont'd)*

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

Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (accounting policies applied until December 31, 2017) (cont'd)

Related parties *(cont'd)*

(b) An entity is related to the Group if any of the following conditions apply: (cont'd)

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

Estimated impairment of properties under development and held for sale

As explained in note 4, 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, 2018, the aggregate carrying amount of properties under development and held for sale is approximately RMB3,647,346,000 (2017: RMB4,629,702,000) (net of allowance of RMB44,707,000 (2017: RMB63,344,000)).

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

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

Under IFRS 9

The Group uses provision matrix to calculate ECL for the trade receivables. The provision rates are based on past-due status of debtors as groupings of various debtors on this basis demonstrate similar loss patterns with shared credit risk characteristics. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade and other receivables with significant balances and credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at December 31, 2018, the aggregate carrying amount of trade and other receivables is RMB1,177,848,000, net of allowance for doubtful debts of RMB139,593,000.

Under IAS 39

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, net of allowance for doubtful debts of RMB108,062,000.

5. 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.

6. 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:

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

– Properties development in the PRC ("Properties development"); and

– Others, comprising mainly operation of resort owned by the Group, provision of travel and tourism-related services, and provision of property management service ("Others")

6. SEGMENT INFORMATION AND REVENUE (cont'd)

(a) Segment information (cont'd)

Segment revenues and results

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

Revenue

For the year ended December 31, 2018

	Manufacturing	Properties development	Others	Eliminations	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
External sales	**719,019**	**2,708,121**	**181,400**	**–**	**3,608,540**
Inter-segment sales	**–**	**–**	**25,841**	**(25,841)**	**–**
Total	**719,019**	**2,708,121**	**207,241**	**(25,841)**	**3,608,540**

For the year ended December 31, 2017

	Manufacturing	Properties development	Others	Eliminations	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*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

In the following table, revenue is disaggregated by primary geographical markets, major products and service lines and timing of revenue recognition. The Group has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with IAS 18 and IAS 11.

6. SEGMENT INFORMATION AND REVENUE (cont'd)

(a) Segment information (cont'd)

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

Revenue (cont'd)

Disaggregation of revenue from contracts with customers

For the year ended December 31, 2018

	Manufacturing	Properties development	Others	Elimination	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Primary geographical markets					
United States	546,436	–	–	–	546,436
PRC, including HK	51,727	2,708,121	207,241	(25,841)	2,941,248
Europe	67,449	–	–	–	67,449
Others	53,407	–	–	–	53,407
	719,019	2,708,121	207,241	(25,841)	3,608,540
Major products and services					
Sales of upholstered furniture	719,019	–	–	–	719,019
Sales of properties	–	2,708,121	–	–	2,708,121
Travel & tourism services	–	–	122,883	(578)	122,305
Catering & entertainment	–	–	21,523	(82)	21,441
Property management services	–	–	62,835	(25,181)	37,654
	719,019	2,708,121	207,241	(25,841)	3,608,540
Timing of revenue recognition					
At a point in time	719,019	2,708,121	21,523	(82)	3,448,581
Transferred over time	–	–	185,718	(25,759)	159,959
	719,019	2,708,121	207,241	(25,841)	3,608,540

6. SEGMENT INFORMATION AND REVENUE (cont'd)

(a) Segment information (cont'd)

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

Results

	2018	2017
	RMB'000	*RMB'000*
Segment profit/(loss)		
– Manufacturing	**37,846**	31,476
– Properties development	**437,024**	(216,966)
– Others	**(50,017)**	(35,431)
	424,853	(220,921)
Unallocated corporate expenses	**(12,881)**	(2,658)
Unallocated other gains and losses	**22,687**	4,202
Profit/(loss) for the year	**434,659**	(219,377)

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4. 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.

6. 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

	2018	2017
	RMB'000	*RMB'000*
Manufacturing	**981,572**	660,824
Properties development	**6,374,681**	7,681,013
Others	**783,025**	281,517
Total segment assets	**8,139,278**	8,623,354
Unallocated	**13,295**	106,678
Consolidated assets	**8,152,573**	8,730,032

Segment liabilities

	2018	2017
	RMB'000	*RMB'000*
Manufacturing	**530,738**	536,866
Properties development	**4,488,317**	5,156,350
Others	**214,107**	127,195
Total segment liabilities	**5,233,162**	5,820,411
Unallocated	**453**	11,150
Consolidated liabilities	**5,233,615**	5,831,561

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.

6. SEGMENT INFORMATION AND REVENUE (cont'd)

(a) Segment information (cont'd)

Geographical information

The Group's operations are substantively located in the PRC.

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

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

	Revenue from external customers Year ended December 31,		Non-current assets At December 31,	
	2018	2017	**2018**	2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
United States	**546,436**	574,651	**–**	–
PRC, including HK	**2,941,248**	976,676	**1,652,633**	1,040,449
Europe	**67,449**	51,789	**–**	–
Others	**53,407**	2,764	**358,359**	6
	3,608,540	1,605,880	**2,010,992**	1,040,455

Information about major customer

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

	2018	2017
	RMB'000	*RMB'000*
Customer A from Manufacturing segment	**N/A**[1]	239,411

1. The corresponding revenue from this customer in 2018 did not contribute 10% or more of the total revenue of the Group.

2. No customer in 2018 contributed 10% or more of the total revenue of the Group.

6. SEGMENT INFORMATION AND REVENUE (cont'd)

(b) Revenue

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

	2018	2017
	RMB'000	*RMB'000*
Sale of goods		
Upholstered furniture	**719,019**	696,314
Residential properties	**2,708,121**	756,188
	3,427,140	1,452,502
Provision of services		
Others *(note)*	**181,400**	153,378
	3,608,540	1,605,880

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

7. OTHER INCOME

An analysis of other income is as follows:

	2018	2017
	RMB'000	*RMB'000*
Government grants *(note a)*	**11,853**	8,304
Interest income	**5,221**	6,934
Dividends income from equity investments classified as financial assets at fair value through other comprehensive income	**480**	–
Dividends income from available-for-sale investment	**–**	200
Rental income *(note b)*	**2,489**	2,271
Sub-contracting fee income	**345**	124
	20,388	17,833

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

Note b: Rental income mainly includes income from leasing of insignificant portion of the Group's spare production warehouse, currently classified as properties, plant and equipment, to external parties on a short-term basis.

8. OTHER GAINS AND LOSSES

An analysis of other gains and losses is as follows:

	2018	2017
	RMB'000	*RMB'000*
		(Represented)
Reversal of impairment loss/(impairment loss) recognised in respect of properties under development and held for sale *(note a)*	**3,584**	(10,793)
Loss on disposal of property, plant and equipment	**(295)**	(3,582)
Gain on disposal of leasehold land	**–**	7,977
Net foreign exchange gain (loss)	**15,364**	(10,993)
Donation	**(745)**	(395)
Penalty *(note b)*	**(2,625)**	(663)
Gain on disposal of subsidiaries *(note 36)*	**793**	16,414
Net gain from sale of scrap materials	**1,513**	1,731
Release of financial guarantees	**10,735**	10,735
Others	**6,551**	(2,601)
	34,875	7,830

Certain comparative figures have been represented to conform with the current year's presentation in accordance with the requirement of IAS 1 (Revised).

Note a: Reversal of impairment loss in 2018 represents net reversal of impairment loss (limited to the amount of the original write-down) on certain properties held for sales due to rise in recent selling price of similar properties, which had been previously made in prior year.

Impairment loss in 2017 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: The penalty arose were mainly due to VAT late payment and breach of certain construction regulations in the PRC assessed by local authorities in the PRC. The penalties are one-off payment, and the non-compliances have been rectified with no further compensation need to be made in future.

9. FINANCE COSTS

An analysis of finance costs is as follows:

	2018	2017
	RMB'000	*RMB'000*
Interest on:		
Bank and other borrowings	**47,515**	20,980
Less: Amounts capitalised in respect of properties under development for sale and construction in progress *(note 24)*	**(29,885)**	(3,967)
	17,630	17,013

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.

10. PROFIT/(LOSS) BEFORE TAX

Profit/(loss) before tax has been arrived at after charging:

	2018	2017
	RMB'000	*RMB'000*
Amortisation of intangible assets (included in the administrative expenses)	**80**	103
Depreciation of property, plant and equipment	**70,798**	56,320
Total depreciation and amortisation	**70,878**	56,423
Release of prepaid lease payments	**3,091**	1,073
Auditor's remuneration	**2,300**	2,050
Net provision for impairment loss recognised in respect of trade and other receivables *(note a)*	**32,422**	7,041
Cost of inventories under Manufacturing segment recognised as expenses (including net allowance of inventories of RMB441,000 (2017: including net allowance of inventories of RMB47,000))	**597,783**	559,029
Cost of properties under properties development segment recognised as cost of sale	**1,929,213**	633,533
Operating lease rentals in respect of land and buildings	**10,221**	15,530
Employee cost (including directors' emoluments)		
– Wages, salaries and other benefits	**185,933**	156,559
– Contributions to defined contribution retirement plans	**20,463**	16,284
	206,396	172,843

Note a: For the year ended December 31, 2018, the amounts mainly included (i) additional ECL provision for the year of RMB14,714,000 for amount due from vendor in Malaysia for deposit paid for acquisition of land ("Malaysia Deposits") since the vendor had failed to refund the remaining part of the deposits paid for acquisition of two pieces of reclaimed land in Malaysia to the Group which was previously agreed that the balance would be settled not later than October 2018. However, the outstanding balance has not been settled in accordance with the agreed timing and the management of the Group believed that the outstanding and past due balances are not recoverable. As at December 31, 2018, full provision for the Malaysia Deposits has been made, details refer to note 25 (b) to the consolidated financial statements; (ii) ECL provision for the year of RMB12,837,000 for trade receivables based on historical loss data of the trade receivables adjusted with forward-looking information.

For the year ended December 31, 2017, the amount mainly included an impairment loss of RMB5,900,000 on deposit paid by the Group in prior year for acquisition of land for development for sale in PRC. As there was no refund of the deposit paid by the Group from the counterparty since the judgement announced by local Court in 2017. Management provided a full impairment loss of RMB5,900,000, based on its best estimates of outcomes, in profit or loss for the year in 2017. Details refer to note 25 (e)(i) to the consolidated financial statements.

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

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

2018

	Zhu Zhangjin, Kasen ("Mr. Zhu") RMB'000 (note i)	Shen Jianhong RMB'000 (note ii)	Zhou Lingqiang RMB'000	Zhang Yuchuan RMB'000	Zhou Xiaohong RMB'000 (note iii)	Du Haibo RMB'000	Total RMB'000
Fees	–	–	152	152	–	153	457
Other emoluments							
Salaries and other benefits	800	280	–	–	280	–	1,360
Contributions to retirement benefits schemes	17	8	–	–	17	–	42
Total emoluments	817	288	152	152	297	153	1,859

2017

	Zhu Zhangjin, Kasen ("Mr. Zhu") RMB'000 (note i)	Sun Hongyang RMB'000 (note iii)	Zhang Mingfa, Michael RMB'000 (note ii)	Shen Jianhong RMB'000 (note ii)	Zhou Lingqiang RMB'000	Zhang Yuchuan RMB'000	Zhou Xiaohong RMB'000 (note iii)	Du Haibo RMB'000	Total RMB'000
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

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 Jian Hong 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 Xiao Hong has been appointed as an executive director on June 30, 2017.

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

One (2017: Two) of the five individuals with the highest emoluments in the Group were directors of the Company whose emoluments is included in the disclosures as above. The emoluments of the remaining four (2017: three) individuals were as follows:

	2018	2017
	RMB'000	*RMB'000*
Basic salaries and other benefits	**1,850**	1,641
Contributions to retirement benefits schemes	**51**	45
	1,901	1,686

Their emoluments were within the following bands:

	2018	2017
Nil to HK$1,000,000	**4**	3
HK$1,000,001 to HK$1,500,000	**–**	–
HK$1,500,001 to HK$2,000,000	**–**	–

During the years ended 2018 and 2017, 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 2018 and 2017.

12. INCOME TAX EXPENSES

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

	2018	2017
	RMB'000	*RMB'000*
Income tax		
– for the current year	**91,402**	20,061
– under (over) provision in respect of prior years	**1,713**	(2,298)
	93,115	17,763
LAT		
– for the current year	**63,764**	24,296
Deferred tax *(note 21)*	**8,062**	(10,227)
	164,941	31,832

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%. One of the subsidiary in the PRC has been approved as new and high technology enterprise, which entitles to concessionary tax rate of 15% from 2018 to 2020. The subsidiary needs to re-apply for the preferential tax treatment when the preferential tax period expired in 2020.

On March 21, 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on March 28, 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first Hong Kong dollars ("HK$") 2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%.

The Directors considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Therefore, Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

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

Taxation arising in Cambodia is calculated at the tax rate 20.0% prevailing in Cambodia.

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

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

	2018	2017
	RMB'000	*RMB'000*
Profit/(loss) before tax	**599,600**	(187,545)
Tax rate applicable to the major operation of the Group	**25%**	25%
Tax at the domestic income tax rate	**149,900**	(46,886)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**1,626**	2,498
Tax effect of tax preference	**(5,921)**	–
Tax effect of expenses not deductible for tax purpose	**9,375**	11,654
Tax effect of income not taxable for tax purpose	**(3,912)**	(351)
Tax effect of deductible temporary differences not recognised	**6,113**	4,651
Utilization of deductible temporary differences previously not Recognised	**(15,133)**	(1,461)
LAT	**63,764**	24,296
Tax effect of LAT	**(15,670)**	(6,074)
Tax effect of tax losses not recognised	**36,201**	67,042
Utilization of tax losses previously not recognised	**(63,115)**	(21,239)
Under/(over) provision in previous years	**1,713**	(2,298)
Taxation for the year	**164,941**	31,832

13. DIVIDENDS

	2018	2017
	RMB'000	*RMB'000*
Special dividend HK$0.3 (2017: Nil) per ordinary share	**389,885**	–

At a meeting held on August 9, 2018, the directors of the Company recommended a special dividend of HK$0.3 per ordinary share to the shareholders whose names appear on the register of members of the Company on August 24, 2018. Total special dividend of HK$448,090,000 was paid to the shareholders on September 14, 2018 and October 16, 2018.

No interim or final dividend has been proposed since the end of the reporting period.

No dividend has been proposed or paid during 2017.

14. EARNINGS (LOSS) PER SHARE

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

Profit/(loss) for the year

	2018	2017
	RMB'000	*RMB'000*
Profit (loss) for the year for the purposes of basic and diluted earnings (loss) per share, being profit (loss) attributable to owners of the Company	**449,779**	(203,351)

Basic earnings (loss) per share

The calculation of basic earnings (loss) per share is based on the profit attributable to ordinary equity shareholder of the Company of RMB449,779,000 (2017: loss of RMB203,351,000) divided by the weighted average of 1,494,316,297 ordinary shares (2017: 1,511,019,881 shares) in issue during the year, as follows:

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

Basic earnings (loss) per share (cont'd)

Weighted average number of ordinary shares

	2018	2017
Issued ordinary shares at January 1	**1,511,019,881**	1,511,019,881
Effect of shares repurchased	**(25,658,926)**	–
Effect of share option exercised	**8,955,342**	–
Weighted average number of ordinary shares at December 31	**1,494,316,297**	1,511,019,881

Diluted earnings (loss) per share

The calculation of diluted earnings (loss) per share is based on the profit (loss) attributable to ordinary equity shareholder of the Company of RMB449,779,000 (2017: RMB203,351,000) divided by the weighted average of 1,502,924,708 ordinary shares (2017: 1,511,019,881 shares) in issue during the year which assumed the conversion of all dilutive potential ordinary shares:

Number of shares

	2018	2017
Weighted average number of ordinary shares for the purposes of basic earnings (loss) per share	**1,494,316,297**	1,511,019,881
Effect of dilutive potential ordinary shares: – share options	**8,608,411**	–
Weighted average number of ordinary shares for the purposes of diluted earnings (loss) per share	**1,502,924,708**	1,511,019,881

For the year ended December 31, 2017, 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.

15. PROPERTY, PLANT AND EQUIPMENT

	Freehold land	Land and 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*	*RMB'000*
COST							
At January 1, 2017	–	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
Additions	179,085	1,539	4,918	4,958	3,479	391,757	585,736
Disposal of subsidiaries	–	–	–	–	(209)	–	(209)
Disposals	–	–	(939)	(1,314)	(156)	–	(2,409)
Transfers	–	109,906	48,549	374	5,469	(164,298)	–
At December 31, 2018	**179,085**	**1,034,306**	**284,151**	**48,041**	**68,412**	**242,839**	**1,856,834**
DEPRECIATION AND IMPAIRMENT							
At January 1, 2017	–	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
Depreciation expense	–	41,226	21,433	2,739	5,400	–	70,798
Eliminated on disposal of subsidiaries	–	–	–	–	(21)	–	(21)
Eliminated on disposal	–	–	(316)	(814)	(80)	–	(1,210)
At December 31, 2018	**–**	**266,084**	**86,724**	**30,053**	**44,266**	**–**	**427,127**
CARRYING AMOUNTS							
At December 31, 2018	**179,085**	**768,222**	**197,427**	**17,988**	**24,146**	**242,839**	**1,429,707**
At December 31, 2017	–	698,003	166,016	15,895	20,862	15,380	916,156

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

The above items, other than freehold land and 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, 2018, the title deeds of buildings with carrying amount of RMB61,275,000 (2017: RMB62,608,000) has not been obtained. The directors of the Company 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

	2018	2017
	RMB'000	*RMB'000*
Carrying amount at January 1	**35,992**	40,018
Addition/(disposal)	**103,549**	(2,953)
Amortisation recognised during the year	**(3,091)**	(1,073)
Carrying amount at December 31	**136,450**	35,992
Current portion	**(3,554)**	(1,012)
Non-current portion	**132,896**	34,980

Prepaid lease payments in respect of land use right with medium leases terms held for owned-use by the Group in the PRC have obtained land use right certificates. Amortisation expense has been charged in "administrative expenses" in the profit and loss.

17. INTANGIBLE ASSETS

	Computer software *RMB'000*
COST	
At January 1, 2017	5,477
Additions	29
Disposal of subsidiaries	(1,032)
At December 31, 2017	4,474
Additions	676
At December 31, 2018	**5,150**
ACCUMULATED AMORTISATION	
At January 1, 2017	4,137
Provided for the year	103
At December 31, 2017	4,240
Provided for the year	80
At December 31, 2018	**4,320**
CARRYING VALUES	
At December 31, 2018	**830**
At December 31, 2017	234

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

18. PREPAYMENT FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

The Group has prepaid and entered into certain contracts for the acquisition of power generators in Cambodia that the Group has not received related equipment and service at end of reporting period. The capital commitment for the acquisition of the plant and equipment are included in note 42. These prepayments would transfer to "property, plant and equipment" upon receipt of relevant equipment and service.

19. PREPAYMENT FOR ACQUISITION OF FREEHOLD AND LEASEHOLD LAND

Prepayment for acquisition of freehold and leasehold land are non-refundable and included (i) the prepayment for acquisition of freehold land for construction and operation of waterpark amounting of USD25,798,000, equivalents to RMB177,057,000 (2017: Nil); and (ii) prepayment for acquisition of leasehold land for construction and operation of waterparks amounting of RMB174,522,000 (2017: RMB89,085,000), of which RMB150,702,000 (2017: RMB89,085,000) transferred from trade and other receivables and RMB23,820,000 was paid to local government during 2018.

At end of the reporting period, the Group has obtained all relevant approvals from local government and in the process of obtaining title deeds of the land acquired. Management expects no material obstacle in the process to obtain title deeds and expect to complete within a year from the end of the reporting period. These prepayment would transfer to "property, plant and equipment – freehold land" and "prepaid lease payment" when the Group obtains relevant title deeds.

During the year ended December 31, 2018, prepayment for acquisition of leasehold land with aggregated carrying value of RMB89,085,000 was transferred to "prepaid lease payment" as the Group has obtained relevant title deeds.

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE INVESTMENTS

	December 31, 2018	January 1, 2018	December 31, 2017
	RMB'000	*RMB'000*	*RMB'000*
Financial assets at fair value through other comprehensive income			
– Listed equity investment *(Note i)*	**18,203**	23,283	–
– Unlisted equity investment *(Note ii)*	**–**	25,220	–
Available-for-sale investment			
– Listed equity investment *(Note i)*	**–**	–	23,283
– Unlisted equity investment *(Note ii)*	**–**	–	25,220
	18,203	48,503	48,503

(i) The listed equity investments represent 4,000,554 shares (0.31% equity interest) (December 31, 2017: 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 on the Shenzhen Stock Exchange. It is reclassified to non-current financial assets measured at FVTOCI upon the initial application of IFRS 9 at January 1, 2018 for the reasons described in Note 2A (i).The fair value as at January 1, 2018 was determined by using quoted bid price of HCLM on Shenzhen Stock Exchange before trading suspension on November 1, 2017, adjusted with share price performance of similar listed equity securities on Shenzhen Stock Exchange between trading suspension date of HCLM and January 1, 2018, discount for lack of marketability. The trading of shares of HCLM has resumed on Shenzhen Stock Exchange since January 31, 2018, and the fair value as at December 31, 2018 was based on quoted market price at Shenzhen Stock Exchange.

As at December 31, 2018, 4,000,000 (2017: 4,000,000) of the HCLM shares have been pledged to secure the banking facilities of the CCT Group (note 45(e)).

(ii) In prior year, 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 plus transaction cost of RMB25,220,000. It is reclassified to financial assets measured at FVTOCI upon the initial application of IFRS 9 at January 1, 2018, and was disposed for cash consideration of RMB25,220,000 to an independent third party during 2018.

21. DEFERRED TAXATION

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

	Unrealised profit on intra-group transactions	Fair value change of available-for-sale investments	Fair value change of FVTOCI	LAT provision	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At January 1, 2017	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
Initial application of IFRS 9	–	4,781	(4,781)	–	–
At January 1, 2018	27,544	–	(4,781)	7,491	30,254
Credit to other comprehensive income	–	–	1,270	–	1,270
Credit to profit or loss	(10,565)	–	–	2,503	(8,062)
At December 31, 2018	**16,979**	**–**	**(3,511)**	**9,994**	**23,462**

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

	2018	2017
	RMB'000	*RMB'000*
Deferred tax assets	**50,529**	68,122
Deferred tax liabilities	**(27,067)**	(37,868)
	23,462	30,254

21. DEFERRED TAXATION (cont'd)

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

	2018	2017
	RMB'000	*RMB'000*
Impairment of property, plant and equipment	**2,960**	2,960
Impairment of property under development and held for sale	**44,707**	98,043
Allowance for bad and doubtful debts	**102,071**	85,254
Allowance for inventories	**1,971**	1,530
	151,709	187,787

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 RMB1,251,170,387 (2017: RMB1,170,528,000).

The directors of the Company represent that the undistributed earnings of the PRC subsidiaries as of December 31, 2018 and 2017 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.

21. DEFERRED TAXATION (cont'd)

At the end of the reporting period, the Group has unused tax losses of RMB270,684,000 (2017: RMB379,341,000) 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 RMB26,891,000 (2017: RMB23,830,000) can be carried forward indefinitely. The remaining RMB243,793,000 (2017: RMB355,511,000) expires in the following years:

	2018	2017
	RMB'000	*RMB'000*
2018	**–**	8,126
2019	**21,565**	28,737
2020	**18,496**	22,319
2021	**16,093**	31,596
2022	**58,049**	264,733
2023	**129,590**	–
	243,793	355,511

22. INVENTORIES

	2018	2017
	RMB'000	*RMB'000*
Raw materials	**49,132**	50,125
Work in progress	**11,434**	17,784
Finished goods	**25,190**	13,129
Total, net of allowance for inventories	**85,756**	81,038

23. CONTRACT LIABILITIES

	December 31, 2018	January 1, 2018
	RMB'000	*RMB'000*
Contract liabilities arising from:		
Manufacturing and trading of upholstered furniture	**13,261**	14,013
Property development	**2,826,844**	3,741,311
Other services	**6,500**	7,002
	2,846,605	3,762,326

23. CONTRACT LIABILITIES (cont'd)

Typical payment terms which impact on the amount of contract liabilities are as follows:

Manufacturing and trading of upholstered furniture

The Group might request certain new customers to place deposit on acceptance of the orders, with the remainder of the consideration at the delivery of the finished goods.

Properties development

The Group takes deposits for the selling price of residential units stated in the sales and purchase agreement before the transfer of residential units.

Other services

The Group accept some deposits for the advance reservation of hotel accommodation and travel & tourism services, with the remainder of the consideration at the completion of services provided.

Movements in contract liabilities

	2018
	RMB'000
Balance as at January 1, 2018	**3,762,326**
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	**(3,071,091)**
Increase in contract liabilities as a result of receiving deposits from customers	**2,155,370**
Balance at December 31, 2018	**2,846,605**

Note: The Group has initially applied IFRS 15 using the cumulative effect method and adjusted the opening balance at January 1, 2018. The comparative information is not restated.

As at December 31, 2018, the aggregated amount of the transaction price received and allocated to the remaining performance obligations not yet satisfied by the Group as at December 31, 2018 under the Group's existing contracts outstanding as of December 31, 2018 is RMB2,921,751,000. The Group will recognise the expected revenue in future based on the appropriate accounting policies as described in note 4, which is expected to occur within next 12 months from the end of the reporting period.

24. PROPERTIES UNDER DEVELOPMENT AND HELD FOR SALE

	RMB'000
COST	
At January 1, 2017	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 a subsidiary *(note 36)*	(93,754)
At December 31, 2017	4,693,046
Addition of development expenditure	1,049,797
Sales of properties held for sale	(2,050,790)
At December 31, 2018	**3,692,053**
IMPAIRMENT	
At January 1, 2017	(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)
Provided for the year	(4,766)
Impairment loss realised on sales of properties	15,053
Reversal of impairment loss recognised for the year	8,350
At December 31, 2018	**(44,707)**
CARRYING VALUES	
At December 31, 2018	**3,647,346**
At December 31, 2017	4,629,702

The carrying values are presented as:

	2018	2017
	RMB'000	*RMB'000*
Properties under development for sale	**2,881,767**	3,554,601
Properties held for sale	**765,579**	1,075,101
	3,647,346	4,629,702

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

As at December 31, 2018, RMB171,759,000 (2017: RMB279,460,000) of the properties under development 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 was an amount of RMB29,885,000 (2017: RMB3,967,000). The properties under development and property held for sale are located in the PRC.

25. TRADE AND OTHER RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Trade receivables	**119,116**	179,253
Less: allowance for doubtful debts	**(33,865)**	(21,028)
	85,251	158,225
Deposits paid for acquisition of land for development for sale *(Note a)*	**609,888**	613,839
Less: allowance for loss	**(5,900)**	(5,900)
	603,988	607,939
Amount due from vendor in Malaysia for deposits paid for acquisition of land for development for sale *(Note b)*	**37,522**	42,280
Less: allowance for loss	**(37,522)**	(22,808)
	–	19,472
Advance payment for purchase of inventories *(Note c)*	**19,340**	63,350
Incremental costs to obtain contracts *(Note d)*	**61,397**	77,373
Deposit and prepayments *(Note e)*	**126,747**	110,772
Less: allowance for loss	**(40,129)**	(40,005)
	86,618	70,767
Prepaid other taxes *(Note f)*	**259,602**	252,545
Other receivables *(Note g)*	**83,829**	94,136
Less: allowance for loss	**(22,177)**	(18,321)
	61,652	75,815
	1,177,848	1,325,486

25. 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. As at December 31, 2018, the amounts mainly included (i) RMB603,361,000 (2017: RMB607,314,000) 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)); and (ii) RMB5,900,000 (2017: RMB5,900,000) principal amount of deposit paid for land acquisition in Hangzhou, PRC ("Land B") ("Land B deposit") as disclosed in note e(i) with allowance of doubtful debts of RMB5,900,000 (2017: RMB5,900,000).

(i) Prior to 2017, 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, based on current market price assessed and approved by local government, for obtaining relevant title deeds of such area of 81,646 sq. meters. The deposits of RMB39,542,000 relating to such area paid to vendor in prior years, together with the further payment of RMB49,543,000 made to local government by the Group in 2017, totally RMB89,085,000 were reclassified as prepayment for acquisition of leasehold land under non-current assets as at December 31, 2017. In March 2018, the Group obtained relevant title deeds of the above area of 81,646 sq. meters.

During 2018, the Group paid an additional deposit of RMB31,989,000 to the vendor. In July 2018, the Group received a notice from local government for approval of land acquisition of remaining area on which the water park resort has been constructed, and made a further payment of RMB114,760,000 in December 2018 to local government, based on current market price assessed and approved by local government, for obtaining relevant title deeds of such area of 74,211 sq. meters. The deposits of RMB35,942,000 relating to such area of 74,211 sq. meters paid in prior years to the vendor, together with the payment of RMB114,760,000 made to local government, totally RMB150,702,000 were reclassified as prepayment for acquisition of leasehold land under non-current assets as at December 31, 2018. Up to the date of this report, such title deeds of such area had not been obtained from local government. With ongoing land acquisition approval have been continuously obtained from local government since 2017, management considers the land acquisition is in progress and the Group would be able to complete the land acquisition of remaining area of 1,268,123 sq. meters, no impairment loss has been recognised for the remaining Sanya Deposits of RMB603,361,000 as at December 31, 2018.

25. TRADE AND OTHER RECEIVABLES (cont'd)

Notes: (cont'd)

(b) In prior years, the Group paid deposits of Malaysian ringgit ("RM") 21,000,000, approximate to RMB45,616,000 for acquisitions of two pieces of reclaimed land in Malaysia to the Malaysia vendor. Due to disputes on the work progress of the reclaimed land in Malaysia performed by the Malaysia vendor, the Group started legal proceeding against the default by Malaysia vendor with impairment loss of RMB22,808,000 has been recognised in prior year.

During 2017, an agreement was reached between the Group and the Malaysia 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, considered the carrying amount of RMB19,472,000, net of exchange difference of RMB1,425,000 recognised in profit or loss, was recoverable and no change for the impairment loss of RMB22,808,000 as at December 31, 2017 as there were repayments from the vendor during 2017.

During 2018, the Group continued to receive settlement by monthly instalments from the Malaysia vendor with aggregated RMB3,792,000 received until remaining instalments has been in arrears and past due over 90 days as at December 31, 2018. Management considered the remaining Malaysia Deposits, net of exchange difference of RMB965,000 recognised in profit or loss, has been in default and an additional lifetime ECL of RMB14,714,000 has been recognised for the year ended December 31, 2018. As at December 31, 2018, a full provision for loss has been made for the Malaysia Deposits.

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

(d) 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 to profit or loss within twelve months from the end of the reporting period at the point in time the properties complete and control transfer to customers.

(e) The amounts mainly included (i) deposits with principal amount of RMB20,000,000 (2017: 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 e (i)); (ii) deposits with principal amount of RMB19,500,000 (2017: 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 e (i)) (JV deposit A and B together as "JV deposits"); (iii) deposits with principal amount of RMB4,962,000 (2017: RMB12,962,000) paid for acquisition of land use rights in Hangzhou, PRC with local government ("Land C") (note e (ii)); (iv) prepayment for construction materials and services of RMB30,223,000 (2017: RMB3,176,000).

25. TRADE AND OTHER RECEIVABLES (cont'd)

Notes: (cont'd)

(e) (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. 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 full impairment loss of RMB39,500,000 for JV deposits prior to 2017.

The Group appealed for the legal cases in 2017 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. As there was no refund by Shenjianong and Zhuantang in 2017 and 2018, the management consider the JV Deposits has been in default under IFRS 9 and no reversal for impairment loss of the JV deposits was made for the year ended December 31, 2018.

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 full impairment loss of RMB5,900,000, based on its best estimates of outcomes, in profit or loss for the year ended December 31, 2017. Management consider Land B deposit has been in default under IFRS 9 and no reversal for impairment loss of the Land B deposit was made for the year ended December 31, 2018.

(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 cumulatively collected part of the deposits from local government amounting to RMB58,963,000 (2017: RMB50,963,000) as at December 31, 2018. On adoption of IFRS 9, management determined no significant change in credit risk of the remaining deposit and the risk of default from the local government is low, no impairment loss has been recognised for the remaining deposit of RMB4,962,000 as at December 31, 2018 since the loss allowance is immaterial.

(f) The amounts are prepaid tax and surcharges levied. The Group paid on behalf of properties buyers to the tax authority in advance based on the respective tax rate and expects to be realised within twelve months from the end of the reporting period when the properties complete and control transfer to customers and revenue is recognised.

(g) The amounts mainly represented the deposits for cooperation projects that are refundable to the Group if the projects not commenced within a specific period of time, and short-term advances to staff for operation purpose. Management expect the amounts, net of allowance for loss, to be realized or recovered from the counterparties within a year.

25. TRADE AND OTHER RECEIVABLES (cont'd)

The Group grants a credit period ranging from 30 days to 120 days to its customers. The aging analysis of trade receivables presented based on the invoice date at the end of reporting period is as follows:

	2018	2017
	RMB'000	*RMB'000*
Aged:		
Within 60 days	**66,355**	121,298
61 – 90 days	**4,540**	14,374
91 – 180 days	**6,530**	16,552
181 – 365 days	**18,118**	9,109
Over 1 year	**23,573**	17,920
	119,116	179,253

The Group's trade receivable balances included debtors which are related parties, details of which are set out in note 45(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. 73% (2017: 75%) 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 as at December 31, 2017 are debtors with aggregate carrying amount of RMB39,526,000 which are past due but not impaired at the end of the reporting period.

25. TRADE AND OTHER RECEIVABLES (cont'd)

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

	2017
	RMB'000
Aged:	
Within 60 days	973
61 – 90 days	11,227
91 – 180 days	15,732
181 – 365 days	8,435
Over 1 year	3,159
	39,526

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:

	2018	2017
	RMB'000	*RMB'000*
Balance at beginning of the year	**108,062**	104,517
Amounts written off during the year as uncollectible	**(791)**	(3,496)
Net impairment loss recognised in profit or loss	**32,422**	7,041
Disposal of subsidiaries	**(100)**	–
Balance at end of the year	**139,593**	108,062

26. PREPAID INCOME TAX

The balance mainly represents the prepaid PRC enterprise income tax relating to the pre-sales proceeds according to the relevant regulation. The balance is expected to be realised in profit or loss within twelve months from the end of the reporting period when the properties complete and control transfer to customers and revenue is recognised.

27. PREPAID LAND APPRECIATION TAX

The balance mainly represents the prepaid Land Appreciation Tax on the basis of the pre-sale proceeds in accordance with the requirement of PRC tax authorities. The balance is expected to be realised in profit or loss within twelve months from the end of the reporting period when the properties complete and control transfer to customers and revenue is recognised.

28. AMOUNTS DUE FROM NON-CONTROLLING INTERESTS OF SUBSIDIARIES

The amounts are unsecured, interest-free and repayable on demand, no loss allowance provision has recognised as management assessed the effect is immaterial.

29. 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% (2017: 0.35% to 1.35%) per annum. The pledged bank deposits will be released upon the settlement of relevant bill payables and bank borrowings both are with maturity dates not over 1 year.

(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% (2017: 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% (2017: 0.35%) per annum and cash on hand.

As at December 31, 2018, included in cash and bank balance of the Group was RMB996,986,000 (2017: RMB1,344,318,000) of bank balance denominated in RMB placed with bank in the PRC. RMB is not a freely convertible currency.

30. TRADE, BILLS AND OTHER PAYABLES

	December 31, 2018 ***RMB'000***	January 1, 2018 *RMB'000*	December 31, 2017 *RMB'000*
Trade payable	**829,215**	900,200	900,200
Bills payable	**14,000**	13,900	13,900
Other payables *(Note a)*	**203,138**	270,691	291,706
Deposit received for partial disposal of interests in a subsidiary *(Note b)*	**12,000**	25,000	25,000
Advance from a director of the Company *(note 45(b))*	**5,606**	5,337	5,337
Advance from a related company *(note 45(b))*	**21**	21	21
Other tax payable	**14,032**	14,917	14,917
Accruals	**35,500**	31,232	31,232
Financial guarantees *(note 43(b))*	**–**	10,735	10,735
	1,113,512	1,272,033	1,293,048

Note a: Other payables mainly included guarantee deposits received from the contractors as securities for properties construction, which would be refunded to the contractors on completion of the properties construction in accordance with specific terms.

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. In current year, the independent third parties decided not to acquire 2% equity interest in Hainan Boao. RMB13,000,000 had been refunded to the independent third parties.

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

	2018 ***RMB'000***	2017 *RMB'000*
Aged:		
Within 60 days	**678,405**	737,567
61 – 90 days	**36,944**	29,550
91 – 180 days	**37,019**	40,998
181 – 365 days	**34,412**	32,022
1 – 2 years	**11,309**	33,313
Over 2 years	**45,126**	40,650
	843,215	914,100

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 45(b).

31. BANK AND OTHER BORROWINGS

	2018	2017
	RMB'000	*RMB'000*
Bank borrowings	**899,997**	442,029
Other borrowings	**–**	50,945
Total	**899,997**	492,974
Analyzed as:		
Secured	**785,997**	330,267
Unsecured	**114,000**	162,707
	899,997	492,974
Denominated in United States Dollars (foreign currency)	**16,197**	15,029
Denominated in Renminbi	**883,800**	477,945
	899,997	492,974

Carrying amount repayable*:

	2018	2017
	RMB'000	*RMB'000*
Within one year	**354,997**	407,974
More than one year, but not exceeding two years	**60,000**	40,000
More than two years, but not exceeding five years	**185,000**	45,000
After five years	**300,000**	–
	899,997	492,974
Less: Amount due within one year shown under current liabilities	**(354,997)**	(407,974)
Amount due after one year	**545,000**	85,000

* 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 3.40% to 8.48% (2017: 3.46% to 8.48%) per annum.

31. BANK AND OTHER BORROWINGS (cont'd)

Other borrowings mainly represent loans advanced by independent financial institutions and carry fixed interest rate with a range from 3% to 13% (2017: 3% to 13%) per annum as at December 31, 2018.

Included in unsecured bank borrowings are borrowings guaranteed by (i) Mr. Zhu, a director and the controlling shareholder of the Company, and a related company in which Mr. Zhu has significant influence and benefit interests. The maximum guarantee amount of the borrowings are RMB4,000,000 (2017: RMB466,000,000); (ii) a former subsidiary disposed of in the year 2016 and certain independent third parties of RMB110,000,000 (2017: RMB244,500,000).

Certain borrowings were also secured by the assets owned by the Group and details of the assets are set out in note 40.

32. AMOUNTS DUE TO NON-CONTROLLING INTERESTS OF SUBSIDIARIES

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

33. SHARE CAPITAL

Authorised share capital of the Company

	Number of ordinary shares at US$0.00015 each	*US$'000*
At January 1, 2017, December 31, 2017 and December 31, 2018	**266,666,666,666**	**40,000**

Issued and fully paid

	2018			2017		
	Number of shares	***US$***	***RMB'000***	Number of shares	*US$*	*RMB'000*
At January 1	**1,511,019,881**	**226,653**	**1,735**	1,511,019,881	226,653	1,735
Share repurchased *(note a)*	**(33,933,000)**	**(5,090)**	**(39)**	–	–	–
Share options exercised *(note b)*	**16,550,000**	**2,483**	**16**	–	–	–
At December 31	**1,493,636,881**	**224,046**	**1,712**	1,511,019,881	226,653	1,735

33. SHARE CAPITAL (cont'd)

Note a: Purchase of own share

During the year, the Company repurchased its own ordinary shares on The Stock Exchange of Hong Kong Limited as follows:

Month/year	Number of shares repurchased	Highest price paid per share	Lowest price paid per share	Aggregate price paid	
		HK$	*HK$*	*HK$'000*	*RMB'000*
February 2018	33,933,000	1.49	1.34	49,000	39,890

Note b: Shares issued under share option scheme

On May and June 2018, options were exercised to subscribe for 16,550,000 ordinary shares of the Company at a consideration of RMB17,964,000, all of which was credited to share capital and share premium. RMB6,469,000 was transferred from the share option reserve to the share capital and share premium account.

34. 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 for 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 and 2018, no options have been granted by the Company under the 2015 Share Option Scheme.

At December 31, 2018, the number of shares in respect of which options had been granted and remained outstanding under the 2005 Share Option Scheme was 10,850,000 (2017: 27,600,000), representing 0.73% (2017: 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.

34. SHARE OPTION (cont'd)

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.

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, 2017 and 2018:

Exercise Price *HK$*	**Date of grant**	**Vesting period**	**Exercisable period**	**Outstanding at January 1, 2018**	**Lapsed during 2018**	**Exercised during 2018**	**Outstanding at December 31, 2018**
1.18	May 5, 2008	5.5.2008 – 31.12.2008	1.1.2009 – 4.5.2018	1,800,000	(100,000)	(1,700,000)	–
1.18	May 5, 2008	5.5.2008 – 31.12.2009	1.1.2010 – 4.5.2018	1,800,000	(100,000)	(1,700,000)	–
				3,600,000	(200,000)	(3,400,000)	–
1.37	May 26, 2015	26.5.2015 – 31.12.2015	1.1.2016 – 25.5.2025	24,000,000	–	(13,150,000)	10,850,000
Total				27,600,000	(200,000)	(16,550,000)	10,850,000

Exercise Price *HK$*	**Date of grant**	**Vesting period**	**Exercisable period**	**Outstanding at January 1, 2017**	**Lapsed during 2017**	**Forfeit during 2017**	**Outstanding at December 31, 2017**
1.18	May 5, 2008	5.5.2008 – 31.12.2008	1.1.2009 – 4.5.2018	1,800,000	–	–	1,800,000
1.18	May 5, 2008	5.5.2008 – 31.12.2009	1.1.2010 – 4.5.2018	1,800,000	–	–	1,800,000
				3,600,000	–	–	3,600,000
1.37	May 26, 2015	26.5.2015 – 31.12.2015	1.1.2016 – 25.5.2025	24,000,000	–	–	24,000,000
Total				27,600,000	–	–	27,600,000

34. 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, 2018	Lapsed during 2018	Exercised during 2018	Outstanding at December 31, 2018
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	(200,000)	(50,000)	–
1.37	May 26, 2015	26.5.2015 – 31.12.2015	1.1.2016 – 25.5.2025	4,000,000	–	–	4,000,000

Exercise Price *HK$*	Date of grant	Vesting period	Exercisable period	Outstanding at January 1, 2017	Lapsed during 2017	Outstanding at December 31, 2017
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

35. RESERVES

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

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

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

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

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

36. DISPOSAL OF SUBSIDIARIES

(a) On May 31, 2018, the Group disposed of its 51% equity interest in 長白山保護開發區人和酒店管理有限公司 for a cash consideration of RMB1,687,000. A gain on disposal of subsidiary of RMB793,000 was recognised in the profit or loss for the year ended December 31, 2018 with net inflow of RMB895,000 cash and cash equivalents was result from the disposal. Assets and liabilities disposed of as at the date of disposal are as follows:

	RMB'000
Property, plant and equipment	179
Inventories	453
Trade and other receivables	2,467
Bank balances and cash	792
Trade and other payables	(2,139)
Net assets	1,752
Less: asset attributable to non-controlling interest	(858)
Net assets disposed of	894
Total consideration satisfied by cash	1,687
Gain on disposal of a subsidiary	793
An analysis of the net cash flow of cash and cash equivalents in respect of the Disposal is as follows:	
Cash consideration received during the year ended December 31, 2018	1,687
Bank balances and cash disposed of	(792)
	895

36. DISPOSAL OF SUBSIDIARIES (cont'd)

(b) 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. 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	17,800
Gain on disposal of a subsidiary	15,334
Satisfied by:	
Cash consideration	17,800
An analysis of the net cash inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:	
Cash consideration received during the year ended December 31, 2017	17,800
Cash and bank balances disposed of	(4,417)
	13,383

36. DISPOSAL OF SUBSIDIARIES (cont'd)

(c) 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. 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	4,086
Gain on disposal of a subsidiary	1,080
Satisfied by:	
Cash consideration	4,086
An analysis of the net cash outflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:	
Cash consideration received during the year ended December 31, 2017	4,086
Cash and bank balances disposed of	(4,703)
	(617)

37. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2018	2017
	RMB'000	*RMB'000*
Financial assets		
Financial assets at fair value through other comprehensive income	**18,203**	–
Available-for-sale investments	**–**	48,503
At amortised cost		
– Amount due from non-controlling Interest of subsidiaries	**52,650**	20,000
– Trade and other receivables	**146,903**	234,040
– Pledged bank deposits	**83,652**	161,000
– Restricted bank deposits for property development business	**485,856**	834,511
– Cash and bank balances	**457,708**	439,931
	1,244,972	1,737,985
Financial liabilities		
At amortised cost		
– Trade, bills and other payables	**1,051,980**	1,221,899
– Amount due to non-controlling interests of subsidiaries	**123,228**	117,288
– Bank and other borrowing	**899,997**	492,974
	2,075,205	1,832,161

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

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

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

37. FINANCIAL INSTRUMENTS (cont'd)

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

Market risk

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to the fixed rate pledged bank deposits and bank and other borrowings as set out in notes 29 and 31 respectively. It is the Group's policy to keep its borrowings at fixed rate of interest so as to minimize the cash flow interest rate risk.

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

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

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

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point (2017: 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, 2018, 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 RMB3,852,000 (2017: RMB5,382,000), and there would be equal and opposite impact on loss for the year (2017: 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.

37. 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	
	2018	2017	**2018**	2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
USD	**262,250**	124,204	**31,240**	24,833
HKD	**877**	1,179	**1,890**	17
Other currencies	**3,480**	426	**–**	105

Sensitivity analysis

The Group is mainly exposed to currency of USD.

5% (2017: 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, 2018, if RMB had been strengthened by 5% against USD and all other variables were held constant, profit for the year would have been increased by RMB8,663,000 (2017: RMB3,726,000) and there would be equal and opposite impact on gain for the year (2017: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 FVTOCI (2017: 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 RMB683,000 (2017: RMB873,000) 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.

37. FINANCIAL INSTRUMENTS (cont'd)

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

Credit risk

As at December 31, 2018, 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 43.

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 43(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 32.8% (2017: 20.4%) 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.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLS, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

37. FINANCIAL INSTRUMENTS (cont'd)

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

Credit risk *(cont'd)*

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at December 31, 2018:

	Expected loss rate *(%)*	Gross carrying amount *(RMB'000)*	Loss allowance *(RMB'000)*
Current (not past due)	6.6%	65,305	4,285
Within 60 days past due	8.4%	8,519	715
61-90 days past due	11.1%	2,178	241
91-180 days past due	33.3%	7,734	2,572
181-365 days past due	56.5%	13,458	7,606
More than 365 days past due	84.1%	21,922	18,446
		119,116	33,865

Expected loss rates are based on actual loss experience of the Group in the past. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Prior to January 1, 2018, an impairment loss was recognised only when there was objective evidence of impairment (see note 2). At December 31, 2017, trade receivables of RMB21,028,000 was determined to be impaired. The ageing analysis of trade debtors that were not considered to be impaired was as follows:

	December 31, 2017 *RMB'000*
Neither past due nor impaired	118,699
Within 60 days	973
61 – 90 days	11,227
91 – 180 days	15,732
181 – 365 days	8,435
Over 1 year	3,159
	158,225

37. FINANCIAL INSTRUMENTS (cont'd)

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

***Credit risk** (cont'd)*

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

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, 2018, the Group has available unutilised short-term bank loan facilities of approximately RMB242,730,000 (2017: RMB135,891,000) as a liquidity management resource.

37. FINANCIAL INSTRUMENTS (cont'd)

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

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

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

	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*
2018						
Non-derivative financial liabilities						
Trade, bills and other payables		1,051,980	–	–	1,051,980	1,051,980
Bank and other borrowings	6%	382,042	81,063	646,881	1,109,986	899,997
Amounts due to non-controlling interests of a subsidiaries		123,228	–	–	123,228	123,228
Total		1,557,250	81,063	646,881	2,285,194	2,075,205
Financial guarantees issued: Maximum amount guaranteed *(note 43(b))*		–	–	–	–	–

	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 43(b))*		1,067,800	–	–	1,067,800	10,735

37. FINANCIAL INSTRUMENTS (cont'd)

(c) Fair-value

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

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at 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, 2018 and 2017.

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

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

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

Financial assets	**Fair value as at December 31, 2018** ***RMB'000***	Fair value as at December 31, 2017 *RMB'000*	**Fair value hierarchy**
Financial assets classified at fair value through other comprehensive income listed in a stock exchange	**18,203**	–	Level 1
Available-for-sale investments listed in a stock exchange	**–**	23,283	Level 3

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

37. FINANCIAL INSTRUMENTS (cont'd)

(c) Fair-value (cont'd)

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

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

	2018	2017
	RMB'000	*RMB'000*
At beginning of the year	23,283	–
Transfer into Level 3 at November 1, 2017	–	31,724
Transfer out of Level 3 at January 31, 2018 *(Note 1)*	(23,283)	–
Change in fair value recognised in other comprehensive income for the year	–	(8,441)
At end of the year	–	23,283

Note 1: The Group transferred the equity investment from level 3 to level 1 at the date of resumption of trading as at January 31, 2018.

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 financial assets at fair value through other comprehensive income as at December 31, 2018 was determined by using quoted bid price in an active market as the trading had been resumed since January 31, 2018.

37. FINANCIAL INSTRUMENTS (cont'd)

(c) Fair-value (cont'd)

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

The following significant unobservable input has been included in the fair value measurement of the AFS as at December 31, 2017:

Significant unobservable input	Increase/ (decrease) in unobservable input	Increase/ (decrease) in fair value
		RMB'000
15% DLOM	5%	(1,375)
	(5%)	1,375

38. 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 31, advances from a director of the Company and a related company disclosed in note 45(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.

39. 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 (2017: 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 RMB20,463,000 (2017: RMB16,284,000) represents contributions paid and payable to the above schemes by the Group in respect of the current accounting period.

40. 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 45(e)). The aggregate carrying amounts of the pledged assets of the Group at the end of the reporting period are as follows:

	2018	2017
	RMB'000	*RMB'000*
Buildings	**226,800**	225,735
Pledged bank deposits	**83,652**	161,000
Listed equity investments	**18,203**	23,283
Properties under development and held for sale	**1,650,736**	1,114,103
	1,979,391	1,524,121

41. LEASE COMMITMENT

As lessee

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

	2018	2017
	RMB'000	*RMB'000*
Within one year	**7,237**	5,170
In the second to fifth year inclusive	**19,292**	17,559
Over five years	**2,529**	6,420
	29,058	29,149

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

42. CAPITAL AND OTHER COMMITMENTS

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

	2018	2017
	RMB'000	*RMB'000*
Commitments for acquisition/addition of:		
– Property, plant and equipment	**1,219,381**	40,447
– Properties under development for sale	**1,111,698**	1,021,667
	2,331,079	1,062,114

43. CONTINGENT LIABILITIES

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

The Group provided guarantees of RMB1,247,399,000 at December 31, 2018 (2017: RMB2,038,471,000) 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 not over a year 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 of the Company 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 of the manufacturing – leather division ("Disposal") during year ended December 31, 2016, the Group recognised financial guarantees issued to banks until December 31, 2018 in respect of banking facilities granted to CCT Group (note 45(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"). The Financial Guarantees have been renewed for the period from January 1, 2019 to December 31, 2021. Details of the Financial Guarantees are disclosed in the announcements and circulars of the Company dated September 12, 2016, October 4, 2016, November 20, 2018 and December 11, 2018 respectively.

As at December 31, 2018 and 2017, the directors of the Company do not consider it probable that a claim will be made against the Group under the Financial Guarantees, no 12-months ECL has been recognised as at December 31, 2018 as the effect is immaterial and no provision has been made as at December 31, 2017, and therefore the Financial Guarantees are measured at its fair values initially recognised less cumulative amortization. The carrying amount of the Financial Guarantees recognised at the balance sheet date is disclosed in note 30.

The maximum liabilities of the Group as at December 31, 2018 in respect of the Financial Guarantee A and Financial Guarantee B is RMB394,800,000 (2017: RMB675,600,000) and RMB374,100,000 (2017: RMB392,200,000) respectively.

44. INFORMATION OF FINANCIAL POSITION OF THE COMPANY

The information of financial position of the Company as at December 31, 2018 is as follows:

	Note	**2018** *RMB'000*	2017 *RMB'000*
Non-current assets			
Investments in subsidiaries		**852,506**	840,920
Total non-current assets		**852,506**	840,920
Current assets			
Other receivables		**1,283**	325
Amounts due from subsidiaries		**751,897**	374,131
Bank balances and cash		**9,171**	82,643
Total current assets		**762,351**	457,099
Total assets		**1,614,857**	1,298,019
Current liabilities			
Other payables		**1,454**	1,414
Amounts due to subsidiaries		**9,775**	252,163
Total current liabilities		**11,229**	253,577
Net current assets		**751,122**	203,522
Total assets less current liabilities		**1,603,628**	1,044,442
NET ASSETS		**1,603,628**	1,044,442
CAPITAL AND RESERVES			
Share capital	*33*	**1,712**	1,735
Reserves	*35*	**1,601,916**	1,042,707
TOTAL EQUITY		**1,603,628**	1,044,442

On behalf of the directors

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

44. 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, 2017	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
Payment of dividends	–	–	–	(389,885)	(389,885)
Repurchase of shares	(39,851)	–	–	–	(39,851)
Shares issued under share option scheme	24,417	–	(6,469)	–	17,948
Lapse of share option	–	–	(75)	75	–
Profit for the year	–	–	–	970,997	970,997
As at December 31, 2018	**1,470,892**	**168,659**	**4,618**	**(42,253)**	**1,601,916**

45. 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**	**2018** ***RMB'000***	2017 *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	**1,966**	1,765
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	**59,372**	39,396
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. 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.

45. 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	
		2018	2017	**2018**	2017
		RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade in nature					
Haining Kasen	*(i)*	**–**	20,054	**–**	–
Starcorp	*(i)*	**1,563**	1,488	**–**	–
Yujie	*(i)*	**478**	–	**–**	–
		2,041	21,542	**–**	–
Non-trade in nature					
Sunbridge	*(ii)*	**–**	–	**47**	21
Mr. Zhu	*(ii)*	**–**	–	**5,606**	5,337
		–	–	**5,653**	5,358
		2,041	21,542	**5,653**	5,358

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.

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

(c) Details of the outstanding share options granted to the directors are set out in note 34.

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

(e) Due to the Disposal during year ended December 31, 2016, the Group provided Financial Guarantee A, 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.

46. PRINCIPAL SUBSIDIARIES

The following table lists principal subsidiaries of the Company as at December 31, 2018 and 2017 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		Principal activities
			2018	2017	
			%	%	
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 Co., Ltd. 富華(香港)國際有限公司	Hong Kong	HKD100	**100**	100	Trading of leather, furniture and sofas
Investwise International Limited 智威國際有限公司	British Virgin Islands	USD1	**100**	100	Trading of furniture and sofas

46. 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 2018 %	2017 %	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	Investment holding and import/export trading
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
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

46. 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 2018 %	2017 %	Principal activities
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
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
Kasen International Eco-Manufacture Co., Ltd ("Kasen Cambodia")	Cambodia	Riel2,400,000,000	**100**	100	Investment holding, development in the special economic zone

Notes:

(a) The companies are limited liability companies.

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

(c) The companies are foreign owned enterprises.

47. 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	
		2018	2017	**2018**	2017	**2018**	2017
		%	%	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Hainan Boao	PRC	**8**	8	**(530)**	3,584	**33,986**	34,516
Xinanjiang	PRC	**45**	45	**(8,436)**	(4,520)	**12,758**	21,194
Sanya Kasen	PRC	**19.5**	19.5	**(7,542)**	(5,668)	**26,249**	33,791
Individual immaterial subsidiaries with non-controlling interests				**1,368**	(9,422)	**(3,327)**	(5,449)
Total				**(15,140)**	(16,026)	**69,666**	84,052

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.

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

Hainan Boao

	2018	2017
	RMB'000	*RMB'000*
Current assets	**1,848,180**	1,316,487
Non-current assets	**106,072**	110,336
Current liabilities	**(969,426)**	(845,369)
Non-current liabilities	**(560,000)**	(150,000)
Equity attributable to owners of the Company	**390,840**	396,938
Non-controlling interests	**33,986**	34,516

	2018	2017
	RMB'000	*RMB'000*
Revenue	**160,104**	386,449
Expenses	**(166,732)**	(341,643)
Profit and total comprehensive income attributable to the owner of the Company	**(6,098)**	41,222
Profit and total comprehensive income attributable to non-controlling interests	**(530)**	3,584
Profit and total comprehensive income for the year	**(6,628)**	44,806
Dividend paid to Non-controlling interests	**–**	–
Net cash (outflow)/inflow from operating activities	**(484,353)**	265,359
Net cash outflow from investing activities	**(4,242)**	(135)
Net cash inflow/(outflow) from financing activities	**410,000**	(180,000)
Net cash (outflow)/inflow	**(78,595)**	85,224

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

Xinanjiang

	2018 **RMB'000**	2017 RMB'000
Current assets	**14,220**	27,697
Non-current assets	**142,331**	145,720
Current liabilities	**(128,200)**	(126,321)
Equity attributable to owners of the Company	**15,593**	25,902
Non-controlling interests	**12,758**	21,194

	2018 **RMB'000**	2017 RMB'000
Revenue	**18,224**	14,953
Expenses	**(36,969)**	(24,998)
Loss and total comprehensive income attributable to the owner of the Company	**(10,309)**	(5,525)
Loss and total comprehensive income attributable to non-controlling interests	**(8,436)**	(4,520)
Loss and total comprehensive income for the year	**(18,745)**	(10,045)
Dividend paid to Non-controlling interests	**–**	–
Net cash inflow from operating activities	**3,255**	1,878
Net cash outflow from investing activities	**(4,103)**	(4,254)
Net cash outflow	**(848)**	(2,376)

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

Sanya Kasen

	2018	2017
	RMB'000	*RMB'000*
Current assets	**914,891**	845,753
Non-current assets	**409,858**	332,351
Current liabilities	**(1,185,317)**	(999,256)
Equity attributable to owners of the Company	**113,183**	145,057
Non-controlling interests	**26,249**	33,791

	2018	2017
	RMB'000	*RMB'000*
Revenue	**6,511**	–
Expenses	**(45,927)**	(29,066)
Loss and total comprehensive income attributable to the owner of the Company	**(31,874)**	(23,398)
Loss and total comprehensive income attributable to non-controlling interests	**(7,542)**	(5,668)
Loss and total comprehensive income for the year	**(39,416)**	(29,066)
Dividend paid to Non-controlling interests	**–**	–
Net cash inflow from operating activities	**112,048**	78,528
Net cash outflow from investing activities	**(103,987)**	(77,901)
Net cash inflow	**8,061**	627

48. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Bank and other borrowings *RMB'000* *(note 31)*	Financial guarantees *RMB'000* *(note 43(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 January 1, 2018 and December 31, 2017	492,974	10,735
Changes from cash flows:		
Repayment of bank and other borrowings	(611,555)	–
Bank and other borrowings raised	1,017,822	–
Exchange adjustments	756	–
Other change:		
Amortisation of financial guarantees	–	(10,735)
At December 31, 2018	899,997	–

49. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the directors of the Company on March 8, 2019.