



# 卡森國際控股有限公司

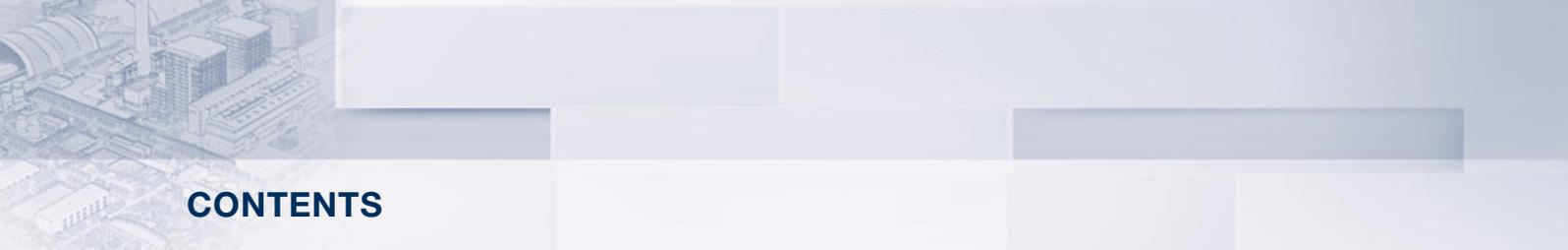
KASEN INTERNATIONAL HOLDINGS LIMITED

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

stock code : 496



**INTERIM  
REPORT  
2019**



## CONTENTS

Business Review and Prospects	2
Disclosure of Interests	8
Corporate Governance	12
Other Information	13
Report on Review of Condensed Consolidated Financial Statements	14
Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	15
Condensed Consolidated Statement of Financial Position	17
Condensed Consolidated Statement of Changes in Equity	19
Condensed Consolidated Statement of Cash Flows	20
Notes to the Condensed Consolidated Financial Statements	21

## BUSINESS REVIEW AND PROSPECTS

### RESULTS OVERVIEW

For the six months ended June 30, 2019, Kasen International Holdings Limited (the “Company”) together with its subsidiaries (collectively, the “Group”) recorded a consolidated turnover of approximately RMB1,963.6 million (six months ended June 30, 2018: RMB1,046.0 million), representing an increase of approximately 87.7% when compared with the corresponding period in 2018.

The Group’s gross profit for the six months ended June 30, 2019 was RMB652.4 million (six months ended June 30, 2018: RMB276.4 million), with an average gross profit margin of approximately 33.2% (six months ended June 30, 2018: 26.4%), representing an increase of approximately 136.0% in gross profit when compared with the corresponding period in 2018.

The net profit attributable to owners of the Company for the first half of 2019 was approximately RMB227.8 million (six months ended June 30, 2018: RMB103.9 million), representing an increase of approximately 119.2%. The significant increase in the net profit was largely attributable to the significant increase in the overall gross profit. The overall gross profit was approximately RMB652.4 million for the six months ended June 30, 2019 (six months ended June 30, 2018: RMB276.4 million), which included the increase in gross profit of the property development segment of approximately RMB363.5 million resulted from the increase in the delivery of residential buildings for the Group’s property development projects in the People’s Republic of China (“PRC” or “China”) during the six months ended June 30, 2019 as compared with the corresponding period in 2018.

### Review by Business Segments

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

The table below shows the total turnover by business segments for the six months ended June 30, 2019, together with the comparative figures for the corresponding period in 2018:

	2019		Six Months Ended June 30, 2018		Change
	RMB'Million	%	RMB'Million	%	
Manufacturing and trading of upholstered furniture	359.8	18.3	347.6	33.2	3.5
Property development	1,544.9	78.7	621.7	59.5	148.5
Others	58.9	3.0	76.7	7.3	-23.2
<b>Total</b>	<b>1,963.6</b>	<b>100.0</b>	1,046.0	100.0	87.7

## **BUSINESS REVIEW AND PROSPECTS (cont'd)**

### **RESULTS OVERVIEW (cont'd)**

#### **Review by Business Segments (cont'd)**

##### ***Manufacturing and Trading of Upholstered Furniture Business***

During the period under review, the Group's manufacturing and trading of upholstered furniture included finished sofa realised a total turnover of approximately RMB359.8 million, representing an increase of approximately 3.5% as compared to the total turnover of approximately RMB347.6 million in the corresponding period of 2018. The major customers of the Group's upholstered furniture are large and medium-sized furniture importers from the United States and Europe. Affected by the trade disputes between China and the United States, the United States imposed additional tariffs on furniture products exported from China to the United States. The Group actively strengthened communication with key customers to jointly deal with the adverse effects caused by increased tariffs. With the support of customers, the performance of the Group's manufacturing and trading of upholstered furniture business segment maintained a steady growth, as well as the impacts from the decline in raw material costs in the first half of 2019 and the depreciation of Renminbi currency as compared with the same period in last year, the Group recorded a profit of approximately RMB28.2 million for the six months ended June 30, 2019, representing an increase of approximately 73.0% as compared to the profit of approximately RMB16.3 million in the corresponding period of 2018.

##### ***Property Development Business***

As at June 30, 2019, the Group had six projects at various stages of development in mainland China. During the period under review, the Group did not have new property development project. During the six months ended June 30, 2019, the turnover recorded from the property development segment was approximately RMB1,544.9 million, representing an increase of approximately 148.5% as compared to approximately RMB621.7 million in the corresponding period of 2018. The increase in sales revenue was mainly due to the increase of delivery of properties from the Group's existing development projects.

## BUSINESS REVIEW AND PROSPECTS (cont'd)

### RESULTS OVERVIEW (cont'd)

#### Review by Business Segments (cont'd)

##### Property Development Business (cont'd)

Group's Property Project Portfolio as at June 30, 2019

No.	Project Name	Location	Interests Attributable to the Group	Total Site Area (sq.m)	Status	Usage
1	Asia Bay	Boao, Hainan	92%	590,165	Under development	Residential and tourism resort
2	Sanya Project	Sanya, Hainan	80.5%	1,423,987	Under development	Residential, hotel and tourism resort
3	Qianjiang Continent	Yancheng, Jiangsu	100%	335,822	Completed	Residential and commercial
4	Kasen Star City (Including Kingdom Garden and Jing Xiang Yuan, etc.)	Haining, Zhejiang	100%	469,867	Under development	Residential and commercial
5	Changbai Paradise	Changbai Mountain, Jilin	89%	118,195	Completed	Residential and hotel
6	Qianjiang Oasis	Yancheng, Jiangsu	55%	108,138	Under development	Residential
Total				3,046,174		

#### Analysis of the Group's Property Development Projects

No.	Project Name	Total gross floor area ("GFA") (sq.m.)	GFA under development/ completed (sq.m.)	Total Saleable GFA (sq.m.)	Accumulated GFA sold as at June 30, 2019 (sq.m.)	Accumulated GFA delivered as at June 30, 2019 (sq.m.)	Average Selling Price (RMB/sq.m.)
1	Asia Bay	718,665	342,435	590,165	175,839	154,928	21,828
2	Qianjiang Continent	775,292	775,292	669,717	660,161	657,753	-
3	Kasen Star City	956,576	956,576	708,502	698,754	661,142	9,685
4	Changbai Paradise	122,412	122,412	122,010	45,712	38,723	5,002
5	Qianjiang Oasis	337,125	337,125	283,053	233,839	167,643	6,665
Total		2,910,070	2,533,840	2,373,447	1,814,305	1,680,189	

## **BUSINESS REVIEW AND PROSPECTS (cont'd)**

### **RESULTS OVERVIEW (cont'd)**

#### **Operating Expenses, Taxation and Profit Attributable to Owners**

The Group's selling and distribution costs during the six months ended June 30, 2019 increased to approximately RMB111.0 million, representing an increase of approximately RMB39.2 million as compared to approximately RMB71.8 million in the first half of 2018, mainly due to an increase of approximately RMB42.8 million in the selling costs incurred in relation to the sales of properties during the six months ended June 30, 2019. The selling and distribution costs to turnover in the first half of 2019 decreased to 5.7% as compared to 6.9% for the corresponding period in 2018.

The administrative costs for the six months ended June 30, 2019 were approximately RMB124.1 million, representing an increase of approximately RMB17.8 million as compared to approximately RMB106.3 million for the corresponding period in 2018. The increase was mainly attributable to an increase in the staff costs and depreciation charge incurred of approximately RMB14.6 million and RMB6.2 million respectively, by the Group's waterpark operation in the PRC and the property development segment of the Group.

The Group's finance cost in the first half of 2019 was approximately RMB11.2 million, representing an increase of approximately RMB3.1 million as compared to approximately RMB8.1 million for the corresponding period of 2018. The finance cost was mainly the costs that the Group incurred in the Group's bank borrowings.

The Group's income tax in the first half of 2019 was approximately RMB130.4 million, representing an increase of approximately RMB104.0 million as compared to approximately RMB26.4 million for the corresponding period in 2018. The increase was mainly resulted from (1) an increase in PRC income tax of approximately RMB60.5 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 RMB50.7 million from the property development projects.

The Group recorded a net loss of approximately RMB40.6 million in other gains and losses in the first half of 2019, while it recorded a net gain of approximately RMB12.9 million during the corresponding period of 2018. For details of the other gains and losses, please refer to note 6 to the Condensed Consolidated Financial Statements as set out in this report.

Based on the aforesaid factors, the net profit attributable to owners of the Company for the first half of 2019 was approximately RMB227.8 million (six months ended June 30, 2018: RMB103.9 million), representing an increase of approximately 119.2%.

#### **FINANCIAL RESOURCES AND LIQUIDITY**

As at June 30, 2019, the Group had cash and cash equivalent available for utilisation totalling approximately RMB282.3 million (as at December 31, 2018: RMB457.7 million) and a total borrowings of approximately RMB942.8 million (as at December 31, 2018: RMB900.0 million). This represents a gearing ratio of 30.6% (as at December 31, 2018: 31.6%). The gearing ratio is based on bank borrowings to shareholders' equity. In the first half of 2019, 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 period under review.

As at June 30, 2019, the Group's inventory was approximately RMB73.4 million, representing a decrease of approximately RMB12.4 million as compared to approximately RMB85.8 million as of December 31, 2018. During the six months ended June 30, 2019, the Group endeavored to control the inventory level and its inventory turnover period was 47 days as compared to 53 days as at December 31, 2018.

## **BUSINESS REVIEW AND PROSPECTS (cont'd)**

### **FINANCIAL RESOURCES AND LIQUIDITY (cont'd)**

During the six months ended June 30, 2019, the Group continued to maintain a strict credit policy. The account and bills receivable turnover days of the Group's manufacturing and trading of upholstered furniture segment slightly decreased to 39 days for the first half of 2019 (as at December 31, 2018: 43 days).

During the period under review, the accounts and bills payable turnover days of the Group's manufacturing and trading of upholstered furniture segment increased to 94 days for the six months ended June 30, 2019 (as at December 31, 2018: 73 days).

### **MATERIAL ACQUISITION AND DISPOSAL**

The Group did not have any material acquisitions or disposal of its subsidiaries, associates or joint ventures during the six months ended June 30, 2019.

### **SIGNIFICANT INVESTMENTS HELD**

Save as otherwise disclosed in this interim report, the Group did not have significant investments held during the six months ended June 30, 2019.

### **PLEDGE OF ASSETS**

During the six months ended June 30, 2019, the Group pledged deposits, property, plant and equipment to banks to secure the bank borrowings and the bank facilities granted to the Group. The deposits carry an average interest rate of 0.35%-1.30%.

### **FOREIGN EXCHANGE EXPOSURE**

The upholstered furniture export-related business of the Group (including sales and procurements) are mainly denominated in U.S. dollars, and trade receivables may be exposed to exchange rate fluctuation. During the period under review, there was a significant fluctuation in the exchange rate of Renminbi against U.S. dollars. The Group did not implement any hedging measures, but will continue to monitor the situation and make necessary arrangement as and when appropriate.

### **CONTINGENT LIABILITIES**

As at June 30, 2019, the Group had certain contingent liabilities. For details, please refer to note 18 to the Condensed Consolidated Financial Statements as set out in this report.

### **EMPLOYEES AND EMOLUMENTS POLICIES**

As at June 30, 2019, the Group employed a total of approximately 4,000 full time employees (as at June 30, 2018: approximately 4,000) including management staff, technicians, salespersons and workers. For the six months ended June 30, 2019, the Group's total expenses on the remuneration of employees were approximately RMB125.5 million (six months ended June 30, 2018: RMB106.7 million). The Group's emolument policies for employees are formulated on the performance of individual employees, which are reviewed regularly every year. Apart from the provident fund scheme (according to the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees), state-managed retirement pension scheme (for the PRC employees) and medical insurance, discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance.

## **BUSINESS REVIEW AND PROSPECTS (cont'd)**

### **EMPLOYEES AND EMOLUMENTS POLICIES (cont'd)**

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

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

## **ENVIRONMENTAL PROTECTION AND SOCIAL RESPONSIBILITY**

The Group always pursues the harmonious growth among its business development, environmental protection and valuing our employees, with an aim to be a company with a high degree of social responsibility. During the production process, the Group places an emphasis on environmental protection, carbon emissions reduction, reasonable and efficient resources usage and promotion of green operations of the plants. The Group regards its employees as a valuable asset. By providing employees with an attractive and promising growth platform and various trainings and group activities, the Group encourages its employees to be dedicated, continuously improves their standard and enhances cohesion among the employees.

Adhering to integrity and pursuing excellence are the core values of the Group's development. The Group emphasizes the integrity in business, the accountability towards business partners and giving back to the community, and strictly operate in accordance with applicable laws and regulations. The Group seeks to provide quality products and services to its business partners and customers, as well as to offer support to the communities where it operates and to those in need, and participate in various social welfare undertakings.

## **FUTURE PLANS AND PROSPECTS**

The Group has responded positively to the PRC government's policy on promoting investments in countries along the "One Belt, One Road" initiative. The Board has decided to develop the Group into an "Operator in the One Belt One Road Special Economic Zone", adopting as its future development strategy. The Group has constructed industrial zones, and carried out infrastructure construction which was represented by power plants and terminals, with a view to establishing a platform for international cooperation in production capacity. Currently, the Group is building a platform for international cooperation in production capacity and is proactively seeking investment opportunity in the countries along the "One Belt, One Road" initiative in the pursuit of new strong momentum for its business development and profit growth.

In the field of upholstered furniture, there are uncertainties as to whether the United States will continue to impose additional tariffs on furniture imported from China. In order to reduce risks, on the one hand, the Group has set up a upholstered furniture factory in Cambodia to meet the demand of exporting to the US market, on the other hand, the Group will continue to strengthen the operation and management of upholstered furniture factories in China and to make full use of its advantages in quality, price, delivery and service, and will communicate closely with its customers to share tariff costs.

In respect of real estate development business, the Group will adhere to the principle of steady development and will focus on the continuous development, sales and delivery of existing projects.

In the field of tourism resort services, the Group will continue to optimize its business performance and establish brand effect, focusing on its existing water parks and hotels.

As at the date of this report, the Group has not entered into any definitive agreement in relation to any material investment or addition of capital assets.

## DISCLOSURE OF INTERESTS

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at June 30, 2019, the interests of the Directors and chief executives of the Company in the shares of the Company (the "Shares"), underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as contained in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") are as follows:

#### (1) Long positions in Shares

Name of Directors	Number of shares held, capacity and nature of interest			Percentage of the Company's issued share capital
	Directly beneficially owned	Through controlled corporation	Total number of shares interested	
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:

- (i) 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, 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 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 June 30, 2019 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"), the grant of which 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 June 30, 2019 under the 2005 Share Option Scheme and approved by the Board on May 26, 2015 for the share option grant.

#### (2) Long positions in underlying shares

Long positions in underlying shares are separately disclosed in the paragraph "Share Options 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 or 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 June 30, 2019.

## **DISCLOSURE OF INTERESTS (cont'd)**

### **SHARE OPTIONS SCHEMES**

On October 20, 2005, the Company adopted the 2005 Share Option Scheme 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 for shares of the Company. The 2005 Share Option Scheme was terminated on May 29, 2015. As at June 30, 2019, 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 (i.e. May 29, 2015), a new share option scheme was adopted by the Company pursuant to a resolution of the Shareholders passed on May 29, 2015 (the "2015 Share Option Scheme") for the primary purpose of providing incentives to Directors and eligible employees. The 2015 Share Option Scheme became effective on May 29, 2015 and the options issued pursuant to the 2015 Share Option Scheme will expire no later than 10 years from the date of grant of the option. As at the date of this report, no options have been granted by the Company under the 2015 Share Option Scheme.

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

The total number of Shares in respect of which options may be granted under the 2005 Share Option Scheme is not permitted to exceed 10% of the Shares in issue on October 20, 2005 (i.e. 101,404,536 Shares) and the total number of Shares of which options may be granted under the 2015 Share Option Scheme is not permitted to exceed 10% of the Shares in issue on May 29, 2015 (i.e. 116,232,298 Shares) 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 in issue at any point of time, without prior approval from the Shareholders.

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 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 Share. Each grantee shall pay the Company a consideration of HK\$1.00 upon acceptance of the option 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 (i.e. May 29, 2015) on which it becomes unconditional, 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-year period or otherwise as may be required in accordance with the provisions of the 2015 Share Option Scheme.

## DISCLOSURE OF INTERESTS (cont'd)

### SHARE OPTIONS SCHEMES (cont'd)

As at June 30, 2019, the total numbers of Shares available for issue 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 interim report.

Details of movement of the share options during the six months ended June 30, 2019, being share options granted pursuant to the 2005 Share Option Scheme on May 5, 2008 and May 26, 2015, respectively, were as follows:

Name of Director	Exercise price HK\$	Number of share options			Outstanding as at June 30, 2019	Percentage of total issued share capital	Exercisable period	Notes
		Granted from January 1, 2019 to June 30, 2019	Exercised from January 1, 2019 to June 30, 2019	Forfeited from January 1, 2019 to June 30, 2019				
Zhu Zhangjin	1.37	1,000,000	-	-	1,000,000	0.07%	1/1/2016 to 25/5/2025	1,2,3
Zhou Xiaohong	1.37	3,000,000	-	-	3,000,000	0.20%	1/1/2016 to 25/5/2025	1,2,3
		4,000,000	-	-	4,000,000	0.27%		
Other employees in aggregate	1.37	6,850,000	-	-	6,850,000	0.46%	1/1/2016 to 25/5/2025	1,2,3
		10,850,000	-	-	10,850,000	0.73%		

#### Notes:

- 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 immediately before the date of grant of share options was HK\$1.38.
- These share options represent personal interest held by the relevant participants as beneficial owner.
- During the six months ended June 30, 2019, none of these share options were exercised, forfeited, lapsed nor cancelled.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Other than the schemes disclosed in the paragraph headed "Share Options Schemes" above, at no time during the six months ended June 30, 2019 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of Shares in, or debt securities (including debentures) of, the Company or any other body corporate.

## DISCLOSURE OF INTERESTS (cont'd) SUBSTANTIAL SHAREHOLDERS

So far as is known to the Company, as at June 30, 2019, the following persons (other than the Directors or chief executives of the Company stated in the above paragraph headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures") had interests or short positions in the Shares or underlying shares of the Company which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

<b>Name of Shareholder</b>	<b>Capacity</b>	<b>Short position</b>	<b>Long position</b>	<b>Number of issued Shares held</b>	<b>Percentage of the Company's issued share capital</b>
Joyview <sup>1</sup>	Beneficial owner	–	526,861,635	526,861,635	35.27%
Prosperity and Wealth Limited <sup>1</sup>	Trustee	–	526,861,635	526,861,635	35.27%
Team Ease Limited <sup>2</sup>	Beneficial owner	–	235,043,057	235,043,057	15.74%
Chen Dianer (陳鈿兒) <sup>2</sup>	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:*

- Mr. Zhu, 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, 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 which in turn is wholly owned by the trustee of such family trust).
- Team Ease Limited is a company beneficially owned by Chen Dianer.

Save as disclosed above, the Company had not been notified by 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 or underlying shares of the Company which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at June 30, 2019.

## **CORPORATE GOVERNANCE**

The Company has adopted the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 of the Listing Rules as its corporate governance code of practices. For the six months ended June 30, 2019, the Board is of the view that the Company has complied with the code provisions as set out in the CG Code except for the following deviation to code provisions A.2.1.

### **CODE PROVISION A.2.1**

Under code provision A.2.1 of the CG Code, 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 is the chairman and chief executive officer of the Company responsible for overseeing the operations of the Group. The Company is still considering to appoint 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 China and the in-depth knowledge and experience in the leather and upholstery furniture market required for the position of chief executive officer, the Company is unable to determine as to when the appointment of a chief executive officer for the Company can be effected.

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 as its own code of conduct regarding directors’ securities transactions. Specific enquiries had been made with all Directors, who had confirmed that, throughout the six months ended June 30, 2019, each of them had complied with the required standards as set out in the Model Code.

## **AUDIT COMMITTEE**

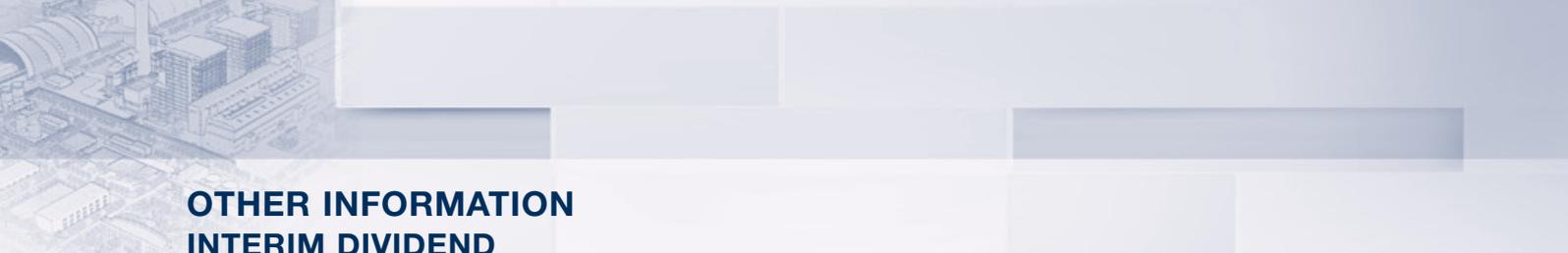
The audit committee of the Company (“Audit Committee”), comprises all the three independent non-executive Directors namely, Mr. Du Haibo, Mr. Zhang Yuchuan and Mr. Zhou Lingqiang, has reviewed with the management and the external auditors on the accounting principles and practices adopted by the Group during the six months ended June 30, 2019. The Audit Committee held meetings with the Company’s senior management to review, supervise and discuss the Company’s financial reporting and internal control principles and risk management effectiveness and to make recommendations to improve the Company’s internal control and risk management effectiveness, and to ensure that management discharged its duty to have an effective internal control system during the six months ended June 30, 2019, including the review of the unaudited interim results of the Group for the six months ended June 30, 2019.

## **REMUNERATION COMMITTEE**

The Remuneration Committee, comprises three members, the majority of which are independent non-executive Directors and Mr. Zhou Lingqiang, an independent non-executive Director, is the chairman of the Remuneration Committee. The Remuneration Committee is responsible for establishing policies in respect of remuneration structure for all Directors and senior management of the Company, reviewing and determining the remuneration of all Directors and senior management of the Company.

## **NOMINATION COMMITTEE**

The nomination committee of the Company (the “Nomination Committee”), comprises of three members, the majority of which are independent non-executive Directors and Mr. Du Haibo, an independent non-executive Director, is the chairman of the Nomination Committee. The Nomination Committee is responsible for nominating Directors, reviewing the structure and the composition of the Board regularly, and identifying and nominating qualified individuals to be appointed as new Directors of the Company.



## **OTHER INFORMATION INTERIM DIVIDEND**

The Board resolved not to declare any interim dividend for the six months ended June 30, 2019 (six months ended June 30, 2018: Nil).

## **EVENTS AFTER THE REPORTING PERIOD**

The Company has no material events required to be disclosed after the reporting period as at the date of this report.

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

During the six months ended June 30, 2019, the Company and any of its subsidiaries did not purchase, sell or redeem any of the Company's listed securities.

## **SUFFICIENCY OF PUBLIC FLOAT**

Based on information that is available to the Company and within the knowledge of its Directors, the Company had maintained sufficient public float as required under the Listing Rules throughout the six months ended June 30, 2019.

## **DIRECTORS**

As at the date of this report, the executive Directors are Mr. Zhu Zhangjin, Ms. Zhou Xiaohong and Ms. Shen Jianhong, and the independent non-executive Directors are Mr. Du Haibo, Mr. Zhang Yuchuan and Mr. Zhou Lingqiang.

By Order of the Board  
**Kasen International Holdings Limited**  
**Zhu Zhangjin**  
*Chairman*

PRC, August 28, 2019

# REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



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## TO THE BOARD OF DIRECTORS OF KASEN INTERNATIONAL HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

We have reviewed the condensed consolidated financial statements of Kasen International Holdings Limited and its subsidiaries set out on pages 15 to 44, which comprise the condensed consolidated statement of financial position as of June 30, 2019 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) issued by the International Accounting Standards Board. The Directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review. This report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements is not prepared, in all material respects, in accordance with IAS 34.

### **BDO Limited**

*Certified Public Accountants*

### **Ng Wai Man**

Practising Certificate Number P05309

Hong Kong, August 28, 2019

# CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2019

	NOTES	Six months ended June 30, 2019 RMB'000 (unaudited)	Six months ended June 30, 2018 RMB'000 (unaudited)
Revenue	4,5	1,963,606	1,046,036
Cost of sales		(1,311,206)	(769,607)
Gross profit		652,400	276,429
Other income		7,816	12,912
Selling and distribution costs		(110,962)	(71,830)
Administrative expenses		(124,110)	(106,257)
Other gains and losses	6	(40,563)	12,894
Finance costs		(11,213)	(8,058)
Profit before tax	7	373,368	116,090
Income tax expenses	8	(130,370)	(26,449)
Profit for the period		242,998	89,641
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Fair value gain/(loss) on financial assets at fair value through other comprehensive income		440	(3,840)
Income tax relating to fair value change of financial assets at fair value through other comprehensive income		(110)	960
Item that may be reclassified to profit or loss:			
Exchange difference arising on translation		301	37
Total comprehensive income for the period		243,629	86,798

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

FOR THE SIX MONTHS ENDED JUNE 30, 2019

	<i>NOTES</i>	<b>Six months ended June 30, 2019 RMB'000 (unaudited)</b>	Six months ended June 30, 2018 RMB'000 (unaudited)
Profit for the period attributable to:			
– Owners of the Company		<b>227,785</b>	103,886
– Non-controlling interests		<b>15,213</b>	(14,245)
		<b>242,998</b>	89,641
Total comprehensive income for the period attributable to:			
– Owners of the Company		<b>228,539</b>	101,010
– Non-controlling interests		<b>15,090</b>	(14,212)
		<b>243,629</b>	86,798
Earnings per share			
– Basic	10	<b>RMB15.3 cents</b>	RMB7.0 cents
– Diluted		<b>RMB15.2 cents</b>	RMB6.9 cents

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT JUNE 30, 2019

	NOTES	June 30, 2019 RMB'000 (unaudited)	December 31, 2018 RMB'000 (audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	11	1,556,907	1,429,707
Prepaid lease payments – non-current portion		–	132,896
Intangible assets		1,128	830
Right-of-use assets		180,547	–
Deferred tax assets		51,138	50,529
Prepayment for acquisition of property, plant and equipment		71,909	95,980
Deposits paid for other non-current assets		12,812	–
Financial assets at fair value through other comprehensive income	12	18,643	18,203
Prepayment for acquisition of freehold and leasehold land		353,944	351,579
		<b>2,247,028</b>	<b>2,079,724</b>
<b>CURRENT ASSETS</b>			
Inventories		73,350	85,756
Properties under development		1,921,527	2,881,767
Properties held for sale		989,688	765,579
Amounts due from non-controlling interests of subsidiaries		52,650	52,650
Trade, bills and other receivables	13	1,097,780	1,177,848
Prepaid lease payments – current portion		–	3,554
Tax recoverable		27,137	28,050
Prepaid land appreciation tax		19,471	50,429
Pledged bank deposits		108,404	83,652
Restricted bank deposit for property development business		210,706	485,856
Bank balances and cash		282,256	457,708
		<b>4,782,969</b>	<b>6,072,849</b>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (cont'd)

AT JUNE 30, 2019

	NOTES	June 30, 2019 RMB'000 (unaudited)	December 31, 2018 RMB'000 (audited)
<b>CURRENT LIABILITIES</b>			
Trade, bills and other payables	14	1,046,286	1,113,512
Lease liabilities – current portion		5,912	–
Contract liabilities		1,486,776	2,846,605
Bank and other borrowings – due within one year	15	419,393	354,997
Tax payable		222,917	223,206
Amounts due to non-controlling interests of subsidiaries		123,259	123,228
		<b>3,304,543</b>	4,661,548
<b>NET CURRENT ASSETS</b>			
		<b>1,478,426</b>	1,411,301
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		<b>3,725,454</b>	3,491,025
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		23,320	27,067
Lease liabilities – non current portion		16,112	–
Bank and other borrowings – due after one year	15	523,435	545,000
		<b>562,867</b>	572,067
<b>NET ASSETS</b>			
		<b>3,162,587</b>	2,918,958
<b>CAPITAL AND RESERVES</b>			
Share capital	16	1,712	1,712
Reserves		3,076,119	2,847,580
Equity attributable to owners of the Company		<b>3,077,831</b>	2,849,292
Non-controlling interests		84,756	69,666
<b>TOTAL EQUITY</b>			
		<b>3,162,587</b>	2,918,958

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2019

	Attributable to owners of the Company										Non-controlling interests	Total
	Share capital	Share premium	Statutory reserve	Special reserve	Share option reserve	Other reserve	FVTOCI reserve	Translation reserve	Retained earnings	Sub-total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2019 (audited)	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
Profit for the period	-	-	-	-	-	-	-	-	227,785	227,785	15,213	242,998
Other comprehensive income	-	-	-	-	-	-	330	424	-	754	(123)	631
Total comprehensive income for the period	-	-	-	-	-	-	330	424	227,785	228,539	15,090	243,629
At June 30, 2019 (unaudited)	1,712	1,470,892	171,276	167,983	4,618	(41,703)	10,860	1,110	1,291,083	3,077,831	84,756	3,162,587

	Attributable to owners of the Company										Non-controlling interests	Total	
	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
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Balance as at December 31, 2017 as originally presented (audited)	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	-	-	-	-	-	-	(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 period	-	-	-	-	-	-	-	-	-	103,886	103,886	(14,245)	89,641
Other comprehensive loss	-	-	-	-	-	-	-	(2,880)	4	-	(2,876)	33	(2,843)
Total comprehensive income for the period	-	-	-	-	-	-	-	(2,880)	4	103,886	101,010	(14,212)	86,798
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 June 30, 2018 (unaudited)	1,712	1,470,892	171,276	167,983	4,618	(41,703)	-	11,460	(5)	1,107,270	2,893,503	70,617	2,964,120

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2019

NOTES	Six months ended June 30, 2019 RMB'000 (unaudited)	Six months ended June 30, 2018 RMB'000 (unaudited)
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>	<b>17,599</b>	515,846
<b>INVESTING ACTIVITIES</b>		
Increase of pledged bank deposits	(24,752)	(46,816)
Purchases of property, plant and equipment	(144,757)	(468,529)
Purchases of intangible assets	(531)	–
Prepayment for acquisition of freehold and leasehold land	(31,825)	(74,900)
Decrease in amounts due from/to non-controlling interests of subsidiaries	–	(16,759)
Deposits paid for other non-current assets	(12,812)	–
Deposits refund from acquisition of property, plant and equipment	5,204	–
Net cash inflow from disposal of a subsidiary	–	895
Interest received	1,736	2,555
Proceed from disposal of available-for-sale investments	–	29,060
Proceeds from disposal of property, plant and equipment	288	–
Dividend income from financial assets at fair value through other comprehensive income	–	480
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(207,449)</b>	(574,014)
<b>FINANCING ACTIVITIES</b>		
Issuance of new shares	–	17,964
Repurchase of shares	–	(39,890)
Repayment of principal portion of the lease liabilities	(3,701)	–
Repayments of bank and other borrowings	(379,001)	(458,626)
Capital contribution from non-controlling interests	–	1,635
Bank and other borrowings raised	421,804	958,010
Interest paid	(23,447)	(8,058)
<b>NET CASH GENERATED FROM FINANCING ACTIVITIES</b>	<b>15,655</b>	471,035
<b>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(174,195)</b>	412,867
Effect of changes in exchange rates	(1,257)	2,239
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>	<b>457,708</b>	439,931
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>		
represented by bank balances and cash	<b>282,256</b>	855,037

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2019

## 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with International Accounting Standard 34 “Interim Financial Reporting” issued by the International Accounting Standards Board (“IASB”). They do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the 2018 annual report.

These condensed consolidated interim financial statements have been prepared with the same accounting policies adopted in the 2018 annual financial statements, except for those that relate to new standards or interpretations effective for the first time for periods beginning on or after January 1, 2019. This is the first set of the Group’s financial statements in which IFRS 16 has been adopted. Details of any changes in accounting policies are set out in note 2.

The preparation of these condensed consolidated interim financial statements in compliance with IAS 34 requires the use of certain judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. The areas where significant judgments and estimates have been made in preparing the financial statements are disclosed in note 3.

These condensed consolidated interim financial statements are unaudited, but has been reviewed by BDO Limited in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”, issued by the HKICPA. BDO Limited’s independent review report to the Board of Directors is included on page 14.

## 2. SIGNIFICANT ACCOUNTING POLICIES

Kasen International Holdings Limited has applied the same accounting policies and methods of computation in its interim consolidated financial statements as in its 2018 annual financial statements, except for those that relate to new standards and interpretations effective for the first time for periods beginning on (or after) January 1, 2019, and will be adopted in the 2019 annual financial statements.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE SIX MONTHS ENDED JUNE 30, 2019

### 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

IFRS 16	Leases
IFRIC – Int 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IFRS 3, Business Combinations
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IFRS 11, Joint Arrangements
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IAS 12, Income Taxes
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IAS 23, Borrowing Costs
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement

The impact of the adoption of IFRS 16 Leases has been summarised in below. The other new or amended IFRSs that are effective from January 1, 2019 did not have any material impact on the Group's accounting policies.

#### Adoption of new IFRS 16 – Leases

##### (i) Impact of the adoption of IFRS 16

IFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces IAS 17 Leases ("IAS 17"), IFRIC-Int 4 Determining whether an Arrangement contains a Lease, SIC-Int 15 Operating Leases-Incentives and SIC-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. From a lessee's perspective, almost all leases are recognised in the statement of financial position as a right-of-use assets and a lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor's perspective, the accounting treatment is substantially unchanged from IAS 17. For details of IFRS 16 regarding its new definition of a lease, its impact on the Group's accounting policies and the transition method adopted by the Group as allowed under IFRS 16, please refer to section (ii) to (v) of this note.

The Group has applied IFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of at the date of initial application. The comparative information presented in 2018 has not been restated and continues to be reported under IAS 17 and related interpretations as allowed by the transition provision in IFRS 16.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE SIX MONTHS ENDED JUNE 30, 2019

### 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### Adoption of new IFRS 16 – Leases (cont'd)

##### (i) Impact of the adoption of IFRS 16 (cont'd)

The following tables summarised the impact of transition to IFRS 16 on statement of financial position as of December 31, 2018 to that of January 1, 2019 as follows (increase/(decrease)):

	January 1, 2019 RMB'000 (unaudited)
Right-of-use assets – increase by	161,722
Prepaid lease payments (current portion)– decrease by	(132,896)
Prepaid lease payments (non-current portion) – decrease by	(3,554)
Lease liabilities (current portion) – increase by	5,714
Lease liabilities (non– current portion) – increase by	19,558

The following reconciliation explains how the operating lease commitments disclosed applying IAS 17 at the end of December 31, 2018 could be reconciled to the lease liabilities at the date of initial application recognised in the statement of financial position as at January 1, 2019:

#### **Reconciliation of operating lease commitment to lease liabilities**

	RMB'000
Operating lease commitments disclosed as at December 31, 2018 (audited)	29,058
Less: short term leases for which lease terms end within December 31, 2019	(329)
	28,729
Discounted using the lessee's incremental borrowing rate of at the date of initial application	25,272
Add: Reclassification of prepaid lease payments	136,450
Right-of-use assets recognised as at January 1, 2019	161,722

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the statement of financial position as at January 1, 2019 was 4.35%.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE SIX MONTHS ENDED JUNE 30, 2019

### 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### Adoption of new IFRS 16 – Leases (cont'd)

##### (ii) The new definition of a lease

Under IFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, unless the lessee apply the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

The Group has elected not to separate non-lease components and account for all each lease component and any associated non-lease components as a single lease component for all leases.

##### (iii) Accounting as a lessee

Under IAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the statement of financial position of the lessee.

Under IFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but IFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

The Group recognised a right-of-use asset and a lease liability at the commencement date of a lease.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE SIX MONTHS ENDED JUNE 30, 2019

### 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### Adoption of new IFRS 16 – Leases (cont'd)

##### (iii) Accounting as a lessee (cont'd)

###### ***Right-of-use asset***

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

###### ***Lease liability***

The lease liability should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE SIX MONTHS ENDED JUNE 30, 2019

### 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### Adoption of new IFRS 16 – Leases (cont'd)

##### (iv) Transition

As mentioned above, the Group has applied IFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application (January 1, 2019). The comparative information presented in 2018 has not been restated and continues to be reported under IAS 17 and related interpretations as allowed by the transition provision in IFRS 16.

The Group has recognised the lease liabilities at the date of January 1, 2019 for leases previously classified as operating leases applying IAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at January 1, 2019.

The Group has elected to recognise all the right-of-use assets at January 1, 2019 for leases previously classified operating leases under IAS 17 at the amount equal to the lease liability, adjusted by the amount of any prepaid rental expenses relating to that lease recognised in the balance sheet as at January 1, 2019. For all these right-of-use assets, the Group has applied IAS 36 Impairment of Assets at January 1, 2019 to assess if there was any impairment as on that date.

The Group has also applied the follow practical expedients: (i) applied a single discount rate to a portfolio of leases with reasonably similar characteristics and (ii) applied the exemption of not to recognise right-of-use assets and lease liabilities for leases with term that will end within 12 months of the date of initial application (January 1, 2019) and accounted for those leases as short-term leases.

In addition, the Group has also applied the practical expedients such that: (i) IFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying IAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and (ii) not to apply IFRS 16 to contracts that were not previously identified as containing a lease under IAS 17 and HK(IFRIC)-Int4.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE SIX MONTHS ENDED JUNE 30, 2019

### 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### Adoption of new IFRS 16 – Leases (cont'd)

##### (v) Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities, and the movement during the period are as follow:

	Right-of-use assets		Lease liabilities	
	Buildings	Prepaid lease payment	Sub-total	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As at January 1, 2019	25,272	136,450	161,722	25,272
Additions	–	23,820	23,820	–
Depreciation and amortisation charge	(3,091)	(1,904)	(4,995)	–
Interest expense	–	–	–	453
Payments	–	–	–	(3,701)
As at June 30, 2019	22,181	158,366	180,547	22,024

### 3. USE OF JUDGEMENTS AND ESTIMATES

In preparing this condensed consolidated interim financial statements, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to 2018 annual financial statements, except for new significant judgements and key sources of estimation uncertainty related to the application of IFRS 16 as described in note 2.

### 4. SEGMENT INFORMATION

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

- Manufacturing and trading of upholstered furniture ("Manufacturing");
- Properties developments; and
- Others, comprising mainly operation of resort, provision of property management service and tourism resort-related services ("Others")

#### Segment revenues and results

The following is an analysis of the Group's revenue that is disaggregated by primary geographical market, major products and service line and timing of revenue recognition and results from continuing operations by reportable segment.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE SIX MONTHS ENDED JUNE 30, 2019

### 4. SEGMENT INFORMATION (cont'd)

#### Revenue

Six months ended June 30, 2019 (unaudited)

	Manufacturing RMB'000	Properties development RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
<b>Revenue from external customers</b>	359,752	1,544,940	58,914	-	1,963,606
<b>Inter-segment revenue</b>	-	-	1,517	(1,517)	-
<b>Reportable segment revenue</b>	359,752	1,544,940	60,431	(1,517)	1,963,606
<b>Primary geographical markets</b>					
United States	300,328	-	-	-	300,328
PRC	23,160	1,544,940	60,431	(1,517)	1,627,014
Europe	34,352	-	-	-	34,352
Others	1,912	-	-	-	1,912
<b>Total</b>	359,752	1,544,940	60,431	(1,517)	1,963,606
<b>Major products</b>					
Sale of upholstered furniture	359,752	-	-	-	359,752
Sale of properties	-	1,544,940	-	-	1,544,940
Hotel management	-	-	30,726	-	30,726
Travel & tourism management	-	-	18,586	-	18,586
Catering & entertainment	-	-	2,581	-	2,581
Property management	-	-	8,538	(1,517)	7,021
	359,752	1,544,940	60,431	(1,517)	1,963,606
<b>Timing of revenue recognition</b>					
At a point in time	359,752	1,544,940	-	-	1,904,692
Transferred over time	-	-	60,431	(1,517)	58,914
	359,752	1,544,940	60,431	(1,517)	1,963,606

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE SIX MONTHS ENDED JUNE 30, 2019

### 4. SEGMENT INFORMATION (cont'd)

#### Revenue (cont'd)

#### Six months ended June 30, 2018 (unaudited)

	Manufacturing RMB'000	Properties development RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
<b>Revenue from external customers</b>	347,593	621,729	76,714	-	1,046,036
<b>Inter-segment revenue</b>	-	3,773	1,055	(4,828)	-
<b>Reportable segment revenue</b>	347,593	625,502	77,769	(4,828)	1,046,036
<b>Primary geographical markets</b>					
United States	293,942	-	-	-	293,942
PRC	21,563	625,502	77,769	(4,828)	720,006
Europe	30,545	-	-	-	30,545
Others	1,543	-	-	-	1,543
<b>Total</b>	347,593	625,502	77,769	(4,828)	1,046,036
<b>Major products</b>					
Sale of upholstered furniture	347,593	-	-	-	347,593
Sale of properties	-	625,502	-	-	625,502
Hotel management	-	-	39,848	-	39,848
Travel & tourism management	-	-	8,430	-	8,430
Catering & entertainment	-	-	16,666	(185)	16,481
Property management	-	-	12,825	(4,643)	8,182
	347,593	625,502	77,769	(4,828)	1,046,036
<b>Timing of revenue recognition</b>					
At a point in time	347,593	625,502	-	-	973,095
Transferred over time	-	-	77,769	(4,828)	72,941
	347,593	625,502	77,769	(4,828)	1,046,036

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE SIX MONTHS ENDED JUNE 30, 2019

### 4. SEGMENT INFORMATION (cont'd) Results

	<b>Six months ended June 30, 2019 RMB'000 (unaudited)</b>	Six months ended June 30, 2018 RMB'000 (unaudited)
<b>Segment profit</b>		
– Manufacturing	<b>28,215</b>	16,308
– Properties development	<b>270,777</b>	88,868
– Others	<b>(38,020)</b>	(29,474)
	<b>260,972</b>	75,702
Unallocated corporate expenses	<b>(11,756)</b>	(1,949)
Unallocated other gains and losses	<b>(6,218)</b>	15,888
Profit for the period	<b>242,998</b>	89,641

Segment profit represents the profit earned by each segment without allocation of central administration costs, Directors' salaries and exchange gain. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE SIX MONTHS ENDED JUNE 30, 2019

### 4. SEGMENT INFORMATION (cont'd) SEGMENT ASSETS

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

	<b>June 30, 2019</b>	December 31, 2018
	<b>RMB'000</b>	RMB'000
	<b>(unaudited)</b>	(audited)
Manufacturing	<b>1,059,788</b>	981,572
Properties development	<b>5,136,542</b>	6,374,681
Others	<b>816,831</b>	783,025
	<b>7,013,161</b>	8,139,278
Unallocated	<b>16,836</b>	13,295
Consolidated assets	<b>7,029,997</b>	8,152,573

### 5. REVENUE

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

	<b>Six months ended June 30, 2019</b>	Six months ended June 30, 2018
	<b>RMB'000</b>	RMB'000
	<b>(unaudited)</b>	(unaudited)
<b>Sale of goods</b>		
Upholstered furniture	<b>359,752</b>	347,593
Residential properties	<b>1,544,940</b>	621,729
	<b>1,904,692</b>	969,322
<b>Provision of services</b>		
Others (note)	<b>58,914</b>	76,714
	<b>1,963,606</b>	1,046,036

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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE SIX MONTHS ENDED JUNE 30, 2019

### 6. OTHER GAINS AND LOSSES

	<b>Six months ended June 30, 2019 RMB'000 (unaudited)</b>	Six months ended June 30, 2018 RMB'000 (unaudited)
Net foreign exchange gain	<b>200</b>	7,842
Net impairment loss recognised in respect of properties under development and held for sales	<b>(1,154)</b>	–
Net impairment loss on property, plant and equipment	<b>(5,405)</b>	–
Net of impairment loss recognised in respect of trade and other receivables	<b>(10,740)</b>	(873)
Gain on disposal of subsidiaries	–	793
Loss on disposal of property, plant and equipment	<b>(15)</b>	(23)
Provision of financial guarantees	<b>(19,851)</b>	–
Release of financial guarantees	<b>3,308</b>	5,367
Others	<b>(6,906)</b>	(212)
	<b>(40,563)</b>	12,894

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE SIX MONTHS ENDED JUNE 30, 2019

### 7. PROFIT BEFORE TAX

Profit before income tax is arrived at after charging/(crediting):

	<b>Six months ended June 30, 2019 RMB'000 (unaudited)</b>	Six months ended June 30, 2018 RMB'000 (unaudited)
Amortisation of intangible assets	233	45
Depreciation of property, plant and equipment	<u>38,664</u>	<u>32,277</u>
Total depreciation and amortisation	<u>38,897</u>	<u>32,322</u>
Release of prepaid lease payments	–	1,296
Depreciation and amortisation of right of use assets	4,995	–
Costs of inventories recognised as expenses (including net allowance of inventories of RMB137,000 (June 30, 2018: provision allowance for RMB393,000))	<b>261,799</b>	276,912
Interest on lease liabilities	453	–
Interest on bank and other borrowings	23,447	10,109
Less: amount capitalised in respect of property under development	<u>(12,687)</u>	<u>(2,051)</u>
	<b>11,213</b>	8,058
Government grants	<b>(5,046)</b>	(6,655)
Interest income	<u>(1,736)</u>	<u>(2,555)</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE SIX MONTHS ENDED JUNE 30, 2019

### 8. INCOME TAX EXPENSES

	<b>Six months ended June 30, 2019 RMB'000 (unaudited)</b>	Six months ended June 30, 2018 RMB'000 (unaudited)
Land appreciation tax ("LAT") – Current period	<b>64,385</b>	13,659
People's Republic of China enterprise income tax		
– Current period	<b>69,471</b>	8,988
– Underprovision of income tax in previous periods	<b>980</b>	1,713
	<b>70,451</b>	10,701
Deferred tax (credit)/expenses	<b>(4,466)</b>	2,089
	<b>130,370</b>	26,449

### 9. DIVIDENDS

No dividends were paid, declared or proposed during the current interim period and no dividend will be paid in respect of the current interim period.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE SIX MONTHS ENDED JUNE 30, 2019

### 10. EARNINGS PER SHARE

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

#### Earnings for the period

	<b>Six months ended June 30, 2019 RMB'000 (unaudited)</b>	Six months ended June 30, 2018 RMB'000 (unaudited)
Profit for the period for the purposes of basic and diluted earnings per share, being profit attributable to owners of the Company	<b>227,785</b>	103,886

#### Number of shares

##### Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholder of the Company of RMB227,785,000 (six months ended June 30, 2018: RMB103,886,000) and the weighted average of 1,493,636,881 ordinary shares (six months ended June 30, 2018: 1,495,006,975 shares) in issue during the period, calculated as follows:

	<b>Six months ended June 30, 2019 (unaudited)</b>	Six months ended June 30, 2018 (unaudited)
Issued ordinary shares at January 1	<b>1,493,636,881</b>	1,511,019,881
Effect of shares repurchased	-	(17,247,713)
Effect of share option exercised	-	1,234,807
Weighted average number of ordinary shares at June 30	<b>1,493,636,881</b>	1,495,006,975

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE SIX MONTHS ENDED JUNE 30, 2019

### 10. EARNINGS PER SHARE (cont'd)

#### Number of shares (cont'd)

#### Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholder of the Company of RMB227,785,000 (six months ended June 30, 2018: RMB103,886,000) and the weighted average of 1,501,539,475 ordinary shares (six months ended June 30, 2018: 1,501,157,007 shares) in issue during the period, which assumed the conversion of all dilutive potential ordinary shares:

	<b>Six months ended June 30, 2019 (unaudited)</b>	Six months ended June 30, 2018 (unaudited)
Weighted average number of ordinary shares for the purposes of basic earnings per share	<b>1,493,636,881</b>	1,495,006,975
Effect of dilutive potential ordinary shares: – share options	<b>7,902,594</b>	6,150,032
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<b>1,501,539,475</b>	1,501,157,007

### 11. PROPERTY, PLANT AND EQUIPMENT

During the current period, the Group incurred expenditure of approximately RMB169,264,000 (six months ended June 30, 2018: RMB468,529,000) on property, plant and equipment to expand and upgrade the Group's manufacturing facilities.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE SIX MONTHS ENDED JUNE 30, 2019

### 12. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	<b>June 30, 2019 RMB'000 (unaudited)</b>	December 31, 2018 RMB'000 (audited)
Financial assets at fair value through other comprehensive income		
– Listed equity investment, at FVTOCI (Note i)	<b>18,643</b>	18,203

- (i) The listed securities represent 4,000,554 shares (0.31% equity interest) (December 31, 2018: 4,000,554 shares (0.31% equity interest)) in Haining China Leather Market Co., Ltd (“HCLM”). The principal activity of HCLM is the operation of department stores in the PRC. The shares of HCLM are listed in the Shenzhen Stock Exchange.

During the current period, no listed securities were disposed of. These shares have also been pledged to secure for related parties’ bank borrowings. As the shares are not intended to hold for long term purpose, these shares are classified as current assets.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE SIX MONTHS ENDED JUNE 30, 2019

### 13. TRADE, BILLS AND OTHER RECEIVABLES

	June 30, 2019 <i>RMB'000</i> (unaudited)	December 31, 2018 <i>RMB'000</i> (audited)
Trade and bills receivables	142,040	119,116
Less: Allowance for doubtful debts	(45,864)	(33,865)
	<b>96,176</b>	85,251
Deposits paid for acquisition of land for development for sale	609,888	609,888
Less: impairment loss	(6,527)	(5,900)
	<b>603,361</b>	603,988
Amount due from vendor in Malaysia for deposits paid for acquisition of land for development for sale	36,065	37,522
Less: allowance for loss	(36,065)	(37,522)
	-	-
Advance payment for purchase of inventories	9,054	19,340
Incremental costs to obtain contracts	10,774	61,397
Deposit and prepayments (Note a)	150,570	126,747
Less: allowance for loss	(39,654)	(40,129)
	<b>110,916</b>	86,618
Prepaid other taxes	234,501	259,602
Other receivables	55,221	83,829
Less: allowance for loss	(22,223)	(22,177)
	<b>32,998</b>	61,652
	<b>1,097,780</b>	1,177,848

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE SIX MONTHS ENDED JUNE 30, 2019

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

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

	<b>June 30, 2019 RMB'000 (unaudited)</b>	December 31, 2018 RMB'000 (audited)
Aged:		
Within 60 days	<b>82,141</b>	66,355
61 – 90 days	<b>7,069</b>	4,540
91 – 180 days	<b>4,022</b>	6,530
181 – 365 days	<b>6,463</b>	18,118
Over 1 year	<b>42,345</b>	23,573
	<b>142,040</b>	119,116

- (a) The balances mainly included (i) deposits with principal amount of RMB20,000,000 (2018: RMB20,000,000) paid to Shenjianong Equity Cooperative Company for cooperation of development of one plot of land in Hangzhou, PRC through formation of a joint venture company; (ii) deposits with principal amount of RMB19,500,000 (2018: RMB19,500,000) paid to Hangzhou Zhuantang Street Hengqiao Equity Cooperative Company for cooperation of development of Land B through formation of a joint venture company; (iii) deposits with principal amount of RMBnil (2018: RMB4,962,000) paid for acquisition of land use rights in Hangzhou, PRC with local government; and (iv) prepayment to contractors amount of RMB37,269,000 (2018: RMB37,142,000) for construction and renovation projects of properties under development.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE SIX MONTHS ENDED JUNE 30, 2019

### 14. TRADE, BILLS AND OTHER PAYABLES

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

	<b>June 30, 2019 RMB'000 (unaudited)</b>	December 31, 2018 RMB'000 (audited)
Within 60 days	<b>532,847</b>	678,405
61 – 90 days	<b>58,935</b>	36,944
91 – 180 days	<b>48,158</b>	37,019
181 – 365 days	<b>47,613</b>	34,412
1 – 2 years	<b>20,813</b>	11,309
Over 2 years	<b>46,659</b>	45,126
	<b>755,025</b>	843,215

### 15. BANK AND OTHER BORROWINGS

During the current period, the Group obtained additional bank and other borrowings of approximately RMB421,804,000 (six months ended June 30, 2018: RMB958,010,000) and repaid bank and other borrowings RMB379,001,000 (six months ended June 30, 2018: approximately RMB458,626,000).

The bank borrowings included unsecured bank borrowings of RMB149,593,000 (December 31, 2018: RMB114,000,000), which were guaranteed by Mr. Zhu, the chief executive officer of the Company, a related company in which Mr. Zhu has significant influence and beneficial interests and certain independent third parties.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE SIX MONTHS ENDED JUNE 30, 2019

## 16. SHARE CAPITAL

### Authorised share capital of the Company

	Number of ordinary shares at US\$0.00015 each	US\$'000
At January 1, 2018, December 31, 2018 and June 30, 2019	266,666,666,666	40,000

### Issued and fully paid

	June 30, 2019			December 31, 2018		
	Number of shares	US\$	RMB'000	Number of shares	US\$	RMB'000
At January 1	1,493,636,881	224,046	1,712	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 June 30, 2019/December 31, 2018	1,493,636,881	224,046	1,712	1,493,636,881	224,046	1,712

Note a: Purchase of own share

In 2018, 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	Lowest price	Aggregate price paid	
		paid per share HK\$	paid per share 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

In 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 were 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.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE SIX MONTHS ENDED JUNE 30, 2019

### 17. CAPITAL COMMITMENTS

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

	<b>June 30, 2019 RMB'000 (unaudited)</b>	December 31, 2018 RMB'000 (audited)
Commitments for acquisition/addition of:		
– Property, plant and equipment	<b>1,145,769</b>	1,219,381
– Properties under development	<b>830,231</b>	1,111,698
	<b>1,976,000</b>	2,331,079

### 18. CONTINGENT LIABILITIES

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

The Group provided guarantees of RMB1,125,500,000 at June 30, 2019 (December 31, 2018: RMB1,247,399,000) to banks in favour of its customers in respect of the mortgage loans provided by the banks to those customers for the purchase of the Group's properties. These guarantees provided by the Group to the banks will be released upon receiving the building ownership certificate of the respective properties by the banks from the customers as a pledge for security to the mortgage loans granted. The Directors consider that the fair value of the above guarantees is insignificant on initial recognition and at the report dates as it is not probable that an outflow in settlement will be required.

#### (b) Financial guarantee issued

Due to the disposal of discontinued operation in 2016, the Group recognized (i) financial guarantees to banks in respect of banking facilities granted to a former subsidiary; (ii) financial guarantees to banks in respect of banking facilities granted to related parties.

As at June 30, 2019, the Directors do not consider it probable that a claim will be made against the Group under the financial guarantees, and therefore the financial guarantees are measured at its fair values initially recognised less cumulative amortisation. The carrying amount of these financial guarantees recognised at June 30, 2019 is RMB16,543,000 (December 31, 2018: Nil).

The maximum liabilities of the Group as at June 30, 2019 in respect of the guarantees (i) and guarantees (ii) was RMB374,100,000 (December 31, 2018: RMB374,100,000) and RMB394,800,000 (December 31, 2018: RMB394,800,000) respectively.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE SIX MONTHS ENDED JUNE 30, 2019

### 19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

<b>Financial assets</b>	<b>Fair value as at June 30, 2019 RMB'000</b>	Fair value as at December 31, 2018 RMB'000	<b>Fair value hierarchy</b>	<b>Valuation technique and key input</b>
Financial assets classified at fair value through other comprehensive income listed in a stock exchange	<b>18,643</b>	18,203	Level 1	Quoted bid prices in an active market

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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE SIX MONTHS ENDED JUNE 30, 2019

### 19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (cont'd)

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

	<b>June 30, 2019 RMB'000 (unaudited)</b>	December 31, 2018 RMB'000 (audited)
At beginning of the period	-	23,283
Transfer into Level 1 at January 31, 2018 (Note 1)	-	(23,283)
At end of the period	-	-

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

#### Valuation techniques used and key inputs

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.