



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
2019**



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

ZHU Zhangjin, Kasen (*Chairman*)
(*resigned as Chief Executive Officer on
February 28, 2020*)

ZHU Ruijun (*Chief Executive Officer*)
(*appointed on February 28, 2020*)

ZHOU Xiaohong

SHEN Jianhong (*resigned on February 28, 2020*)

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

ZHU Ruijun (appointed on February 28, 2020)
YIU Hoi Yan, Kate
SHEN Jianhong (resigned on February 28, 2020)

COMPANY WEBSITE

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

FINANCIAL HIGHLIGHTS RESULTS¹

	For the year ended December 31,				
	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Revenue	3,413,185	3,608,540	1,605,880	3,305,105	3,261,129
Profit (loss) before taxation	663,564	599,600	(187,545)	24,466	232,388
Profit (loss) attributable to owners of the Company	444,958	449,799	(203,351)	(39,896)	190,458

FINANCIAL POSITION

	At December 31,				
	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Cash and cash equivalents	211,903	457,708	439,931	339,731	215,629
Total borrowings	910,095	899,997	492,974	780,947	1,900,760
Total assets	6,295,228	8,152,573	8,730,032	6,301,860	8,223,605
Total liabilities	2,934,711	5,233,615	5,831,561	3,175,789	4,943,508
Equity attributable to owners of the Company	3,296,183	2,849,292	2,814,419	3,034,173	3,167,334

FINANCIAL AND OPERATING RATIOS

	At December 31,				
	2019	2018	2017	2016	2015
Dividend payout ratio (%) ²	–	86.3%	–	–	–
Debt to equity ratio (%) ³	27.1%	30.8%	17.0%	25.0%	57.9%
Net debt to equity ratio (%) ⁴	20.8%	15.2%	1.8%	14.1%	51.4%
Trade and bills receivable turnover days ⁵	42	43	83	65	78 (restated)
Inventory turnover days ⁶	54	53	50	51	45 (restated)
Current ratio ⁷	178.6%	130.2%	133.5%	189.9%	158.7%
Earnings (loss) per share (RMB)					
Basic	0.30	0.30	(0.13)	(0.03)	0.14
Diluted	0.30	0.30	(0.13)	(0.03)	0.14

Notes:

- The figures in 2015 and 2016 included those of both the continuing operations and the discontinued operation.
- The dividend per ordinary share divided by the profit (loss) attributable to owners of the Company per ordinary share.
- Interest-bearing debt divided by total equity as at the end of the year.
- Interest-bearing debt minus bank balances and cash divided by the total equity as at the end of each year.
- 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.
- 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.
- Current assets divided by current liabilities as at the end of each year.
- The adoption of new accounting standards (as shown in note 2 to the consolidated financial statements) in 2019 has no material impact on the Group.

DIRECTORS AND MANAGEMENT PROFILES

EXECUTIVE DIRECTORS

ZHU Zhangjin, Kasen (朱張金), aged 54, is the founder of the Group and the chairman of the Company. Mr. Zhu is also an executive director of the Company. He was the chief executive officer of the Company from 2005 till February 28, 2020, whereupon he resigned and stepped down from the position as the chief executive officer of the Company with effect thereon. 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 32 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.

ZHU Ruijun (朱瑞俊), aged 48, was appointed as an executive Director and the chief executive officer of the Company with effect from February 28, 2020. Prior to joining the Company, Mr. Zhu Ruijun has served successively as Secretary of Communist Youth League of Haining, Zhejiang Province, secretary of the party committee of Guodian town of Haining, Vice Mayor of Pinghu Municipality, Zhejiang Province, Mayor of Lanxi Municipality and Secretary of Lanxi Municipal Committee of the CPC, Zhejiang Province, vice secretary-general of Jinhua Municipal Committee of the CPC, Zhejiang Province. Mr. Zhu Ruijun achieved a postgraduate diploma in economy from Zhejiang Provincial Committee Party School in 2002.

ZHOU Xiaohong (周小紅), aged 51, 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 52, 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 and resigned on February 28, 2020. 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.

DIRECTORS AND MANAGEMENT PROFILES (cont'd)

INDEPENDENT NON-EXECUTIVE DIRECTORS

ZHOU Lingqiang (周玲強), aged 56, joined the Company as an independent non-executive Director on June 1, 2011. Mr. Zhou obtained a bachelor degree in economics from Hangzhou University in 1986, a master degree in economics from Hangzhou University in 1998 and a doctoral degree in management from Zhejiang University in 2005. Mr. Zhou has been working at Zhejiang University since 1986. Mr. Zhou is now the faculty dean of the Faculty of Tourism of Zhejiang University and the Head of the Tourism Research Institute of Zhejiang University. From 2006 to 2007, Mr. Zhou was appointed by the PRC government to serve as the vice president of the Faculty of Tourism and Foreign Language of University of Tibet. Apart from his professional career, Mr. Zhou serves as a member of the Consultant Committee for Master's Degree Education for National Tourism Management under the State Council Academic Degrees Committee, the vice president of the Education Branch of China Tourism Association, the vice president of Zhejiang Tourism Association, the vice president and secretary of Zhejiang Recreation Academy and executive member of the World Leisure Organisation, China branch. Mr. Zhou is also a committee member of the Zhejiang Tourism Standardisation of Technology Committee, Hangzhou Economic Zone Tourism Cooperation and Development Coordination Section, Hangzhou Government Decisionmaking Advisory Committee and Hangzhou Tourism Branding and Marketing Committee. Mr. Zhou has acted as the consultant in relation to the tourism-related matters in various districts in Zhejiang Province and has acted as a government consultant in various districts within the Tibet Autonomous Region.

ZHANG Yuchuan (張玉川), aged 61, joined the Company as an independent non-executive Director on March 1, 2012. Mr. Zhang obtained a bachelor degree in information management from The School of Information Management, Wuhan University in 1982. From 1982 to 1985, Mr. Zhang worked at the Ministry of Education. From 1985 to 1986, he served as a finance journalist of the China Economic Press. From 1986 to 1987, Mr. Zhang served as an assistant researcher at the China Association for Science and Technology. From 1988 to 1994, Mr. Zhang served as the division chief of The Development Research Centre of the State Council and was later appointed as the deputy chief executive of the centre in 1994 till 2002. Since 1998 up to present, Mr. Zhang has been serving as the director of the Beijing Owen Institute of Public Affairs, responsible for finance public affairs related matters. From 2001 to 2006, Mr. Zhang served as an independent director of Hubei Guangji Pharmaceutical Co., Ltd. From 2001 to 2008, Mr. Zhang served as an independent non-executive director of Shenzhen Mingwah Aohan High Technology Corporation Limited, a company listed on The Stock Exchange of Hong Kong Limited (Stock Code: 8301). Furthermore, Mr. Zhang is an independent non-executive director of Tiandi Science and Technology Co., Ltd., a company listed on the Shanghai Stock Exchange. Apart from his professional career, Mr. Zhang also serves as the vice chairman of China Electronic Commerce Association.

DIRECTORS AND MANAGEMENT PROFILES (cont'd)

INDEPENDENT NON-EXECUTIVE DIRECTORS (cont'd)

DU Haibo (杜海波), aged 51, 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 (Stock Code: 360). 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 annual 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.

Save as otherwise disclosed, there is no relationship (including financial/business/family or other material/relevant relationship) between any members of the Board, and no information relating to the Directors which is required to be disclosed pursuant to Rules 13.51(2) and 13.51B(1) of the Listing Rules.

SENIOR MANAGEMENT

PENG Weijun (彭偉軍), aged 44, joined the Group on June 30, 2017 as the chief financial officer. Mr. Peng has over 19 years of corporate finance and accounting experience. Prior to joining the Group, Mr. Peng worked for Qianjiang Water Resources Development Co., Ltd, a company listed on the Shanghai Stock Exchange from 2004 to 2017 and held various positions as the financial accountant, the deputy manager and the finance manager of the finance department. Mr. Peng has obtained the qualification of senior accountant in the PRC. Mr. Peng graduated from Central South Institute of Technology (currently known as University of South China) in 2000 with a bachelor degree in accounting.

DIRECTORS AND MANAGEMENT PROFILES (cont'd)

SENIOR MANAGEMENT (cont'd)

ZHOU Xiaohong (周小紅), aged 51, 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 56, 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 52, 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 47, 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 24 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, 2019.

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 2019, the Group recorded a consolidated turnover of approximately RMB3,413.2 million, representing a decrease of approximately 5.4% as compared to the same period in 2018. The profit attributable to the shareholders was approximately RMB445.0 million in 2019 (RMB449.8 million in 2018).

As of December 31, 2019, the Group had six property and tourism resort projects under different stages of development in Mainland China. In 2019, revenue from property development amounted to RMB2,552.1 million, representing a decrease of approximately 5.8% as compared to the revenue of RMB2,708.1 million in 2018. The decrease in revenue was mainly due to the decrease in delivery of properties in 2019.

In respect of tourism resort-related operation, the Group's three water parks in Sanya, Hainan, Boao, Hainan, and Yancheng, Jiangsu have all been formally put into operation and have become tourism and vacation projects with certain local brand influence and consumer appeal.

The manufacturing segment of the Group comprising manufacturing and trading of upholstered furniture, most of which was exported to the U.S. market. In 2019, under the impact of the United States government's imposition of increased tariffs on furniture products imported from China, the revenue of the upholstered furniture business segment decreased to RMB701.0 million as compared to RMB719.0 million in 2018.

CHAIRMAN'S STATEMENT (cont'd)

As economic situation changes in China, the Group actively responded to the policy of the Chinese government on encouraging investments in countries along the “One Belt, One Road”. In August 2019, the Board resolved to develop the Company into an “Operator in the One Belt One Road Special Economic Zone” as its future development strategy. In 2019, the Company in order to enter the field of the operation of an international special economic zone, and has carried out preliminary work in countries along the One Belt, One Road such as Cambodia and Indonesia. It is expected that substantive progress will be made in 2020. The Company is also prepared to carry out international power and energy business complement to the construction of the special economic zone. As the development and constructions above is time consuming, the international projects will not have significant impact on the Group's results in short term. Upon the completion and operation of international projects, the Group will greatly broaden its source of income and bring more return to the Shareholders.

In the field of property development, on top of continuing development of the existing property projects located in China, the Group will explore new property development projects in due course in selected overseas regions with sound development prospects. In the field of tourism resort business, the Group will focus on improving operation efficiency and establishing brand effects to continuously consolidate and enhance the results performance of the existing tourism resorts.

In the field of upholstered furniture business, the trade disputes between China and the United States are full of variability and complexity. The Group will closely monitor the developments of policy and maintain close cooperation relationships with American customers so as to jointly cope with tariff risks. The Group will further improve the operation efficiency of domestic production base and reduce cost and expense. The upholstered furniture factory set up in Cambodia has been put into operation to meet the export needs of American customers.

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, May 8, 2020

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OVERVIEW

Financial Review

For the year ended December 31, 2019, the Company together with its subsidiaries (the “Group”) recorded a consolidated turnover of RMB3,413.2 million (2018: RMB3,608.5 million), representing a decrease of approximately 5.4% when compared with the year of 2018.

The Group’s gross profit for the year ended December 31, 2019 was RMB1,193.0 million (2018: RMB1,056.0 million) with an average gross profit margin of 35.0% (2018: 29.3%), which resulted in an increase of approximately RMB137.0 million, representing an increase of approximately 13.0% when compared with the year of 2018.

The net profit attributable to owners of the Company was approximately RMB445.0 million in the year ended December 31, 2019 (2018: RMB449.8 million), representing a decrease of approximately RMB4.8 million (a decrease of approximately 1.1%) as compared with the year of 2018.

Review by Business Segments

The Group’s reportable business segments in 2019 principally consist of manufacturing and trading of upholstered furniture, properties 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, 2019 together with the comparative figures for the year ended December 31, 2018:

	2019		2018		Y-O-Y
	<i>RMB'Million</i>	%	<i>RMB'Million</i>	%	Change
Manufacturing and Trading					
of Upholstered Furniture	701.0	20.5	719.0	20.0	-2.5
Property Development	2,552.1	74.8	2,708.1	75.0	-5.8
Others	160.1	4.7	181.4	5.0	-11.7
Total	3,413.2	100.0	3,608.5	100.0	-5.4

MANAGEMENT DISCUSSION AND ANALYSIS (cont'd)

RESULTS OVERVIEW (cont'd)

Review by Business Segments (cont'd)

Manufacturing and Trading of Upholstered Furniture Business

During the year under review, the Group's manufacturing and trading of upholstered furniture business realized a total turnover of approximately RMB701.0 million, representing a decrease of approximately 2.5% as compared to the total turnover of RMB719.0 million in the corresponding period of 2018. Under the adverse impact of the United States government's imposition of additional tariffs on furniture products imported from China, the Group has improved production and operation management and reduced costs. Besides, it has actively conducted close communication with key US customers to cope with and share the risks of additional tariffs. With the combined effect of the decline in raw material costs in 2019 and the depreciation of Renminbi currency as compared with the same period in last year, the Group recorded a profit of approximately RMB50.2 million from manufacturing and trading of upholstered furniture business in 2019, representing an increase of approximately 32.8% as compared to the profit of approximately RMB37.8 million in the corresponding period of 2018.

Property Development Business

As at December 31, 2019, 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 in 2019. The turnover from the property development segment was RMB2,552.1 million in 2019, representing a decrease of approximately 5.8% as compared to RMB2,708.1 million in 2018. The decrease in sales was mainly due to the decrease in delivery of properties in 2019. As a result, an operating profit generated from this segment in 2019 was RMB408.6 million, representing a decrease of approximately 6.5% as compared to an operating profit of RMB437.0 million in 2018.

The Group's Property Project Portfolio as at December 31, 2019

No.	Project Name	Location/Postal address	Interests Attributable to the Group	Total Site Area (sq.m.)	Status	Estimated year/actual year of completion <i>(Note)</i>	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, Shibui 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	Completed	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				<u>3,046,174</u>			

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

MANAGEMENT DISCUSSION AND ANALYSIS (cont'd)

RESULTS OVERVIEW (cont'd)

Review by Business Segments (cont'd)

Property Development Business (cont'd)

Analysis of Properties Under Development as at December 31, 2019

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, 2019 (sq.m.)	Accumulated GFA delivered as at December 31, 2019 (sq.m.)	Average Selling Price (RMB/sq.m.)
1	Asia Bay	718,665	342,435	590,165	174,910	164,125	32,150
2	Qianjiang Continent	775,292	775,292	669,717	660,352	658,899	7,327
3	Kasen Star City	957,224	957,224	708,730	701,423	693,174	9,796
4	Changbai Paradise	122,412	122,412	122,010	39,467	38,558	8,933
5	Qianjiang Oasis	337,071	337,071	282,323	218,718	212,668	6,757
Total		2,910,664	2,534,434	2,372,945	1,794,870	1,767,424	

Operating Expenses, Taxation and Profit Attributable to Owners

The Group's selling and distribution costs during the year under review decreased to approximately RMB191.7 million, as compared to approximately RMB228.9 million in 2018, attributable to the decrease of approximately RMB37.2 million in the selling and distribution costs incurred by all segments during the year ended December 31, 2019. The decrease was mainly due to the decrease of approximately RMB18.4 million in the selling costs incurred in relation to the pre-sale properties made for the property development segment of the Group. The Group's selling and distribution costs to turnover in 2019 decreased to approximately 5.6% as compared to approximately 6.3% in 2018.

The administrative costs in 2019 was approximately RMB252.9 million, representing an increase of approximately RMB20.2 million as compared to approximately RMB232.7 million in 2018. The increase was mainly due to an increase in the staff costs incurred by the property development segment of the Group by approximately RMB15.4 million.

The Group's finance cost in 2019 was approximately RMB47.1 million, representing an increase of approximately RMB29.5 million, as compared to approximately RMB17.6 million in 2018, mainly due to increase in a portion of the bank and other loans during 2018 which were continued to the end of 2019, and therefore the average financing amounts per day in 2019 were higher than that in 2018 and the respective finance costs were higher. On the other hand, there was an increase in the portion of the completion of the Group's property development projects in 2019 as compared to that in 2018, and the respective finance interests were capitalized to the cost of construction prior to the completion of the property development, and then such finance interests were recognized as finance costs upon the project completion.

The Group recorded a net loss of approximately RMB42.0 million in other gains and losses in 2019, while it recorded a net gain of approximately RMB34.9 million in 2018. For details of the other gains and losses, please refer to note 8 to the consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS (cont'd)

RESULTS OVERVIEW (cont'd)

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

The Group's income tax in 2019 was approximately RMB182.4 million, representing an increase of approximately RMB17.5 million, as compared to approximately RMB164.9 million in 2018. The increase was mainly attributable to (1) an increase in PRC income tax for current year of approximately RMB25.4 million mainly due to an increase in taxable profits generated at the subsidiary level especially for the property development segment with increased operating profit; and (2) an increase in PRC land appreciation tax of approximately RMB89.8 million from the property development projects which was offset by (3) the decrease in deferred taxation charge of approximately RMB11.8 million and (4) reversal of tax provision of approximately RMB85.2 million.

Based on the aforesaid factors, profit attributable to owners of the Company in 2019 decreased by approximately 1.1% to approximately RMB445.0 million (2018: RMB449.8 million).

CAPITAL EXPENDITURE

Capital expenditure in 2019 decreased to approximately RMB275.4 million (including construction in progress of approximately RMB209.9 million and freehold land prepayment made in 2018 of approximately RMB42.6 million) from approximately RMB585.7 million in 2018. The capital expenditure mainly comprised the amount of approximately RMB275.4 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, 2019, the Group's bank and other borrowings amounted to approximately RMB910.1 million, (in which approximately 1.3% (2018: 1.8%) was denominated in USD and approximately 98.7% (2018: 98.2%) was denominated in RMB) representing an increase of approximately 1.1% from approximately RMB900.0 million as at December 31, 2018.

Turnover Period, Liquidity and Gearing

In 2019, the inventory turnover period maintained at 54 days (2018: 53 days).

In 2019, the Group continued to maintain a strict credit policy. The account and bills receivables turnover days of the Group's manufacturing and trading of upholstered furniture segments maintained at 42 days in 2019 (2018: 43 days).

The accounts and bills payable turnover days of the Group's manufacturing and trading of upholstered furniture segments increased to 78 days in 2019 (2018: 73 days).

MANAGEMENT DISCUSSION AND ANALYSIS (cont'd)

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

Turnover Period, Liquidity and Gearing (cont'd)

As at December 31, 2019, the Group's current ratio was 1.79 (December 31, 2018: 1.30). The Group's cash and cash equivalent balance was approximately RMB211.9 million as at December 31, 2019 (December 31, 2018: approximately RMB457.7 million). As at December 31, 2019, included in cash and cash equivalent balance of the Group was approximately 80.7% (2018: 92.0%) of bank balance denominated in RMB, approximately 17.2% (2018: 7.0%) denominated in USD, and approximately 2.1% (2018: 1.0%) denominated in HKD and Japanese Yen currency. This represents a gearing ratio of 27.6% as at December 31, 2019 (December 31, 2018: 31.6%) and a net debt-to-equity ratio of 21.2% as at December 31, 2019 (December 31, 2018: 15.5%). 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 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 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

The Group did not have any material acquisitions or disposals during the year ended December 31, 2019.

FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

Saved as disclosed in "Future Plans and Prospects" section, the Directors confirmed that as at the date of this report, there are no current plans to acquire any material investment or capital assets other than in the Group's ordinary business of property development.

SIGNIFICANT INVESTMENTS

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

CONTINGENT LIABILITIES

As at December 31, 2019, the Group had certain contingent liabilities. For details, please refer to note 44 to the consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS (cont'd)

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 41 to the consolidated financial statements.

CAPITAL AND OTHER COMMITMENTS

As at December 31, 2019, the Group had contracted, but not provided for, a total capital and other expenditure of RMB2,324.8 million (2018: RMB2,331.1 million), in which an amount of RMB216.5 million (2018: RMB1,111.7 million) was in respect of properties under development for sale.

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 closely monitor the situation and make necessary arrangement as and when appropriate.

EMPLOYEES AND EMOLUMENT POLICIES

As at December 31, 2019, the Group employed a total of approximately 3,300 full time employees (December 31, 2018: approximately 3,400), including management staff, technicians, salespersons and workers. In 2019, the Group's total expense on the remuneration of employees was approximately RMB226.5 million (2018: approximately RMB206.4 million), representing approximately 6.6% (2018: 5.7%) 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), national social security fund scheme (for Cambodia 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 annual report.

MANAGEMENT DISCUSSION AND ANALYSIS (cont'd)

FUTURE PLANS AND PROSPECTS

As the Group adjusts its future development strategy, it will continue to increase investments in countries along the “One Belt, One Road”. Prepare for entering the field of the operation of the international special economic zone, and also based on the achievements of previous investigation and research, the Company not only carried out construction and operation of the thermal power project jointly developed with the special economic zone, but also expressed its interests in strengthening its focus on other international power and energy development, particularly green energy such as photovoltaics, hydropower, wind power and waste power generation. With power energy as grasping points, the Company is intended to devote itself to the construction of large-scale overseas special economic zones, help Chinese enterprises to “go global” and establish a platform for international cooperation in production capacity. It is expected that with the gradual completion and operation of overseas projects, the Group will broaden its sources of income and increase its profitability so as to bring more return to the Shareholders.

In respect of property development business, on top of the speeding up of the sales progress of various existing projects and property delivery, the Group will also explore new projects in overseas countries with sound development prospects in due course to pursue new business growth points. In the field of tourism resort business, the Group will focus on improving operation efficiency and establishing brand effects to continuously consolidate and enhance the performance of the existing tourism resorts.

In the field of upholstered furniture, it is expected that the trade disputes between China and the United States are full of persistence, variability and uncertainty. The Group will keep a close eye on the policy changes of China and the United States. To mitigate the risk of additional tariffs imposed by the United States, the Group has set up an upholstered furniture factory in Cambodia to meet the needs of certain American customers. In China, the Group will take measures such as reducing the scale of production bases, reducing operating costs and improving automation level to tap the potential of the upholstered furniture business segment, thus ensuring stable and sustainable business development in a long run.

DIRECTORS' REPORT

The Directors present the annual report and the audited consolidated financial statements of the Company for the year ended December 31, 2019.

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 and important events affecting the Company occurred during the year ended December 31, 2019 and since the end of the reporting period are provided in the section headed "Chairman's Statement" on pages 8 to 9 and the section headed "Management Discussion and Analysis" on pages 10 to 16 of this annual report. A summary of the principal risks and uncertainties that the Group may be facing is set forth in 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, 2019 using financial performance indicators is provided in the section headed "Management Discussion and Analysis" on pages 10 to 16 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.

DIRECTORS' REPORT (cont'd)

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, 2019 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 70 to 71.

FINAL DIVIDEND

The Directors do not recommend the payment of any final dividend for the year ended December 31, 2019 (2018: 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 June 10, 2020 to June 15, 2020 (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 June 9, 2020.

DIRECTORS' REPORT (cont'd)

DISTRIBUTABLE RESERVES OF THE COMPANY

The amount of the Company's reserves available for distribution to Shareholders as at December 31, 2019, calculated in accordance with International Financial Reporting Standards, was approximately RMB1,601.1 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 2019, the Group had acquired property, plant and equipment of approximately RMB275.4 million (including construction in progress of approximately RMB209.9 million and freehold land prepayment made in 2018 of approximately RMB42.6 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 2019 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 35 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year of 2019, the aggregate sale attributable to the Group's five largest customers comprised approximately 77.2% of the Group's manufacturing and trading of upholstered furniture segments sale and the sale attributable to the Group's largest customer were approximately 44.4% of the Group's manufacturing and trading of upholstered furniture segments sale.

The aggregate purchases during the year of 2019 attributable to the Group's five largest suppliers were approximately 17.9% of the Group's manufacturing and trading of upholstered furniture segments purchases and the purchases attributable to the Group's largest supplier were approximately 5.6% of the Group's manufacturing and trading of upholstered furniture 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.

DIRECTORS' REPORT (cont'd)

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.

ENVIRONMENTAL PROTECTION AND COMPLIANCE WITH LAWS AND REGULATIONS

The Group is committed to supporting the environmental sustainability. Being a property developer and manufacturer in the PRC, the Group is subject to various environmental laws and regulations set by the PRC national, provincial and municipal governments. These include regulations on air and noise pollution and discharge of waste and water into the environment. Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations. During the year under review, the Group had complied with relevant environmental laws and regulations that have significant impact on the operations of the Group. Further, any changes in applicable environmental laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time.

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.

DIRECTORS' REPORT (cont'd)

WORKPLACE QUALITY (cont'd)

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 2019 and up to the date of this annual report are:

Executive Directors

ZHU Zhangjin, Kasen (*Chairman*)

ZHU Ruijun (*appointed on February 28, 2020*)

ZHOU Xiaohong

SHEN Jianhong (*resigned on February 28, 2020*)

Independent Non-executive Directors

DU Haibo

ZHOU Lingqiang

ZHANG Yuchuan

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

DIRECTORS' REPORT (cont'd)

DISCLOSURE OF DIRECTORS' INFORMATION PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES

With effect from January 1, 2019, the Director's fees were changed. The revised Director's fees are set out below pursuant to Rule 13.51B(1) of the Listing Rules: –

Name of Director	Revised Director's fee (per annum)
Mr. Zhu Zhangjin	HK\$750,000

BRIEF DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief details of Directors and senior management are set out in the section headed "Directors and Management Profiles" section on pages 4 to 7 of this annual report. 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 28, 2020 for Mr. Zhu Ruijun; 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, 2019, the interests and short positions of the Directors and the chief executives of the Company 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

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	555,645,113	568,005,113	38.03%
Zhou Xiaohong (Note 2)	9,514,561	–	9,514,561	0.64%

DIRECTORS' REPORT (cont'd)

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

(1) Long Positions in Shares of the Company (cont'd)

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 568,005,113 Shares or approximately 38.03% of the total number of issued Shares (including the 555,645,113 Shares or approximately 37.20% 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, 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"), 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, 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 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, 2019.

SHARE OPTION SCHEMES

Particulars of the Company's share option schemes are set out in note 36 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, 2019, the Company had 10,850,000 outstanding options granted pursuant to the 2005 Share Option Scheme.

DIRECTORS' REPORT (cont'd)

SHARE OPTION SCHEMES (cont'd)

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 annual 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 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, 2019, 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.

DIRECTORS' REPORT (cont'd)

SHARE OPTION SCHEMES (cont'd)

Details of movement of the share options during the year ended December 31, 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 December 31, 2019	Percentage of total issued share capital	Exercisable period	Notes
		Outstanding as at January 1, 2019	Granted from January 1, 2019 to December 31, 2019	Exercised from January 1, 2019 to December 31, 2019	Forfeited from January 1, 2019 to December 31, 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:

1. 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.
2. These share options represent personal interest held by the relevant participants as beneficial owner.
3. During the year ended December 31, 2019, none of these share options were exercised, forfeited, lapsed nor cancelled.

DIRECTORS' REPORT (cont'd)

SUBSTANTIAL SHAREHOLDERS

As at December 31, 2019, the following persons (other than Directors or chief executives of the Company stated in the paragraph headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" in this section of the annual report) 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	–	555,645,113	555,645,113	37.20%
Prosperity and Wealth Limited ⁽¹⁾	Trustee	–	555,645,113	555,645,113	37.20%
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	–	89,237,000	89,237,000	5.97%

Notes:

- 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 568,005,113 Shares or approximately 38.03% of the total number of issued Shares (including the 555,645,113 Shares or approximately 37.20% 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).
- 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, 2019.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Other than the share option schemes disclosed in the section "Share Option Schemes" of this annual report, at no time during the year of 2019 was the Company or any of its subsidiaries a party to any arrangements which enables the Directors of the Company acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

CONNECTED TRANSACTIONS

Except for the continuing connected transactions set forth below, the Group did not enter into any transactions which constituted connected transactions of the Company under the Listing Rules with its connected persons during the year ended December 31, 2019.

DIRECTORS' REPORT (cont'd)

CONTINUING CONNECTED TRANSACTIONS

During the year ended December 31, 2019, 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 20, 2018, Yujie entered into a renewal agreement with the Group (the “2018 Yujie Renewal Agreement”) for a term of 3 years which will expire on December 31, 2021.

Pursuant to the 2018 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. 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.

During the year under review, the aggregate amount of the transactions under the 2018 Yujie Renewal Agreement was approximately RMB1,866,000 and did not exceed the annual cap amount of RMB5,000,000.

Yujie is a subsidiary of Zhejiang Sunbridge Industrial (Group) Co., Ltd (“Sunbridge”) and Sunbridge is a company in which Mr. Zhu Zhangjin, 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 2018 Yujie Renewal Agreement, please refer to the announcement of the Company dated November 20, 2018.

DIRECTORS' REPORT (cont'd)

CONTINUING CONNECTED TRANSACTIONS (cont'd)

(2) Agreement for providing guarantee to the CCT Group

On November 20, 2018, 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 3 years which will expire on December 31, 2021 (the “2018 CCT Master Agreement”).

In early 2019, the Company was informed by Lingjia New Material that it had disposed 100% interest in Haining Kasen Leather to an independent third party, pursuant to which Haining Kasen Leather is no longer the subsidiary of Lingjia New Material. Haining Kasen Leather then became an independent third party to the Group after the disposal.

Pursuant to the 2018 CCT Master Agreement, the Group agreed to provide the guarantee to Haining Kasen Leather, Haining Schinder and Dafeng Huasheng (collectively referred to as the “CCT Group”); and each of Mr. Zhu Zhangjin, Ms. Zhu Jiayun, Ms. Zhu Lingren, Lingjia New Material (collectively referred to 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 2018 CCT Master Agreement with the maximum amount of approximately RMB394,800,000 and did not exceed the annual cap amount of RMB394,800,000.

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 2018 CCT Master Agreement constitute continuing connected transactions for the Company pursuant to Chapter 14A of the Listing Rules.

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.

DIRECTORS' REPORT (cont'd)

CONTINUING CONNECTED TRANSACTIONS (cont'd)

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

On November 20, 2018, Lingjia New Material entered into an agreement with the Group for a term of 3 years which will expire on December 31, 2021 (the "2018 Lingjia Agreement"). Pursuant to the 2018 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).

The price and terms of the individual orders in respect of the 2018 Lingjia 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.

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 2018 Lingjia Agreement was nil and did not exceed the annual cap amount of RMB70,000,000.

Lingjia New Material is wholly-owned by Ms. Zhu Jiayun and Ms. Zhu Lingren, the daughters of Mr. Zhu, an executive Director and the controlling Shareholder of the Company. Ms. Zhu Jiayun and Ms. Zhu Lingren are therefore associates of Mr. Zhu, and hence Ms. Zhu Jiayun, Ms. Zhu Lingren and Lingjia New Material are connected persons of the Company and transaction between the Group and Lingjia New Material under the 2018 Lingjia Agreement constitutes continuing connected transactions for the Company pursuant to Chapter 14A of the Listing Rules.

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

DIRECTORS' REPORT (cont'd)

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 as disclosed in the announcement of the Company dated November 20, 2018 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, 2019.

RELATED PARTY TRANSACTIONS

During the year ended December 31, 2019, the Group had certain transactions with "related parties" as defined under the applicable accounting standards. Except for the continuing connected transactions as set forth in the section headed "Continuing Connected Transactions" on pages 27 to 30 of this annual report, none constitutes a discloseable connected transaction as defined under the Listing Rules.

DIRECTORS' REPORT (cont'd)

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Save as disclosed under the sections headed "Connected Transactions" and "Continuing Connected Transactions" of this annual report, there were no transaction, arrangement or contracts of significance in which a Director had a material interest, whether directly and indirectly, and subsisted at the end of the year or at any time during the year ended December 31, 2019.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

There was no other contract of significance in relation to the Group's business to which the Company, any of its subsidiaries or its holding company was a party and in which a controlling shareholder had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year under review.

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the shareholders by reason of their holding of the Company's listed securities.

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

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

At no time during the year under review, did the Company nor any of its subsidiaries purchase, sell or redeem any of the Company's listed securities.

SUFFICIENCY OF PUBLIC FLOAT

Based on information available to the Company and within the knowledge of its Directors, the Company has maintained sufficient public float as required under the Listing Rules throughout the year ended December 31, 2019.

DIRECTOR'S INTERESTS IN COMPETING BUSINESS

None of the Directors held any interests, whether directly or indirectly, in any competing business against the Company or any of its jointly controlled entities and subsidiaries for the year ended December 31, 2019.

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.

DIRECTORS' REPORT (cont'd)

DONATIONS

During the year under review, donations made by the Group were approximately RMB257,000.

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.

EVENTS AFTER THE REPORTING PERIOD

The Company had certain event(s) after the reporting period. For details, please refer to note 50 to the consolidated financial statements.

AUDIT COMMITTEE

The Audit Committee was established by the Company to review and monitor the Company's financial reporting and internal control. The Audit Committee comprises all the independent non-executive Directors. Mr. Du Haibo is the chairman of the Audit Committee.

The annual results of the Company for the year ended December 31, 2019 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, May 8, 2020

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, 2019, 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. During the year under review, the Company did not separate the roles of chairman and chief executive. Mr. Zhu Zhangjin, Kasen assumed the role both as the chairman and chief executive officer of the Company responsible for overseeing the operations of the Group during the year ended December 31, 2019. The Company considered 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 was not able to identify such a candidate to replace Mr. Zhu during the year ended December 31, 2019.

On February 28, 2020, the Company has appointed Mr. Zhu Ruijun as the executive director and the chief executive officer of the Company. Upon which, Mr. Zhu Zhangjin has resigned from the position as the chief executive officer, and continues to be the chairman of the Company. Upon the effective date of such change (i.e. February 28, 2020), the CG Code Provision A.2.1 is being complied with.

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 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, 2019, each of them has complied with the provisions with the required standards as set out in the Model Code.

CORPORATE GOVERNANCE REPORT (cont'd)

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, 2019, the Board comprised six members, including three executive Directors and three independent non-executive Directors. The Board members for the year ended December 31, 2019 and up to the date of this annual report are shown below:

Executive Directors

ZHU Zhangjin, Kasen (*Chairman*) (*resigned as Chief Executive Officer on February 28, 2020*)

ZHU Ruijun (*appointed on February 28, 2020*)

ZHOU Xiaohong

SHEN Jianhong (*resigned on February 28, 2020*)

Independent Non-executive Directors

DU Haibo

ZHOU Lingqiang

ZHANG Yuchuan

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

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

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

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

CORPORATE GOVERNANCE REPORT (cont'd)

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Zhu Zhangjin is the chairman and was also the chief executive officer of the Company during the year ended December 31, 2019. Mr. Zhu Zhangjin resigned and stepped down from the position as the chief executive officer of the Company with effect from February 28, 2020, and continues to be the chairman of the Company. In addition, on February 28, 2020, the Company has appointed Mr. Zhu Ruijun as the chief executive officer of the Company.

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, 2019, all Directors of the Company namely, Mr. Zhu Zhangjin, Ms. Zhou Xiaohong, Ms. Shen Jianhong (resigned on February 28, 2020), 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.

CORPORATE GOVERNANCE REPORT (cont'd)

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, 2019, 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.

CORPORATE GOVERNANCE REPORT (cont'd)

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, 2019 is set out below:

Remuneration band	Number of individuals
Nil to HK\$1,000,000	–
HK\$1,000,001 to HK\$1,500,000	3
HK\$1,500,001 to HK\$2,000,000	1
Over HK\$2,000,000	1

Further particulars regarding Directors' emoluments and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in note 11 to the consolidated financial statements. No Director has waived or has agreed to waive any emoluments during the year ended December 31, 2019.

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	<i>(Chairman of the Nomination Committee)</i>
Mr. ZHOU Lingqiang	
Mr. ZHU Ruijun	<i>(appointed on February 28, 2020)</i>
Ms. SHEN Jianhong	<i>(resigned on February 28, 2020)</i>

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, 2019, the Nomination Committee held one meeting to discuss about the re-appointment of directors.

CORPORATE GOVERNANCE REPORT (cont'd)

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, 2019 is set out below:

Name of Directors	Attendance/Number of Meetings				Annual General Meeting held on May 31, 2019
	Board Meetings	Remuneration Committee Meeting	Audit Committee Meeting	Nomination Committee Meeting	
Executive Directors					
Mr. ZHU Zhangjin, Kasen (<i>Chairman</i>)	4/4	N/A	N/A	N/A	0/1
Ms. SHEN Jianhong (<i>Member of Nomination Committee</i>)	4/4	N/A	N/A	1/1	1/1
Ms. ZHOU Xiaohong (<i>Member of Remuneration Committee</i>)	4/4	1/1	N/A	N/A	1/1
Independent Non-executive Directors					
Mr. DU Haibo (<i>Chairman of Audit Committee and Chairman of Nomination Committee</i>)	4/4	N/A	4/4	1/1	1/1
Mr. ZHOU Lingqiang (<i>Member of Audit Committee, Member of Nomination Committee and Chairman of Remuneration Committee</i>)	4/4	1/1	4/4	1/1	1/1
Mr. ZHANG Yuchuan (<i>Member of Audit Committee and Remuneration Committee</i>)	4/4	1/1	4/4	N/A	1/1

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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

The Directors acknowledged their responsibility for preparing the consolidated financial statements of the Company for the year ended December 31, 2019, which give a true and fair view of the state of affairs of the Company and of the Group at that date and of the Group's results and cash flows for the year ended December 31, 2019 and were properly prepared on a going concern basis in accordance with the applicable statutory requirements and accounting standards.

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".

CORPORATE GOVERNANCE REPORT (cont'd)

DIVIDEND POLICY

Pursuant to code provision E.1.5 of the CG Code, the Company has adopted a dividend policy (the “Dividend Policy”). Subject to the Companies Act of the Cayman Islands and the Articles 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, 2019 amounted to approximately RMB1.6 million and RMB0.8 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, the Company has formulated its 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. The 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.

CORPORATE GOVERNANCE REPORT (cont'd)

RISK MANAGEMENT AND INTERNAL CONTROL (cont'd)

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 of the Company 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, 2019, 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, 2019, the Company made disclosure of its inside information in compliance with its own inside information policies and the applicable laws and regulations.

CHANGE IN CONSTITUTIONAL DOCUMENTS

During the year ended December 31, 2019, there was no change in the constitutional documents of the Company.

CORPORATE GOVERNANCE REPORT (cont'd)

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, 2019 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, 2019.

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

ABOUT THIS REPORT

Kasen International Holdings Limited (hereafter the “Company” or “Kasen”) and its subsidiaries (collectively the “Group” or “We” or “Our”) are pleased to publish the fourth environmental, social and governance (“ESG”) report (the “Report”), summarizing our performance in the ESG aspects.

Scope of Report

The Report covers the ESG management approaches, environmental and social performance of the Group during the period from January 1, 2019 to December 31, 2019 (the “Reporting Period”, “2019”) with the data scope of our core operations including the property development project in Asia Bay and manufacturing business of upholstered furniture in Zhejiang, the People’s Republic of China (“China” or “PRC”) which are considered material to our business. The reporting scope is same as last year.

Reporting Standard

The Report has been prepared in accordance with the “Comply or Explain” provisions of the Environmental, Social and Governance Reporting Guide under Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“HKEx ESG Reporting Guide”).

The Report has been reviewed and approved by the board of directors of the Company.

Contact & Feedback

The Group values your feedback and opinion on the Report. Please feel free to contact us through our email at kasen@kasen.imsbiz.com.hk.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (cont'd) ABOUT THE GROUP

The prime business of Kasen is the manufacturing and trading of the upholstered furniture, property development and tourism resort-related operation. Over the past 20 years, we endeavour to produce high quality furniture to our customers. People-oriented approach is an emphasis to develop our business as we fully understand our employees are the key to lay the foundation of the Company. Therefore, we aim to unite our staff from the management level to the working level to increase their sense of belonging to the Company. We believe the collective effort can drive the Company success and achieve harmonic development among the Company, employees and the community.

Corporate Vision

To build a renowned world-class brand

Corporate Mission

To achieve green production, pioneer in the environmental protection aspect, leading company in China and among the best in the world

Core Values

To achieve harmonic development between the employees, company and community

Corporate Social Responsibility

To bear the responsibility and return to the society to create harmonic environment for all stakeholders

Safety Objective

To value safety more than production and life higher than everything

Quality Objective

To pursue product excellence and manufacture artistic and fine products that satisfy our customers



In 2019, we are honoured to receive the award as the leading company in Zhejiang, China recognizing our effort and commitment in the industry.

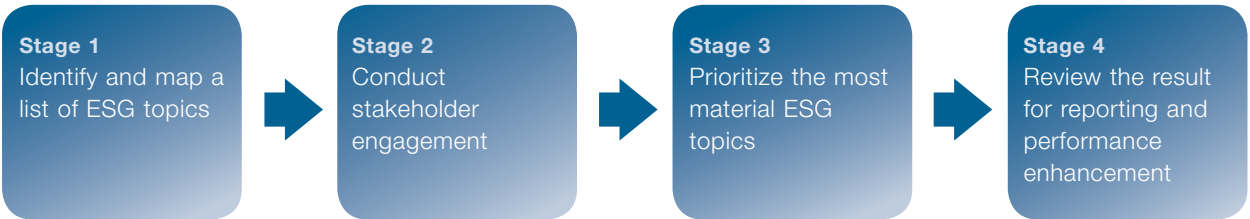
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (cont'd)

STAKEHOLDER ENGAGEMENT & MATERIALITY ASSESSMENT

Our Group establishes a close relationship with our stakeholders and maintains regular communication with them. We understand that they are essential in driving the sustainable development of the Company. By collecting their views and opinions, we can identify the material topics to our business and better formulate policies and strategies to address the ESG issues. The form of communication is illustrated in the following list.

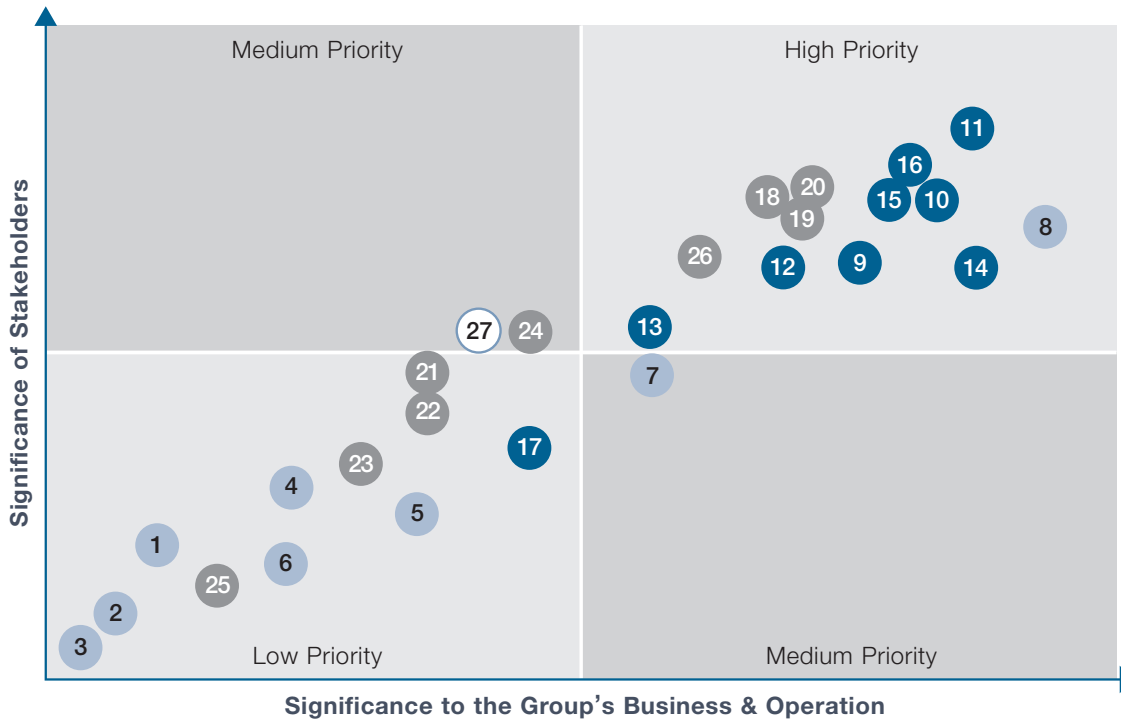
Types of stakeholder group	Communication channels
Investors and shareholders	<ul style="list-style-type: none"> • Company website • Company's announcements • Annual general meeting • Annual and interim reports
Customers	<ul style="list-style-type: none"> • Company website • Customer direct communication • Customer feedback and complaints
Employees	<ul style="list-style-type: none"> • Training and orientation • Emails and opinion box • Regular meetings • Employee performance evaluation • Employee activities
Suppliers	<ul style="list-style-type: none"> • Selection assessment • Procurement process • Performance assessment • Regular communication with business partners (e.g. emails, meetings, on-site visit etc.)
Government authorities and regulators	<ul style="list-style-type: none"> • Documented information submission • Compliance inspections and checks • Regular meetings/luncheons with local government representatives • Forums, conferences and workshops
Communities	<ul style="list-style-type: none"> • Company website • Community activities

To determine the material ESG issues, we conducted a materiality assessment by means of an online questionnaire which covered twenty-seven ESG issues to identify the respective relevance and importance to our stakeholders and the business. Topics ranged from the environmental protection, employment standard, community involvement to operational practices. The methodology of our material assessment is outlined below.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (cont'd) STAKEHOLDER ENGAGEMENT & MATERIALITY ASSESSMENT (cont'd)

Based on the materiality of each of the ESG issues expressed by the stakeholders, the ESG issues are prioritized and shown in the materiality matrix below. The issues which fell in the upper right corner of the matrix were defined as the topics that matter most on the Group's business operation and concern by our stakeholders. Hence, these topics are considered in high priority, including environmental compliance, employee retention, occupational health and safety, labour-management relations and employee training and development etc. The Group will continue to review and improve our ESG performance in these areas.



● Environment

- 1 Air emission
- 2 Greenhouse gas emission
- 3 Climate change
- 4 Energy efficiency
- 5 Water and effluents
- 6 Use of materials
- 7 Waste management
- 8 Environmental compliance

● Employment

- 9 Labour rights
- 10 Labour-management relations
- 11 Employee retention
- 12 Diversity and equal opportunity
- 13 Non-discrimination
- 14 Occupational health and safety
- 15 Employee training
- 16 Employee development
- 17 Prevention of child labour and forced labour

● Operation

- 18 Customer satisfaction
- 19 Customer service quality and complaints handling
- 20 Customer health and safety
- 21 Marketing and product and service labelling compliance
- 22 Intellectual property
- 23 Customer privacy and data protection
- 24 Responsible supply chain management
- 25 Business ethics
- 26 Socio-economic compliance

○ Community

- 27 Community support

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (cont'd)

OUR EMPLOYEES

Employment Conditions

Employees are one of the most vital resources to the Group. In order to retain our employees and attract talents to join our Company, we offer attractive remuneration packages including paid leaves (marriage leave, parental leave and family reunion leaves), medical insurance and pension, which are in compliance with the Labour Law of the PRC and Labour Contract Law of the PRC. In addition, we provide study subsidies, meal allowance, travelling allowance and housing to eligible employees.

To provide an equal ground for the employees in the promotion process, we assess the ability of the employees solely based on their technical competence, work performance, morality and job attitude. The process is ensured to conduct in an open and fair manner without biases.

During the Reporting Period, the Group was 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 in China.

Healthy and Safe Workplace

Build a Safe Environment

The Group puts the safety issues at our top priority. To better prepare for any emergencies that might happen in our workplace, the contingency plan is formulated for our employees to follow. We proactively identify the potential hazards in the business operation such as fire safety, electric shock and injuries when using the machinery, and define the handling procedures and roles of each personnel to cope with the emergency situation. To drive the zero incident culture, a training workshop was organized to management level in 2019 regarding the safety management, risk identification and hazard control measures.

In addition, we endeavour to eliminate the occupational hazards at the workplace. We put signage near the potential risk hotspots to remind our employees to prevent such hazard from happening. All the employees are equipped with safety protective equipment, including ear plugs, protective masks, gloves and safety goggles etc. For any occupation involving the toxic chemicals used, first aider is stationed for immediate medical support.

Apart from the above preventative measures, we also provide health examination to relevant employees according to laws and regulations such as the Law of the PRC on Prevention and Control of Occupational Diseases.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (cont'd)

OUR EMPLOYEES (cont'd)

Healthy and Safe Workplace (cont'd)

Fire Drill Training

Every year, we organize fire drill to enhance the awareness of the fire safety of our employees and refresh the knowledge to use the equipment.



This year, we invited the firefighters from the local government to teach and train our volunteers their knowledge and practical skills in the fire protection.

Healthy Working Space

To prevent any pests or diseases arisen from the natural materials such as wood or grass used in the manufacturing process, we provide sufficient guidelines to enhance the environmental hygiene in the factory. Preventative measures including the routine cleaning, regular pesticides, maintenance of the site tidiness and regular testing on the toxic substance concentration are implemented.

During the Reporting Period, we were not aware of any non-compliance with the laws and regulations regarding the occupational health and safety issues.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (cont'd)

OUR EMPLOYEES (cont'd)

Development and Training

Nurturing the talent of the Company is pivotal to the company success. We fully understand our employees are the greatest asset of the Company, and hence we develop an annual training plan to enhance their productivity and capability in the areas such as safety, job speciality skills, management skills and personal growth. We offer both internal and external training depending on the training purpose of the year to facilitate their growth. Induction training is also provided to the new recruits to embrace them with the corporate culture, history, management styles and job requiring skills. Encouragement such as subsidies is provided to our employees to attain professional qualification and certification.



We identify the actual training need based on the operational practices of each departments and formulate the training plan. When the plan is set, all departments are required to execute. To ensure the training quality, our human resource department is responsible for collecting the opinions from the attendees, in order to evaluate the effectiveness of the training and make recommendations for future improvement. As such, we ensure the training topics are practically useful for our employees.

This year, we have provided training to improve work efficiency of our employees, covering a wide range of topics such as the procurement strategy, production quality, site management, marketing and sale techniques, financial management and office efficiency improvement.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (cont'd)

OUR EMPLOYEES (cont'd)

Relationship with Employees

Our philosophy of company management is through cultural development. We believe a harmonic culture can cultivate our employees to develop better morals, enhance their spirit and sense of belonging to the Company, and boost the work efficiency at the same time. Therefore, we organize various types of leisure activities and team building workshops to promote the healthy lifestyle. Beyond working, we hope to relieve their stress from work and enhance the relationship among the employees.

On March 8, 2019, we celebrated the International Women's Day to mark the new era of women, and acknowledge their contribution. More than 40 female employees joined the event.



On April 27, 2019, we commemorated the 100th anniversary of May Fourth Movement (五四運動). After the event, the youth learned to hold on their belief, find the direction of life and work hard to improve their working efficiency.

On September 11, 2019, we celebrated the Mid-autumn Festival, which is one of the traditional Chinese festivals. We organized activities, such as singing and mooncake making, to share the joy.

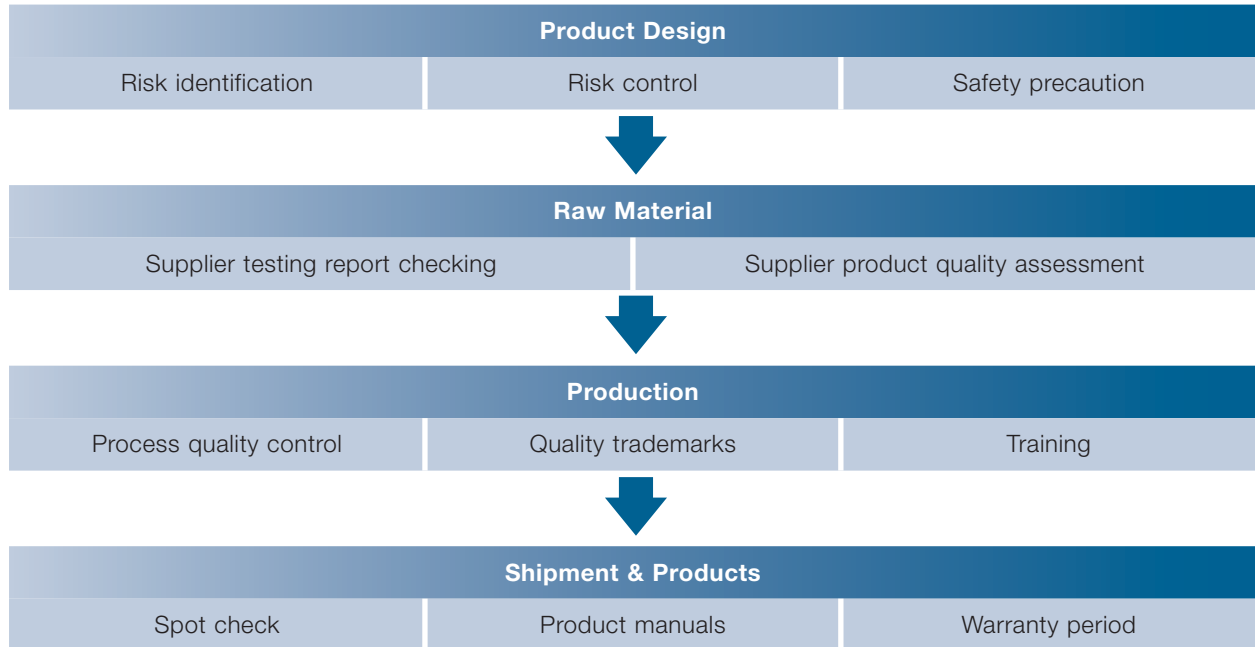


ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (cont'd)

SERVICE AND PRODUCT RESPONSIBILITY

Maintain High Quality Standard

The quality of our products marks the values of the Company. In maintaining the product quality, we adopt the Quality Management System which is accredited with ISO 9001:2015 certification in our upholstered furniture business. We assign roles and responsibilities of each department in the quality control procedures. At each production stage, we conduct supervision and testing on the raw materials, manufacturing process as well as products to ensure conformity to our standards.

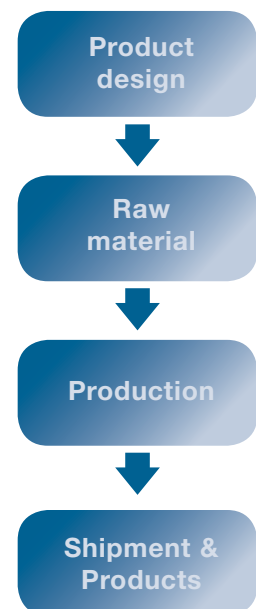


During the early design stage, the safety and risk factors are considered and sufficient safety precaution measures are designed to control the potential risk.

To ensure the quality of the raw materials, we assess the product safety of our suppliers and request the testing report of their products for checking and verification.

The quality department is responsible for controlling and checking on the manufacturing process regularly. We clearly outline the principles to enhance the quality checking process of our products. The checked products are attached with trademarks to avoid unintentionally use of the disqualified products or raw materials.

When the products are ready for shipping, we conduct ex-factory inspection to spot check the quality of our products. All the finished products are provided with clear product manuals and instructions regarding the safety precaution measures and operation methods. If any after-sale deficiency is identified, we provide a one-year warranty period to remediate the situation.

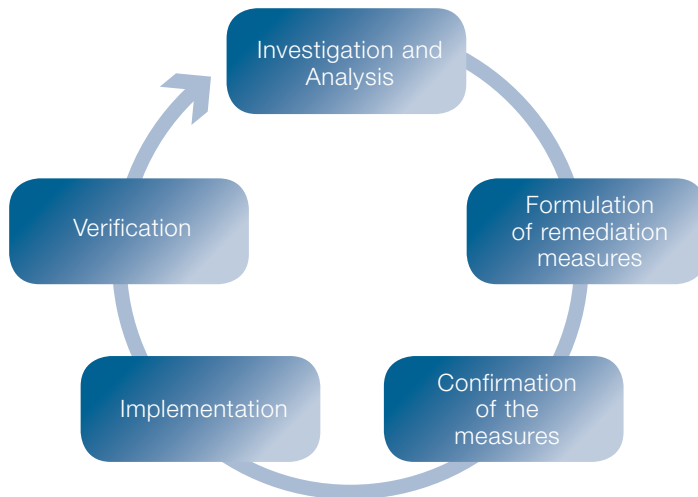


ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (cont'd)

SERVICE AND PRODUCT RESPONSIBILITY (cont'd)

Product Improvement and Customer Handling

In addition to the warranty period, Kasen takes an active position to seek for continuous improvement for the quality of our products. We maintain different types of communication channels with our customers, employees and management level to better understand their opinions on our product quality as well as to demonstrate our effort to strive for product excellence.



When we receive a complaint from customers or through internal identification of unqualified products, we go through a series of procedures to pinpoint the problem, mitigate the situation, implement the measures and monitor the effectiveness of the measures.

Training programmes are also organized for necessary employees to be aware of their responsibility regarding the product safety and quality issues during the process. We have organized a quality evaluation activity in 2019 for fifteen days to review the entire production line, identify problem in affecting the quality of the products, analyze the root cause and formulate the preventive measures.

Privacy Protection

Confidentiality is critical in the business management. The business information including the documents and samples from our customers, production process and financial documents are not allowed to disclose to third party unless prior approval is obtained. We clearly outline our standards in the employee handbook and all employees are required to strictly follow.

In the Reporting Period, we were not aware of any non-compliance of the health and safety issues, advertising, labelling and privacy matters relating to our products.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (cont'd)

ETHICAL BUSINESS

Prevention of Child and Forced Labour

We are concerned about the human rights and are committed to ethical production. We strictly adhere to all the laws and regulations, including but not limited to Provisions on the Prohibition of Using Child Labour and Law on the Protection of Minors of the PRC.

The employment of the child labour under the age of 16 is forbidden in our Company. The policy is set for the prevention of child labour and we clearly convey this message to our stakeholders, including employees, suppliers and distributors. The identification documents are checked before employment, within the first month of the employment and spot check from time to time as necessary. If any child labour is identified, remediation measures will be undertaken to send the child back. For the youth employees aged under 18, we also define the procedures to protect their health and strictly abide by the laws and regulations. The tasks involving significant safety and health risk, night-shift and overtime works are not assigned to them. In addition, regular health examination is provided to these young employees.

We also set the policy to prevent forced labour and protect the freedom of our employees. All forms of acts constituted to the limitation on the labour freedom are explicitly stated in the policy and procedures such as mandate overtime work, use of intimidation and retention of wages. If any form of violation is observed or reported, we will investigate and take necessary disciplinary actions.

Anti-corruption

To maintain the integrity of our business, we strictly enforce our anti-corruption policy and do not allow our employees to participate in any form of corruption, bribery and fraud. The behaviours are clearly indicated in the policy to which all employees should follow. We also encourage the employees to report any suspicious cases by means of anonymous letter, opinion box, phone call or meeting whenever suitable. We will take disciplinary actions, dismissal or even legal actions whenever necessary. The Group was not aware of any non-compliance with laws and regulations relating to bribery, extortion, fraud and money laundering during the Reporting Period.

Intellectual Property Rights Protection

Brand image is an essential factor for the customers to select our services and products. To protect our uniqueness and develop the brand reputation, we formulate policy to manage the use of our trademark. All the subsidiaries are required to obtain authorization from the parent company before using our trademark and supervision will be exercised to ensure the appropriate use. We set guidelines about the situation and requirements in the adoption of the trademarks. In addition, the registration of the trademark is considered in the new emerging market whenever it aligns with our business strategies.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (cont'd)

COLLABORATING WITH OUR SUPPLIERS

We maintain a high standard in selecting the suppliers to secure our production line and the quality of products in our upholstered furniture business. We consider factors including the technical and production capability, quality control procedure and price. To opt for a higher environmental and social performance, we also review their effectiveness in the implementation of the environmental, energy and quality management system.

Performance assessment of our suppliers is also conducted on a regular basis by various departments including the quality management department of the subsidiaries, procurement centre, planning department and the technical support department to continuously review their qualification and performance. In case of any deviation in terms of both quality and quantity for the major raw materials, we will request the suppliers to propose remedial and preventive measures. If improvement is not observed, it may result in the termination of the contract.

For the construction site operation, we encourage our contractors to properly implement the safety measures and comply with the safety standards and regulation to protect our employees.

COMMUNITY PARTICIPATION

As a social responsible company, we advocate to participate in and contribute to the society. Our employees actively participated in the community services.

Blood Donation



We organized two blood donation events in the production factory and the headquarters to promote the idea of life caring and help the people in need. Over 100 employees joined the event.

Station Cleaning and Traffic Management



When the Lei Feng Memorial Day (學雷鋒日) arrived, more than 20 volunteers assisted in the traffic management and cleaned the bus station.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (cont'd)

ENVIRONMENTAL SUSTAINABILITY

We aim to adopt clean production process. With the incorporation of the environmental strategies in the manufacturing process, we strive to reduce the environmental pollution and make continuous improvement on our environmental performance every year. During the Reporting Period, we were not aware of any breaches of environmental laws and regulations.

Clean Production Policy:

1. Reduce pollutant emission at sources and increase the production efficiency by optimization of the manufacturing process and selection of appropriate equipment.
2. Use of advanced technology and high efficient facilities to promote the resource management.
3. Improve the environmental consciousness of the employees.
4. Attain environmental or clean production certification.

Energy Efficiency and Carbon Emission Control

Kasen is fully aware of climate change issues and the potential global impact that every business may suffer. With the shared responsibility, we try to minimize the greenhouse gases (“GHG”) generated from energy consumption. The energy policy is in place to support better energy management and promote the energy conservation.

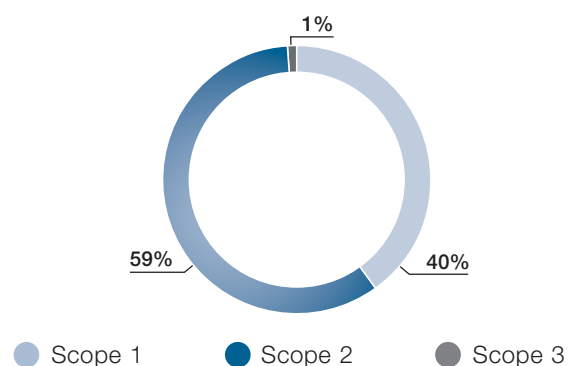
Energy Policy

1. To enhance energy management, unnecessary consumption should be reduced and the energy efficiency should be increased.
2. The energy management policy and practices should be complied with all the relevant laws and regulations.
3. Awareness of our employees in energy conservation should be raised and the new technology and facilities should be promoted.

All the departments are clearly defined with their roles and responsibility in energy conservation. Energy consumption record should be kept properly for future review and analysis. We outline the measures to conserve energy including effective control of the starting/stopping time of the equipment to avoid unnecessary use and regular maintenance to minimize the breakdown of system and improve production efficiency.

For the year ended December 31, 2019, about 1,907 tonnes of carbon dioxide equivalent emission (“CO₂e”) was generated from our business. About 60% of the emission is Scope 2 emission.

GHG Emission (Tonnes CO₂e)



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (cont'd)

ENVIRONMENTAL SUSTAINABILITY (cont'd)

Energy Efficiency and Carbon Emission Control (cont'd)

In our property development business, we always look for better alternatives in constructing the buildings. We identify opportunity to incorporate green features in the buildings in order to enhance the energy efficiency and reduce the carbon footprint. For our building development in Asia Bay, we embed the energy conservation strategies in the designs including:

- * Use of better roof and wall insulation materials;
- * Use of renewable energy system;
- * Select energy efficiency lighting fitment with lighting control system such as motion sensor, on-off switch and timer;
- * Utilize the daylight to control the lighting zoning and the amount of artificial lights;
- * Adopt the high efficient generator;
- * Utilize the pressure from the grid to supply water directly without using much energy in pumping etc.

Total amount	Unit	FY2017	FY2018	FY2019
Total Energy	Gigajoules ("GJ")	11,447	6,945	15,513¹
Direct Energy ²	GJ	5,964	613	10,508
Indirect Energy ³	GJ	5,482	6,332	5,004
Total Energy Intensity ⁴	GJ/FTE	19.84	11.31	27.80
GHG emission ^{5,6}	Tonnes CO ₂ e	1,431	1,498	1,907¹
Intensity ³	Tonnes CO ₂ e/FTE	2.48	2.44	3.42

¹ Due to the increasing transportation volume and demand of employees, the total energy consumption and hence the GHG emission increase in the Reporting Period. The group will seek for continuous improvement to reduce the use of company vehicles.

² Direct energy use includes the fuel consumption (petrol and diesel) by the company vehicles.

³ Indirect energy consumption includes the electricity use.

⁴ The intensity unit is calculated by dividing the total value by the total number of full-time employees ("FTE") in the core business operation.

⁵ To enhance the GHG emission estimation, the Group included Scope 3 emission in calculating the total GHG emission in the Reporting Period.

⁶ Scope 2 emission represents the use of electricity while Scope 3 emission represents the paper disposal and business travel.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (cont'd)

ENVIRONMENTAL SUSTAINABILITY (cont'd)

Air Emission

In the manufacturing process of the furniture, emitted air pollutants cannot be avoided. Kasen is committed to minimizing the air pollutants generated from our business operation. We have implemented several control measures to divert all the polluting exhaust from the process to the purification system for treatment prior to the emission to the air. All the emission is ensured to meet with the environmental regulation and standards. Maintenance of the equipment are regularly conducted for proper functioning of the system. In case of any malfunctioning, we repair the system immediately and limit the production volume whenever necessary to prevent large amount of air pollutant emission. The exhaust from the staff canteen is also one air emission source which is collected by the exhaust hoods for treatment before discharge.

Waste and Wastewater Management

In the production process, it is our duty to collect, store, handle and dispose of the waste properly, complying with the laws and regulations including Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste and Regulation on Zhejiang Province on the Prevention and Control of Environmental Pollution by Solid Waste.

Three major types of wastes are identified generated from our production process, including the production waste, adhesives and the domestic waste. We outline the policy for the treatment of these wastes to be recycled by the suppliers, recycling company or licensed contractor from the government body. To minimize the waste generation, we have recycled the scraps and a total amount of 107.2 tonnes was recycled in the Reporting Period. Moreover, the wastewater generated from the premises including toilet and canteen is treated to comply with the relevant laws and regulations.

Use of Resources

With the consideration of the scarcity of the resources, reduction of the consumption not only can conserve the environment but also can lower the embodied cost and emission. Here presents the green initiatives implemented in our office.

- Double-sided printing
- Use electronic tools to exchange information
- Optimize the web office system and authorize the distribution of information through internet e.g. email.

Paper consumption



- Use efficient lightings
- Avoid standby of the electricity appliances and turn off the power before leaving
- Control the temperature of the offices

Electricity consumption



- Turn off the faucets after use to prevent dripping
- Use of high pressure watering to wash the cars
- Strengthen the inspection on the water pipes system

Water consumption



- Discard discs and computer equipment in an environmental friendly manner
- Limit the use of batteries as far as practicable and collect for centralised disposal

Office equipment



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (cont'd)

ENVIRONMENTAL SUSTAINABILITY (cont'd)

Use of Resources (cont'd)

To exercise the responsible use of the resources, we cannot do it alone but engage our stakeholders. We implement green office management to encourage our employees to efficiently utilize the resources (paper, water, electricity and office equipment) in order to reduce wastage and recycle the materials.

Furthermore, suppliers are one of the drivers in the reduction consumption of resources. Therefore, we look for the suppliers who share the same values as ours. When considering the suppliers, we take into account of their advocacy in managing the environmental performance of their company.

We monitored the resource use in our business. In the FY 2019, our total electricity consumption in the factories and the property development project was 1,390 Megawatt hour ("MWh"), with an intensity of 2.49 MWh per full-time employee. The water consumption is 91,035 m³ with an intensity of 163.15 m³/FTE. In the Reporting Period, the Group was not aware of any issue in sourcing of water.

We aim to reduce the packaging material as far as practicable. In the Reporting Period, we consumed about 7,555 tonnes of card-boxes, with an intensity of 0.03 tonnes per each furniture production.

Total amount	Unit	FY2017	FY2018	FY2019
Electricity	MWh	1,523	1,759	1,390
Intensity ⁷	MWh/FTE	2.64	2.86	2.49
Water	m ³	91,202	75,740	91,035⁸
Intensity ⁷	m ³ /FTE	158.06	123.35	163.15
Packaging material	Tonnes	8,716	9,058	7,555
Intensity	Tonnes/product	0.03	0.03	0.03
Waste recycled	Tonnes	206	216	107.2⁹
Intensity ⁷	Tonnes/FTE	0.39	0.38	0.19

⁷ The intensity unit is calculated by dividing the total value by the total number of full-time employees in the core business operation.

⁸ The water consumption increases due to the extended scale of the development project.

⁹ The waste recycled in FY 2019 includes the scrap of the furniture.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (cont'd)

HKEX ESG REPORTING GUIDE INDEX

HKEx ESG Reporting Guide General Disclosures & KPIs		Explanation/Reference Section
Aspect A: Environment		
A1 Emissions	<p>Information on:</p> <p>(a) the policies; and</p> <p>(b) 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 waste.</p> <p>Note: Air emissions include NOx, SOx, and other pollutants regulated under national laws and regulations. Greenhouse gases include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride. Hazardous wastes are those defined by national regulations.</p>	Environmental Sustainability
KPI A1.1	The types of emissions and respective emissions data.	Environmental Sustainability – Air Emission
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Environmental Sustainability – Energy Efficiency and Carbon Emission Control
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	No hazardous waste was produced during the Reporting Period
KPI A1.4	Total non-hazardous waste produced (in tonnes) and where appropriate, intensity (e.g. per unit of production volume, per facility).	Environmental Sustainability – Waste and Wastewater Management

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (cont'd)

HKEX ESG REPORTING GUIDE INDEX (cont'd)

HKEx ESG Reporting Guide General Disclosures & KPIs		Explanation/Reference Section
Aspect A: Environment		
KPI A1.5	Description of measures to mitigate emissions and results achieved.	Environmental Sustainability – Air Emission/Energy Efficiency and Carbon Emission Control
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Environmental Sustainability – Waste and Wastewater Management
A2 Use of Resources	<p>Policies on efficient use of resources including energy, water and other raw materials.</p> <p>Note: Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc.</p>	Environmental Sustainability – Waste and Wastewater Management/Use of Resources
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	Environmental Sustainability – Use of Resources
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Environmental Sustainability – Use of Resources
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	Environmental Sustainability – Energy Efficiency and Carbon Emission Control/Use of Resources
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Environmental Sustainability – Use of Resources

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (cont'd)

HKEX ESG REPORTING GUIDE INDEX (cont'd)

HKEx ESG Reporting Guide General Disclosures & KPIs		Explanation/Reference Section
Aspect A: Environment		
KPI A2.5	Total packaging material used for finished products (in tonnes), and, if applicable, with reference to per unit produced.	Environmental Sustainability – Use of Resources
A3 The Environment and Natural Resources	Policies on minimising the issuer's significant impact on the environment and natural resources.	Environmental Sustainability – Use of Resources
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Environmental Sustainability – Use of Resources
Aspect B: Social		
B1 Employment	Information on: <ul style="list-style-type: none"> (a) the policies; and (b) 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. 	Our Employees – Employment Conditions

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (cont'd)

HKEX ESG REPORTING GUIDE INDEX (cont'd)

HKEx ESG Reporting Guide General Disclosures & KPIs		Explanation/Reference Section
Aspect B: Social		
B2 Health and Safety	<p>Information on:</p> <ul style="list-style-type: none"> (a) the policies; and (b) 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. 	Our Employees – Healthy and Safe Workplace
B3 Development and Training	<p>Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.</p> <p>Note: Training refers to vocational training. It may include internal and external courses paid by the employer.</p>	Our Employees – Development and Training
B4 Labor Standards	<p>Information on:</p> <ul style="list-style-type: none"> (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child or forced labour. 	Ethical Business – Prevention of Child and Forced Labour
B5 Supply Chain Management	Policies on managing environmental and social risks of the supply chain.	Collaborating with Our Suppliers

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (cont'd)

HKEX ESG REPORTING GUIDE INDEX (cont'd)

HKEx ESG Reporting Guide General Disclosures & KPIs		Explanation/Reference Section
Aspect B: Social		
B6 Product Responsibility	<p>Information on:</p> <p>(a) the policies; and</p> <p>(b) 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.</p>	<p>Service and Product Responsibility</p> <p>Ethical Business – Intellectual Property Rights Protection</p>
B7 Anti-corruption	<p>Information on:</p> <p>(a) the policies; and</p> <p>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.</p>	Ethical Business – Anti-corruption
B8 Community Investment	<p>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.</p>	Community Participation

INDEPENDENT AUDITOR'S REPORT



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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 70 to 170, which comprise the consolidated statement of financial position as at December 31, 2019, 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, 2019, 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 (“HKSA”) 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.

INDEPENDENT AUDITOR'S REPORT (cont'd)

KEY AUDIT MATTERS (cont'd)

Key Audit Matter

How our audit addressed the Key Audit Matter

Impairment of properties under development and held for sale

Refer to notes 5 and 25 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, 2019 was RMB2,479 million, net of provision for impairment loss for properties under development and held for sale of RMB44 million, represented approximately 39.4% of the total assets of the Group.

For impairment assessment purposes, the management of the Group determined the net realisable value of properties under development and held for sale by reference to estimates of the selling prices based on prevailing market conditions in the PRC, applicable variable selling expenses and anticipated costs to completion.

We identified the impairment of properties under development and held for sale as a key audit matter due to the determination of net realisable value involves significant degree of judgments by the management.

Our audit procedures in relation to the management's assessment for impairment of properties under development and held for sale included:

- evaluating the appropriateness of the management's methods for the assessment of net realisable value of properties under development and held for sale.
- assessing the net realisable value of properties under development and held for sale determined by the management on a sample basis, by reviewing the latest selling prices achieved in the similar projects, management's estimates of selling prices, management's anticipated costs to completion and estimates of 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 of the real estate industry in the PRC.

INDEPENDENT AUDITOR'S REPORT (cont'd)

KEY AUDIT MATTERS (cont'd)

Key Audit Matter

How our audit addressed the Key Audit Matter

Expected credit loss ("ECL") assessment of trade and other receivables

Refer to notes 5 and 26 to the consolidated financial statements

The carrying value of the Group's trade and other receivables as at December 31, 2019 was RMB1,112 million, net of impairment loss of RMB86.7 million and represented approximately 17.7% of the total assets of the Group. RMB231 million of these balances are financial assets and subject to measurement of ECL under IFRS 9.

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 ECL of trade and other receivables as a key audit matter due to the estimation of ECL involves significant estimates and judgments by the management.

Our audit procedures in relation to the management's ECL assessment of trade and other receivables included:

- obtaining an understanding of management's process of assessing the ECL of trade and other receivables including the use of provision matrix;
- checking, on a sample basis, whether items in the trade and other receivables ageing report were classified within the appropriate ageing bracket, past repayment history and historical write-off were appropriate by comparing sampled items with the relevant supporting documents;
- assessing the reasonableness of management's credit loss allowance estimates by examining the information used by management to form such judgements, including testing the accuracy of the historical default data, reviewing the appropriateness of grouping of debtors with shared credit risk characteristics, evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information and assessing whether there was an indication of management bias when recognising loss allowances;
- testing the accuracy of management's calculation of the allowance for credit loss for trade and other receivables recognised during the year and at year ended date.

INDEPENDENT AUDITOR'S REPORT (cont'd)

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.

INDEPENDENT AUDITOR'S REPORT (cont'd)

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 HKSAAs 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 HKSAAs, 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.

INDEPENDENT AUDITOR'S REPORT (cont'd)

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, May 8, 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2019

	NOTES	2019 RMB'000	2018 RMB'000
Revenue	6	3,413,185	3,608,540
Cost of sales		<u>(2,220,202)</u>	<u>(2,552,510)</u>
Gross profit		1,192,983	1,056,030
Other income	7	17,649	20,388
Selling and distribution costs		(191,722)	(228,908)
Administrative expenses		(252,867)	(232,733)
Impairment loss on trade and other receivables, net of reversal	10	(13,307)	(32,422)
Other gains and losses	8	(42,045)	34,875
Finance costs	9	<u>(47,127)</u>	<u>(17,630)</u>
Profit before tax	10	663,564	599,600
Income tax expenses	12	<u>(182,352)</u>	<u>(164,941)</u>
Profit for the year		<u>481,212</u>	<u>434,659</u>
Other comprehensive income for the year			
Items that will not be reclassified to profit or loss:			
Fair value loss on financial assets through other comprehensive income		(761)	(5,080)
Income tax relating to fair value change of financial assets through other comprehensive income		<u>190</u>	<u>1,270</u>
		<u>(571)</u>	<u>(3,810)</u>
Item that may be subsequently reclassified to profit or loss:			
Exchange difference arising on translation		<u>2,318</u>	<u>672</u>
Total comprehensive income for the year		<u>482,959</u>	<u>431,521</u>
Profit/(loss) for the year attributable to:			
– Owners of the Company		444,958	449,799
– Non-controlling interests		<u>36,254</u>	<u>(15,140)</u>
		<u>481,212</u>	<u>434,659</u>

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

FOR THE YEAR ENDED DECEMBER 31, 2019

	NOTES	2019 RMB'000	2018 <i>RMB'000</i>
Total comprehensive income/(loss) for the year attributable to:			
– Owners of the Company		446,891	446,684
– Non-controlling interests		36,068	(15,163)
		482,959	431,521
Earnings per share	14		
– Basic		RMB29.79 cents	RMB30.10 cents
– Diluted		RMB29.63 cents	RMB29.93 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 2019

	NOTES	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	1,618,576	1,429,707
Right-of-use assets	16	177,436	–
Prepaid lease payments – non-current portion	17	–	132,896
Intangible assets	18	1,383	830
Deferred tax assets	22	49,439	50,529
Prepayment for acquisition of plant and equipment	19	44,305	95,980
Deposits paid for acquisition of a subsidiary		8,000	–
Financial assets at fair value through other comprehensive income	21	17,442	18,203
Prepayment for acquisition of freehold and leasehold land	20	276,274	351,579
		2,192,855	2,079,724
CURRENT ASSETS			
Inventories	23	83,922	85,756
Properties under development for sale	25	1,431,249	2,881,767
Properties held for sale	25	1,048,009	765,579
Amounts due from non-controlling interests of subsidiaries	29	24,359	52,650
Trade and other receivables	26	1,111,709	1,177,848
Prepaid lease payments – current portion	17	–	3,554
Prepaid income tax	27	23,595	28,050
Prepaid land appreciation tax	28	10,497	50,429
Pledged bank deposits	30	46,093	83,652
Restricted bank deposit for property development business	30	111,037	485,856
Bank balances and cash	30	211,903	457,708
		4,102,373	6,072,849
CURRENT LIABILITIES			
Trade, bills and other payables	31	981,468	1,113,512
Lease liabilities – current portion	32	6,384	–
Contract liabilities	24	648,545	2,846,605
Bank and other borrowings – due within one year	33	309,660	354,997
Tax payable		239,674	223,206
Amounts due to non-controlling interests of subsidiaries	34	111,196	123,228
		2,296,927	4,661,548
NET CURRENT ASSETS		1,805,446	1,411,301
TOTAL ASSETS LESS CURRENT LIABILITIES		3,998,301	3,491,025

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (cont'd)

AT DECEMBER 31, 2019

	NOTES	2019 RMB'000	2018 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	22	22,015	27,067
Lease liabilities – non-current portion	32	15,334	–
Bank and other borrowings – due after one year	33	600,435	545,000
		<u>637,784</u>	<u>572,067</u>
NET ASSETS			
		<u>3,360,517</u>	<u>2,918,958</u>
CAPITAL AND RESERVES			
Share capital	35	1,712	1,712
Reserves		3,294,471	2,847,580
		<u>3,296,183</u>	<u>2,849,292</u>
Equity attributable to owners of the Company		3,296,183	2,849,292
Non-controlling interests		64,334	69,666
		<u>3,360,517</u>	<u>2,918,958</u>
TOTAL EQUITY			
		<u>3,360,517</u>	<u>2,918,958</u>

The consolidated financial statements on pages 70 to 170 were approved and authorised for issue by the Board of Directors on May 8, 2020 and are signed on its behalf by:

Zhu Zhangjin, Kasen
DIRECTOR

Zhou Xiaohong
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 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 (Note 37)	RMB'000 (Note 37)	RMB'000	RMB'000 (Note 37)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at January 1, 2019	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 year	-	-	-	-	-	-	-	-	444,958	444,958	36,254	481,212
Other comprehensive income/(loss)	-	-	-	-	-	-	(571)	2,504	-	1,933	(186)	1,747
Total comprehensive income for the year	-	-	-	-	-	-	(571)	2,504	444,958	446,891	36,068	482,959
Payment of dividend to a subsidiary's non-controlling interests	-	-	-	-	-	-	-	-	-	-	(41,400)	(41,400)
At December 31, 2019	1,712	1,470,892	171,276	167,983	4,618	(41,703)	9,959	3,190	1,508,256	3,296,183	64,334	3,360,517

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

Attributable to owners of the Company

	Share capital	Share premium	Statutory reserve	Special reserve	Share option reserve	Other reserve	Available-for-sale revaluation reserve	FVTOCI reserve	Translation reserve	Retained earnings	Sub-total	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000 (Note 37)	RMB'000 (Note 37)	RMB'000	RMB'000 (Note 37)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance as 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
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 CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2019

	NOTES	2019 RMB'000	2018 RMB'000
OPERATING ACTIVITIES			
Profit before tax		663,564	599,600
Adjustments for:			
(Reversal)/provision of allowance for inventories		(338)	441
Amortisation of intangible assets		323	80
Provision of financial guarantees		19,851	–
Release of financial guarantees		(6,617)	(10,735)
Release of prepaid lease payments		–	3,091
Depreciation of property, plant and equipment		77,514	70,798
Depreciation of right-of-use assets		10,123	–
Finance costs		47,127	17,630
Net provision of impairment loss recognised in respect of trade and other receivables		13,307	32,422
Impairment loss realised on sale of properties		–	(15,053)
Impairment loss recognised in property, plants and equipment		22,000	–
Reversal of loss recognised in respect of property under development and held for sale, net		(165)	(3,584)
Dividend income from equity investments classified as financial assets at fair value through other comprehensive income		–	(480)
Interest income		(3,250)	(5,221)
Loss on disposal of property, plant and equipment		1,834	295
Gain on disposal of subsidiaries		–	(793)
Operating profit before movements in working capital		845,273	688,491
Decrease in properties under development and held for sale		1,175,213	1,030,878
Decrease in restricted bank deposits		374,819	348,655
Decrease/(increase) in inventories		2,172	(5,612)
Decrease in contract liabilities		(2,198,060)	(894,706)
Decrease in trade and other receivables		52,832	62,343
Decrease in trade, bills and other payables		(141,641)	(164,345)
Cash generated from operations		110,608	1,065,704
Land Appreciation Tax paid		(27,204)	(39,106)
Income taxes paid		(98,065)	(41,848)
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES		(14,661)	984,750

CONSOLIDATED STATEMENT OF CASH FLOWS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

NOTES	2019 RMB'000	2018 RMB'000
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(177,110)	(585,736)
Prepayment for acquisition of freehold and leasehold land	–	(315,637)
Deposits paid for acquisition of a subsidiary	(8,000)	–
Purchase of intangible assets	(876)	(676)
Decrease of pledged bank deposits	37,559	77,348
Decrease/(increase) in amounts due from non-controlling interest of subsidiaries	16,259	(32,650)
Deposits refunded/(paid) for acquisition of property, plant and equipment	5,695	(95,980)
Interest received	3,250	5,221
Proceeds from disposal of property, plant and equipment	907	904
Proceeds from disposal of financial assets at fair value through other comprehensive income	–	25,220
Dividend income from available-for-sale investment	–	480
Net cash inflow from disposal of subsidiaries	–	895
NET CASH USED IN INVESTING ACTIVITIES	(122,316)	(920,611)
FINANCING ACTIVITIES		
Bank and other borrowings raised	750,114	1,017,822
Repayment of bank and other borrowings	(740,283)	(611,555)
Dividend paid to a subsidiary's non-controlling interests	(41,400)	–
Interest paid	(63,530)	(47,515)
Interest elements of lease rentals paid	(994)	–
Capital elements of lease rentals paid	(5,588)	–
Proceeds from issuance of new shares under share option scheme	–	17,964
Payment on repurchase of shares	–	(39,890)
Dividend paid to owners of the Company	–	(389,885)
Increase in amounts due to non-controlling interests of subsidiaries	–	5,940
Capital contribution from non-controlling interests of subsidiaries	–	1,635
NET CASH USED IN FINANCING ACTIVITIES	(101,681)	(45,484)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(238,658)	18,655
Effect of changes in exchange rates	(7,147)	(878)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	457,708	439,931
CASH AND CASH EQUIVALENTS AT END OF YEAR	211,903	457,708
Represented by:		
Bank balances and cash	211,903	457,708

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

1. GENERAL

The Company is an exempted company incorporated in the Cayman Islands with limited liability and its shares have been 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 and revised 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, 2019.

IFRS 16	Leases
IFRIC – Int 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
IFRSs (Amendments)	Annual Improvements to IFRSs 2015-2017 Cycles

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

IFRS 16 Leases

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 right-of-use assets and 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.

The Group has applied IFRS 16 using the modified retrospective approach and recognised all the cumulative effect (if any) of initially applying IFRS 16 as an adjustment to the opening balance of equity at January 1, 2019. The comparative information presented in 2018 has not been restated and continues to be reported under IAS 17.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

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

(a) (cont'd)

IFRS 16 Leases (cont'd)

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

(a) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. IFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in IFRS 16 only to contracts that were entered into or changed on or after January 1, 2019. For contracts entered into before January 1, 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under IAS 17 continue to be accounted for as leases under IFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(b) Lessee accounting and transitional impact

IFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by IAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under IAS 17, other than those short-term leases and leases of low-value assets which are exempt. For an explanation of how the Group applies lessee accounting, see accounting policy for leasing in note 4.

To ease the transition to IFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of IFRS 16:

- (i) the Group elected not to apply the requirements of IFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of IFRS 16, i.e. where the lease term ends on or before December 31, 2019;
- (ii) when measuring the lease liabilities at the date of initial application of IFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

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

(a) (cont'd)

IFRS 16 Leases (cont'd)

(b) Lessee accounting and transitional impact (cont'd)

- (iii) when measuring the right-of-use assets at the date of initial application of IFRS 16, the Group relied on the previous assessment for onerous contract provisions as at December 31, 2018 as an alternative to performing an impairment review.

The following table summarised the impact of transition to IFRS 16 on the consolidated statement of financial position as at December 31, 2018 to that as at January 1, 2019 as follows (increase/(decrease)). Line items that were not affected by the changes have not been presented. There is no impact on equity on initial application of IFRS 16 as at January 1, 2019.

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

Lease liabilities

At the date of transition to IFRS 16, the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at January 1, 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

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

(a) (cont'd)

IFRS 16 Leases (cont'd)

(b) Lessee accounting and transitional impact (cont'd)

Lease liabilities (cont'd)

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

	<i>RMB'000</i>
Operating lease commitments disclosed as at December 31, 2018	29,058
Less: short term leases for which lease terms end on or before December 31, 2019	(329)
Less: future interest expenses	(3,457)
	<u>25,272</u>
Analysed as:	
Lease liabilities – current portion	5,714
Lease liabilities – non-current portion	19,558
	<u>25,272</u>

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

Right-of-use assets

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at December 31, 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

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

(b) New and revised IFRSs that have been issued but are not yet effective

The following new and revised IFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

Amendments to IAS 1 and IAS 8	Amendment to Definition of Materiality ¹
Amendments to IAS 1	Classification of Liabilities as Current or Non-current ⁴
Amendments to IFRS 3 (Revised)	Definition of a Business ¹
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform ¹
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
IFRS 17	Insurance Contracts ²

¹ Effective for annual periods beginning on or after January 1, 2020

² Effective for annual periods beginning on or after January 1, 2021

³ The amendments were originally intended to be effective for periods beginning on or after January 1, 2017. The effective date has now been deferred. Early application of the amendments continue to be permitted.

⁴ Effective for annual periods beginning on or after January 1, 2022

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.

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 consolidated 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

3. BASIS OF PREPARATION (cont'd)

(b) Basis of measurement (cont'd)

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 IFRS 16 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Basis of consolidation (cont'd)

- 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Basis of consolidation (cont'd)

Changes in the Group's ownership interests in existing subsidiaries (cont'd)

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 as applicable, as the cost on initial recognition of an investment in an associate or a joint venture.

Revenue from contracts with customers

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Revenue from contracts with customers (cont'd)

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. 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 recognise over time since the contract does not give the Group an enforceable right to payment for performance completed to date.

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 and other services are recognized 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Revenue from contracts with customers (cont'd)

Other services (cont'd)

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.

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. The Group has applied the practical expedient in IFRS 15 which permit the Group to recognise the incremental costs of obtaining a contract as an expense when incurred if the amortisation period of the asset that the Group would otherwise have recognised is one year or less.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

Assets 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 assets 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Leasing (accounting policies applied from January 1, 2019)

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) *Accounting as a lessee*

Where the contract contains lease component(s) and non-lease component(s), the Group has separated non-lease components and does not account for each lease component and any associated non-lease components as a single lease component for all leases.

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 accounting policy choices exist for an entity to choose not to capitalise (i) leases which are short-term leases and/or (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 low-value assets and 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.

Right-of-use asset

The right-of-use asset should be recognised initially 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. Subsequent to initial recognition, the Group applies the cost model to measure the right-to-use assets. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

Right-of-use assets in which the group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Lease liability

The lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments are 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 uses the Group's incremental borrowing rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Leasing (accounting policies applied from January 1, 2019) (cont'd)

(i) Accounting as a lessee (cont'd)

Lease liability (cont'd)

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, the Group measures 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.

(ii) Accounting as a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with accounting policy for "revenue from contracts with customer".

Leasing (accounting policies applied until December 31, 2018)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Leasing (accounting policies applied until December 31, 2018) (cont'd)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

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 amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effective of any changes in estimate being accounted for on a prospective basis. 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 realisable value. Costs are determined on the weighted average cost method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Impairment of tangible and intangible assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (cont'd)

i) *Financial assets (cont'd)*

Debt instruments (cont'd)

Fair value through other comprehensive income ("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.

Fair value through 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (cont'd)

ii) *Impairment loss*

The Group recognises a loss allowance for expected credit losses (“ECL”) on financial instruments which are subject to impairment under IFRS 9 (including trade receivables and other receivables and other 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (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;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (cont'd)

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

Financial liabilities (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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (cont'd)

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.
 - (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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

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 for sale, 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, 2019, the aggregate carrying amount of properties under development and held for sale is approximately RMB2,479,258,000 (2018: RMB3,647,346,000) (net of allowance of RMB44,542,000 (2018: RMB44,707,000)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

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

Provision of ECL of trade and other receivables

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.

The Group assesses the ECL for other receivables (including amount due from vendor in Malaysia for deposits paid for acquisition of land for development for sale, deposits and prepayments, other receivables) by taking reference to individual ageing profile and credit rating of industry peers of respective debtors to determine whether there is significant increase in credit risk for the balances so as to project the individual loss rate. At every reporting date, these loss rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. As at December 31, 2019, the aggregate carrying amount of trade and other receivables is RMB1,111,709,000 (2018: RMB1,177,848,000), net of provision for ECL of RMB86,697,000 (2018: RMB139,593,000).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

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")

Segment revenues

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

For the year ended December 31, 2019

	Manufacturing <i>RMB'000</i>	Properties development <i>RMB'000</i>	Others <i>RMB'000</i>	Eliminations <i>RMB'000</i>	Total <i>RMB'000</i>
External sales	700,985	2,552,097	160,103	-	3,413,185
Inter-segment sales	-	-	17,262	(17,262)	-
Total	<u>700,985</u>	<u>2,552,097</u>	<u>177,365</u>	<u>(17,262)</u>	<u>3,413,185</u>

For the year ended December 31, 2018

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

6. SEGMENT INFORMATION AND REVENUE (cont'd)

(a) Segment information (cont'd)

Segment revenues (cont'd)

Disaggregation of revenue from contracts with customers

For the year ended December 31, 2019

	Manufacturing <i>RMB'000</i>	Properties development <i>RMB'000</i>	Others <i>RMB'000</i>	Elimination <i>RMB'000</i>	Total <i>RMB'000</i>
Primary geographical markets					
United States	511,746	-	-	-	511,746
PRC, including HK	45,658	2,552,097	177,365	(17,262)	2,757,858
Europe	52,106	-	-	-	52,106
Others	91,475	-	-	-	91,475
	<u>700,985</u>	<u>2,552,097</u>	<u>177,365</u>	<u>(17,262)</u>	<u>3,413,185</u>
Major products and services					
Sale of upholstered furniture	700,985	-	-	-	700,985
Sale of properties	-	2,552,097	-	-	2,552,097
Travel & tourism services	-	-	123,640	(472)	123,168
Catering & entertainment	-	-	2,181	(62)	2,119
Property management services	-	-	51,544	(16,728)	34,816
	<u>700,985</u>	<u>2,552,097</u>	<u>177,365</u>	<u>(17,262)</u>	<u>3,413,185</u>
Timing of revenue recognition					
At a point in time	700,985	2,552,097	2,181	(62)	3,255,201
Transferred over time	-	-	175,184	(17,200)	157,984
	<u>700,985</u>	<u>2,552,097</u>	<u>177,365</u>	<u>(17,262)</u>	<u>3,413,185</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

6. SEGMENT INFORMATION AND REVENUE (cont'd)

(a) Segment information (cont'd)

Segment revenues (cont'd)

Disaggregation of revenue from contracts with customers (cont'd)

For the year ended December 31, 2018

	Manufacturing <i>RMB'000</i>	Properties development <i>RMB'000</i>	Others <i>RMB'000</i>	Elimination <i>RMB'000</i>	Total <i>RMB'000</i>
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
	<u>719,019</u>	<u>2,708,121</u>	<u>207,241</u>	<u>(25,841)</u>	<u>3,608,540</u>
Major products and services					
Sale of upholstered furniture	719,019	-	-	-	719,019
Sale 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
	<u>719,019</u>	<u>2,708,121</u>	<u>207,241</u>	<u>(25,841)</u>	<u>3,608,540</u>
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
	<u>719,019</u>	<u>2,708,121</u>	<u>207,241</u>	<u>(25,841)</u>	<u>3,608,540</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

6. SEGMENT INFORMATION AND REVENUE (cont'd)

(a) Segment information (cont'd)

Segment result

The following is an analysis of the Group's result by reportable segments:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Segment profit/(loss)		
– Manufacturing	50,181	37,846
– Properties development	408,609	437,024
– Others	(47,279)	(50,017)
	411,511	424,853
Unallocated corporate expenses	(27,257)	(12,881)
Unallocated other gains and losses	96,958	22,687
Profit for the year	481,212	434,659

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

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

	2019	2018
	RMB'000	RMB'000
Manufacturing	1,095,497	981,572
Properties development	4,330,269	6,374,681
Others	854,278	783,025
Total segment assets	6,280,044	8,139,278
Unallocated	15,184	13,295
Consolidated assets	6,295,228	8,152,573

Segment liabilities

	2019	2018
	RMB'000	RMB'000
Manufacturing	438,628	530,738
Properties development	2,102,641	4,488,317
Others	359,710	214,107
Total segment liabilities	2,900,979	5,233,162
Unallocated	33,732	453
Consolidated liabilities	2,934,711	5,233,615

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

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		Non-current assets	
	Year ended December 31,		At December 31,	
	2019	2018	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
United States	511,746	546,436	–	–
PRC, including HK	2,757,858	2,941,248	1,635,599	1,652,633
Europe	52,106	67,449	–	–
Others	91,475	53,407	490,375	358,359
	3,413,185	3,608,540	2,125,974	2,010,992

Information about major customer

No customer in 2019 and 2018 contributed 10% or more of the total revenue of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

6. SEGMENT INFORMATION AND REVENUE (cont'd)

(b) Revenue

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

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Sale of goods		
Upholstered furniture	700,985	719,019
Residential properties	<u>2,552,097</u>	<u>2,708,121</u>
	3,253,082	3,427,140
Provision of services		
Others (<i>note</i>)	<u>160,103</u>	<u>181,400</u>
	<u>3,413,185</u>	<u>3,608,540</u>

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:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Government grants (<i>note a</i>)	12,044	11,853
Interest income	3,250	5,221
Dividends income from equity investments classified as financial assets at fair value through other comprehensive income	–	480
Rental income (<i>note b</i>)	2,116	2,489
Sub-contracting fee income	<u>239</u>	<u>345</u>
	<u>17,649</u>	<u>20,388</u>

Note a: Government grants represent various incentives received from government for business development. There were no 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 property, plant and equipment, to external parties on a short-term basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

8. OTHER GAINS AND LOSSES

An analysis of other gains and losses is as follows:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Reversal of impairment loss recognised in respect of properties under development and held for sale	165	3,584
Loss on disposal of property, plant and equipment	(1,834)	(295)
Impairment loss on property, plant and equipment (<i>note 15</i>)	(22,000)	–
Net foreign exchange gain	5,909	15,364
Donation	(257)	(745)
Penalty	(10,345)	(2,625)
Gain on disposal of subsidiaries	–	793
Net gain from sale of scrap materials	1,647	1,513
Provision of financial guarantees (<i>note</i>)	(19,851)	–
Release of financial guarantees (<i>note</i>)	6,617	10,735
Others	(2,096)	6,551
	(42,045)	34,875

Note: The provision of financial guarantees represented the fair value of the financial guarantees recognised at its initial recognition (*note 44(b)*). The release of financial guarantees recognised in profit or loss represented the income earned as the performance obligation (i.e. providing the guarantee) is satisfied over the period of guarantees since initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

9. FINANCE COSTS

An analysis of finance costs is as follows:

	2019	2018
	RMB'000	RMB'000
		<i>(note)</i>
Interest on:		
Bank and other borrowings	63,530	47,515
Interest on lease liabilities	994	–
Less: Amounts capitalised in respect of properties under development for sale <i>(note 25)</i>	<u>(17,397)</u>	<u>(29,885)</u>
	<u>47,127</u>	<u>17,630</u>

Note: The Group has initially applied IFRS 16 using the modified retrospective approach from January 1, 2019. Under this approach, the comparative information is not restated.

The capitalised borrowing costs represent the borrowing costs incurred by the entities on borrowings which were specifically used for the construction of properties during the years. During the year ended December 31, 2019, the weighted average interest capitalisation rate was 6.5% (2018: 6.35%) per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

10. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Amortisation of intangible assets (included in the administrative expenses)	323	80
Depreciation of property, plant and equipment	77,514	70,798
Depreciation of right-of-use assets (<i>note</i>)	10,123	–
Total depreciation and amortisation	87,960	70,878
Release of prepaid lease payments	–	3,091
Auditor's remuneration	2,400	2,300
Impairment loss on trade and other receivables, net of reversal	13,307	32,422
Cost of inventories under Manufacturing segment recognised as expenses (including net reversal of allowance of inventories of RMB338,000 (2018: allowance of inventories of RMB441,000))	498,517	597,783
Cost of properties under Properties development segment recognised as cost of sales	1,638,491	1,929,213
Expenses relating to short term leases with lease terms end within 12 months of the date of initial application of IFRS 16 (<i>note</i>)	664	–
Operating lease rentals in respect of land and buildings (<i>note</i>)	–	10,221
Employee cost (including directors' emoluments)		
– Wages, salaries and other benefits	204,141	185,933
– Contributions to defined contribution retirement plans	22,321	20,463
	226,462	206,396

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at January 1, 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under IAS 17. After initial recognition of right-of-use assets at January 1, 2019, the Group as a lessee has recognised the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. For certain lease with lease term less than 12 months, the Group has elected not to recognise right-of-use asset but to recognise the rental expense on a straight-line basis. Under this approach, the comparative information for depreciation of right-of-use assets and operating lease rentals is not restated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

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

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

2019

	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	Du Haibo RMB'000	Total RMB'000
Fees	-	-	159	159	-	159	477
Other emoluments							
Salaries and other benefits	637	280	-	-	280	-	1,197
Contributions to retirement benefits schemes	25	-	-	-	13	-	38
Total emoluments	662	280	159	159	293	159	1,712

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	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

Notes:

- (i) Subsequently on February 28, 2020, the Company appointed Mr. Zhu Ruijun as the executive director and the chief executive officer of the Company. Mr. Zhu Zhangjin resigned from the position as the chief executive officer, and continues to be the chairman and executive director of the Company on the same day.
- (ii) Ms. Shen Jianhong resigned as an executive director of the Company with effect from February 28, 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

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

None (2018: One) 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 five (2018: remaining four) individuals were as follows:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Basic salaries and other benefits	1,018	1,850
Discretionary bonus	17,170	–
Contributions to retirement benefits schemes	83	51
	18,271	1,901

Their emoluments were within the following bands:

	2019	2018
Nil to HK\$1,000,000	–	4
HK\$1,000,001 to HK\$1,500,000	3	–
HK\$1,500,001 to HK\$2,000,000	1	–
Over HK\$2,000,000	1	–

During the years ended December 31, 2019 and 2018, 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 December 31, 2019 and 2018.

12. INCOME TAX EXPENSES

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

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Income tax		
– for the current year	116,798	91,402
– under provision in respect of prior years	980	1,713
– reversal of tax provision (<i>note b</i>)	(85,191)	–
	32,587	93,115
LAT	153,537	63,764
Deferred tax (<i>note 22</i>)	(3,772)	8,062
	182,352	164,941

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

12. INCOME TAX EXPENSES (cont'd)

- (a) 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 subsidiaries in the PRC has been approved as new and high technology enterprise and it is entitled to concessionary tax rate of 15% from 2018 to 2020. The subsidiary is required to re-apply for the preferential tax treatment when the preferential tax period expired in 2020.

The provision for Hong Kong Profits Tax for 2019 is calculated at 16.5% (2018: 16.5%) of the estimated assessable profits for the year, except for one of the subsidiaries of the Group which is a qualifying corporation under the two-tiered Profits Tax regime, which the first HK\$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

The Directors considered the amount involved under the two-tiered Profits Tax rates regime is 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 of 36.8% prevailing in Japan.

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

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

- (b) In 2011, the Group demolished its manufacturing plant and returned certain land use rights to the PRC government at a consideration of RMB463,418,000 and recognised a gain of relocation amounting to RMB361,052,000, after deducting cost of relocation, including assets disposed of/written off and relevant removal cost. Since 2012, the Group had acquired and constructed certain plant and equipment in new site, for total cost of RMB460,824,000 as part of the relocation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

12. INCOME TAX EXPENSES (cont'd)

(b) (cont'd)

In accordance with relevant rules and regulations, only the excess of the consideration over the costs of relocation and acquisition of qualifying assets was subject to the PRC EIT. However, the Group considered there was an uncertainty over whether the newly acquired assets were qualified for the deduction and it would be probable that the relevant tax authority did not allow for the deduction of acquired assets, accordingly, the Group made a provision for income tax amounting to RMB85,191,000 in prior years.

In the current year, after obtaining all the information of the acquired assets, the Group communicated with the relevant tax authority and consulted with the local tax expert about the deductibility of the acquired assets in tax assessment. The Group was advised that the acquired assets were likely qualified for the deduction in tax assessment so that the costs of relocation and acquired assets incurred had exceeded the consideration of relocation received and no tax would be charged. As a result, the Group reversed the provision for EIT during the year.

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

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Profit before tax	663,564	599,600
Tax rate applicable to the major operation of the Group	25%	25%
Tax at the domestic income tax rate	165,891	149,900
Effect of different tax rates of subsidiaries operating in other jurisdictions	2,154	1,626
Tax effect of preference in tax rule relate to new and high technology enterprise as described above	(7,252)	(5,921)
Tax effect of expenses not deductible for tax purpose	1,426	9,375
Tax effect of income not taxable for tax purpose	(6,992)	(3,912)
Tax effect of deductible temporary differences not recognised	5,500	6,113
Utilisation of deductible temporary differences previously not recognised	(13,349)	(15,133)
LAT	153,537	63,764
Tax effect of LAT	(38,384)	(15,670)
Tax effect of tax losses not recognised	38,246	36,201
Utilisation of tax losses previously not recognised	(34,214)	(63,115)
Under provision in previous years	980	1,713
Reversal of tax provision	(85,191)	–
Taxation for the year	182,352	164,941

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

13. DIVIDENDS

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Special dividend HK\$ nil (2018: HK\$0.3) 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.

The Board does not recommend the payment of a final dividend for the year ended December 31, 2019.

14. EARNINGS PER SHARE

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

Profit for the year

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Profit for the year for the purposes of basic and diluted earnings per share, being profit attributable to owners of the Company	444,958	449,799

Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB444,958,000 (2018: RMB449,799,000) and the weighted average of 1,493,636,881 ordinary shares (2018: 1,494,316,297 shares) in issue during the year, calculated as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

14. EARNINGS PER SHARE (cont'd)

Basic earnings per share (cont'd)

Weighted average number of ordinary shares

	2019	2018
Issued ordinary shares at January 1	1,493,636,881	1,511,019,881
Effect of shares repurchased	–	(25,658,926)
Effect of share options exercised	–	8,955,342
Weighted average number of ordinary shares at December 31	1,493,636,881	1,494,316,297

Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB444,958,000 (2018: RMB449,799,000) and the weighted average of 1,501,677,977 ordinary shares (2018: 1,502,924,708 shares) in issue take into account of the effect of dilutive potential ordinary shares during the year, calculated as follows:

Number of shares

	2019	2018
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,493,636,881	1,494,316,297
Effect of dilutive potential ordinary shares: – share options	8,041,096	8,608,411
Weighted average number of ordinary shares for the purposes of diluted earnings per share	1,501,677,977	1,502,924,708

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

15. PROPERTY, PLANT AND EQUIPMENT

	Freehold land <i>RMB'000</i>	Buildings <i>RMB'000</i>	Plant and equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Fixtures and equipment <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
COST							
At January 1, 2018	–	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
Additions	42,660	12,888	6,309	1,880	1,797	209,861	275,395
Disposals	–	–	–	(5,822)	(1,017)	–	(6,839)
Transfer from properties under development and held for sale	–	–	–	–	–	12,221	12,221
Transfers	–	21,683	–	–	–	(21,683)	–
Exchange realignment	3,456	42	–	20	3	–	3,521
At December 31, 2019	225,201	1,068,919	290,460	44,119	69,195	443,238	2,141,132
DEPRECIATION AND IMPAIRMENT							
At January 1, 2018	–	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
Impairment loss	–	–	22,000	–	–	–	22,000
Depreciation expense	–	44,028	25,262	2,309	5,915	–	77,514
Eliminated on disposal	–	–	–	(3,176)	(922)	–	(4,098)
Exchange realignment	–	6	–	6	1	–	13
At December 31, 2019	–	310,118	133,986	29,192	49,260	–	522,556
CARRYING AMOUNTS							
At December 31, 2019	225,201	758,801	156,474	14,927	19,935	443,238	1,618,576
At December 31, 2018	179,085	768,222	197,427	17,988	24,146	242,839	1,429,707

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

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, 2019, the title deeds of buildings in the PRC with carrying amount of RMB59,617,000 (2018: RMB61,275,000) 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.

The freehold land with carrying amount of USD32,282,000 (equivalent to approximately RMB225,201,000) (2018: USD26,094,000 (equivalent to approximately RMB179,085,000)) are situated in Cambodia of which the Group has obtained the relevant title deeds.

In view that the water park in Sanya for the year ended December 31, 2019 did not operate as expected, the management of the Group concluded there was indication of impairment and conducted impairment assessment to estimate the recoverable amount for groups of non-financial assets including building, plant and equipment and right-of-use assets – being the smallest identifiable group of assets that generates cash inflows that are largely independent from other assets (the “Water Park CGU”).

The recoverable amount for the Water Park CGU has been determined based on a ‘Fair value less cost of disposal’ calculation. That calculation uses direct comparison approach by assuming sale of the assets in its existing state and by making reference to comparable sales transactions as available in the relevant market. Appropriate adjustments and analysis are considered to the differences in location, size, land improvement and other characters between the comparable assets and the subject assets. The fair value on which the recoverable amount is based on is categorised as a Level 3 measurement, where management determine the price per square meter of leasehold land as key assumption for the fair value measurement.

Based on the result of the assessment, management of the Group determined that the recoverable amount of the Water Park CGU is lower than the carrying amount and an impairment of RMB22,000,000 has been recognised in profit or loss against the carrying amount of certain equipments used in the water park in Sanya.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

16. RIGHT-OF-USE ASSETS

	Leasehold land <i>RMB'000</i> <i>Note a</i>	Buildings <i>RMB'000</i> <i>Note b</i>	Total <i>RMB'000</i>
At December 31, 2018	–	–	–
At January 1, 2019 – Initial application of IFRS 16 (<i>note 2a</i>)	136,450	25,272	161,722
Transfer from prepayment for acquisition of leasehold land (<i>note 20</i>)	23,820	–	23,820
Addition	–	2,039	2,039
Depreciation	(3,582)	(6,541)	(10,123)
Exchange realignment	–	(22)	(22)
At December 31, 2019	156,688	20,748	177,436

Note a: The Group is the registered owner of the land use right in the PRC where the Group's manufacturing facilities and part of waterpark facilities are located. Lump sum payments were made upfront to acquire these leasehold interests from relevant government authorities. All of these land use right has remaining lease term of between 10 and 50 years respectively.

Other than payments based on rateable values set by the relevant government authorities, there are no ongoing payments to be made under the terms of these land leases. These payments vary from time to time and are payable to the relevant government authorities.

Note b: The Group has obtained the right to use certain properties as its offices through tenancy agreements. The leases typically run for an initial period of 2 to 9 years. None of the leases includes variable lease payments.

17. PREPAID LEASE PAYMENTS

	2018 <i>RMB'000</i>
Carrying amount at January, 1	35,992
Addition	103,549
Amortisation	(3,091)
Carrying amount at December, 31	136,450
Current portion	(3,554)
Non-current portion	132,896

Prepaid lease payments represented land use right in the PRC with medium leases terms held for own-use by the Group who had obtained land use right certificates. Amortisation expense has been charged under "administrative expenses" in the profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

18. INTANGIBLE ASSETS

	Computer software <i>RMB'000</i>
COST	
At January 1, 2018	4,474
Additions	676
At December 31, 2018	5,150
Additions	876
At December 31, 2019	6,026
ACCUMULATED AMORTISATION	
At January 1, 2018	4,240
Provided for the year	80
At December 31, 2018	4,320
Provided for the year	323
At December 31, 2019	4,643
CARRYING AMOUNTS	
At December 31, 2019	1,383
At December 31, 2018	830

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

19. PREPAYMENT FOR ACQUISITION OF PLANT AND EQUIPMENT

The Group has prepaid and entered into a number of contracts for the acquisition of facilities and power generators including the installation and other service fee to be used in resort and thermal power projects respectively 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 43. These prepayments would be transferred to "property, plant and equipment" upon receipt of relevant equipment and service.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

20. PREPAYMENT FOR ACQUISITION OF FREEHOLD AND LEASEHOLD LAND

Prepayment for acquisition of freehold land and leasehold land consisted of:

	NOTES	2019 RMB'000	2018 RMB'000
Leasehold land in			
– Hainan province, the PRC	(a)	150,702	150,702
– Jiangsu province, the PRC	(b)	–	23,820
Freehold land in			
– Phnom Penh, Cambodia	(c)	–	6,986
– Sihanoukville, Cambodia	(d)	125,572	170,071
		276,274	351,579

(a) As at December 31, 2019, the Group had carried out the transfer procedures in respect of leasehold land and expected no material obstacle in the process. The leasehold land will be used for development of tourism business.

(b) During the year, the prepayment was transferred to “right-of-use assets” when the Group obtained the relevant title deed.

(c) During the year, a further payment of approximately USD1,390,000 (equivalent to approximately RMB9,660,500) was made by the Group, the prepayment was then transferred to “property, plant and equipment – freehold land” upon receipt of relevant title deed by the Group.

(d) Except for USD1,000,000 (equivalent to approximately RMB6,976,000) (2018: USD4,000,000 (equivalent to approximately RMB27,453,000)) which was refundable, the other USD17,000,000 (equivalent to approximately RMB118,596,000) (2018: USD20,780,000 (equivalent to approximately RMB142,618,000)) were non-refundable unless the relevant agreement is terminated or cancelled by the vendor. The freehold land is planned to be used for paper-making project and other industrial projects in Cambodia.

During the year, prepayment of USD3,780,000 (equivalent to approximately RMB26,013,500), was transferred to “property, plant and equipment – freehold land” upon receipt of relevant title deed by the Group. The amount of USD3,000,000 was transferred to “other receivable” upon mutual termination of cooperation between the Group and the vendor.

At the end of the reporting period, the Group was in the process of negotiation with the vendor for the freehold land acquisition in Cambodia in response to uncertainty on approval of relevant permits for the Group’s projects. Management consider the freehold land acquisition was still ongoing with no dispute with the vendor and there was no indicator of impairment of the prepayment made.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Financial assets at fair value through other comprehensive income		
– Listed equity investment (<i>Note</i>)	17,442	18,203

Note: The listed equity investments represent 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. The fair value as at December 31, 2018 and 2019 were based on quoted market price at Shenzhen Stock Exchange.

As at December 31, 2019, 4,000,000 shares of (2018: 4,000,000) HCLM have been pledged to secure the banking facilities of the CCT Group (note 46(e)).

22. 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 <i>RMB'000</i>	Fair value change of FVTOCI <i>RMB'000</i>	LAT provision <i>RMB'000</i>	Total <i>RMB'000</i>
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
Credit to other comprehensive income	–	190	–	190
Credit to profit or loss	(7,205)	–	10,977	3,772
At December 31, 2019	9,774	(3,321)	20,971	27,424

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

22. DEFERRED TAXATION (cont'd)

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

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Deferred tax assets	49,439	50,529
Deferred tax liabilities	<u>(22,015)</u>	<u>(27,067)</u>
	<u>27,424</u>	<u>23,462</u>

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

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Impairment of property, plant and equipment	24,960	2,960
Impairment of property under development and held for sale	44,542	44,707
Impairment of trade and other receivables	49,175	102,071
Allowance for inventories	<u>1,633</u>	<u>1,971</u>
	<u>120,310</u>	<u>151,709</u>

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 RMB1,734,871,320 (2018: RMB1,251,170,387).

The Directors of the Company represent that the undistributed earnings of the PRC subsidiaries as at December 31, 2019 and 2018 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

22. DEFERRED TAXATION (cont'd)

At the end of the reporting period, the Group has unused tax losses of RMB373,983,000 (2018: RMB270,684,000) 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 RMB9,592,000 (2018: RMB26,891,000) which can be carried forward indefinitely. The remaining RMB357,723,000 (2018: RMB243,793,000) expires in the following years:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
2019	–	21,565
2020	16,648	18,496
2021	16,091	16,093
2022	46,122	58,049
2023	129,589	129,590
2024	149,273	–
	357,723	243,793

23. INVENTORIES

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Raw materials	43,495	49,132
Work in progress	18,135	11,434
Finished goods	22,292	25,190
Total, net of allowance for inventories	83,922	85,756

24. CONTRACT LIABILITIES

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Contract liabilities arising from:		
Manufacturing and trading of upholstered furniture	40,583	13,261
Property development	595,416	2,826,844
Other services	12,546	6,500
	648,545	2,846,605

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

24. 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 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 agreements before the transfer of residential units.

Other services

The Group accepts 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

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Balance as at January 1	2,846,605	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	(2,814,354)	(3,071,091)
Increase in contract liabilities as a result of receiving deposits from customers	616,294	2,155,370
Balance at December 31	648,545	2,846,605

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

25. PROPERTIES UNDER DEVELOPMENT AND HELD FOR SALE

	<i>RMB'000</i>
COST	
At January 1, 2018	4,693,046
Addition of development expenditure	1,049,797
Sale of properties	<u>(2,050,790)</u>
At December 31, 2018	3,692,053
Addition of development expenditure	504,058
Transfer to property, plant and equipment	(12,221)
Sale of properties	<u>(1,660,090)</u>
At December 31, 2019	<u>2,523,800</u>
IMPAIRMENT	
At January 1, 2018	(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	<u>8,350</u>
At December 31, 2018	(44,707)
Reversal of impairment loss recognised for the year	<u>165</u>
At December 31, 2019	<u>(44,542)</u>
CARRYING VALUES	
At December 31, 2019	<u>2,479,258</u>
At December 31, 2018	<u>3,647,346</u>

The carrying values are presented as:

	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Properties under development for sale	1,431,249	2,881,767
Properties held for sale	1,048,009	765,579
	<u>2,479,258</u>	<u>3,647,346</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

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

As at December 31, 2019, RMB147,905,000 (2018: RMB171,759,000) 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 amounted to RMB17,397,000 (2018: RMB29,885,000). The properties under development and property held for sale are located in the PRC.

26. TRADE AND OTHER RECEIVABLES

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Trade receivables	111,996	119,116
Less: allowance for credit loss	<u>(20,514)</u>	<u>(33,865)</u>
	91,482	85,251
Deposits paid for acquisition of land for development for sale (Note a)	603,988	609,888
Less: allowance for impairment loss	<u>(627)</u>	<u>(5,900)</u>
	603,361	603,988
Amount due from vendor in Malaysia for deposits paid for acquisition of land for development for sale (Note b)	33,743	37,522
Less: allowance for credit loss	<u>(33,743)</u>	<u>(37,522)</u>
	-	-
Advance payment for purchase of inventories (Note c)	39,014	19,340
Incremental costs to obtain contracts	-	61,397
Deposit and prepayments (Note d)	130,485	126,747
Less: allowance for credit loss	<u>(4,343)</u>	<u>(40,129)</u>
	126,142	86,618
Prepaid other taxes (Note e)	176,080	259,602
Other receivables (Note f)	103,100	83,829
Less: allowance for credit loss	<u>(27,470)</u>	<u>(22,177)</u>
	75,630	61,652
	<u>1,111,709</u>	<u>1,177,848</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

26. TRADE AND OTHER RECEIVABLES (cont'd)

Notes:

- (a) In 2013, the Group obtained the control of Hainan Sanya Kasen Property Development Co., Ltd. ("Sanya Kasen"), which then became a 80.5% subsidiary of the Company. Before consolidation into the Group, Sanya Kasen had entered into a land transfer agreement ("Agreement") with an independent third party (the "Vendor"), which Sanya Kasen agreed to purchase and the Vendor agreed to sell a parcel of land in the PRC with area of 1,423,980 sq. meters ("Sanya Land"). The agreement was approved by the local government bureau in 2010 in accordance with local requirement in Hainan province. At the date of obtaining the control of Sanya Kasen, the Group recognised the deposits paid to the Vendor in respect of land acquisition ("Sanya Deposits") amounted to RMB636,856,000 and Sanya Kasen was required to pay the remaining balance of RMB52,800,000 to the Vendor.

In accordance with the Agreement, the Vendor would assist to apply to local government for converting such land from agricultural land into construction land before transfer of the land title and obtaining various development plans and permits. If the land area was successfully converted into construction land, the Group was required to pay an additional 40% of the land cost to the local government based on the market value of the land at the time of transfer, together with corresponding taxes and surcharges. For those land area which could not be converted into construction land, it would be transferred to the Group in form of agriculture land without additional cost.

In 2017 and 2018, the Group paid additional RMB41,989,000 to the Vendor and the remaining balance due to the Vendor as at December 31, 2019 was RMB10,811,000.

Up to December 31, 2019, the local government had announced its land use plan for development in which approximately 743,980 sq. meters of the Sanya Land were included. The Group had undertaken the procedures for obtaining the title deeds of partial land with area of 155,857 sq. meters and paid RMB164,303,000 to the local government based on the market value of corresponding land. The title deeds of the land area of 81,646 sq. meters had been issued to the Group in 2018, and the corresponding Sanya Deposits, together with the additional payments, in total of RMB89,085,000 had been transferred to "Right-of-use assets". Those relating to the land area of 74,211 sq. meters were in the process of transfer as at December 31, 2019 and the corresponding Sanya Deposits, together with the additional payments, in total of RMB150,702,000 had been transferred to "Prepayment for acquisition of freehold land and leasehold land".

The management of the Group is of the view that the Agreement remains enforceable and the Group is able to complete the land transfer of the remaining area of 1,268,123 sq. meters and would carry out the procedures for transfer of land title deeds progressively according to its business plan. Accordingly, there is no impairment loss on remaining Sanya Deposits as at December 31, 2019.

- (b) In prior years, the Group paid deposits of Malaysian ringgit ("RM") 21,000,000 for acquisitions of two parcels 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 and the Malaysia vendor reached an agreement through the Court in Malaysia for termination of the legal proceeding in 2017 under which the Malaysia vendor agreed to refund part of the Malaysia Deposits to the Group by monthly instalments starting from 2017. However, the vendor had failed to repay the remaining balance of RM6,887,400 since 2018. Management considered the remaining balances had been in default and a full provision had been recognised as at December 31, 2018 since it had been in arrears and past due over one year. As at December 31, 2018, full provision for the remaining instalments receivables were made. Except for approximately RMB3,800,000 repayments received from Malaysia vendor after payment reminders sent through the Company's lawyer during 2019 which has been recognised as reversal of impairment loss of trade and other receivables in profit or loss in 2019, there was no further repayment from Malaysia vendor. Management considered that there is no reasonable expectation of recovering the remaining instalments receivables and therefore no reversal of the provision as at December 31, 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

26. TRADE AND OTHER RECEIVABLES (cont'd)

Notes: (cont'd)

- (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) In 2019, the amounts mainly included (i) deposits with aggregate principal amount of RMB35,000,000 (2018: RMB5,000,000) paid to vendors of equipment as security for the demolition of power generators in the PRC, which are refundable on completion of demolition with no breach of terms; (ii) prepayment for marketing service of RMB21,800,000 (2018: RMB nil) for the Group's resort in the PRC which services has not been rendered at year end; (iii) prepayment for construction materials and services of RMB32,372,000 (2018: RMB30,223,000). Management expect these amounts to be realised or recovered from counterparties within a year.

In 2018, the amounts mainly included (i) deposits with principal amount of 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"); (ii) deposits with amount of 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") (JV deposit A and B together as "JV deposits"); (iii) remaining deposits with principal amount of RMB4,962,000 paid for acquisition of land use rights in Hangzhou, PRC with local government which no ECL has been recognised at December 31, 2018 since the loss allowance is immaterial, such deposit has been fully refunded from local government during 2019; (iv) prepayment for construction materials and services of RMB30,223,000.

For JV deposits, as the development of Land A and Land B had not yet been commenced in accordance with the agreements, the Group started legal proceedings against Shenjianong and Zhuantang for refund of JV deposits and Land B deposit in prior years. Although the Group successfully appealed at an intermediate Court in the PRC which overridden the judgement on JV deposits made by local Court and sentenced Shenjianong and Zhuantang to refund the JV deposits to the Group, no JV deposits had been refunded by Shenjianong and Zhuantang up to December 31, 2019. A full provision had been recognised as at December 31, 2018. As management considered that there is no realistic prospect of recovering the JV deposits, the JV deposits were written off in 2019.

- (e) 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 are completed and control transfer to customers and revenue is recognised.
- (f) The amounts are mainly representing the deposits for cooperation projects that are refundable to the Group if the projects does not commence within a specific period of time or both parties mutually agree to terminate, prepayment made to suppliers for properties development, and short advances to staff for operation purpose etc. Management expect the amounts to be realised or recovered from counterparties within a year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

26. 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:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Aged:		
Within 60 days	87,040	66,355
61 – 90 days	2,415	4,540
91 – 180 days	2,593	6,530
181 – 365 days	2,191	18,118
Over 1 year	17,757	23,573
	<u>111,996</u>	<u>119,116</u>

The Group's trade receivable balances included debtors which are related parties, details of which are set out in note 46(b).

Before accepting any new customers under the Manufacturing segment, the Group reviews the credit quality and sets credit limits by customer. Limits attributed to customers are reviewed once a year. The Group maintains a defined credit policy to assess the credit quality of the trade customers. The collection is closely monitored to minimise any credit risk associated with these trade debtors. There has not been significant change in credit quality of the debtors. Further details on the Group's credit policy and credit risk arising from trade and other receivables are set out in note 38(b).

Movement in the provision in impairment loss for trade and other receivables:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Balance at beginning of year	139,593	108,062
Amounts written off during the year as uncollectible	(66,203)	(791)
Impairment loss recognised in profit or loss, net of reversal	13,307	32,422
Disposal of subsidiaries	-	(100)
Balance at end of year	<u>86,697</u>	<u>139,593</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

27. PREPAID INCOME TAX

The balance mainly represents the prepaid PRC enterprise income tax relating to the pre-sale 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 are completed and control transfer to customers and revenue is recognised.

28. 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 are completed and control transfer to customers and revenue is recognised.

29. 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.

30. 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 short-term banking facilities granted to the Group.

The deposits carry a fixed interest rate range from 0.35% to 1.35% (2018: 0.35% to 1.35%) per annum. The pledged bank deposits will be released upon the settlement of relevant bank borrowings both are with maturity dates not over 1 year.

As at December 31, 2019, included in pledged bank deposit of the Group was RMB46,093,000 (2018: RMB83,652,000) of bank balance denominated in RMB placed with bank in the PRC. RMB is not a freely convertible currency.

(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 0.45% (2018: 0.3% to 0.35%) per annum.

As at December 31, 2019, included in restricted bank deposits for property development business of the Group was RMB111,037,000 (2018: RMB485,856,000) of bank balance denominated in RMB placed with bank in the PRC. RMB is not a freely convertible currency.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

30. PLEDGED BANK DEPOSITS/RESTRICTED BANK DEPOSITS FOR PROPERTY DEVELOPMENT BUSINESS/BANK BALANCES AND CASH (cont'd)

(c) Bank balances and cash

Bank balances and cash comprised of bank deposits with short maturity at prevailing deposit interest rate of 0.35% (2018: 0.35%) per annum and cash on hand.

As at December 31, 2019, included in cash and bank balance of the Group was RMB172,300,000 (2018: RMB427,478,000) of bank balance denominated in RMB placed with bank in the PRC. RMB is not a freely convertible currency. Under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks in the PRC that are authorised to conduct foreign exchange business.

31. TRADE, BILLS AND OTHER PAYABLES

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Trade payables	676,954	829,215
Bills payable	22,870	14,000
Other payables (<i>Note a</i>)	195,028	203,138
Deposit received for partial disposal of interests in a subsidiary (<i>Note b</i>)	–	12,000
Advance from a director of the Company (<i>note 46(b)</i>)	5,698	5,606
Advance from a related company (<i>note 46(b)</i>)	47	21
Other tax payable	29,982	14,032
Accruals	37,655	35,500
Financial guarantees (<i>note 44(b)</i>)	13,234	–
	981,468	1,113,512

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 2018, the independent third parties decided not to acquire 2% equity interest in Hainan Boao. The amount was fully refunded to the independent third parties during 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

31. TRADE, BILLS AND OTHER PAYABLES (cont'd)

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

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Aged:		
Within 60 days	443,613	678,405
61 – 90 days	22,552	36,944
91 – 180 days	26,141	37,019
181 – 365 days	137,473	34,412
1 – 2 years	29,557	11,309
Over 2 years	40,488	45,126
	699,824	843,215

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

32. LEASE LIABILITIES

	Buildings <i>RMB'000</i>
At December 31, 2018	–
At January 1, 2019 – Initial application of IFRS 16 (<i>note 2a</i>)	25,272
Addition	2,039
Interest expense	994
Lease payments	(6,582)
Exchange realignment	(5)
At December 31, 2019	21,718

The present value of future lease payments are analysed as:

	December 31, 2019 <i>RMB'000</i>	January 1, 2019 <i>RMB'000</i>
Current liabilities	6,384	5,714
Non-current liabilities	15,334	19,558
	21,718	25,272

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

33. BANK BORROWINGS

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Total bank borrowings	910,095	899,997
Analysed as:		
Secured	785,735	785,997
Unsecured	124,360	114,000
	910,095	899,997
Denominated in United States Dollars (foreign currency)	11,860	16,197
Denominated in Renminbi	898,235	883,800
	910,095	899,997

Carrying amount repayable*:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Within one year	309,660	354,997
More than one year, but not exceeding two years	94,000	60,000
More than two years, but not exceeding five years	240,000	185,000
After five years	266,435	300,000
	910,095	899,997
Less: Amount due within one year shown under current liabilities	(309,660)	(354,997)
Amount due after one year	600,435	545,000

* The amounts due are based on scheduled repayment dates set out in the loan agreements, none of the bank borrowings due for repayment after one year contain a clause that provides the lenders with an unconditional right to demand repayment at any time at its own discretion.

Bank borrowings are fixed-rate borrowings and carry interests ranging from 3.90% to 8.27% (2018: 3.40% to 8.48%) per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

33. BANK BORROWINGS (cont'd)

The bank borrowings included unsecured bank borrowings of RMB124,360,000 (2018: RMB114,000,000), which were guaranteed by Mr. Zhu, the director of the Company, a related company in which Mr. Zhu has significant influence and beneficial interests, and certain independent third parties.

Certain borrowings were also secured by the assets owned by the Group and details of the assets are set out in note 41.

34. AMOUNTS DUE TO NON-CONTROLLING INTERESTS OF SUBSIDIARIES

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

35. 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 December 31, 2019	266,666,666,666	40,000

Issued and fully paid

	December 31, 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 December 31	1,493,636,881	224,046	1,712	1,493,636,881	224,046	1,712

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

35. SHARE CAPITAL (cont'd)

Issued and fully paid (cont'd)

Note a: Purchase of own share

During 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	Lowest	Aggregate price paid	
		price paid per share	price paid per share	HK\$'000	RMB'000
		HK\$	HK\$		
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 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.

36. SHARE OPTION

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

A new share option scheme was adopted by the Company pursuant to shareholders resolution passed on May 29, 2015 (the "2015 Share Option Scheme") for the primary purpose of providing incentive to directors and eligible employees, thus, the 2005 Share Option Scheme was terminated on the same day but the options issued under the 2005 Share Option Scheme would remain effective pursuant to terms of its issuance. The 2015 Share Option Scheme became effective on May 29, 2015 and the options issued pursuant to the 2015 Share Option Scheme will expire no later than 10 years from the date of grant of the option. As at December 31, 2018 and 2019, no options have been granted by the Company under the 2015 Share Option Scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

36. SHARE OPTION (cont'd)

At December 31, 2019, 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 (2018: 10,850,000), representing 0.73% (2018: 0.73%) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the 2005 Share Option Scheme is not permitted to exceed 10% of the shares of the Company on October 20, 2005 (representing 101,404,536 shares of the Company), without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the total shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

The exercise price for options granted under the 2005 Share Option Scheme is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share. The exercise period should expire in any event not later than ten years from date of adoption of the 2005 Share Option Scheme.

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, 2018 and 2019:

Exercise Price HK\$	Date of grant	Vesting period	Exercisable period	Outstanding at January 1, 2019	Lapsed during 2019	Exercised during 2019	Outstanding at December 31, 2019
1.37	May 26, 2015	26.5.2015 – 31.12.2015	1.1.2016 – 25.5.2025	10,850,000	–	–	10,850,000
Total				10,850,000	–	–	10,850,000
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

36. 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 <i>HK\$</i>	Date of grant	Vesting period	Exercisable period	Outstanding at January 1, 2019	Lapsed during 2019	Exercised during 2019	Outstanding at December 31, 2019
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 <i>HK\$</i>	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

37. RESERVES

- 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.
- The special reserve arose from the reorganization completed in 2004.
- 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

38. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Financial assets		
Financial assets at fair value through other comprehensive income	17,442	18,203
At amortised cost		
– Amount due from non-controlling interest of subsidiaries	24,359	52,650
– Trade and other receivables	231,459	146,903
– Pledged bank deposits	46,093	83,652
– Restricted bank deposits for property development business	111,037	485,856
– Cash and bank balances	211,903	457,708
	642,293	1,244,972
Financial liabilities		
At amortised cost		
– Trade, bills and other payables	913,831	1,051,980
– Amount due to non-controlling interests of subsidiaries	111,196	123,228
– Bank and other borrowing	910,095	899,997
– Lease liabilities	21,718	–
	1,956,840	2,075,205

(b) Financial risk management objectives and policies

The Group's major financial instruments include financial assets at fair value through other comprehensive income, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

38. 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 30 and 33 respectively. It is the Group's policy to keep its borrowings at fixed rate of interest so as to minimise the cash flow interest rate risk.

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

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

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

Sensitivity analysis

The sensitivity analysis below has 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 (2018: 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, 2019, 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 RMB1,384,000 (2018: RMB3,852,000), and there would be equal and opposite impact on loss for the year (2018: 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

38. 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	
	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000
USD	135,709	262,250	16,040	31,240
HKD	3,797	877	-	1,890
Other currencies	3,310	3,480	-	-

Sensitivity analysis

The Group is mainly exposed to currency of USD.

5% (2018: 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, 2019, if RMB had been weakened by 5% against USD and all other variables were held constant, profit for the year would have been increased by RMB7,298,000 (2018: RMB8,663,000) and there would be equal and opposite impact on gain for the year (2018: gain) if RMB has been strengthened 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. 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, FVTOCI reserve would increase/decrease by RMB654,000 (2018: RMB683,000) for the Group as a result of the changes in fair value of financial assets at FVTOCI, and there would be equal and opposite impact on FVTOCI reserve if the price of the listed equity instrument had been 5% lower.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

38. FINANCIAL INSTRUMENTS (cont'd)

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

Credit risk

As at December 31, 2019, 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 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 44.

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 in 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 44(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 November 20, 2018 and December 11, 2018.

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

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 36.2% (2018: 32.8%) 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.

Trade receivables

The Group measures impairment loss of 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

38. FINANCIAL INSTRUMENTS (cont'd)

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

Credit risk (cont'd)

Trade receivables (cont'd)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables:

	Expected loss rate (%)	2019 Gross carrying amount (RMB'000)	Loss allowance (RMB'000)
Current (not past due)	3.3%	88,546	2,900
Within 60 days past due	4.9%	2,864	141
61-90 days past due	7.1%	886	63
91-180 days past due	36.2%	1,069	387
181-365 days past due	64.2%	2,008	1,289
More than 365 days past due	94.7%	16,623	15,734
		111,996	20,514
		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 historical data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

38. FINANCIAL INSTRUMENTS (cont'd)

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

Credit risk (cont'd)

Other receivables

As at December 31, 2019, in respect of gross carrying amount of RMB115,833,000, the ECLs are based on the 12-month ECLs as there is no significant increase in credit risk and a loss allowance of RMB6,411,000 is recognised. In respect of gross carrying amount of RMB5,451,000, the ECLs are based on the life-time ECLs as there is significant increase in credit risk and a loss allowance of RMB290,000 is recognised. In respect of the gross carrying amount of RMB84,876,000, these balance are credit impaired of which loss allowances of RMB59,482,000 are recognised as at December 31, 2019.

As at December 31, 2018, in respect of gross carrying amount of RMB21,824,000, the ECLs are based on the 12-month ECLs as there is no significant increase in credit risk and a loss allowance of RMB263,000 is recognised. In respect of gross carrying amount of RMB1,872,000, the ECLs are based on the life-time ECLs as there is significant increase in credit risk and a loss allowance of RMB83,000 is recognised. In respect of the gross carrying amount of RMB143,684,000, these balance are credit impaired of which loss allowances of RMB105,382,000 are recognised as at December 31, 2018.

The table shows the movement in the impairment loss of other receivables as follows:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Balance at beginning of year	105,728	87,034
Amounts written off during the year as uncollectible	(39,500)	(791)
Impairment loss recognised in profit or loss, net of reversal	(45)	19,531
Disposal of subsidiaries	-	(46)
Balance at end of year	<u>66,183</u>	<u>105,728</u>

RMB39,500,000 of other receivables are written off as there is no reasonable expectation of recovery.

During the year, impairment loss of RMB2,120,000 and RMB3,978,000 are recognised in profit or loss due to the existing financial assets that are assessed based on 12-month ECLs and in lifetime ECLs respectively. In addition, impairment loss of RMB4,243,000 and RMB1,337,000 are recognised in profit or loss due to the new financial assets originated that are assessed based on 12-month ECLs and lifetime ECLs respectively.

For reversal of impairment loss, RMB11,724,000 is recognised due to the recovery of credit-impaired other receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

38. FINANCIAL INSTRUMENTS (cont'd)

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

Credit risk (cont'd)

Bank balances and cash

Credit risk on bank balances is limited because the counterparties are reputable banks with high credit ratings assigned by international credit agencies. The Group assessed 12-month ECL for bank balances by reference to information relating to probability of default and loss given default of the respective credit rating grades published by external credit rating agencies. Based on the average loss rates, the 12-month ECL on bank balances is considered to be insignificant.

Liquidity risk

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

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

Other than continuously monitoring the actual cash flows by management, the Group also relies on bank and other borrowings as a significant source of liquidity. As at December 31, 2019, the Group has available unutilised short-term bank loan facilities of approximately RMB242,295,000 (2018: RMB242,730,000) as a liquidity management resource.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

38. 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 RMB'000	1 – 2 years RMB'000	Over 2 years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
2019						
Non-derivative financial liabilities						
Trade, bills and other payables		913,830	-	-	913,830	913,830
Bank and other borrowings	6%	328,240	80,900	728,071	1,137,211	910,095
Lease liabilities	4.47%	7,344	4,848	12,072	24,264	21,718
Amounts due to non-controlling interests of a subsidiaries		111,196	-	-	111,196	111,196
Total		1,360,610	85,748	740,143	2,186,501	1,956,839
Financial guarantees issued:						
Maximum amount guaranteed (note 44)		2,339,981	-	-	2,339,981	13,234
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 44)		1,247,399	-	-	1,247,399	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

38. FINANCIAL INSTRUMENTS (cont'd)

(c) Fair-value

Financial instruments not measured at fair value include cash and cash equivalents, trade and other receivables, trade, bills and other payables, amounts due from/to non-controlling interests of subsidiaries, financial guarantees issued and current/non-current bank and other borrowings.

Except for the financial guarantees issued and non-current portion of bank and other borrowings, the carrying amounts of the other financial instruments approximate to their fair value due to their short term maturity.

The fair value of financial guarantees issued determined using discounted cash flow models approximate to its carrying amount at year ended date.

The fair value of the non-current portion of bank and other borrowings calculated by discounting the expected future cash flows using rates currently available for borrowings with similar terms, credit risk and remaining maturities approximate to its carrying amount at year ended dates.

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 years ended December 31, 2019 and 2018.

- 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, 2019 RMB'000	Fair value as at December 31, 2018 RMB'000	Fair value hierarchy
Financial assets classified at fair value through other comprehensive income listed in a stock exchange	17,442	18,203	Level 1

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

38. FINANCIAL INSTRUMENTS (cont'd)

(c) Fair-value (cont'd)

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

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
At beginning of year	-	23,283
Transfer out of Level 3 (<i>note</i>)	-	(23,283)
At end of year	-	-

note: 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

The fair value of the financial assets at fair value through other comprehensive income as at December 31, 2019 and 2018 was determined by using quoted bid price in an active market.

39. 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 33, advances from a director of the Company and a related company disclosed in note 46(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

39. CAPITAL RISK MANAGEMENT (cont'd)

The gearing ratio at the end of the year was as follows:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Bank borrowings	910,095	899,997
Bank balance and cash	<u>(211,903)</u>	<u>(457,708)</u>
Net debts	698,192	442,289
Equity	<u>3,360,517</u>	<u>2,918,958</u>
Net debts to equity ratio	20.8%	15.2%

40. 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 (2018: 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 RMB22,321,000 (2018: RMB20,463,000) represents contributions paid and payable to the above schemes by the Group in respect of the current accounting period.

41. 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 certain connected parties, namely Haining Schinder Leather Company Limited and Yancheng Dafeng Huasheng Leather Company Limited, (collectively as "CCT Group") and an independent third party. The aggregate carrying amounts of the pledged assets of the Group at the end of the reporting period are as follows:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Buildings	210,098	226,800
Pledged bank deposits	46,093	83,652
Listed equity investments	17,442	18,203
Properties under development and held for sale	<u>1,601,750</u>	<u>1,650,736</u>
	<u>1,875,383</u>	<u>1,979,391</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

42. LEASE COMMITMENT

As lessee

At the end of the reporting period in 2018, the Group had outstanding commitments for future minimum lease payments under non-cancelable operating leases, which fall due as follows:

	2018 <i>RMB'000</i>
Within one year	7,237
In the second to fifth year inclusive	19,292
Over five years	<u>2,529</u>
	<u>29,058</u>

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.

43. CAPITAL AND OTHER COMMITMENTS

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

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Commitments for acquisition/addition of:		
– Property, plant and equipment	2,108,347	1,219,381
– Properties under development for sale	216,461	<u>1,111,698</u>
	<u>2,324,808</u>	<u>2,331,079</u>

44. CONTINGENT LIABILITIES

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

The Group provided guarantees of RMB1,571,081,000 at December 31, 2019 (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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

44. CONTINGENT LIABILITIES (cont'd)

(b) Financial guarantee issued

In November 2018, the Group renewed the financial guarantees ("Financial Guarantees") issued to banks in respect of banking facilities granted to CCT Group and an independent third party for three years between January 1, 2019 and December 31, 2021. The fair value of the Financial Guarantees at January 1, 2019 amounting to RMB19,851,000 was recognised as liabilities in the consolidated statement of financial position and the corresponding amount was debited to profit or loss.

As at December 31, 2019 and 2018, the directors of the Company do not consider it probable that a claim will be made against the Group under the Financial Guarantees, and therefore the Financial Guarantees are measured at its fair values initially recognized less cumulative amortisation released to profit or loss.

The movement of financial guarantee liabilities is shown as below:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
At beginning of year	-	10,735
Recognition of fair value of financial guarantee contracts at initial recognition (<i>Note 8</i>)	19,851	-
Release of financial guarantee liabilities (<i>Note 8</i>)	(6,617)	(10,735)
At end of year	13,234	-

The carrying amount of the Financial Guarantees recognised at the balance sheet date is disclosed in note 31.

The maximum liabilities of the Group as at December 31, 2019 in respect of the financial guarantees issued to CCT Group and an independent third party is RMB394,800,000 (2018: RMB394,800,000) and RMB374,100,000 (2018: RMB374,100,000) respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

45. INFORMATION OF FINANCIAL POSITION OF THE COMPANY

The information of financial position of the Company as at December 31, 2019 is as follows:

	<i>Note</i>	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Non-current assets			
Right-of-use assets		2,430	–
Investments in subsidiaries		858,416	852,506
Total non-current assets		860,846	852,506
Current assets			
Other receivables		1,074	1,283
Amounts due from subsidiaries		750,083	751,897
Bank balances and cash		4,689	9,171
Total current assets		755,846	762,351
Total assets		1,616,692	1,614,857
Current liabilities			
Other payables		2,522	1,454
Lease liability		2,450	–
Amounts due to subsidiaries		8,932	9,775
Total current liabilities		13,904	11,229
Net current assets		741,942	751,122
Total assets less current liabilities		1,602,788	1,603,628
NET ASSETS		1,602,788	1,603,628
CAPITAL AND RESERVES			
Share capital	35	1,712	1,712
Reserves	45(a)	1,601,076	1,601,916
TOTAL EQUITY		1,602,788	1,603,628

On behalf of the directors

Zhu Zhangjin, Kasen
DIRECTOR

Zhou Xiaohong
DIRECTOR

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

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

Note:

(a) Reserve of the Company

	The Company				
	Share premium RMB'000	Special reserve RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
As at January 1, 2018	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
Loss for the year	-	-	-	(840)	(840)
As at December 31, 2019	1,470,892	168,659	4,618	(43,093)	1,601,076

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

46. 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	2019 RMB'000	2018 RMB'000
Haining Yujie Material Recycling Co., Ltd. ("Yujie") 海寧宇潔物資回收有限公司	(i)	Sale of scrap materials by the Group	1,866	1,966
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

Notes: (i) Mr. Zhu, controlling shareholder and director of the Company, indirectly controls more than 30% of the voting power at Zhejiang Sunbridge Industrial Group Company Limited ("Sunbridge")'s general meeting. Mr. Zhu has significant influence and beneficial interests in Yujie, through Sunbridge during 2019 and 2018. The directors of the Company confirmed the transactions are conducted in accordance with Chapter 14A of the Listing Rules.

- (ii) Haining Kasen was a subsidiary of Lingjia New Material Technology Company Limited ("Lingjia"), which was 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 from January 1, 2017 until December 26, 2018. In early 2019, the Company was informed by Lingjia that it had disposed 100% of interest in Haining Kasen to a third party and ceased to be connected party of the Company then. The directors of the Company confirmed the transactions are conducted in accordance with Chapter 14A of the Listing Rules.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

46. 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	
		2019	2018	2019	2018
		RMB'000	RMB'000	RMB'000	RMB'000
Trade in nature					
Starcorp	(i)	1,588	1,563	-	-
Yujie	(i)	1,409	478	-	-
		2,997	2,041	-	-
Non-trade in nature					
Sunbridge	(ii)	-	-	47	47
Mr. Zhu	(ii)	-	-	5,698	5,606
		-	-	5,745	5,653

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

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

- (c) Details of the outstanding share options granted to the directors are set out in note 36.
- (d) The remuneration of the key management personnel of the Group (representing all directors) were disclosed in note 11.
- (e) The Group provided financial guarantees to banks until December 31, 2021, for an amount up to RMB394,800,000, and each of Mr. Zhu, Ms. Zhu Jiayun, Ms. Zhu Lingren, Lingjia (the "CCT Counter Guarantors") agreed to jointly and severally provide the CCT Counter Guarantee to fully indemnify the Company, for the performance and repayment obligations of bank facilities to CCT Group. CCT Group are wholly-owned by Ms. Zhu Jiayun and Ms. Zhu Lingren on completion of the Disposal. In early 2019, the Company was informed by Lingjia that it had disposed 100% of interest in Haining Kasen to a third party and ceased to be a connected party of the Company then. Details of the financial guarantees are disclosed in the announcements and circular of the Company dated September 12, 2016 and October 4, 2016, November 20, 2018 and December 12, 2018 respectively.

47. PRINCIPAL SUBSIDIARIES

The following table lists principal subsidiaries of the Company as at December 31, 2019 and 2018 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
			2019	2018	
			%	%	
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

47. 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		Principal activities
			2019	2018	
			%	%	
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. 海寧卡雷諾傢俱有限公司(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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

47. 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		Principal activities
			2019	2018	
			%	%	
Yancheng Sujia Real Estate Development Co. Ltd. 鹽城市蘇嘉房地產開發有限公司(<i>note b</i>)	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(<i>note a</i>)	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(<i>note a</i>)	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(<i>note a</i>)	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(<i>note a</i>)	PRC	RMB20,000,000	80.5	80.5	Property development
Fun Waterpark Co. Ltd. (<i>note d</i>)	Cambodia	USD1,000,000	49	49	Waterpark operation and property development
Kasen International Paper Co. Ltd. (<i>note d</i>)	Cambodia	USD1,000,000	49	49	Paper making
Kasen International Eco-Manufacture Co. Ltd. (<i>note a</i>)	Cambodia	Riel86,400,000,000	100	100	Investment holding

Notes: (a) The companies are limited liability companies.

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

(c) The companies are foreign owned enterprises.

(d) As per Cambodian local regulations, foreign entities have a limitation of 49% at maximum for equity holding for local company which possess freehold land and certain types of properties in Cambodia. However, the Group had the majority right and power over the control of the company (e.g. electing and removing the board of directors and directing the operation of business). The management therefore consider it as a subsidiary of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

48. 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	
		2019	2018	2019	2018	2019	2018
		%	%	RMB'000	RMB'000	RMB'000	RMB'000
Hainan Boao	PRC	8	8	157	(530)	34,143	33,986
Xinjiang	PRC	45	45	(9,384)	(8,436)	3,284	12,758
Sanya Kasen	PRC	19.5	19.5	(15,053)	(7,542)	11,196	26,249
Jiangsu Kasen	PRC	45	45	73,096	11,353	40,498	8,802
Individual immaterial subsidiaries with non-controlling interests				(12,562)	(9,985)	(24,787)	(12,129)
Total				36,254	(15,140)	64,334	69,666

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

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

Hainan Boao

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Current assets	<u>1,710,637</u>	<u>1,848,180</u>
Non-current assets	<u>109,884</u>	<u>106,072</u>
Current liabilities	<u>(826,301)</u>	<u>(969,426)</u>
Non-current liabilities	<u>(567,435)</u>	<u>(560,000)</u>
Equity attributable to owners of the Company	<u>392,642</u>	<u>390,840</u>
Non-controlling interests	<u>34,143</u>	<u>33,986</u>
	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Revenue	<u>315,045</u>	<u>160,104</u>
Expenses	<u>(313,086)</u>	<u>(166,732)</u>
Profit/(loss) and total comprehensive income attributable to the owner of the Company	<u>1,802</u>	<u>(6,098)</u>
Profit/(loss) and total comprehensive income attributable to non-controlling interests	<u>157</u>	<u>(530)</u>
Profit/(loss) and total comprehensive income for the year	<u>1,959</u>	<u>(6,628)</u>
Dividend paid to non-controlling interests	<u>-</u>	<u>-</u>
Net cash outflow from operating activities	<u>(47,326)</u>	<u>(484,353)</u>
Net cash outflow from investing activities	<u>(1,659)</u>	<u>(4,242)</u>
Net cash inflow from financing activities	<u>33,000</u>	<u>410,000</u>
Net cash outflow	<u>(15,985)</u>	<u>(78,595)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

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

Xinanjiang

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Current assets	<u>23,005</u>	<u>14,220</u>
Non-current assets	<u>122,874</u>	<u>142,331</u>
Current liabilities	<u>(138,471)</u>	<u>(128,200)</u>
Equity attributable to owners of the Company	<u>4,124</u>	<u>15,593</u>
Non-controlling interests	<u>3,284</u>	<u>12,758</u>
	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Revenue	<u>15,457</u>	<u>18,224</u>
Expenses	<u>(36,310)</u>	<u>(36,969)</u>
Loss and total comprehensive income attributable to the owner of the Company	<u>(11,469)</u>	<u>(10,309)</u>
Loss and total comprehensive income attributable to non-controlling interests	<u>(9,384)</u>	<u>(8,436)</u>
Loss and total comprehensive income for the year	<u>(20,853)</u>	<u>(18,745)</u>
Dividend paid to non-controlling interests	<u>–</u>	<u>–</u>
Net cash inflow from operating activities	<u>4,192</u>	<u>3,255</u>
Net cash outflow from investing activities	<u>(3,547)</u>	<u>(4,103)</u>
Net cash inflow/(outflow)	<u>645</u>	<u>(848)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

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

Sanya Kasen

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Current assets	<u>941,094</u>	<u>914,891</u>
Non-current assets	<u>350,561</u>	<u>409,858</u>
Current liabilities	<u>(1,229,418)</u>	<u>(1,185,317)</u>
Equity attributable to owners of the Company	<u>51,041</u>	<u>113,183</u>
Non-controlling interests	<u>11,196</u>	<u>26,249</u>
	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Revenue	<u>6,734</u>	<u>6,511</u>
Expenses	<u>(83,929)</u>	<u>(45,927)</u>
Loss and total comprehensive income attributable to the owner of the Company	<u>(62,142)</u>	<u>(31,874)</u>
Loss and total comprehensive income attributable to non-controlling interests	<u>(15,053)</u>	<u>(7,542)</u>
Loss and total comprehensive income for the year	<u>(77,195)</u>	<u>(39,416)</u>
Dividend paid to non-controlling interests	<u>–</u>	<u>–</u>
Net cash inflow from operating activities	<u>102,091</u>	<u>112,048</u>
Net cash outflow from investing activities	<u>(110,736)</u>	<u>(103,987)</u>
Net cash (outflow)/inflow	<u>(8,645)</u>	<u>8,061</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

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

Jiangsu Kasen

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Current assets	<u>494,725</u>	<u>719,887</u>
Non-current assets	<u>40,293</u>	<u>41,807</u>
Current liabilities	<u>(394,423)</u>	<u>(742,134)</u>
Equity attributable to owners of the Company	<u>100,097</u>	<u>10,758</u>
Non-controlling interests	<u>40,498</u>	<u>8,802</u>
	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Revenue	<u>648,212</u>	<u>234,596</u>
Expenses	<u>(485,777)</u>	<u>(209,368)</u>
Profit and total comprehensive income attributable to the owner of the Company	<u>89,339</u>	<u>13,875</u>
Profit and total comprehensive income attributable to non-controlling interests	<u>73,096</u>	<u>11,353</u>
Profit and total comprehensive income for the year	<u>162,435</u>	<u>25,228</u>
Dividend paid to non-controlling interests	<u>(41,400)</u>	<u>–</u>
Net cash inflow from operating activities	<u>905,231</u>	<u>612,501</u>
Net cash outflow from investing activities	<u>(817,290)</u>	<u>(688,175)</u>
Net cash outflow from financing activities	<u>(61,827)</u>	<u>(1,355)</u>
Net cash inflow/(outflow)	<u>26,114</u>	<u>(77,029)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

49. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Bank and other borrowings	Lease liabilities
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(note 33)</i>	<i>(note 32)</i>
At January 1, 2018	492,974	–
Changes from cash flows:		
Repayment of bank and other borrowings	(611,555)	–
Bank and other borrowings raised	1,017,822	–
Borrowing cost paid	(47,515)	–
Exchange adjustments	756	–
Other changes:		
Interest expense	17,630	–
Capitalised borrowing costs	29,885	–
At January 1, 2019 and December 31, 2018	899,997	25,272
Changes from cash flows:		
Repayment of bank and other borrowings	(740,283)	–
Borrowing cost paid	(63,530)	–
Repayment of capital portion of lease liabilities	–	(6,582)
Bank and other borrowings raised	750,114	–
Exchange adjustments	267	(5)
Other changes:		
Interest expenses	46,133	994
Capitalised borrowing costs	17,397	–
Addition of lease liabilities	–	2,039
At December 31, 2019	910,095	21,718

50. EVENTS AFTER THE REPORTING PERIOD

Impact on Novel Coronavirus

Since January 2020, the outbreak of Novel Coronavirus (“COVID-19”) has an impact on the global business environment. Up to the date of the financial statements, the exact impact of the COVID-19 on the Group cannot be ascertained, the exact extent is dependable on the development and spread of the COVID-19 subsequent to the date of the financial statements. The Group will keep continuous attention on the situation of the COVID-19 and react actively to its impact on the financial position and operating results of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED DECEMBER 31, 2019

50. EVENTS AFTER THE REPORTING PERIOD (cont'd)

Deconsolidation of a subsidiary

Subsequent to the reporting date, Jiande City People's Court (the "Court") approved the liquidation of Xinanjiang, a subsidiary of the Group, and an independent liquidator was appointed by the Court on April 26, 2020. Xinanjiang was principally engaged in operation of resort in Zhejiang, the PRC.

Based on the preliminary assessment by the directors of the Company, the Group has lost control on Xinanjiang as the Group had no further involvement in the relevant activities of Xinanjiang nor any ability to affect the return thereof. The Group is in process of estimation of the financial effect of the deconsolidation upon date of this financial statements.

51. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the directors of the Company on May 8, 2020.