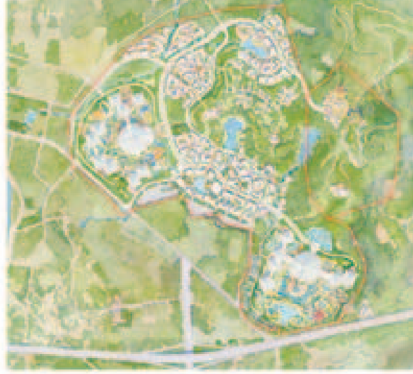
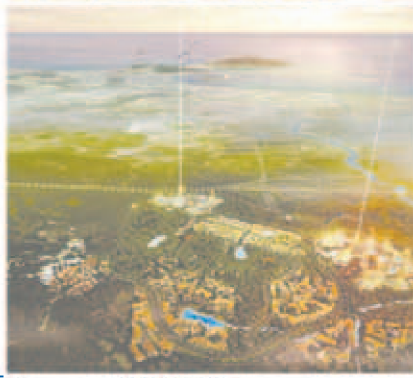




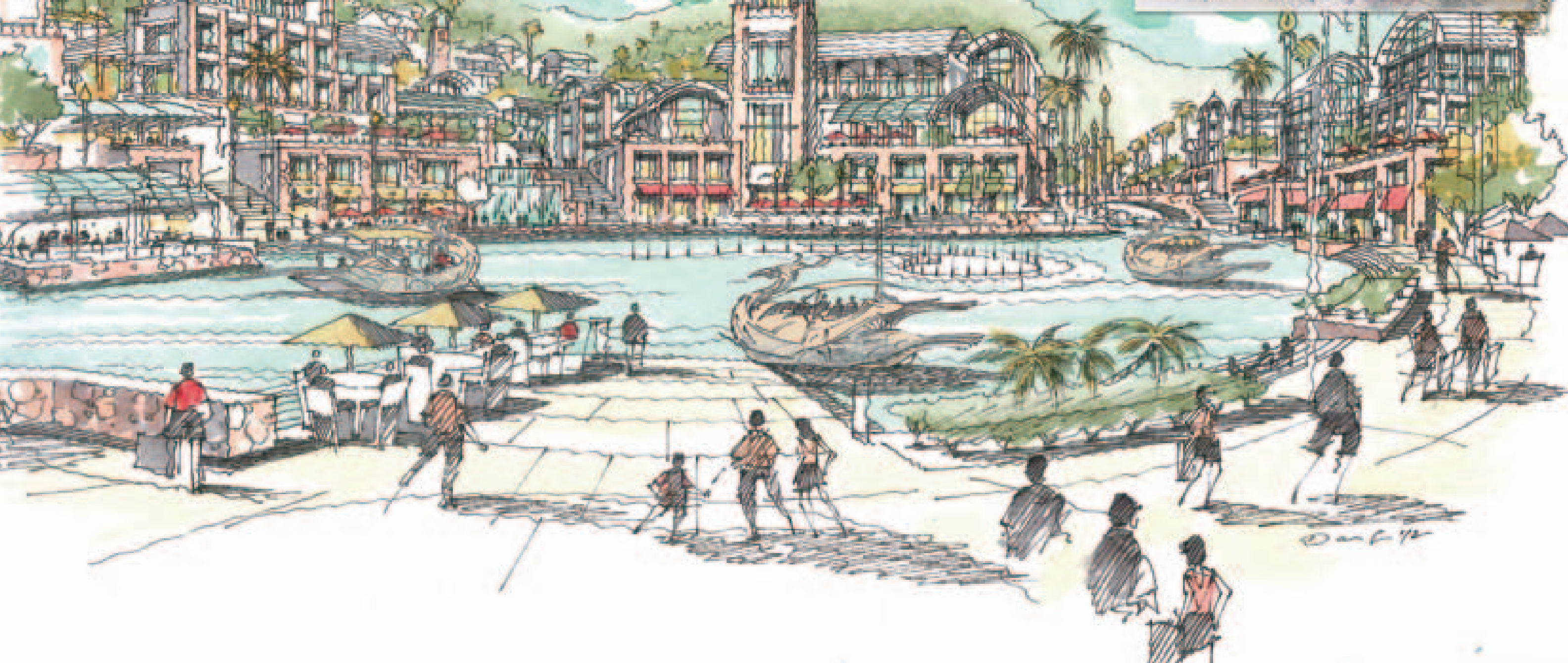
卡森國際控股有限公司

KASEN INTERNATIONAL HOLDINGS LIMITED

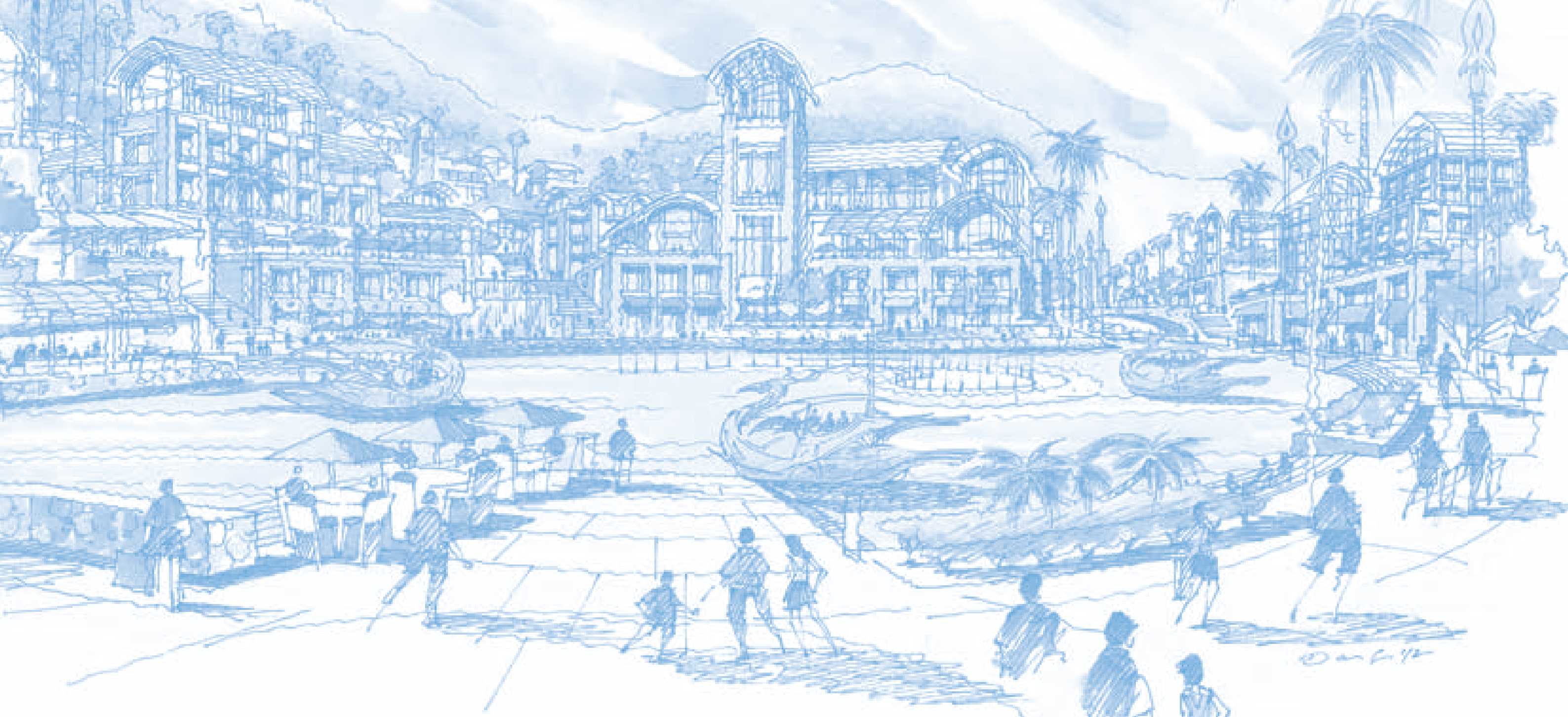
(an exempted company incorporated in the Cayman Islands with limited liability)

stock code : 496

Annual Report 2012



CONTENTS



CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

ZHU Zhangjin, Kasen
(Chairman & Chief Executive Officer)
ZHOU Xiaosong
ZHANG Mingfa, Michael

Non-Executive Director

QIU Jian Ping (appointed on February 22, 2013)

Independent Non-Executive Directors

ZHOU Lingqiang
SUN Steve Xiaodi
ZHANG Yuchuan (appointed on March 1, 2012)

COMPANY SECRETARY

YIU Hoi Yan, Kate

STOCK CODE

0496.HK

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Building 1, 236 Haizhou Road West
Haining City
Zhejiang Province 314400
China

PLACE OF BUSINESS IN HONG KONG

Room 1605
Tai Tung Building
8 Fleming Road
Wanchai
Hong Kong

PRINCIPAL BANKERS

Industrial and Commercial Bank of China, Zhejiang Province Branch
China Construction Bank, Haining Sub branch
Bank of China, Haining Sub branch
Agricultural Bank of China, Haining Sub branch
Communication Bank of China, Haining Sub branch
Agricultural Development Bank of China, Haining Sub branch
Export – Import Bank of China, Zhejiang Branch
China Mingsheng Banking Corporation Ltd., Yuhang Sub branch
Hongkong and Shanghai Banking Corporation Limited

LEGAL ADVISORS

As to Hong Kong law
Sidley Austin

As to Cayman Islands law
Conyers Dill & Pearman

PRINCIPAL SHARE REGISTRAR

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

AUDITORS

Deloitte Touche Tohmatsu
35th Floor, One Pacific Place
88 Queensway
Hong Kong

AUTHORISED REPRESENTATIVES

ZHANG Mingfa, Michael
YIU Hoi Yan, Kate

COMPANY WEBSITE

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

FINANCIAL HIGHLIGHTS

RESULTS

	For the year ended December 31,				
	2012	2011	2010	2009	2008
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**3,094,552**	2,241,475	2,318,480	2,398,974	1,893,990
Profit (loss) before taxation	**400,360**	458,627	79,270	211,839	(271,991)
Profit (loss) attributable to owners of the Company	**203,399**	300,491	35,378	132,675	(273,804)

FINANCIAL POSITION

	At December 31,				
	2012	2011	2010	2009	2008
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cash and cash equivalents	**560,928**	370,744	745,347	461,882	389,647
Total borrowings	**1,286,546**	1,430,889	1,486,861	1,281,932	1,442,557
Total assets	**8,200,968**	6,985,990	5,656,795	4,319,874	4,379,745
Total liabilities	**5,289,229**	4,394,483	3,337,005	2,264,679	2,444,183
Equity attributable to owners of the Company	**2,815,064**	2,518,987	2,294,187	2,052,289	1,854,058

FINANCIAL AND OPERATING RATIOS

	At December 31,				
	2012	2011	2010	2009	2008
Dividend payout ratio (%)[1]	**–**	9.5%	–	–	–
Debt to equity ratio (%)[2]	**44.2%**	55.2%	64.1%	62.4%	74.5%
Net debt to equity ratio (%)[3]	**24.9%**	40.9%	32.0%	39.9%	54.4%
Trade receivable turnover days[4]	**88**	89	84	82	48
Inventory turnover days[5]	**100**	85	91	110	147
Current ratio[6]	**130.4%**	128.3%	115.5%	142.0%	110.9%
Earning (loss) per share (RMB)					
Basic	**0.18**	0.26	0.03	0.11	(0.26)
Diluted	**0.17**	0.26	0.03	0.11	(0.26)

Notes:

1. The dividend per ordinary share divided by the profit (loss) attributable to owners of the Company per ordinary share.
2. Interest-bearing debt divided by total equity as at the end of the year.
3. Interest-bearing debt minus bank balances and cash divided by the total equity as at the end of each year.
4. Trade receivables as at the end of the year divided by turnover and multiplied by 365 days.
5. Inventories as at the end of the year divided by cost of sales and multiplied by 365 days.
6. Current assets divided by current liabilities as at the end of each year.
7. The adoption of new accounting standards in 2012 has no material impact on the Group.

DIRECTORS AND MANAGEMENT PROFILES

EXECUTIVE DIRECTORS

ZHU Zhangjin, Kasen (朱張金), aged 47, is the founder of the Group and the chairman of the Company. Mr. Zhu is also an executive director of the Company (the "Director") and the chief executive officer of the Company. Before founding the Group in 1995, Mr. Zhu was involved in several business ventures in the areas of textile, leather processing, garment, trading, etc. With over 25 years of experience in the leather manufacturing industry, Mr. Zhu has extensive knowledge in the upholstered furniture industry in the PRC and has been a successful entrepreneur in leather manufacturing related businesses. Mr. Zhu is also the vice chairman of the China Leather Association. In recognition of his contribution to promote the development of the leather manufacturing industry, Mr. Zhu was awarded the "Top Ten Businessmen in Zhejiang" in 2004. In 2006, Mr. Zhu was one of the 10 recipients of the prestigious "National May 4th Youth Award (全國五四青年獎章)". In 2007, Mr. Zhu received the National May Day Award.

ZHOU Xiaosong (周小松), aged 57, joined the Group on June 12, 1995 and is an executive Director. He is also the vice president and co-general manager of the Group's Leather Manufacturing Division. Mr. Zhou has spent more than 23 years in the leather manufacturing industry. He is now the director of the Group's research and development center. Mr. Zhou obtained a diploma in Economics and Management from the Adult College of Hangzhou University in 1999. In 2005, Mr. Zhou was appointed as an arbitrator by the China International Economic and Trade Arbitration Commission (CIETAC).

ZHANG Mingfa, Michael (張明發), aged 52, joined Zhejiang Kasen Industrial Group Co., Ltd., a subsidiary of the Company, on October 1, 1997 as the vice president of the Import and Export Division and co-general manager of the Group's Leather Manufacturing Division. Mr. Zhang Mingfa, Michael was appointed as an executive Director with effect from November 10, 2008. He has more than 32 years of experience in the leather manufacturing industry. Mr. Zhang is the director of the Logistics Department of Zhejiang Kasen Industrial Group Co., Ltd. Mr. Zhang is a qualified international business engineer and obtained the qualification certificate approved by the Ministry of Commerce of the PRC in 1995. In 1984, Mr. Zhang obtained a diploma in leather industry from Chengdu University of Technology. Mr. Zhang also obtained a diploma in Business Administration from Zhejiang University of Technology in 1989.

NON-EXECUTIVE DIRECTOR

QIU Jian Ping, aged 51, was appointed as a non-executive Director with effect from February 22, 2013. He obtained a bachelor degree in Mechanical Engineering from University of Science and Technology Beijing (北京科技大學) in 1982 and a master degree in Mechanical Engineering from Xi'an Jiaotong University (西安交通大學) in 1985. From 1987 to 1992, he served as a business operator of Zhejiang Machinery & Equipment Import & Export Co., Ltd. (浙江省機械進出口公司). From 1992 to 2001, Mr. Qiu served as the chairman of Hangzhou Greatstar Tools Co., Ltd (杭州巨星工具有限公司). Since 2001 and up to present, Mr. Qiu has been serving as the chairman and president of Hangzhou Great Star Industrial Co., Ltd. (杭州巨星科技股份有限公司), a company the shares of which are listed on the Shenzhen Stock Exchange and as the chairman of Hangzhou Great Star Investment Holdings Co., Ltd. (杭州巨星投資控股有限公司).

DIRECTORS AND MANAGEMENT PROFILES

INDEPENDENT NON-EXECUTIVE DIRECTORS

ZHOU Lingqiang (周玲強), aged 49, 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. Since graduated in 1986, Mr. Zhou has been working at Zhejiang University. 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 54, 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

SUN Steve Xiaodi (**孫曉鏑**), aged 52, joined the Company as an independent non-executive Director on June 1, 2011. Mr. Sun obtained a bachelor degree in mathematics from Heilongjiang University in 1983, a master degree in operational research from Xidian University in 1985 and a master degree in business management from the University of Chicago in 1996. From 1997 to 2000, Mr. Sun served as an executive vice president of AE Capital Markets Inc., an investment bank based in New York. From 2004 to 2005, Mr. Sun served as the chief operating officer of Sunshine 100 Real Estate Group, a real estate company based in Beijing. From 2006 to 2008, Mr. Sun served as the director and president of Aohua Medical Services Ltd. In 2007, Mr. Sun co-founded Concord Medical Services Holdings Limited (CCCM), a company listed on the Stock Exchange of New York, and has served as its director since 2007, co-chairman of its board of directors from 2008 to 2011, chief financial officer from 2009 to 2011 and chairman of its investment decision committee since 2009. Since 2011, Mr. Sun has been a member of the Global Advisory Boards of the University of Chicago, Booth School of Business.

SENIOR MANAGEMENT

ZHONG Jian (**鍾劍**), aged 42, joined the Company as the vice president on August 1, 2007 and took up the position of chief financial officer on September 30, 2007. Mr. Zhong received a Bachelor of Finance degree from the Central University of Finance and Economics in 1992, a Master in International Finance from Renmin University of China in 2002 and EMBA degree from Chinese Europe International Business School in 2008. Mr. Zhong was the vice president and the chief financial officer of Zhejiang Sunbridge Industrial Group Company Limited from July 2004 to July 2007. He also worked as the director of corporate finance department in Export and Import Bank of China from 1995 to 2004.

CHEN Wei (**陳維**), aged 47, joined the Group in July, 2010 as the vice president in charge of the Group's property development business. Mr. Chen graduated from the Department of Architecture of Shanghai Tongji University in 1993 and received a master degree in urban design. From 1993 to 1996, Mr. Chen held the position of the principal architect and the director of Hangzhou Urban Construction Design Institute. Mr. Chen received the title of senior architect and National First Class Registered Architect in 1996; from 1997 to 2002, he was the director, vice general manager and chief engineer of Zhongda Real Estate Group. From 2003 to 2007, he took the position of executive general manager of Greentown Real Estate Group. Before joining the Group, Mr. Chen was the president of Zhongda Real Estate Group from 2008 to 2010.

YU Guanlin (**余關林**), aged 50, joined the Group in 1995 and is the production manager and deputy general manager of the Group. He is currently the general manager of the Group's Cut-and-sew Operations Division. Before joining the Group, Mr. Yu founded a garment company and was responsible for its design and production. Mr. Yu has extensive knowledge and experience in the upholstered furniture manufacturing industry.

ZHOU Xiaohong (**周小紅**), aged 44, joined the Group in 1995 and was the cashier and treasury manager of the Group. She is currently the vice president of the Group in charge of internal auditing. Ms. Zhou obtained a Diploma in Management from China University of Geosciences in 2003.

DIRECTORS AND MANAGEMENT PROFILES

SUN Guilong (孫桂龍), aged 56, joined the Company in July 2008 and is the chairman of the board committee of Haining Kasen Real Estate Co., Ltd. Before joining the Company, Mr. Sun had served in the local government for 31 years. Mr. Sun was the governor of Guodian Town Government of Haining and the secretary of Guodian Town Communist Committee from November 1996 to October 2001, and was the director of Haining Planning and Construction Bureau from November 2001 to March 2007, and then he was the vice director of Haining Lianhang Economic Zone from April 2007 to July 2008.

PAN Yougen (潘幼根), aged 49, is the general manager of Zhejiang Kasen Property Development Co., Ltd. After joining the Company in 2008, Mr. Pan has been serving as the general manager of Yancheng Sujia Real Estate Development Co., Ltd. Mr. Pan received a Bachelor of Engineering degree from Southwest Jiaotong University in July 1985 and a masters degree from Tongji University in Shanghai in 1988. Before joining the Company, Mr. Pan worked as the vice dean of Jiaxing Zhongfang Design Institute and the chairman and general manager of Zhejiang Jingjian Project Management Co., Ltd.

HU Han (胡晗), aged 41, joined the Company in October 2009 as assistant CEO and director of investor relation. Ms. Hu received a Bachelor of Economics degree in 1993 and a Master of Economics degree in 2000 respectively from the Central University of Finance and Economics and also obtained a EMBA degree from Chinese Europe International Business School in 2010. Ms. Hu is a senior finance manager certified by IFMA and Hong Kong SFC asset management business licensee (Type 9). Before joining the Group, Ms. Hu worked as the director of investment in Shanghai Linnai Industrial Investment Co., Ltd. from 2007 to October 2009. She was the director in Hong Kong Huijin Asset Management Company from 2006 to 2008. From 1993 to 2001, Ms. Hu worked as secretary of the budget committee in China Everbright Group and as financial manager in China Everbright Limited.

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

YIU Hoi Yan, Kate (姚凱欣), aged 40, joined the Company as an accountant on April 29, 2004 and was later promoted as the company secretary and finance manager of the Company. She has over 17 years of experience in auditing and accounting. She is a member of the ACCA 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 (the "Directors") of Kasen International Holdings Limited (the "Company"), I am pleased to present the consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended December 31, 2012.

There were still no clear signs of economic recovery in the U.S. and the Euro zone in 2012, which are the Group's principal export areas for its upholstered furniture products. The OEM business of the Group is still facing unfavorable market conditions due to the debt crisis in Europe, depressing demand from the U.S. customers and increasing cost of labor and raw materials in China. On the other hand, the business development of automotive leather is encouraging which is attributed to the fast growth of China's automobile industry in the past several years and the Group successfully maintains its leading role in the domestic automotive leather market. Despite numerous disadvantages from the external economic environment and the austerity control pressure on the property market in the mainland China, the performance of the Group's property development business was outstanding and achieved a higher revenue and profit in the past year as compared to the year of 2011.

For the year of 2012, the Group's total turnover was RMB3,094.6 million, representing an increase of 38.1% as compared to the same period in 2011. Profit attributable to the shareholders was RMB203.4 million, representing a decrease of 32.3% as compared to RMB300.5 million in the year of 2011. The decrease in net profit was primarily due to (i) a decrease in a one-off disposal gain resulted from the loss of control of a subsidiary of the Group recognized for the year ended December 31, 2012 as compared with the corresponding period for the year ended December 31, 2011 and (ii) a loss of a one-off disposal gain resulted from the relocation of a factory recognized for the year ended December 31, 2011 but not for the year ended December 31, 2012.

The manufacturing business of the Group, including automotive leather, furniture leather and upholstered furniture, maintained a stable performance in the past year. The total turnover was RMB1,715.9 million and accounted for 55.4% of the Group's total revenue. The turnover generated from automotive leather division reached RMB1,020.3 million, compared to RMB837.0 million of 2011 and contributed an operating profit of RMB77.8 million. The OEM upholstered furniture business posted a consecutive decline during the past several years and recorded a sale of RMB495.6 million in 2012, compared to RMB527.4 million in the year of 2011.

In 2012, the Group's revenue from property business segment was RMB1,268.0 million and accounted for 41.0% of the Group's total revenue, compared to 23.8% in 2011. This business segment achieved an operating profit of RMB193.8 million, mainly due to more premises in the projects of Asia Bay in Hainan and Qianjiang Continent in Jiangsu were delivered during the past year.

CHAIRMAN'S STATEMENT

In the coming year, the Group's market in manufacturing business and property development business are facing both challenges and opportunities. At the beginning of 2013, the Group acquired a Japanese leather company which has over 100 years of expertise and experience in the manufacturing of leather products. The Group believes that the acquisition will create new platform and business opportunities for the Group's existing operations, expand the Group's research and development capabilities, large-scale production capabilities and enhance its international presence expects. The overseas market of the upholstered furniture is still important to the Group and more measures will be implemented to improve the performance. The Group will also take steps to expand new customers by further exploring the European and Asian markets and put more efforts on customer service and meet the diversified requirements from customers. As for the property development business, the Group will adhere to the strategy of prudent expansion in the residential property market and put more investment in the tourism-related property business. The projects in Boao and Sanya of Hainan, the Changbai Mountain, Shan Dan Horse Farm of Gansu and Jiande of Hangzhou city will be further developed in the coming year and the Group is positive about the long term prospects of these tourism-related projects.

As a whole, we are confident that our business transition and diversification strategy will further increase our shareholders' value. 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 Group and deep gratitude to our shareholders, customers, suppliers and business partners for their continuing support.

ZHU Zhangjin, Kasen
Chairman

The PRC, March 27, 2013

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OVERVIEW

Financial Review

For the year ended December 31, 2012, the Group recorded a consolidated turnover of RMB3,094.6 million, representing an increase of 38.1% as compared with RMB2,241.5 million for the year ended December 31, 2011.

The Group's gross profit for the year 2012 was RMB637.4 million, representing an increase of 85.1% as compared with RMB344.3 million in the year 2011 and the Group's gross profit margin in 2012 rose to 20.6%, as compared to 15.4% in the year 2011.

During the year under review, the net profit attributable to owners of the Company was RMB203.4 million, representing a decrease of 32.3% as compared to RMB300.5 million in the year 2011. The decrease in the net profit was mainly due to (i) a decrease in a one-off disposal gain resulted from the loss of control of a subsidiary of the Group recognized for the year ended December 31, 2012 as compared with the corresponding period for the year ended December 31, 2011 and (ii) a loss of a one-off disposal gain resulted from the relocation of a factory recognized for the year ended December 31, 2011 but not for the year ended December 31, 2012.

Review by Business Segments

The Group's reportable business segments principally consist of manufacturing, property development, retail business and others (comprising mainly provisions of property management service business, hot spring resort operation and provision of travel-related services).

The table below shows the total turnover of the Group by business segments for the year ended December 31, 2012 together with the comparative figures for the corresponding period of year 2011:

	2012		2011		**Y-O-Y Change**
	RMB'Million	**%**	*RMB'Million*	%	%
Manufacturing	**1,715.9**	**55.4%**	1,637.2	73.0%	4.8%
Automotive Leather	***1,020.3***	***33.0%***	*837.0*	*37.3%*	*21.9%*
Upholstered Furniture	***495.6***	***16.0%***	*527.4*	*23.5%*	*-6.0%*
Furniture Leather	***200.0***	***6.4%***	*272.8*	*12.2%*	*-26.7%*
Property Development	**1,268.0**	**41.0%**	532.4	23.8%	138.2%
Retail business	**20.9**	**0.7%**	46.9	2.1%	-55.4%
Others	**89.8**	**2.9%**	25.0	1.1%	259.2%
Total	**3,094.6**	**100.0%**	2,241.5	100.0%	38.1%

Manufacturing Business

During the year under review, the Group's manufacturing business, comprising of manufacturing of upholstered furniture, furniture leather and automotive leather, recorded a total turnover of RMB1,715.9 million, representing an increase of 4.8% as compared to RMB1,637.2 million in 2011.

During the year under review, this segment recorded an operating profit of RMB45.5 million, as compared to an operating profit of RMB232.2 million in 2011. A brief discussion of the performance of the three operating divisions is as follows:

MANAGEMENT DISCUSSION AND ANALYSIS

Automotive Leather

The manufacturing of automotive leather is the fastest growing division in terms of revenue of the Group's manufacturing business. During the year under review, the turnover from automotive leather division contributed most of the revenue of the Group's manufacturing business which was RMB1,020.3 million (2011: RMB837.0 million). An operating profit generated from this division was RMB77.8 million, representing an increase of 422.1% compared to the year of 2011.

In the year 2012, more resources were put into the development of automotive leather business. The Group applied for the relevant patents of the production of chrome-free automotive seat leather, which will assist the Group in maintaining itself as the leader in the research and development of automotive leather technology. With the new factory in Jiangsu Province, PRC came into operation in the past year, the production capacity has been improved to meet the growing orders from customers.

Upholstered Furniture

Sales of upholstered furniture included finished sofa and sofa cut-and-sew. Turnover generated from this division was RMB495.6 million in the year 2012 as compared to RMB527.4 million in 2011, representing a decrease of 6.0%. The Group's major customers are in the United States and Euro zone countries which are still under unfavorable conditions. The Group continued to cooperate with major furniture retailers and tried to improve our service to keep the orders on a stable level. Moreover, there have been many challenges, especially the increase in the cost of raw materials and labor for the Group to achieve better profitability in this division.

Furniture Leather

The Group's priority in furniture leather production is to meet the internal leather requirement of its upholstered furniture division. The Group's sales of furniture leather recorded sales of RMB200.0 million in 2012, as compared to RMB272.8 million in 2011.

Property Development Business

As of December 31, 2012, the Group has six projects at various stages of development spread around the mainland of PRC. The turnover from the property development segment was RMB1,268.0 million in 2012 representing a substantial increase of 138.2%, as compared to RMB532.4 million in 2011. An operating profit generated from this segment in 2012 was RMB193.8 million in 2012, as compared to an operating profit of RMB33.2 million in 2011.

Group Property Project Portfolio as at December 31, 2012

No.	Project Name	Location	Interests Attributable to the Group	Total Site Area (sq.m)	Status
1	Asia Bay	Boao, Hainan	92%	590,165	Under development
2	Sanya Project	Sanya, Hainan	77%	1,424,692	Pre-development
3	Qianjiang Continent	Yancheng, Jiangsu	100%	331,040	Under development
4	Kingdom Garden	Haining, Zhejiang	100%	449,189	Under development
5	Changbai Paradise	Changbai Mountain, Jilin	89%	268,071	Under development
6	Qianjiang Oasis	Yancheng, Jiangsu	60%	107,902	Pre-development
Total				3,171,059	

MANAGEMENT DISCUSSION AND ANALYSIS

Analysis of Properties Under Development

No.	Project Name	Total GFA (sq.m.)	GFA under development (sq.m.)	Total Saleable GFA (sq.m.)	GFA sold as at December 31, 2012 (sq.m.)	GFA delivered as at December 31, 2012 (sq.m.)	Average Selling Price (RMB/sq.m.)
1	Asia Bay	718,665	250,551	590,165	51,112	41,716	19,513
2	Qianjiang Continent	722,091	722,091	628,587	561,024	383,146	5,180
3	Kingdom Garden	1,041,493	531,531	689,476	44,469	–	–
4	Changbai Paradise	200,323	175,402	159,024	12,979	–	–
Total		2,682,572	1,679,575	2,067,252	669,584	424,862	

PROJECTS OVERVIEW

Asia Bay

As the Group's symbolic project in resort property development, Asia Bay achieved a steady sales performance despite of the overall downturn in Hainan property markets. During the year under review, a total of 430 units of semi-detached houses and apartments were successfully delivered and a revenue of RMB534.1 million was recognized, as compared to RMB279.8 million in the year 2011. The recognized gross floor area ("GFA") sold during the year 2012 was 31,439 square meters.

The contracted sales in GFA was 13,379 square meters with the amount of RMB290.7 million during the year 2012.

Qianjiang Continent in Yancheng of Jiangsu

During the year under review, the recognized GFA sold in this project was 106,065 square meters and the recognized sales amounted to RMB733.9 million. A total of 727 units, including both commercial and residential units were delivered and the average selling price was RMB6,919 per square meter.

The contracted sales in GFA was 105,619 square meters with the amount of RMB702.6 million during the year 2012.

Kingdom Garden in Haining of Zhejiang

During the year under review, two phases of this project, including townhouses and apartment are in pre-sale and the contracted sales in GFA was 41,046 square meters with the amount of RMB306.2 million during the year 2012.

Changbai Paradise in Changbai Mountain of Jilin

During the year under review, the five-star hotel and apartments are under construction and part of the apartments are in pre-sale. The contracted sales in GFA was 12,979 square meters with the amount of RMB35.0 million during the year 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

Other projects

In the second half of 2012, the Group acquired 60% equity interests of a property development company located in Yancheng of Jiangsu Province. This company owns a piece of land in Yancheng with a site area of 107,902 square meters for residential use.

The Group's property project in Sanya of Hainan Province was still pre-developed during the year under review. No contribution was made from this project with respect to turnover and profit of the Group in the year 2012.

Operating Expense, Taxation and Profit Attributable to Owners

The selling and distribution costs during the year under review decreased to approximately RMB126.9 million, as compared to approximately RMB149.5 million in 2011, mainly due to the reduction of selling and distribution cost of Sofas UK Ltd. as a result of the loss of control of Sofas UK Ltd. by the Group since March 2011. As a result, the Group's selling and distribution costs to turnover in 2012 decreased to 4.1% as compared to 6.7% in 2011.

The administrative costs in 2012 was approximately RMB142.3 million, representing an increase of approximately RMB17.7 million as compared to approximately RMB124.6 million in 2011, the increase was mainly due to the increase of administrative expenses of approximately RMB15.9 million incurred by the business segment of tourism-related property development and services.

The Group's finance cost in 2012 was approximately RMB38.2 million, representing a decrease of approximately RMB40.1 million, as compared to approximately RMB78.3 million in 2011, mainly due to the increase in capitalisation of interests charged in the bank loans used for financing the Group's property development projects during the year under review.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's other gains and losses in 2012 recorded at a net gain of approximately RMB17.2 million, representing an increase of approximately RMB24.9 million, as compared to a net loss of approximately RMB7.7 million in 2011. For details, please refer to note 8 to the Consolidated Financial Statements.

The Group's income tax in 2012 was approximately RMB192.8 million, representing an increase of approximately RMB35.3 million, as compared to approximately RMB157.5 million in 2011. The increase resulted from (1) an increase in PRC land appreciation tax of approximately RMB35.3 million from the property development projects, (2) an increase in PRC income tax of approximately RMB96.0 million mainly due to an increase in taxable profits generated by the manufacturing business from the increased sales of manufacturing business as well as an increase in taxable profits generated from increased delivery of properties in Yancheng, Jiangsu Province and in Boao, Hainan Province at subsidiary level, offset by (3) a decrease of deferred taxation charge of RMB90.9 million mainly related to the decrease of compensation receivable from relocation of a PRC factory occurred in 2011.

A one-off gain on disposal of Shanghai La Kassa Furniture Co. Ltd. as the Group's PRC subsidiary amounting to RMB17.9 million was recorded in the year ended December 31, 2012 while a one-off gain on loss of control of Sofas UK Ltd. as the Group's subsidiary amounting to RMB72.3 million was recorded during the year ended December 31, 2011. Furthermore, there was a one-off gain arised from the relocation of a factory recognised for the year ended December 31, 2011 but not for the year ended December 31, 2012. As a result, there was a reduction of the one-off gain by approximately RMB415.4 million. For details, please refer to notes 26 and 38 to the Consolidated Financial Statements.

With the reasons mentioned above, profit attributable to owners of the Company for the year 2012 decreased by approximately 32.3% to RMB203.4 million (2011: RMB300.5 million).

CAPITAL EXPENDITURES

Capital expenditure (excluding assets acquired through acquisition of subsidiaries during the year) in 2012 increased to approximately RMB134.8 million from approximately RMB57.2 million in 2011. The capital expenditure mainly comprised the amount of approximately RMB134.5 million spent on the purchase of property, plant and equipment for operational purpose.

FINANCIAL RESOURCES AND LIQUIDITY

Bank and Other Borrowings

As at December 31, 2012, the Group's bank and other borrowings amounted to approximately RMB1,286.5 million, representing a 10.1% decrease from approximately RMB1,430.9 million as at December 31, 2011. Besides, a wholly-owned subsidiary issued the corporate bonds in the PRC on June 14, 2012 at the issue size of RMB150 million, with a term of three years. For details, please refer to notes 31 and 33 to the Consolidated Financial Statements and the announcement of the Company dated June 14, 2012.

Turnover Period, Liquidity and Gearing

The Group's existing inventory primarily comprised leather crust used for production, accounted for approximately 44.2% of the total inventory of approximately RMB426.9 million in 2012 (2011: approximately RMB357.6 million). In 2012, the inventory turnover period increased to 100 days (2011: 85 days).

In 2012, the Group continued to maintain a strict credit policy. However, many of the Group's customers were also facing a difficult time and a general longer credit term (up to 90 days) was granted to customers in automotive leather division, and the account receivables turnover days of the Group's manufacturing and retail segments was 88 days in 2012 (2011: 89 days).

The accounts payable turnover days of the Group's manufacturing and retail segments increased to 71 days in 2012 (2011: 52 days).

MANAGEMENT DISCUSSION AND ANALYSIS

As at December 31, 2012, the Group's current ratio increased to 1.30 (December 31, 2011: 1.28). The Group's cash and cash equivalent balance was approximately RMB560.9 million as at December 31, 2012 (December 31, 2011: approximately RMB370.7 million). This represents a gearing ratio of 45.5% as at December 31, 2012 (December 31, 2011: 56.5%) and a net debt-to-equity ratio of 25.6% as at December 31, 2012 (December 31, 2011: 41.8%). 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 2012, the Group's credit facilities were able to renew on an on-going basis, which provided sufficient cash to finance the Group's working capital requirement during the year under review.

MATERIAL ACQUISITION AND DISPOSAL

During the year under review, the Group acquired two parcels of land located in Changbai Mountain of Jilin Province with a total site area of 111,067 square meters for the purpose of property development.

During the year under review, the Group disposed a wholly owned subsidiary, Shanghai La Kassa Furniture Co. Ltd. to an independent third party at the consideration of RMB41.0 million. The profit generated from the disposal is approximately RMB17.9 million. The disposal is part of the Group's reform measures in the consolidation of manufacturing business. For details, please refer to note 38 to the Consolidated Financial Statements.

Save as disclosed above, the Group did not have any material acquisitions or disposals during the year ended December 31, 2012.

CONTINGENT LIABILITIES

As at December 31, 2012, the Group had certain contingent liabilities. For details, please refer to note 45 to the Consolidated Financial Statements.

PLEDGE OF ASSETS

Some of the Group's assets have been pledged to secure the bank borrowings and the bank facilities granted to the Group. For details, please refer to note 42 to the Consolidated Financial Statements.

CAPITAL COMMITMENTS

As at December 31, 2012, the Group had contracted, but not provided for, a total capital expenditure of RMB1,024.7 million (2011: RMB739.9 million), in which an amount of RMB1,012.0 million (2011: RMB696.7 million) was in respect of properties under development.

MANAGEMENT DISCUSSION AND ANALYSIS

FOREIGN EXCHANGE EXPOSURE

The Group is principally engaged in export-related business, and transactions (including sales and procurements) were mainly denominated in US dollars, and most of the trade receivables was exposed to exchange rate fluctuation. In 2012, the Group used forward contracts and some other financial instruments to hedge foreign exchange risk, and recorded a loss of approximately RMB338,000.

EMPLOYEES AND EMOLUMENTS POLICIES

As at December 31, 2012, the Group employed a total of approximately 4,000 full time employees (December 31, 2011: approximately 3,500), including management staff, technicians, salespersons and workers. In 2012, the Group's total expense on the remuneration of employees was approximately RMB150.6 million (2011: approximately RMB149.7 million), representing 4.9% (2011: 6.7%) 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 every year. Apart from the provident fund scheme (according to the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees), state-managed retirement pension scheme (for the PRC employees) and medical insurance, discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance.

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, who are authorized by the shareholders of the Company (the "Shareholders") in the annual general meeting, with regard to the Group's operating results, individual performance and comparable market statistics.

FUTURE PLANS AND PROSPECTS

Manufacturing Business

As it is expected that the automotive leather business will continue to be the most profitable division in the Group's manufacturing business and more resources will be allocated to this division. The Jiangsu plant has completed its first phase of construction and is put for production. The production capacity in automotive leather will be improved in the coming 2013. Moreover, by acquiring the 100% equity interests of Melx Co., Ltd, a Japanese leather-making company with a long history of more than 100 years, the Group is confident to expand the market and build business relationships with Japanese automobile manufacturers in the future. For further details, please refer to the announcement of the Company dated January 28, 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

With no clear sign of economic recovery in the overseas market, the Group expects the operation environment for the OEM upholstered furniture would remain tough. However, the Group still has the advantages, such as integrated vertical platform, large-scale production and skilled craftsman, when comparing to our competitors. In the future, the Group will put efforts into the research and development of new products, cost control and set-up of brand value to meet the diversified requirements of customers. The Group will also take steps to expand new customers by further exploring the European and Asian markets.

Tourism Property Development and Services

It is expected that the tightening measures introduced by the central government over the real estate market will be continued in the coming year of 2013. Therefore, the Group will remain cautious in the expansion of its residential property development business and will maintain a sound financial position and cash flows. In the year of 2013, the projects in Yancheng and Haining will bring substantial return to the Group due to the delivery of more premises than ever.

The Group has set up the goal to become a leading developer in tourism property. After several years' effort, the Group has land bank spread out in China's top tourism areas such as Hainan, Changbai Mountain, Gansu and Zhejiang. As compared to its competitors, the Group will provide our property owners not only the best-quality vacation premises, but also the customized services through the "Allblue Vacation Club" operated by the Group.

In the year of 2013, the resort hotels in Asia Bay of Boao, Changbai Paradise of Changbai Mountain, Shan Dan Imperial Horse Farm of Gansu and Xin'anjiang Jade Hotspring Resort of Hangzhou will go into operation and the "Sanya Phoenix Dream Water World Resort" in Sanya is also expected to open in the second half of 2013. The Group is optimistic that these facilities will attract more potential customers and stimulate the sales of its tourism premises in the above area.

DIRECTORS' REPORT

The Directors present the annual report and the audited consolidated financial statements of the Company for the year ended December 31, 2012.

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") with effect from October 20, 2005.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in (i) manufacturing of upholstered furniture, furniture leather and automotive leather; (ii) property development; and (iii) retail business.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2012 are set out in the consolidated statement of comprehensive income on page 39.

The Directors did not recommend the payment of any final dividend for the year ended December 31, 2012 and proposed that profit for the year to be retained.

Further, there is no arrangement under which a Shareholder has waived or agreed to waive any dividends.

DISTRIBUTABLE RESERVES OF THE COMPANY

The amount of the Company's reserves available for distribution to shareholders as at December 31, 2012, calculated in accordance with International Financial Reporting Standards, was approximately RMB880.4 million.

FINANCIAL SUMMARY

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

PROPERTY, PLANT AND EQUIPMENT

During the year of 2012, the Group had acquired property, plant and equipment of approximately RMB134.5 million for the purpose of expanding its production capacity.

Details of these and other movements in the property, plant and equipment of the Group during the year of 2012 are set out in note 15 to the consolidated financial statements.

DIRECTORS' REPORT

SHARE CAPITAL

Details of the Company's share capital are set out in note 34 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year of 2012, the aggregate sales attributable to the Group's five largest customers comprised approximately 56.1% of the Group's manufacturing and retail segments sales and the sales attributable to the Group's largest customer were approximately 29.6% of the Group's manufacturing and retail segments sales.

The aggregate purchases during the year of 2012 attributable to the Group's five largest suppliers were approximately 72.0% of the Group's manufacturing and retail segments purchases and the purchases attributable to the Group's largest supplier were approximately 50.3% of the Group's manufacturing and retail segments purchases.

None of the Directors, their 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.

DIRECTORS

The Directors during the year of 2012 and up to the date of this report are:

Executive Directors

ZHU Zhangjin, Kasen *(Chairman)*
ZHOU Xiaosong
ZHANG Mingfa, Michael

Non-executive Director

QIU Jian Ping	(appointed on February 22, 2013)

Independent Non-executive Directors

SUN Steve Xiaodi	
ZHOU Lingqiang	
ZHANG Yuchuan	(appointed on March 1, 2012)
LI Qingyuan	(resigned on March 1, 2012)

In accordance with article 87 of the Company's articles of association (the "Articles"), Mr. Zhu Zhangjin and Mr. Zhang Mingfa, Michael will retire from the office of Director by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting (the "AGM"). Mr. Qiu Jian Ping will only hold office as Director until the AGM and, being eligible, will offer himself for re-election at the AGM.

None of the Directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

BRIEF DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief details of Directors and senior management are set out on pages 4 to 7.

DIRECTORS' REPORT

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

As at December 31, 2012, the interests of the Directors and the chief executives and their associates in the shares of the Company (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 Issuers (the "Model Code") as contained in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") are as follows:

(1) Long Positions in Shares of the Company

	Number of shares held, capacity and nature of interest			
Name of Directors	**Directly beneficially owned**	**Through controlled corporation**	**Total number of shares interested**	**Percentage of the Company's issued share capital**
Zhu Zhangjin ("Mr. Zhu")	12,360,000	514,798,635 *(Note)*	527,158,635	45.35%
Zhou Xiaosong	8,173,912	–	8,173,912	0.70%
Zhang Mingfa, Michael	1,980,000	–	1,980,000	0.17%

Notes: 514,798,635 shares are beneficially owned by Joyview Enterprises Limited ("Joyview"), a company wholly and beneficially owned by Mr. Zhu.

(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 Scheme" below.

Save as disclosed herein, none of the Directors nor the chief executives of the Company has any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as at December 31, 2012.

DIRECTORS' REPORT

SHARE OPTION SCHEME

Particulars of the Company's share option scheme are set out in note 35 to the consolidated financial statements.

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

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 (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 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 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 in 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 the 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.

The Scheme does 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 Scheme, the Scheme shall be valid and effective for a period of 10 years from the date on which it becomes unconditional which was October 10, 2005, after which no further options will be granted or offered but the provisions of the 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 Scheme.

DIRECTORS' REPORT

Details of the share options granted, pursuant to the Scheme on March 9, 2006, May 5, 2008, May 13, 2009 and October 12, 2009 respectively, during the year ended December 31, 2012 were as follows:

		Number of share options					
Name of Director	Exercise price *HK$*	Outstanding as at January 1, 2012	Lapsed from January 1, 2012 to December 31, 2012	Outstanding as at December 31, 2012	Percentage of total issued share capital	Exercisable period	Notes
Zhu Zhangjin	2.38	1,000,000	–	1,000,000	0.09%	1/1/2007 to 8/3/2016	1,8,9
	2.38	1,000,000	–	1,000,000	0.09%	1/1/2008 to 8/3/2016	2,8,9
Zhou Xiaosong	2.38	1,000,000	–	1,000,000	0.09%	1/1/2007 to 8/3/2016	1,8,9
	2.38	1,000,000	–	1,000,000	0.09%	1/1/2008 to 8/3/2016	2,8,9
	1.18	500,000	–	500,000	0.04%	1/1/2009 to 4/5/2018	3,8,9
	1.18	500,000	–	500,000	0.04%	1/1/2010 to 4/5/2018	4,8,9
Zhang Mingfa, Michael	2.38	500,000	–	500,000	0.04%	1/1/2007 to 8/3/2016	1,8,9
	2.38	500,000	–	500,000	0.04%	1/1/2008 to 8/3/2016	2,8,9
	1.18	250,000	–	250,000	0.02%	1/1/2009 to 4/5/2018	3,8,9
	1.18	250,000	–	250,000	0.02%	1/1/2010 to 4/5/2018	4,8,9
Li Qingyuan	1.60	500,000	(500,000)	–	–	1/10/2010 to 11/10/2019	5,8,9
(Note 7)	1.60	500,000	(500,000)	–	–	1/10/2011 to 11/10/2019	6,8,9
		7,500,000	(1,000,000)	6,500,000	0.56%		
Other employees in aggregate	2.38	6,750,000	(1,150,000)	5,600,000	0.48%	1/1/2007 to 8/3/2016	1,8,9
	2.38	6,750,000	(1,150,000)	5,600,000	0.48%	1/1/2008 to 8/3/2016	2,8,9
	1.18	2,900,000	(250,000)	2,650,000	0.23%	1/1/2009 to 4/5/2018	3,8,9
	1.18	2,900,000	(250,000)	2,650,000	0.23%	1/1/2010 to 4/5/2018	4,8,9
		26,800,000	(3,800,000)	23,000,000	1.98%		

DIRECTORS' REPORT

Notes:

1. Pursuant to the Scheme, these share options were granted on March 9, 2006 and are exercisable at HK$2.38 per Share from January 1, 2007 to March 8, 2016.

2. These share options were granted pursuant to the Scheme on March 9, 2006 and are exercisable at HK$2.38 per Share from January 1, 2008 to March 8, 2016.

3. These share options were granted pursuant to the Scheme on May 5, 2008 and are exercisable at HK$1.18 per Share from January 1, 2009 to May 4, 2018.

4. These share options were granted pursuant to the Scheme on May 5, 2008 and are exercisable at HK$1.18 per Share from January 1, 2010 to May 4, 2018.

5. These share options were granted pursuant to the Scheme on October 12, 2009 and are exercisable at HK$1.60 per Share from October 1, 2010 to October 11, 2019.

6. These share options were granted pursuant to the Scheme on October 12, 2009 and are exercisable at HK$1.60 per Share from October 1, 2011 to October 11, 2019.

7. Dr. Li Qingyuan was resigned on March 1, 2012.

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

9. Except the lapsed share option stated above, up to December 31, 2012, none of these share options were cancelled and exercised.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS

As at December 31, 2012, the following persons (other than Directors or chief executives of the Company stated in "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures") had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Shareholder	Capacity	Short position	Long position	Number of issued shares held	Percentage of the Company's issued share capital
Joyview [2]	Beneficial owner	–	514,798,635	514,798,635	44.29%
Hangzhou Great Star Industrial Co., Ltd. [1]	Interest of controlled corporation	–	197,883,057	197,883,057	17.02%
Hongkong Greatstar International Co., Ltd. [1]	Beneficial owner	–	197,883,057	197,883,057	17.02%

Notes:

1. Hongkong Greatstar International Co., Ltd. is a wholly-owned subsidiary of Hangzhou Great Star Industrial Co., Ltd., a company the shares of which are listed on the Shenzhen Stock Exchange.

2. Joyview is a company wholly and beneficially owned by Mr. Zhu Zhangjin. Mr. Zhu Zhangjin is the director of Joyview.

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, 2012.

DIRECTORS' REPORT

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Other than the share option scheme disclosed in the section "Share Option Scheme", at no time during the year of 2012 was the Company or any of its subsidiaries, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

CONNECTED TRANSACTIONS

During the year ended December 31, 2012, the Group did not enter into any transactions with its connected persons.

CONTINUING CONNECTED TRANSACTIONS

During the year ended December 31, 2012, 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 Yujie

On December 8, 2010, Haining Yujie Material Recycling Co., Ltd. ("Yujie") entered into a renewal agreement with the Group which will expire on December 31, 2013 and, subject to compliance with the Listing Rules requirements regarding connected transactions, is renewable for a term of 3 years thereafter. Yujie is a subsidiary of Zhejiang Sunbridge Industrial Group Co., Ltd. ("Sunbridge") and Sunbridge is a company in which Mr. Zhu Zhangjin indirectly controls 30% of the voting power at its general meetings. The pricing under this agreement was determined with reference to: (i) a comparable market price based on the type of waste involved, in the case of cowhides, whether the cowhides are processed or not; or (ii) by agreement between the parties based on prices no less favourable to/from third parties or reasonably agreed between the parties, if no comparable market price can be taken as a reference. Details of this agreement have been set out in the Company's announcement dated December 8, 2010.

Pursuant to this renewal agreement, the Company agreed to sell certain production wastes (including materials such as residue leather, used tubs, hair and fat) to Yujie ("Haining Yujie Transactions"). Yujie is one of the largest recycling companies in Haining and is located near many of the Group's production facilities (all within approximately 10 km). The Company believes that by selling wastes to Yujie, the Group will achieve an efficient management of disposal logistics and an effective supervision of its employees in its sale of wastes. During the year under review, the aggregate amount of the transactions under this renewal agreement was approximately RMB3,288,000 and the annual cap amount granted by the Stock Exchange was RMB8,000,000.

DIRECTORS' REPORT

(2) Agreement for Sale of Upholstered Furniture to Sunbridge

On December 19, 2011, Sunbridge entered into an agreement with the Group which will expire on December 31, 2013 and, subject to compliance with Listing Rules requirements regarding connected transactions, is renewable for a term of 2 years thereafter. Sunbridge is a company in which Mr. Zhu Zhangjin indirectly controls 30% of the voting power at its general meetings. The pricing under this agreement was determined in accordance with: (i) a comparable market price; or (ii) by agreement between the parties based on prices no less favourable to/from third parties or reasonably agreed between the parties, if no comparable market price can be taken as a reference. Details of this agreement have been set out in the announcement dated December 19, 2011. Pursuant to this agreement, the Group agreed to sell upholstered furniture to Sunbridge. Sunbridge is principally engaged, through its various subsidiaries, in hardwood furniture manufacturing in the PRC and furniture retailing in Australia, of which furniture retailing business in Australia had ceased since February 2012. Sunbridge has three production bases in the PRC. As the Sunbridge Group's furniture manufacturing business is growing rapidly, its demand for upholstered furniture and leather imported from the PRC is continuous. During the year under review, the aggregate value of the transaction under this agreement was approximately RMB1,952,000 and the annual cap amount granted by the Stock Exchange was RMB20,000,000.

(3) Agreement for Sale of Leather to Sunbridge

On December 19, 2011, Sunbridge entered into an agreement with the Group which will expire on December 31, 2013 and, subject to compliance with the Listing Rules requirements regarding connected transactions, is renewable for a term of 2 years thereafter. Sunbridge is a company in which Mr. Zhu Zhangjin indirectly controls 30% of the voting power at its general meetings. The pricing under this agreement was determined with reference to: (i) a comparable market price; or (ii) by agreement between the parties based on prices no less favourable than that to/from third parties or as reasonably agreed between the parties, if no comparable market price may be taken as a reference. Details of this agreement have been set out in the Company's announcement dated December 19, 2011.

Pursuant to this agreement, the Group agreed to supply leather to Sunbridge ("Sunbridge Purchases"). The Group is a leading upholstered furniture and leather products manufacturer based in the PRC. It manufactures upholstered furniture products in accordance with the designs of its customers. Sunbridge is principally engaged, through its various subsidiaries, in hardwood furniture manufacturing in the PRC and furniture retailing in Australia, of which furniture retailing business in Australia had ceased since February 2012. Sunbridge has three production bases in the PRC. As the Sunbridge Group's furniture manufacturing business is growing rapidly, its demand for upholstered furniture and leather imported from the PRC is continuous. During the year under review, the aggregate value of the Sunbridge Purchases under this agreement was approximately RMB371,000 and the annual cap amount granted by the Stock Exchange was RMB3,000,000.

DIRECTORS' REPORT

(4) Agreement for Purchase of Wooden Products from Sunbridge

On December 8, 2010, Sunbridge entered into an agreement with the Group which will expire on December 31, 2013 and, subject to compliance with Listing Rules requirements regarding connected transactions, is renewable for a term of 3 years thereafter. Sunbridge is a company in which Mr. Zhu Zhangjin indirectly controls 30% of the voting power at its general meetings. The pricing under this agreement was determined in accordance with: (i) a comparable market price; or (ii) by agreement between the parties based on prices no less favourable to/from third parties or reasonably agreed between the parties, if no comparable market price can be taken as a reference. In general, the Company would compare the quotations obtained from various potential suppliers and determine the price after taking into consideration the quality of the wooden products to be supplied by the relevant suppliers. Details of this agreement have been set out in the Company's announcement dated December 8, 2010.

Pursuant to this agreement, the Group agreed to purchase wooden products from Sunbridge and its subsidiaries. Sunbridge is principally engaged, through its various subsidiaries, in hardwood furniture manufacturing in China and furniture retailing in Australia, of which furniture retailing business in Australia had ceased since February 2012. Sunbridge has three production bases in the PRC. As the Company's property development business is growing rapidly, it is anticipated that the demand for wooden products, which are widely used in the development of residential projects and tourism-related properties, will increase substantially. During the year under review, the aggregate value of the transaction under this agreement was approximately RMB12,162,000 and the annual cap amount granted by the Stock Exchange was RMB74,000,000.

Pursuant to Rule 14A.38 of the Listing Rules, the Board engaged the auditor of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditor has reported their factual findings on these procedures to the Board that:

a. nothing has come to the auditor's attention that causes the auditor to believe that the disclosed continuing connected transactions have not been approved by the Board;

b. for transactions involving the provision of goods or services by the Group, nothing has come to the auditor's attention that causes the auditor to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company;

c. nothing has come to the auditor's attention that causes the auditor to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

d. with respect to the aggregate amount of each of the continuing connected transactions set out as above, nothing has come to the auditor's attention that causes the auditor to believe that the disclosed continuing connected transactions have exceeded the maximum aggregate annual value disclosed in the previous announcements dated December 8, 2010 and December 19, 2011 made by the Company in respect of each of the disclosed continuing connected transactions.

DIRECTORS' REPORT

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 so far as the shareholders.

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, 2012.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Save as disclosed under the sections headed "Connected Transaction" and "Continuing Connected Transactions", there were no contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly and indirectly, subsisted at the end of the year or at any time during the year ended December 31, 2012.

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, 2012.

DIRECTOR'S INTERESTS IN COMPETING BUSINESS

None of the Directors held any interests in any competing business against the Company or any of its jointly controlled entities and subsidiaries for the year ended December 31, 2012.

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

INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION OF INDEPENDENCE

The Company has received, from each of its independent non-executive Directors, namely Mr. Sun Steve Xiaodi, Mr. Zhou Lingqiang and Mr. Zhang Yuchuan a confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of its independent non-executive Directors are independent.

EVENTS AFTER REPORTING PERIOD

There are certain events occurred after the end of the reporting period. Details are set out in note 48 to the consolidated financial statements.

AUDIT COMMITTEE

An audit committee of the Company (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. SUN Steve Xiaodi is the chairman of the Audit Committee.

The annual results of the Company for the year ended December 31, 2012 have been reviewed by the Audit Committee.

REMUNERATION COMMITTEE

A 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.

AUDITOR

A resolution will be proposed at the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

ZHU Zhangjin, Kasen
Director

The PRC, March 27, 2013

CORPORATE GOVERNANCE REPORT

The Board and the management team of the Company are committed to maintain a high standard of corporate governance, holding the beliefs of transparency, independence, honesty and accountability. The Company believes that effective corporate governance is an essential factor to create more value for its shareholders. Therefore the Company continuously review and improve its corporate governance standards to ensure maximum compliance with the relevant laws and codes.

The Company has complied with code provisions ("CG Code Provisions") set out in the Code on Corporate Governance Practices (effective until March 31, 2012) and Corporate Governance Code (effective from April 1, 2012) (the "CG Code") as stated in Appendix 14 of the Listing Rules throughout the year ended December 31, 2012, except for the following deviation:

CODE PROVISION A.2.1

Under CG Code Provision A.2.1, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. The Company does not at present separate the roles of chairman and chief executive officer. Mr. Zhu Zhangjin, Kasen is the chairman and chief executive officer of the Company responsible for overseeing the operations of the Group. The Company is still considering appointing a new chief executive officer to replace Mr. Zhu if a candidate with suitable leadership, knowledge, skills and experience can be identified within or outside the Group. However, due to the nature and extent of the Group's operations, in particular in the PRC and the in-depth knowledge and experience in the leather and upholstered furniture market required for the position of chief executive officer, the Company is unable to determine as to when the appointment of a chief executive officer for the Company can be effected.

The Board will keep this matter under review. Following sustained development and growth of the Company, the Company will continue to monitor and revise the Company's corporate governance policies in order to ensure that such policies can meet the general rules and standards required by the Stock Exchange.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Specific enquiries have been made with all Directors, who have confirmed that, during the year ended December 31, 2012, each of them has complied with the provisions with the required standards as set out in the Model Code.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

The primary responsibilities of the Board are to establish long term strategies, administrate and oversee the operations and financial policies and set up and regularly review the Company's performance. As at the year ended December 31, 2012, the Board comprised six members, including three executive Directors and three independent non-executive Directors. The Board members for the year ended December 31, 2012 and up to the date of this annual report are shown below:

Executive Directors

ZHU Zhangjin, Kasen *(Chairman and Chief Executive Officer)*
ZHOU Xiaosong
ZHANG Mingfa, Michael

Non-executive Director

QIU Jian Ping (appointed on February 22, 2013)

Independent Non-executive Directors

SUN Steve Xiaodi
ZHOU Lingqiang
ZHANG Yuchuan (appointed on March 1, 2012)
LI Qingyuan (resigned on March 1, 2012)

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

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

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

CORPORATE GOVERNANCE REPORT

NON-EXECUTIVE DIRECTOR

The existing non-executive Directors (including the independent non-executive Directors) were appointed for a term of three years commencing from January 1, 2012, March 1, 2012 and February 22, 2013 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, 2012, all Directors of the Company namely, Mr. Zhu Zhangjin, Mr. Zhou Xiaosong, Mr. Zhang Mingfa, Michael, Mr. Sun Steve Xiaodi, Mr. Zhou Lingqiang and Mr. Zhang Yuchuan received regular briefings and updates on the Group's business, operations, risk management and corporate governance matters. Furthermore, all of the Directors attended in-house seminars conducted which covers the topics of disclosure requirements under the Listing Rules and SFO during the year under review. All Directors are requested to provide the Company with their respective training records pursuant to the CG Code.

BOARD COMMITTEES

As an integral part of good corporate governance, the following committees have been set up:

Audit Committee

The Audit Committee comprises all the independent non-executive Directors:

Mr. SUN Steve Xiaodi	*(Chairman of the Audit Committee)*
Mr. ZHOU Lingqiang	
Mr. ZHANG Yuchuan	(appointed on March 1, 2012)
Dr. LI Qingyuan	(resigned on March 1, 2012)

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 and internal control principles 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 and internal control procedures 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.

CORPORATE GOVERNANCE REPORT

During the year ended December 31, 2012, the Audit Committee performed the following Company's corporate governance functions:

1. to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

2. to review and monitor the training and continuous professional development of Directors and senior management of the Company;

3. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

4. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors of the Company; and

5. to review the Company's compliance with the code and disclosure in the Corporate Governance Report of the Company.

During the year ended December 31, 2012, the Audit Committee held two meetings to review the annual and interim results, and to make recommendations to improve the Company's internal control. The chief financial officer, internal audit officer and representatives of the external auditors attended the meetings.

Remuneration Committee

The remuneration committee of the Company (the "Remuneration Committee") comprises three members, the majority of which are independent non-executive Directors:

Mr. ZHOU Lingqiang	*(Chairman of the Remuneration Committee)*
Mr. ZHOU Xiaosong	
Mr. ZHANG Yuchuan	(appointed on March 1, 2012)
Dr. LI Qingyuan	(resigned on March 1, 2012)

The Remuneration Committee has adopted written terms of reference prepared by reference to the suggested terms of reference stated under the CG Code Provision B.1.3.

The Remuneration Committee has been delegated with the powers and authorities to implement the share option scheme of the Company and to deal with all compensation matters regarding the Directors and senior management of the Company in accordance with the terms and conditions of their respective agreement/contract with the relevant member of the Group.

During the year ended December 31, 2012, the Remuneration Committee held one meeting to review and approve the remuneration package of the Board members and the senior management.

CORPORATE GOVERNANCE REPORT

Pursuant to paragraph B.1.5 of the CG Code, the remuneration of the members of the senior management by band for the year ended December 31, 2012 is set out below:

Remuneration band	Number of individuals
Nil to HK$1,000,000	7
HK$1,000,001 – HK$1,500,000	Nil
HK$2,000,001 – HK$2,500,000	Nil

Further particulars regarding Directors' emoluments and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in note 11 to the Consolidated Financial Statements.

Nomination Committee

To comply with the CG Code, a nomination committee of the Company (the "Nomination Committee") was established on March 1, 2012, and comprises three members, the majority of which are independent non-executive Directors:

Mr. SUN Steve Xiaodi	(*Chairman of the Nomination Committee,* appointed on March 1, 2012)
Mr. ZHOU Lingqiang	(appointed on March 1, 2012)
Mr. ZHANG Mingfa, Michael	(appointed on March 1, 2012)

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 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. Its terms of reference are available on the websites of the Stock Exchange and the Company.

During the year ended December 31, 2012, the Nomination Committee held one meeting to discuss about the appointment of Mr. Zhang Yuchuan as the Company's independent non-executive Director.

CORPORATE GOVERNANCE REPORT

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, 2012 is set out below:

	Attendance/Number of Meetings				
Name of Directors	**Board Meeting**	**Remuneration Committee Meeting**	**Audit Committee Meeting**	**Nomination Committee Meeting**	**Annual General Meeting held on May 31, 2012**
Executive Directors					
Mr. ZHU Zhangjin, Kasen *(Chairman)*	4/4	N/A	N/A	N/A	1/1
Mr. ZHOU Xiaosong *(Member of Remuneration Committee)*	4/4	1/1	N/A	N/A	1/1
Mr. ZHANG Mingfa, Michael *(Member of Nomination Committee,* appointed on March 1, 2012*)*	4/4	N/A	N/A	1/1	1/1
Non-executive Director					
Mr. QIU Jian Ping (appointed on February 22, 2013*)*	N/A	N/A	N/A	N/A	N/A
Independent Non-executive Directors					
Mr. SUN Steve Xiaodi *(Chairman of Audit Committee, and Chairman of Nomination Committee* appointed on March 1, 2012*)*	4/4	N/A	2/2	1/1	1/1
Mr. ZHOU Lingqiang *(Member of Audit Committee, Member of Nomination Committee* appointed on March 1, 2012, *and Chairman of Remuneration Committee)*	4/4	1/1	2/2	1/1	1/1
Mr. ZHANG Yuchuan (appointed on March 1, 2012) *(Member of Audit Committee and Remuneration Committee,* all appointed on March 1, 2012*)*	4/4	1/1	2/2	N/A	1/1

Dr. Li Qingyuan was resigned as the Company's independent non-executive Director, member of Audit Committee and Remuneration Committee on March 1, 2012. For the period from January 1, 2012 to the date on which Dr. Li Qingyuan resigned from being the above titles in the Company, the Company did not hold any Board meetings, Audit Committee meetings and Remuneration Committee meetings.

CORPORATE GOVERNANCE REPORT

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended December 31, 2012.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report".

AUDITORS' REMUNERATION

The remuneration paid to the external auditors of the Company in respect of audit services and non-audit services for the year ended December 31, 2012 amounted to approximately RMB3.1 million and RMB745,000, respectively.

INTERNAL CONTROL

The Company endeavors to implement a sound risk management and internal control system. The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and Company's assets, and reviewing the effectiveness of such system on an annual basis, as well as through the audit committee. The Audit Committee reports to the Board on any material issues and makes recommendations to the Board.

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, the agenda proposed to be included.

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, 2012 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.

CORPORATE GOVERNANCE REPORT

There has been no changes in the Articles during the year ended December 31, 2012.

Taking advantages of various resources, the Company keeps communicating with its shareholders regularly and properly to ensure that shareholders are adequately aware of any important issues during the course of the Company's operation, and then exercise their rights as shareholders with sufficient knowledge. In addition, the Company regularly meets with institutional investors, financial analysts and financial media, and promptly releases information related to any significant progress of the Company, so as to promote the development of the Company through mutual and efficient communications. Shareholders may send their enquiries and concern and investors are welcome to write directly to the Company at its place of business in Hong Kong for any inquiries through the following means:

Telephone number:	(852) 2359 9329
By post:	Room 1605, 16/F., Tai Tung Building, 8 Fleming Road, Wanchai, Hong Kong
Attention:	Investor Relations Manager
By email:	kasen@kasen.imsbiz.com.hk

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE MEMBERS OF KASEN INTERNATIONAL HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Kasen International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 39 to 116, which comprise the consolidated statement of financial position as at December 31, 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagements, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at December 31, 2012 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
March 27, 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2012

	NOTES	**2012** **RMB'000**	2011 RMB'000
Turnover	6	**3,094,552**	2,241,475
Cost of sales		**(2,457,175)**	(1,897,163)
Gross profit		**637,377**	344,312
Other income	7	**67,822**	67,097
Selling and distribution costs		**(126,941)**	(149,475)
Administrative expenses		**(142,254)**	(124,620)
Other expenses		**(20,561)**	(11,154)
Other gains and losses	8	**17,234**	(7,659)
Share of losses of associates		**(11,947)**	(14,845)
Gain on loss of control of a subsidiary	38	**17,871**	72,250
Gain on relocation of a factory	26	**–**	361,052
Finance costs	9	**(38,241)**	(78,331)
Profit before tax	10	**400,360**	458,627
Income tax expenses	12	**(192,806)**	(157,472)
Profit for the year		**207,554**	301,155
Other comprehensive income (expenses)			
Fair value gain (loss) on available-for-sale investments		**123,570**	(62,024)
Deferred tax liability on fair value change of available-for-sale investments		**(30,892)**	15,506
Cumulative exchange differences in respect of the net liabilities of the subsidiary reclassified from equity to profit or loss on loss of control of the subsidiary		**–**	(1,531)
		92,678	(48,049)
Total comprehensive income for the year		**300,232**	253,106
Profit for the year attributable to:			
Owners of the Company		**203,399**	300,491
Non-controlling interests		**4,155**	664
		207,554	301,155
Total comprehensive income attributable to:			
Owners of the Company		**296,077**	252,442
Non-controlling interests		**4,155**	664
		300,232	253,106
Earnings per share	14		
Basic		**RMB17.50 cents**	RMB25.86 cents
Diluted		**RMB17.49 cents**	RMB25.84 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2012

	NOTES	**2012** **RMB'000**	2011 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment	15	**512,794**	408,225
Prepaid lease payments – non-current portion	16	**70,052**	33,951
Properties for development	17	**174,715**	175,807
Intangible assets	18	**605**	702
Interests in associates	19	**4,253**	16,200
Available-for-sale investments	20	**494,366**	380,796
Deferred tax assets	21	**48,910**	25,080
Deposit paid for acquisition of a property		**–**	40,000
Deposit paid for acquisition of a subsidiary	22	**212,581**	212,581
Advances for acquisition of land for development	22	**279,430**	279,430
Deposits paid for acquisition of land use rights		**20,000**	17,068
		1,817,706	1,589,840
CURRENT ASSETS			
Inventories	23	**426,905**	357,584
Properties under development	24	**3,687,351**	2,906,761
Properties held for sale	24	**519,735**	412,814
Trade, bills and other receivables	25	**895,671**	810,617
Receivable from disposal of assets	26	**–**	270,948
Prepaid lease payments – current portion	16	**1,568**	806
Derivative financial instruments	27	**–**	497
Tax recoverable		**44,032**	30,522
Pledged bank deposits	28	**240,815**	185,180
Restricted bank deposits for property development business	28	**6,257**	9,192
Bank balances and cash	28	**560,928**	370,385
		6,383,262	5,355,306
Assets classified as held for sale	29	**–**	40,844
		6,383,262	5,396,150
CURRENT LIABILITIES			
Trade, bills and other payables	30	**1,794,886**	1,185,590
Deposits received in respect of pre-sale of properties		**1,542,080**	1,535,252
Bank and other borrowings – due within one year	31	**1,280,978**	1,424,376
Tax payable		**172,347**	36,194
Amount due to a non-controlling shareholder of a subsidiary	32	**103,001**	–
		4,893,292	4,181,412
Liabilities classified as held for sale	29	**–**	1,690
		4,893,292	4,183,102
NET CURRENT ASSETS		**1,489,970**	1,213,048
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,307,676**	2,802,888

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2012

	NOTES	**2012** **RMB'000**	2011 *RMB'000*
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*21*	**247,527**	204,868
Bank and other borrowings – due after one year	*31*	**5,568**	6,513
Other long-term liabilities	*33*	**142,842**	–
		395,937	211,381
NET ASSETS		**2,911,739**	2,591,507
CAPITAL AND RESERVES			
Share capital	*34*	**1,400**	1,400
Reserves		**2,813,664**	2,517,587
Equity attributable to owners of the Company		**2,815,064**	2,518,987
Non-controlling interests		**96,675**	72,520
TOTAL EQUITY		**2,911,739**	2,591,507

The consolidated financial statements on pages 39 to 116 were approved and authorized for issue by the Board of Directors on March 27, 2013 and are signed on its behalf by:

Zhu Zhangjin, Kasen
DIRECTOR

Zhang Mingfa, Michael
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2012

	Attributable to owners of the Company											
	Share capital RMB'000	Share premium RMB'000	Statutory reserve RMB'000 (note 36a)	Special reserve RMB'000 (note 36b)	Share option reserve RMB'000	Other reserve RMB'000 (note 36c)	Available-for-sale investments revaluation reserve RMB'000	Translation reserve RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At January 1, 2011	1,395	1,313,274	191,693	168,659	19,193	(39,603)	292,155	1,531	345,890	2,294,187	25,603	2,319,790
Profit for the year	–	–	–	–	–	–	–	–	300,491	300,491	664	301,155
Fair value loss on available-for-sale investments	–	–	–	–	–	–	(62,024)	–	–	(62,024)	–	(62,024)
Deferred tax liability on fair value change of available-for-sales investments	–	–	–	–	–	–	15,506	–	–	15,506	–	15,506
Cumulative exchange differences in respect of the net liabilities of the subsidiary reclassified from equity to profit or loss on loss of control of a subsidiary *(note 38)*	–	–	–	–	–	–	–	(1,531)	–	(1,531)	–	(1,531)
Total comprehensive (expense) income for the year	–	–	–	–	–	–	(46,518)	(1,531)	300,491	252,442	664	253,106
Dividend recognized as distribution *(note 13)*	–	–	–	–	–	–	–	–	(28,565)	(28,565)	–	(28,565)
Recognition of equity-settled share-based payments *(note 35)*	–	–	–	–	180	–	–	–	–	180	–	180
Issue of shares under share option scheme	5	4,213	–	–	(1,375)	–	–	–	–	2,843	–	2,843
Release upon lapse of share options	–	–	–	–	(1,158)	–	–	–	1,158	–	–	–
Acquisition of subsidiaries *(note 37)*	–	–	–	–	–	–	–	–	–	–	2,279	2,279
Dissolution of a subsidiary	–	–	–	–	–	–	–	–	–	–	(7,126)	(7,126)
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	–	49,000	49,000
Deemed disposal of partial interests in a subsidiary to non-controlling interests without change of control *(Note)*	–	–	–	–	–	(2,100)	–	–	–	(2,100)	2,100	–
At December 31, 2011	1,400	1,317,487	191,693	168,659	16,840	(41,703)	245,637	–	618,974	2,518,987	72,520	2,591,507
Profit for the year	–	–	–	–	–	–	–	–	203,399	203,399	4,155	207,554
Fair value gain on available-for-sale investments	–	–	–	–	–	–	123,570	–	–	123,570	–	123,570
Deferred tax liability on fair value change of available-for-sales investments	–	–	–	–	–	–	(30,892)	–	–	(30,892)	–	(30,892)
Total comprehensive income for the year	–	–	–	–	–	–	92,678	–	203,399	296,077	4,155	300,232
Release upon lapse of share options	–	–	–	–	(2,802)	–	–	–	2,802	–	–	–
Transfer upon disposal of a wholly-owned subsidiary	–	–	(2,384)	(676)	–	–	–	–	3,060	–	–	–
Acquisition of a subsidiary *(note 37)*	–	–	–	–	–	–	–	–	–	–	20,000	20,000
At December 31, 2012	**1,400**	**1,317,487**	**189,309**	**167,983**	**14,038**	**(41,703)**	**338,315**	**–**	**828,235**	**2,815,064**	**96,675**	**2,911,739**

Note: In September 2011, the Group acquired 100% equity interest in Jiande Xin'an Jiang Hot Spring Resort Company Limited 建德市新安江溫泉度假村有限公司 ("Jiande Hot Spring Resort"). Subsequently, in October 2011, additional capital amounting to RMB45,000,000 was injected by independent third parties, which is less than its share of the net assets by RMB2,100,000 at the time of capital injection. Therefore, the Group's equity interest in Jiande Hot Spring Resort is diluted to 55% and loss on deemed disposal of RMB2,100,000 was recognized in equity.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2012

	NOTES	2012 RMB'000	2011 RMB'000
OPERATING ACTIVITIES			
Profit before tax		**400,360**	458,627
Adjustments for:			
Allowance for inventories		**3,675**	4,623
Reversal of allowance of inventories		**(4,132)**	(18,029)
Reversal of impairment loss recognized in respect of trade and other receivables		**(11,260)**	(9,154)
Amortization of intangible assets		**372**	429
Release of prepaid lease payments		**805**	1,344
Amortization of properties for development		**1,092**	1,092
Depreciation of property, plant and equipment		**41,186**	43,276
Finance costs		**38,241**	78,331
Loss (gain) on fair value change on derivative financial instruments		**338**	(839)
Reversal of impairment loss recognized in respect of property, plant and equipment		**(13,084)**	(6,781)
Impairment loss recognized in respect of trade and other receivables		**6,518**	14,748
Imputed interest of receivable from disposal of assets		**(2,470)**	(5,862)
Dividend income from listed available-for-sale investments		**(5,163)**	(5,163)
Interest income		**(18,836)**	(23,995)
Loss (gain) on disposal of property, plant and equipment		**8**	(1,143)
Share of losses of associates		**11,947**	14,845
Recognition of lease incentive of rent-free period		**–**	1,262
Share-based payment expense		**–**	180
Gain on relocation of a factory	26	**–**	(361,052)
Gain on loss of control of a subsidiary	38	**(17,871)**	(72,250)
Operating cash flows before movements in working capital		**431,726**	114,489
(Increase) decrease in inventories		**(68,864)**	12,050
Increase in properties under development and held for sale		**(683,342)**	(1,507,941)
Increase in property for development		**–**	(9,681)
Increase in trade, bills and other receivables		**(43,998)**	(148,038)
Increase in trade, bills and other payables		**592,942**	402,217
Increase in deposits received in respect of pre-sale properties		**6,828**	784,949
Decrease (increase) in restricted bank deposits		**2,935**	(9,192)
Settlement of derivative financial instruments		**159**	3,093
Cash generated from (used in) operations		**238,386**	(358,054)
Land Appreciation Tax ("LAT") paid		**(57,827)**	(50,463)
Income taxes paid		**(44,647)**	(54,992)
NET CASH FROM (USED IN) OPERATING ACTIVITIES		**135,912**	(463,509)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2012

	NOTES	2012 RMB'000	2011 RMB'000
INVESTING ACTIVITIES			
Gross proceeds from disposal of prepaid lease payments		**273,418**	190,000
Release of pledged bank deposits		**176,580**	44,942
Deposit refund (paid) for acquisition of a property		**40,000**	(40,000)
Loss of control of a subsidiary	38	**30,641**	(11,686)
Interest received		**18,836**	23,995
Proceeds from disposal of available-for-sale investments		**10,000**	10,000
Dividend income from listed available-for-sale investments		**5,163**	5,163
Proceeds from disposal of property, plant and equipment		**1,858**	4,460
Addition to pledged bank deposits		**(232,215)**	(101,778)
Purchase of property, plant and equipment		**(134,272)**	(56,760)
Acquisition of subsidiaries	37	**(27,680)**	(36,686)
Addition to prepaid lease payments		**(20,600)**	(440)
Deposits paid for acquisition of land use rights		**(20,000)**	(17,068)
Purchase of intangible assets		**(275)**	(483)
Settlement of receivable from disposal of asset	26	**–**	260,508
Deposit received for disposal of interest in a subsidiary		**–**	10,000
Proceeds from disposal of investment in associates		**–**	3,992
Repayment from related parties		**–**	12
Removal cost arising from relocation of factory		**–**	(1,414)
NET CASH FROM INVESTING ACTIVITIES		**121,454**	286,757

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2012

	NOTES	2012 RMB'000	2011 RMB'000
FINANCING ACTIVITIES			
Repayment of bank and other borrowings		**(2,269,630)**	(2,056,837)
Interest paid		**(83,886)**	(78,331)
Repayment to related parties		**(3,453)**	(50,000)
Underwriting fee paid in relation to issuance of corporate bonds by a subsidiary		**(2,000)**	–
Bank and other borrowings raised		**2,125,287**	1,971,165
Proceeds from issuance of corporate bonds by a subsidiary		**150,000**	–
Advance from a related party		**16,500**	–
Capital contribution from non-controlling interests		**–**	49,000
Proceeds from issue of shares		**–**	2,843
Dividend paid	13	**–**	(28,565)
Return of share capital to a non-controlling interest		**–**	(7,126)
NET CASH USED IN FINANCING ACTIVITIES		**(67,182)**	(197,851)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**190,184**	(374,603)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**370,744**	745,347
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**560,928**	370,744
Represented by:			
Bank balances and cash		**560,928**	370,385
Bank balance and cash classified as assets held for sale	29	**–**	359
		560,928	370,744

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

1. GENERAL

The Company is an exempted company incorporated in the Cayman Islands with limited liability and its shares are listed on the Stock Exchange of Hong Kong Limited ("Stock Exchange") since October 20, 2005. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information attached to the annual report.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

The Company is an investment holding company. Its subsidiaries are principally engaged in (i) manufacturing of upholstered furniture, furniture leather and automotive leather; (ii) properties development; and (iii) retail of furniture.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group and its ability to meet its ongoing obligations in light of its financial position as at December 31, 2012. At December 31, 2012, the Group had consolidated net current assets of approximately RMB1,489,970,000 (2011: RMB1,213,048,000), of which bank balances and cash as at December 31, 2012 was approximately RMB808,000,000 (2011: RMB564,757,000) (including RMB240,815,000 (2011: RMB185,180,000) of bank deposits pledged for borrowings within one year and RMB6,257,000 (2011: RMB9,192,000) of restricted bank deposits for property development business) and borrowings due within one year were approximately RMB1,280,978,000 (2011: RMB1,424,376,000).

The Group's operating results for the year continue to show a profit of approximately RMB207,554,000 (2011: RMB301,155,000). The turnover of the Group for the year has increased from RMB2,241 million for the year ended December 31, 2011 to RMB3,095 million for the year ended December 31, 2012. The Group has net cash from operating activities amounting to RMB136 million (2011: Net cash used in operating activities amounting to RMB464 million). In order to improve the liquidity of the Group, the directors maintained regular contacts with the banks to renew the credit facilities annually on an ongoing basis. As at December 31, 2012, the Group has available unutilized short-term bank loan facilities of approximately RMB779 million (2011: RMB507 million) as liquidity management resources. The directors consider that the existing facilities can provide sufficient cash to finance the Group's working capital requirement and the Group is able to renew the existing credit facilities on an ongoing basis. Accordingly, the consolidated financial statements are prepared on a going concern basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

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

In the current year, the Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board.

Amendments to IFRS 7	Disclosures – Transfers of Financial Assets
Amendments to IAS 12	Deferred Tax – Recovery of Underlying Assets

The application of the amendments to IFRSs in the current year has no material impact on the Group's financial performance and positions for the current and prior years and/or the disclosures set out in these consolidated financial statements.

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

Amendments to IFRSs	Annual Improvements to IFRSs 2009-2011 Cycle[1]
Amendments to IFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[1]
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures[3]
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities[2]
IFRS 9	Financial Instruments[3]
IFRS 10	Consolidated Financial Statements[1]
IFRS 11	Joint Arrangements[1]
IFRS 12	Disclosure of Interests in Other Entities[1]
IFRS 13	Fair Value Measurement[1]
IAS 19 (as revised in 2011)	Employee Benefits[1]
IAS 27 (as revised in 2011)	Separate Financial Statements[1]
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities[2]
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine[1]

[1] Effective for annual periods beginning on or after January 1, 2013.
[2] Effective for annual periods beginning on or after January 1, 2014.
[3] Effective for annual periods beginning on or after January 1, 2015.
[4] Effective for annual periods beginning on or after July 1, 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

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

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 Presentation of Items of Other Comprehensive Income introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income' and an 'income statement' is renamed as a 'statement of profit or loss'. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in future accounting periods.

The directors of the Company anticipate that the application of the new and revised standards, amendments or interpretation will have no material impact on the results and the financial position of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

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 (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

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 intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Basis of consolidation (cont'd)

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary 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.

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

When the Group loses control of a subsidiary, it (i) derecognizes the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognizes the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognizes the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognized as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognized in profit or loss as incurred. At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value with certain exceptions.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquire (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Business combinations (cont'd)

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another standard.

Interest in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of the associate recognized at the date of acquisition is recognized as goodwill, included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

The requirements of IAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with IAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Interest in associates (cont'd)

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of sales related taxes.

Revenue from the sale of goods is recognized when the goods are delivered and the title has been passed.

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

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Service income is recognized when services are provided.

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

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

Dividend income from investments is recognized when the shareholders' rights to receive payment have been established.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognized so as to write off the cost of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction in progress for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognized 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 for development

Properties for development represent leasehold land located in the People's Republic of China (the "PRC"). Cost comprises the costs of land use rights and other costs directly attributable to bringing the leasehold land to the condition necessary for it to be ready for development. Properties for development are measured at cost less accumulated amortization and any identified impairment loss.

Amortization is provided to write off the cost of properties for development over the lease term using the straight-line method.

Upon commencement of development for sale in the ordinary course of business, the carrying amount of the properties are transferred to properties under development under current assets.

Properties under development and held for sale

Properties under development which are developed for future sale in the ordinary course of business and completed properties held for sale are stated at the lower of cost (based on net carrying amount at date of transfer from properties for development and subsequent development cost) and net realizable value. Cost includes the cost of land use rights, development expenditures, borrowing costs capitalized and other direct attributable expenses.

Cost is determined by apportionment of the total land and development costs attributable to the unsold properties.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Leasing

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

Operating lease payments are recognized 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 recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis.

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

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is released over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized 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 recognized directly in other comprehensive income, in which cases, the exchange differences are also recognized directly in other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Foreign currencies (cont'd)

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 recognized in other comprehensive income and accumulated in equity under the heading of the translation reserve.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized 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 capitalization.

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

Government grants

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

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Share-based payments transactions

Equity-settled share-based payments transactions

Share options granted to employees

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

Share options granted to consultants

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognized as expenses, with a corresponding increase in equity (share option reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

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 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 recognized 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 recognized for all taxable temporary differences. Deferred tax assets are generally recognized 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 utilized. Such assets and liabilities are not recognized 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Taxation (cont'd)

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, 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 recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effective of any changes in estimate being accounted for on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the assets and is included in profit or loss in the period when the asset is derecognized.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognized separately from goodwill and are initially recognized at their fair values at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

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 derecognized.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs are determined on the weighted average cost method. Net realizable 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. In addition, intangible assets with indefinite useful lives are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately.

Financial instruments

Financial assets and financial liabilities are recognized in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (cont'd)

Financial assets (cont'd)

Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instruments and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognized on an effective interest basis for debt instruments.

Loan and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortized cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale investments

Available-for-sale investments are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Equity and debt securities held by the Group that are classified as available-for-sale investments are measured at fair value at the end of each reporting period. Changes in the carrying amount of available-for-sale investments monetary financial assets relating to interest income calculated using the effective interest method and dividends on available-for-sale investments equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and accumulated under the heading of available-for-sale investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

Dividends on available-for-sale investments equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (cont'd)

Financial assets (cont'd)

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For other financial asset, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of an impairment loss is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a trade or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Impairment losses on available-for-sale equity investments will not be reversed through profit or loss. Any increase in fair value subsequent to impairment loss is recognized directly in other comprehensive income and accumulated in available-for-sale investments revaluation reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (cont'd)

Financial liabilities and equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

The Group's financial liabilities are generally classified into other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognized on an effective interest basis for debt instruments.

Trade, bills and other payables, bank and other borrowings, amount due to a non-controlling shareholder of a subsidiary and other long-term liabilities

The above financial liabilities are subsequently measured at amortized cost, using the effective interest method.

Equity instruments

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

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

Derivative financial instruments

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognized in profit and loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit and loss depends on the nature of the hedge relationship.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognized in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (cont'd)

Derecognition

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognize the asset to the extent of its continuing involvement and recognizes an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

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

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Allowance for inventories

Management of the Group reviews the inventories at the end of the reporting period and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. Management estimates the net realizable value for such items based primarily on the latest invoices prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of the reporting period. Where there is obsolete or the net realizable value is lower than its carrying amount in such items, a material impairment loss may arise. As at December 31, 2012, the carrying amount of inventories is approximately RMB426,905,000 (2011: RMB357,584,000) (net of allowance for inventories of RMB10,348,000 (2011: RMB10,805,000)).

Estimated impairment of properties under development and held for sale

Management of the Group reviews the carrying amount of the properties under development and held for sale to determine for whether there is any indication that the assets have suffered an impairment loss. Management estimates the net realizable value for such items based on the market value of the properties with similar conditions. The Group carries out a review on a project by project basis at the end of the reporting period. Where the net realizable value of such items is lower than its carrying amount, a material impairment loss may arise. As at December 31, 2012, the aggregate carrying amount of properties under development and held for sale is approximately RMB4,207,086,000 (2011: RMB3,319,575,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

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

Estimated impairment of trade and other receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at December 31, 2012, the aggregate carrying amount of trade and other receivables is RMB459,260,000 (2011: RMB424,468,000) (net of allowance for doubtful debts of RMB130,290,000 (2011: RMB194,530,000)).

6. SEGMENT INFORMATION AND REVENUE

(a) Segment information

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

- Manufacturing of upholstered furniture, furniture leather and automotive leather ("Manufacturing");
- Properties development;
- Retailing of furniture ("Retail"); and
- Others, comprising mainly provision of property management service, hot spring resort operation and provision of travel-related services ("Others").

In July 2011 and September 2011, the Group acquired two subsidiaries engaged in hot spring resort operation and provision of travel related services. Because the sizes of subsidiaries are insignificant, they are aggregated with provision of property management service as an operating segment of Others when reporting to the CODM.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

6. SEGMENT INFORMATION AND REVENUE (cont'd)

(a) Segment information (cont'd)

Segment revenues and results

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

Revenue

For the year ended December 31, 2012

	Manufacturing *RMB'000*	Properties development *RMB'000*	Retail *RMB'000*	Others *RMB'000*	Segment total *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
TURNOVER							
External sales	**1,715,874**	**1,268,049**	**20,851**	**89,778**	**3,094,552**	**–**	**3,094,552**
Inter-segment sales	**4,438**	**–**	**–**	**5,667**	**10,105**	**(10,105)**	**–**
Total	**1,720,312**	**1,268,049**	**20,851**	**95,445**	**3,104,657**	**(10,105)**	**3,094,552**

For the year ended December 31, 2011

	Manufacturing *RMB'000*	Properties development *RMB'000*	Retail *RMB'000*	Others *RMB'000*	Segment total *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
TURNOVER							
External sales	1,637,113	532,417	46,928	25,017	2,241,475	–	2,241,475
Inter-segment sales	13,869	–	–	6,042	19,911	(19,911)	–
Total	1,650,982	532,417	46,928	31,059	2,261,386	(19,911)	2,241,475

Results

	2012 ***RMB'000***	2011 *RMB'000*
Segment results		
– Manufacturing	**45,456**	232,235
– Properties development	**193,757**	33,221
– Retail	**(6,387)**	(4,733)
– Others	**(34,749)**	(19,389)
	198,077	241,334
Unallocated corporate expenses	**(8,065)**	(3,933)
Unallocated other gains and losses	**(329)**	(8,496)
Gain on loss of control of a subsidiary	**17,871**	72,250
Profit for the year	**207,554**	301,155

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 chief operating decision maker for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

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 and operating segments:

Segment assets

	2012	2011
	RMB'000	*RMB'000*
Manufacturing	**7,006,023**	6,141,335
Properties development	**6,663,870**	4,994,527
Retail	**65,345**	69,957
Others	**280,309**	234,138
Total segment assets	**14,015,547**	11,439,957
Unallocated	**16,254**	6,867
Elimination *(Note)*	**(5,830,833)**	(4,460,834)
Consolidated assets	**8,200,968**	6,985,990

Segment liabilities

	2012	2011
	RMB'000	*RMB'000*
Manufacturing	**3,943,677**	3,204,822
Properties development	**5,848,778**	4,473,438
Retail	**89,445**	87,580
Others	**138,663**	73,487
Total segment liabilities	**10,020,563**	7,839,327
Unallocated	**13,283**	12,944
Elimination *(Note)*	**(4,744,617)**	(3,457,788)
Consolidated liabilities	**5,289,229**	4,394,483

For the purposes of monitoring segment performances and allocating resources between segments:

– all assets are allocated to operating segments other than head office assets; and

– all liabilities are allocated to operating segments other than head office liabilities.

Note: Segment assets and liabilities are measured based on the aggregate assets and liabilities of individual subsidiaries before any consolidation adjustments. Elimination comprises consolidation adjustments including mainly the elimination of investment cost of group companies and intra-group current accounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

6. SEGMENT INFORMATION AND REVENUE (cont'd)

(a) Segment information (cont'd)

Other segment information

For the year ended December 31, 2012

Amounts included in the measure of segment profit or loss or segment assets:

	Manufacturing *RMB'000*	Properties development *RMB'000*	Retail *RMB'000*	Others *RMB'000*	Consolidated *RMB'000*
Additions to property, plant and equipment, intangible assets	78,515	7,733	649	47,915	134,812
Net reversal of allowance for inventories	379	–	78	–	457
Depreciation and amortization	27,430	5,479	831	8,910	42,650
Finance costs	38,223	–	–	18	38,241
Loss on fair value change on derivative financial instruments	338	–	–	–	338
Impairment losses on trade and other receivables	4,113	1,957	342	106	6,518
Reversal of impairment loss recognized in respect of trade and other receivables	11,260	–	–	–	11,260
Reversal of impairment loss recognized in respect of property, plant and equipment	13,084	–	–	–	13,084
Imputed interest of receivable from disposal of assets	2,470	–	–	–	2,470
Income tax expenses	22,892	169,723	–	191	192,806
Interest in associates	4,253	–	–	–	4,253
Interest income	6,405	12,270	14	147	18,836
Dividend income from available-for-sale investments	5,163	–	–	–	5,163
Loss on disposal of property, plant and equipment	12	–	–	(4)	8
Release of prepaid lease payment	805	–	–	–	805
Share of losses of associates	11,947	–	–	–	11,947

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

6. SEGMENT INFORMATION AND REVENUE (cont'd)

(a) Segment information (cont'd)

Other segment information (cont'd)

For the year ended December 31, 2011

Amounts included in the measure of segment profit or loss or segment assets:

	Manufacturing *RMB'000*	Properties development *RMB'000*	Retail *RMB'000*	Others *RMB'000*	Consolidated *RMB'000*
Additions to property, plant and equipment, properties for development, intangible assets	33,013	25,721	–	73,671	132,405
Net reversal of allowance for inventories	4,631	–	8,775	–	13,406
Depreciation and amortization	33,963	9,025	1,248	561	44,797
Finance costs	78,331	–	–	–	78,331
Gain on fair value change on derivative financial instruments	839	–	–	–	839
Impairment losses on trade and other receivables	6,126	8,658	(38)	2	14,748
Reversal of impairment loss recognized in respect of trade and other receivables	4,996	4,158	–	–	9,154
Reversal of impairment loss recognized in respect of property, plant and equipment	6,781	–	–	–	6,781
Imputed interest of receivable from disposal of assets	5,862	–	–	–	5,862
Income tax expenses	74,220	82,606	–	646	157,472
Interest in associates	16,200	–	–	–	16,200
Interest income	4,012	19,872	15	96	23,995
Dividend income from available-for-sale investments	5,163	–	–	–	5,163
Gain on disposal of property, plant and equipment	1,197	(84)	–	30	1,143
Gain on relocation of a factory	361,052	–	–	–	361,052
Release of prepaid lease payment	1,344	–	–	–	1,344
Share of losses of associates	14,845	–	–	–	14,845

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

6. SEGMENT INFORMATION AND REVENUE (cont'd)

(a) Segment information (cont'd)

Geographical information

The Group's operations are substantively located in the People's Republic of China ("PRC").

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

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

	Revenue from external customers Year ended December 31,		Non-current assets At December 31,	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
United States	**295,267**	348,027	**–**	–
PRC, including Hong Kong	**2,683,429**	1,777,608	**1,274,430**	1,183,964
Europe	**69,165**	68,951	**–**	–
Australia	**3,009**	46,889	**–**	–
Others	**43,682**	–	**–**	–
	3,094,552	2,241,475	**1,274,430**	1,183,964

Information about major customers

Revenues from individual customer of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2012	2011
	RMB'000	*RMB'000*
Customer A[1]	**514,286**	422,704
Customer B[1]	**384,666**	–
Customer C[1]	**–**	247,940

[1] Revenue from Manufacturing

The trade receivables from Customer A and Customer B as at December 31, 2012 was amounted to RMB148,383,000 (2011: RMB259,634,000) and RMB160,238,000 (2011: nil) respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

6. SEGMENT INFORMATION AND REVENUE (cont'd)

(b) Revenue

Revenue represents the aggregate of the net amounts received and receivable from third parties for the year.

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

	2012	2011
	RMB'000	*RMB'000*
Sale of goods		
Manufacturing		
Upholstered furniture	**495,595**	527,342
Furniture leather	**200,030**	272,813
Automotive leather	**1,020,249**	836,958
Residential properties	**1,268,049**	532,417
Retail of upholstered furniture	**20,851**	46,928
	3,004,774	2,216,458
Provision of services		
Others (note)	**89,778**	25,017
Total	**3,094,552**	2,241,475

Note: Amounts mainly included income from provision of property management services, hot spring resort operation and provision of travel-related services.

7. OTHER INCOME

Details of other income are as follows:

	2012	2011
	RMB'000	*RMB'000*
Government grants		
Grants for export sales	**–**	452
Incentive for business development	**70**	5,520
Other grants	**7,688**	6,191
	7,758	12,163
Income from sales of scrap materials	**13,280**	2,957
Interest income	**18,836**	23,995
Dividend income from listed available-for-sale investments	**5,163**	5,163
Rental income	**3,848**	6,438
Imputed interest of receivable from disposal of assets	**2,470**	5,862
Others	**16,467**	10,519
	67,822	67,097

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

8. OTHER GAINS AND LOSSES

	2012	2011
	RMB'000	*RMB'000*
Reversal of impairment loss recognized in respect of trade and other receivables	**11,260**	9,154
(Loss) gain on fair value change on derivative financial instruments	**(338)**	839
(Loss) gain on disposal of property, plant and equipment	**(8)**	1,143
Net foreign exchange loss	**(246)**	(10,828)
Impairment loss recognized in respect of trade and other receivables	**(6,518)**	(14,748)
Reversal of impairment recognized in respect of property, plant and equipment *(Note)*	**13,084**	6,781
	17,234	(7,659)

Note: During the year, after the internal restructuring of the operation, certain idled plant and equipment resumed production and accordingly, the impairment made in prior year on these plant and equipment had been reversed.

9. FINANCE COSTS

	2012	2011
	RMB'000	*RMB'000*
Interest on:		
Bank borrowings wholly repayable within five years	**83,691**	87,255
Corporate bonds wholly repayable within five years	**8,149**	–
Other borrowings not wholly repayable within five years	**195**	48
Total borrowing costs	**92,035**	87,303
Less: Amounts capitalized in respect of properties under development *(note 24)*	**(53,794)**	(8,972)
	38,241	78,331

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

10. PROFIT BEFORE TAX

	2012 RMB'000	2011 RMB'000
Profit before tax has been arrived at after charging:		
Amortization of intangible assets (included in administrative expenses)	**372**	429
Amortization of properties for development (included in other expenses)	**1,092**	1,092
Depreciation of property, plant and equipment	**41,186**	43,276
Total depreciation and amortization	**42,650**	44,797
Release of prepaid lease payments	**805**	1,344
Auditor's remuneration	**4,534**	5,218
Cost of inventories recognized as expenses (including net reversal of allowance of inventories of RMB457,000 (2011: RMB13,406,000))	**1,537,759**	1,540,612
Cost of properties recognized as cost of sale	**837,271**	331,991
Operating lease rentals in respect of land and buildings	**31,905**	26,178
Total employee benefit expenses (including directors' emoluments)	**150,587**	149,664

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

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

2012

	Zhu Zhangjin, Kasen ("Mr. Zhu") RMB'000 (note i)	Zhou Xiaosong RMB'000	Zhang Mingfa, Michael RMB'000	Li Qingyuan RMB'000	Sun Steve Xiaodi RMB'000	Zhou, Lingqiang RMB'000	Zhang Yuchuan RMB'000 (note ii)	Total RMB'000
Fees	–	–	–	24	147	147	122	440
Other emoluments								
Salaries and other benefits	420	280	280	–	–	–	–	980
Contributions to retirement benefits schemes	8	8	8	–	–	–	–	24
Share-based payment expenses	–	–	–	–	–	–	–	–
Total emoluments	428	288	288	24	147	147	122	1,444

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

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

2011

	Mr. Zhu *RMB'000*	Zhou Xiaosong *RMB'000*	Zhang Mingfa, Michael *RMB'000*	Li Qingyuan *RMB'000*	Chow Joseph *RMB'000* *(note iii)*	Gu Mingchao *RMB'000* *(note iii)*	Sun Steve Xiaodi *RMB'000*	Zhou Lingqiang *RMB'000*	Total *RMB'000*
Fees	–	–	–	149	63	63	86	86	447
Other emoluments									
Salaries and other benefits	340	238	238	–	–	–	–	–	816
Contributions to retirement benefits schemes	2	2	2	–	–	–	–	–	6
Share-based payment expenses	–	–	–	180	–	–	–	–	180
Total emoluments	342	240	240	329	63	63	86	86	1,449

Notes:

(i) Mr. Zhu is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

(ii) Mr. Zhang Yuchuan was appointed as a director on March 1, 2012.

(iii) Mr. Chow Joseph and Mr. Gu Mingchao resigned as directors on June 1, 2011.

One (2011: Three) of the five individuals with the highest emoluments in the Group was director of the Company whose emoluments are included in the disclosures as above. The emoluments of the remaining four (2011: two) individuals were as follows:

	2012 ***RMB'000***	2011 *RMB'000*
Basic salaries and other benefits	**1,578**	946
Contributions to retirement benefits schemes	**39**	12
	1,617	958

Their emoluments were within the following bands:

	2012	2011
Nil to HK$1,000,000	**4**	2

During the year, 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 year (2011: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

12. INCOME TAX EXPENSES

	2012	2011
	RMB'000	*RMB'000*
PRC enterprise income tax		
– Current year	**118,391**	22,343
– Underprovision of income tax in previous years	**187**	8,389
	118,578	30,732
PRC Land appreciation tax ("LAT")	**86,291**	51,012
Deferred tax *(note 21)*	**(12,063)**	75,728
	192,806	157,472

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% from January 1, 2008 onwards.

Pursuant to the relevant laws and regulations in the PRC, certain subsidiaries are exempted from PRC Enterprise Income Tax ("EIT") for two years starting from its first profit-making year, followed by a 50% reduction in tax rate for the next three years (the "Tax Exemptions"). The tax exemption had expired in 2009 and the tax relief of 50% reduction in tax rate had expired in 2012.

According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax (Guofa 2008 No.39), certain of the group entities operating in the PRC are entitled to the following tax concession under the EIT Law:

(1) The Tax Exemptions is still applicable until the end of the five-year transitional period under the EIT Law.

(2) Those entities that previously enjoyed tax incentive rate of 15% would have their applicable tax rate increased progressively to 25% over a five year transitional period.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

12. INCOME TAX EXPENSES (cont'd)

The tax charge for the year can be reconciled to the profit before tax per the consolidated statement of comprehensive income as follows:

	2012	2011
	RMB'000	*RMB'000*
Profit before tax	**400,360**	458,627
Tax rate applicable to the major operation of the Group	**25%**	25%
Tax at the domestic income tax rate	**100,090**	114,657
Tax effect of share of result of associates	**2,987**	3,711
Tax effect of expenses not deductible for tax purpose	**49,838**	24,107
Tax effect of income not taxable for tax purpose	**(10,624)**	(25,527)
Tax effect of deductible temporary differences not recognized	**2,548**	28,514
Utilization of deductible temporary differences previously not recognized	**(23,520)**	(7,658)
PRC LAT	**86,291**	51,012
Tax effect of PRC LAT	**(21,573)**	(12,753)
Tax effect of tax losses not recognized	**20,709**	4,841
Utilization of tax losses previously not recognized	**(8,879)**	(9,633)
Tax effect of Tax Exemptions	**(5,248)**	(22,188)
Underprovision in previous years	**187**	8,389
Taxation for the year	**192,806**	157,472

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

13. DIVIDENDS

No dividend was paid, declared or proposed during 2012, nor has any dividend been proposed since the end of the reporting period (2011: interim dividend of RMB2.46 cents equivalent to approximately HK3.00 cents per ordinary share, amounting to approximately RMB28,565,000 equivalent to approximately HK$34,869,000).

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

	2012	2011
	RMB'000	*RMB'000*
Profit for the purposes of basic and diluted earnings per share, being profit attributable to owners of the Company	**203,399**	300,491

Number of shares

	2012	2011
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,162,322,985**	1,161,972,300
Effect of dilutive potential ordinary shares – share options	**317,752**	796,543
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,162,640,737**	1,162,768,843

The computation of diluted earnings per share does not assume the exercise of certain of the Company's options because the exercise prices of those options were higher than the average market price of shares in 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and equipment	Motor vehicles	Furniture, fixtures and equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST						
At January 1, 2011	478,965	262,341	38,999	35,260	43,644	859,209
Additions	609	2,915	9,955	2,889	40,392	56,760
Acquired on acquisition of subsidiaries *(note 37)*	49,497	–	5	539	15,440	65,481
Disposal	(126,491)	(10,665)	(3,446)	(7,909)	–	(148,511)
Transfer to properties under development	–	–	–	–	(26,933)	(26,933)
Loss of control of a subsidiary *(note 38)*	(20,069)	(13,323)	–	(1,822)	–	(35,214)
Transfers	9,177	–	–	–	(9,177)	–
Reclassification of assets held for sale *(note 29)*	(43,516)	–	–	–	–	(43,516)
At December 31, 2011	348,172	241,268	45,513	28,957	63,366	727,276
Additions	27,524	11,595	5,882	6,726	82,545	134,272
Acquired on acquisition of subsidiaries *(note 37)*	–	–	265	–	–	265
Disposal	–	(2,987)	(317)	(834)	–	(4,138)
Transfers	66,859	160	–	–	(67,019)	–
At December 31, 2012	**442,555**	**250,036**	**51,343**	**34,849**	**78,892**	**857,675**
DEPRECIATION AND IMPAIRMENT						
At January 1, 2011	156,969	180,773	23,744	30,422	–	391,908
Provided for the year	23,330	13,441	5,117	1,388	–	43,276
Eliminated on disposal	(39,763)	(8,755)	(3,111)	(6,837)	–	(58,466)
Reversal of impairment loss recognized	–	(6,781)	–	–	–	(6,781)
Loss of control of a subsidiary *(note 38)*	(20,069)	(13,323)	–	(1,822)	–	(35,214)
Reclassification of assets held for sale *(note 29)*	(15,672)	–	–	–	–	(15,672)
At December 31, 2011	104,795	165,355	25,750	23,151	–	319,051
Provided for the year	18,940	13,729	2,213	6,304	–	41,186
Eliminated on disposal	–	(1,364)	(196)	(712)	–	(2,272)
Reversal of impairment loss recognized	–	(12,962)	(122)	–	–	(13,084)
At December 31, 2012	**123,735**	**164,758**	**27,645**	**28,743**	**–**	**344,881**
CARRYING AMOUNTS						
At December 31, 2012	**318,820**	**85,278**	**23,698**	**6,106**	**78,892**	**512,794**
At December 31, 2011	243,377	75,913	19,763	5,806	63,366	408,225

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

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

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

Buildings	20 years
Plant and equipment	10 – 15 years
Motor vehicles	4 – 5 years
Furniture, fixtures and equipment	5 – 10 years

The buildings are located on the land leased under medium-term land use rights in the PRC.

As at December 31, 2012, the title deeds of buildings with carrying amount of RMB150,498,000 (2011: RMB93,775,000) has not been obtained. The directors believe that the relevant title deeds will be granted in the due course and the absence of official certificate does not impair the value of the relevant properties of the Group.

16. PREPAID LEASE PAYMENTS

The prepaid lease payments made by the Group are payment for land use rights under medium-term lease in the PRC.

	2012 ***RMB'000***	2011 *RMB'000*
Analyzed for reporting purposes as:		
Non-current assets	**70,052**	33,951
Current assets	**1,568**	806
	71,620	34,757

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

17. PROPERTIES FOR DEVELOPMENT

	2012	2011
	RMB'000	*RMB'000*
COST		
At January 1	**183,662**	614,973
Additions	**–**	9,681
Transfer to properties under development	**–**	(440,992)
At December 31	**183,662**	183,662
ACCUMULATED AMORTIZATION		
At January 1	**7,855**	14,035
Provided for the year	**1,092**	1,092
Transfer to properties under development	**–**	(7,272)
At December 31	**8,947**	7,855
CARRYING AMOUNTS		
At December 31	**174,715**	175,807

The properties for development are located in the PRC and are held under medium term land use rights.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

18. INTANGIBLE ASSETS

	Brand name *RMB'000*	Computer software *RMB'000*	Total *RMB'000*
COST			
At January 1, 2011	2,330	3,850	6,180
Additions	–	483	483
Loss of control of a subsidiary *(note 38)*	(2,330)	–	(2,330)
At December 31, 2011	–	4,333	4,333
Additions	–	275	275
At December 31, 2012	**–**	**4,608**	**4,608**
ACCUMULATED AMORTIZATION			
At January 1, 2011	–	3,202	3,202
Provided for the year	–	429	429
At December 31, 2011	–	3,631	3,631
Provided for the year	–	372	372
At December 31, 2012	**–**	**4,003**	**4,003**
CARRYING VALUES			
At December 31, 2012	**–**	**605**	**605**
At December 31, 2011	–	702	702

All the Group's computer software were acquired from third parties and are amortised on a straight-line basis over five to eight years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

19. INTERESTS IN ASSOCIATES

	2012 *RMB'000*	2011 *RMB'000*
Cost of investment in associates, unlisted	**39,962**	39,962
Share of post-acquisition losses	**(35,709)**	(23,762)
	4,253	16,200

Particulars of the associates indirectly held by the Company at December 31, 2012 and 2011 are as follows:

Name of associate	Place of registration	Registered capital	Proportion of registered capital indirectly held by the Company **2012** %	2011 %	Principal activities
Zhejiang Liema Furniture Co. Ltd. ("Liema Furniture") 浙江獵馬傢俬有限公司	PRC	USD7,000,000	**45.5**	45.5	Production and sales of upholstered furniture
Zhejiang Youge Kitchen Appliances Co. Ltd. ("Youge") 浙江優格廚電有限公司	PRC	RMB50,000,000	**30**	30	Trading of kitchen utensils

The summarized unaudited financial information relating to the Group's associates is set out below:

	2012 *RMB'000*	2011 *RMB'000*
Total assets	**213,334**	255,977
Total liabilities	**(210,363)**	(205,820)
Net assets	**2,971**	50,157
Group's share of net assets of associates	**4,253**	16,200
Revenue	**96,033**	89,765
Loss for the year	**(40,068)**	(40,938)
Group's share of loss of associates for the year	**(11,947)**	(14,845)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

19. INTERESTS IN ASSOCIATES (cont'd)

The Group has discontinued recognition of its share of loss of an associate. The amounts of unrecognized share of the associate, both for the year and cumulatively, are as follows:

	2012 **RMB'000**	2011 RMB'000
Unrecognized share of loss of an associate for the year	**2,242**	–
Accumulated unrecognized share of losses of an associate	**2,242**	–

20. AVAILABLE-FOR-SALE INVESTMENTS

	2012 **RMB'000**	2011 RMB'000
Equity securities		
– 3.69% (2011: 3.69%) equity interest in Haining China Leather Market Co., Ltd ("HCLM")	**494,056**	370,486
– 7.53% equity interest in Chengdu Longteng Shoes Market Investment and Development Co. Ltd. ("Chengdu Longteng")	**–**	10,000
Unlisted debt securities	**310**	310
	494,366	380,796

The principal activity of HCLM is the operation of department stores in the PRC. In 2010, shares of HCLM are listed in the Shenzhen Stock Exchange. The listed shares of HCLM held by the Group are subject to trading restrictions for a period of 6 years. At December 31, 2012 and December 31, 2011, the fair value of investments in shares of HCLM has been arrived at on the basis of a valuation carried out as at that date by Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("Jones LaSalle"), independent qualified professional valuer not connected with the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

20. AVAILABLE-FOR-SALE INVESTMENTS (cont'd)

The inputs into the Black-Scholes Pricing Model were as follows:

	2012	2011
Spot price	**RMB26.58**	RMB22.63
Risk free rate	**2.89%**	2.81%
Volatility	**30.19%**	44.60%
Dividend yield	**0.91%**	1.21%
Fair value per restricted share	**RMB23.92**	RMB17.94

Expected volatility was determined by using the historical volatility of comparable companies.

In November 2009, the Group has entered into an agreement with independent parties to dispose of its interests in Chengdu Longteng in 2009 by 26.9% and in coming three consecutive years by 7.53% per year at the consideration of RMB10,000,000 for each disposal. As at December 31, 2012, all of the interest in Chengdu Longteng was disposed (2011: the Group held 7.53% interest).

21. DEFERRED TAXATION

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

	Income on relocation of manufacturing plant *RMB'000*	**Unrealized profit on intra-group transactions** *RMB'000*	**Fair value adjustment on available-for-sale investments** *RMB'000*	**LAT provision** *RMB'000*	**Total** *RMB'000*
At January 1, 2011	(29,114)	9,918	(100,370)	–	(119,566)
Charge to other comprehensive income	–	–	15,506	–	15,506
(Charge) credit to profit or loss	(90,880)	9,310	1,492	4,350	(75,728)
At December 31, 2011	(119,994)	19,228	(83,372)	4,350	(179,788)
Charge to other comprehensive income	–	–	(30,892)	–	(30,892)
Credit to profit or loss	–	1,772	1,492	8,799	12,063
At December 31, 2012	**(119,994)**	**21,000**	**(112,772)**	**13,149**	**(198,617)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

21. DEFERRED TAXATION (cont'd)

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

	2012	2011
	RMB'000	*RMB'000*
Deferred tax assets	**48,910**	25,080
Deferred tax liabilities	**(247,527)**	(204,868)
	(198,617)	(179,788)

Details of other deductible temporary differences at the end of the reporting period are as follows:

	2012	2011
	RMB'000	*RMB'000*
Impairment of property, plant and equipment	**10,908**	23,992
Allowance for bad and doubtful debts	**130,290**	200,636
Allowance for inventories	**10,348**	10,805
	151,546	235,433

No deferred tax asset has been recognized 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 utilized.

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. Under tax treaty, withholding tax rate on distributions to Hong Kong resident companies is 5%. 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 RMB1,093,385,000 (2011: RMB740,510,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

At December 31, 2012, the Group has unused tax losses of approximately RMB240,149,000 (2011: RMB192,829,000) available to offset against future profits. No deferred tax asset has been recognized in respect of such losses (2011: Nil) due to the unpredictability of future profit streams.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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21. DEFERRED TAXATION (cont'd)

The unrecognised tax losses of RMB20,881,000 (2011: RMB14,140,000) can be carried forward indefinitely. The remaining RMB219,268,000 (2011: RMB178,689,000) expires in the following years:

	2012	2011
	RMB'000	*RMB'000*
2012	**–**	1,311
2013	**35,819**	35,819
2014	**40,598**	40,598
2015	**32,698**	52,995
2016	**34,057**	47,966
2017	**76,096**	–
	219,268	178,689

22. DEPOSIT PAID FOR ACQUISITION OF A SUBSIDIARY/ADVANCE FOR ACQUISITION OF LAND FOR DEVELOPMENT

In prior years, the Group entered into an agreement to acquire 77% equity interest in Hainan Hejia Property Development Co., Ltd. (海南合甲置業有限公司) ("Hainan Hejia"), for a total consideration of RMB212,581,000. The Group had paid the amount in prior years. The principal activity of Hainan Hejia is property development in Hainan Province of the PRC. Hainan Hejia has signed an agreement for acquisition of a piece of land in Hainan Province of the PRC ("Acquisition of Land") and no other material assets and liabilities was owned by Hainan Hejia.

In prior years, the Group had advanced to Hainan Hejia an amount of approximately RMB279,430,000 for the land acquisition purpose and Hainan Hejia had paid approximately RMB375,621,000 to the local government as a deposit for the land acquisition. The advances will be included in the initial carrying amount of the land acquired upon acquisition of Hainan Heija.

As at December 31, 2012, the deposits and advances were unsecured and interest bearing at a rate ranging from 6.31% to 6.56% (2011: the deposits and advances were unsecured and interest bearing at the People's Bank of China Standard Loan interest rate). It will also be included in the initial carrying amount of the land acquired upon acquisition of Hainan Heija.

According to the agreements for acquisition of Hainan Hejia, the total consideration paid together with the accrued interest is refundable and to be settled if Hainan Hejia does not proceed with the Acquisition of Land. At the end of the reporting period, Hainan Hejia is still in progress to apply the purchase of land and therefore the Acquisition of Land and a subsidiary had not yet completed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

23. INVENTORIES

	2012	2011
	RMB'000	*RMB'000*
Raw materials	**87,266**	86,012
Work in progress	**223,984**	170,894
Finished goods	**115,655**	100,678
Total, net of allowance for inventories	**426,905**	357,584

During the year ended December 31, 2012 and 2011, there was an increase in the net realizable value of certain inventories due to market recovery and subsequent sale at a higher selling price compared to its original cost of impaired inventories. As a result, a net reversal of allowances of inventories of approximately RMB457,000 (2011: RMB13,406,000) (includes reversal of allowance of inventories of RMB4,132,000 (2011: RMB18,029,000) and allowance of inventories of RMB3,675,000 (2011: RMB4,623,000), has been recognized and included in profit or loss.

24. PROPERTIES UNDER DEVELOPMENT AND HELD FOR SALE

	RMB'000
At January 1, 2011	1,350,981
Transfer from properties for development	433,720
Transfer from construction in progress	26,933
Addition of development expenditure	1,839,932
Sales of completed properties held for sales	(331,991)
At December 31, 2011	3,319,575
Addition of development expenditure	1,574,407
Acquired on acquisition of subsidiaries *(note 37)*	150,375
Sales of completed properties held for sales	(837,271)
At December 31, 2012	**4,207,086**

The carrying values are presented as:

	2012	2011
	RMB'000	*RMB'000*
Properties under development	**3,687,351**	2,906,761
Completed properties held for sales	**519,735**	412,814
	4,207,086	3,319,575

During the year, interest capitalized in the properties under development was an amount of RMB72,324,000 (2011: RMB25,949,000). RMB1,099,637,000 (2011: RMB2,106,939,000) of the properties under development are expected to be realized after twelve months from the end of the reporting period. The properties under development are located in the PRC and are held under medium term land use rights.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

25. TRADE, BILLS AND OTHER RECEIVABLES

	2012 RMB'000	2011 RMB'000
Trade receivables *(Note e)*	**533,330**	530,270
Less: Allowance for doubtful debts	**(109,937)**	(120,943)
	423,393	409,327
Bills receivables	**17,970**	29,527
Deposits paid for acquisition of land use rights *(Note a)*	**41,014**	70,264
Advance payment for purchase of inventory *(Note b)*	**12,807**	29,894
Deposit and prepayments	**26,218**	45,554
Prepaid non-income tax	**90,995**	81,448
Prepaid LAT	**48,505**	28,256
Prepaid land demolishing expenses *(Note c)*	**148,398**	61,430
Interest receivable *(Note d)*	**50,504**	39,776
Other receivables *(Note e)*	**56,220**	88,728
Less: allowance for doubtful debts for other receivables	**(20,353)**	(73,587)
	895,671	810,617

Notes:

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

(b) The Group had made advance payment for purchase of inventory to secure the inventory supply. The amount is unsecured and in the opinion of the directors, it is refundable if the Group does not receive the inventories.

(c) The Group has proposed to acquire certain land and had prepaid expenses to the local government for demolishing the buildings located on the piece of land. The amount is refundable if the Group does not proceed with the acquisition. During the year ended December 31, 2012, approximately RMB168,737,000 (2011: approximately RMB591,032,000) is transferred to properties under development and held for sale.

(d) Amount represents interest receivable from Hainan Hejia for the deposit for acquisition of a subsidiary and advance for acquisition of land paid. Details of the deposit and advance are set out in note 22.

(e) As at December 31, 2012, trade and other receivables include amounts of RMB69,628,000 (2011: RMB127,814,000), of receivable due from Sofas UK Limited ("Sofas UK"), of which control was lost during the year ended December 31, 2011. Allowance for doubtful debts was fully provided on the receivables during the year ended December 31, 2011, RMB55,997,000 was written off and RMB2,189,000 was reversed due to its settlement during the year. Details of the loss of control of a subsidiary are set out in note 38.

Except the other receivable due from Sofas UK, amount mainly represents the deposits and prepayment for the construction projects.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

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

The Group grants a credit period ranging from 30 days to 120 days to their trade customers. The aging analysis of trade and bills receivables (net of allowance for doubtful debts) presented based on the invoice date at the end of reporting period is as follows:

	2012	2011
	RMB'000	*RMB'000*
Aged:		
Within 60 days	**279,818**	287,871
61 – 90 days	**127,456**	92,781
91 – 180 days	**22,330**	42,772
181 – 365 days	**9,213**	12,884
Over 1 year	**2,546**	2,546
	441,363	438,854

The Group's trade receivable balances included debtors which are with related parties, details of which are set out in note 47(b).

Before accepting any new customers under the manufacturing segment, the Group reviews the credit quality and defines credit limits by customer. Limits attributed to customers are reviewed once a year. The Group maintains a defined credit policy to assess the credit quality of the trade customers. The collection is closely monitored to minimize any credit risk associated with these trade debtors. There has not been significant change in credit quality of the debtors. 90% (2011: 69%) of the debts are neither past due nor impaired. Those customers are mainly engaged in manufacturing of automotive leather in the PRC with good repayment history.

Included in the Group's trade receivable balances are debtors with aggregate carrying amount of RMB42,237,000 (2011: RMB134,524,000) which are past due but not impaired at the end of the reporting period.

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

	2012	2011
	RMB'000	*RMB'000*
Aged		
61 – 90 days	**8,148**	92,101
91 – 180 days	**22,330**	27,093
181 – 365 days	**9,213**	12,784
Over 1 year	**2,546**	2,546
	42,237	134,524

The directors of the Company assessed the credit quality of those trade debtors that the balances are past due by reviewing their financial position, the past repayment record and the experience on any recent history of default. The amounts are considered recoverable. The Group does not hold any collateral over these balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

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

Movement in the allowance for doubtful debts for trade and other receivables:

	2012	2011
	RMB'000	*RMB'000*
Balance at beginning of the year	**194,530**	69,090
Amounts written off during the year	**(59,498)**	(1,862)
Allowance made related to Sofas UK	**–**	127,814
Impairment loss recognized in profit or loss	**6,518**	14,748
Reversal of impairment loss recognized in prior years	**(11,260)**	(9,154)
Transfer to asset held for sale	**–**	(6,106)
Balance at end of the year	**130,290**	194,530

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

26. RECEIVABLE FROM DISPOSAL OF ASSETS/GAIN ON RELOCATION OF A FACTORY

During the year ended December 31, 2011, the Group demolished the plant and returned certain land use rights to the PRC government. The consideration of the disposal was RMB463,418,000. RMB190,000,000 was received in 2011. The fair value of the remaining balance of the receivable at initial recognition with effective interest rate of 3.75% per annum amounted to approximately RMB270,948,000. RMB273,418,000 was received during current year.

A gain of relocation, amounting to RMB361,052,000 (including removal cost of RMB1,414,000) was recognized during the year ended December 31, 2011.

27. DERIVATIVE FINANCIAL INSTRUMENTS

	2012	2011
	RMB'000	*RMB'000*
Derivative financial assets – Foreign currency forward contracts (not under hedge accounting)	–	497

Major terms of the foreign currency forward contracts are as follows:

As at December 31, 2011

Notional amount	**Maturity**	**Exchange rate**
16 contracts to sell US$16,000,000 aggregated in total	Range from January 30, 2011 to August 7, 2012	Sell US$ at RMB from 6.2870 to 6.3457

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

(a) Pledged bank deposits

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

The deposits carry a fixed interest rate range from 2.6% to 3% (2011: 2.6% to 3.1%) per annum. The pledged bank deposits will be released upon the settlement of relevant bill payables and bank borrowings.

(b) Restricted bank deposits for property development business

The amount represents deposits collected from customer in respect of pre-sale properties and restricted for settlement of construction costs.

The deposits carry variable interest rates of 0.35% (2011: 0.36%) per annum.

(c) Bank balances and cash

Bank balances and cash comprised of bank deposits with short maturity at prevailing deposit interest rate of 0.35% (2011: 0.36%) per annum and cash on hand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

29. ASSETS HELD FOR SALE/LIABILITIES HELD FOR SALE

In December 2011, the Group entered into an agreement with independent third parties to dispose of 100% interest of a subsidiary, Shanghai La Kassa Furniture Co., Ltd. ("La Kassa") for an aggregate consideration of approximately RMB41,000,000. The assets and liabilities attributable to the subsidiary, which is expected to be sold within twelve months, have been classified as a disposal group held for sale and were presented separately in the consolidated statement of financial position. The subsidiary was included in manufacturing segment for segment reporting purpose (see note 6). The net proceeds of disposal exceed the net carrying amount of the relevant assets and liabilities and accordingly, no impairment loss has been recognized. The transaction had completed on March 22, 2012 (see note 38).

The major classes of assets and liabilities of the subsidiary at December 31, 2011 classified as held for sale were as follows:

	31.12.2011 *RMB'000*
Bank balance and cash	359
Other receivable	49
Building	27,844
Prepaid lease payments	12,592
Total assets classified as held for sale	40,844
Trade and other payables	1,690
Total liabilities classified as held for sale	1,690

30. TRADE, BILLS AND OTHER PAYABLES

	2012 ***RMB'000***	2011 *RMB'000*
Trade payables	**1,309,091**	810,492
Bills payables	**220,000**	146,000
Other payables *(Note)*	**119,660**	88,925
Deposit received for disposal of interests in subsidiaries	**25,000**	35,000
Advance from a director *(note 47(b))*	**9,660**	9,681
Advance from a related company *(note 47(b))*	**16,500**	3,432
Accruals	**94,975**	92,060
	1,794,886	1,185,590

Note: Other payables mainly included guarantee deposit from the constructors, business tax payable and other tax payable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

30. 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:

	2012	2011
	RMB'000	*RMB'000*
Within 60 days	**1,103,530**	703,086
61 – 90 days	**36,088**	106,731
91 – 180 days	**254,133**	110,934
181 – 365 days	**82,453**	7,342
1 – 2 years	**38,454**	19,220
Over 2 years	**14,433**	9,179
	1,529,091	956,492

Included in the Group's trade payable balances are balances with related parties. Details of which are set out in note 47(b).

During the years of 2010 and 2011, the Group received deposits from independent third parties, amounting to RMB25 million in relation to the disposal of 2% equity interests in Hainan Boao Kasen Property Development Co., Ltd ("Hainan Boao"), a wholly owned subsidiary, and RMB10 million in relation to the disposal of 100% equity interest in La Kassa respectively. The considerations of the disposals of Hainan Boao and La Kassa were approximately RMB43,910,000 and RMB41,000,000, respectively. During the year, the disposal of La Kassa had completed. The disposal of Hainan Boao was not yet completed at December 31, 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

31. BANK AND OTHER BORROWINGS

	2012	2011
	RMB'000	*RMB'000*
Bank borrowings	**1,280,978**	1,424,376
Other borrowings	**5,568**	6,513
Total	**1,286,546**	1,430,889
Analyzed as:		
Secured	**957,729**	1,068,172
Unsecured	**328,817**	362,717
	1,286,546	1,430,889
Denominated in United States Dollars (foreign currency)	**144,478**	14,105
Denominated in Renminbi	**1,142,068**	1,416,784
	1,286,546	1,430,889

Carrying amount repayable*:

	2012	2011
	RMB'000	*RMB'000*
Within one year	**1,280,978**	1,424,376
After five years	**5,568**	6,513
	1,286,546	1,430,889
Less: Amount due within one year shown under current liabilities	**(1,280,978)**	(1,424,376)
Amount due after one year	**5,568**	6,513

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

Bank borrowings are substantively fixed-rate borrowings and carry interests ranging from 1.26% to 8.20% (2011: 1.72% to 8.21%) per annum.

Other borrowings represent loans advanced by independent third parties and carry fixed interest rate of 3% (2011: 3%) per annum. The amount is repayable in full in 2018.

Included in unsecured bank borrowings are borrowings guaranteed by Mr. Zhu, the chief executive officer and a controlling shareholder of the Company, and a related company in which Mr. Zhu has significant influence and beneficial interests. The total guarantee amount is RMB615,000,000 (2011: RMB370,000,000). An amount of RMB45,000,000 (2011: RMB75,000,000) were guaranteed by certain independent third parties.

Certain borrowings were also secured by the assets owned by the Group and details of the assets set out in note 42.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

32. AMOUNT DUE TO A NON-CONTROLLING SHAREHOLDER OF A SUBSIDIARY

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

33. OTHER LONG TERM LIABILITIES

Pursuant to an announcement of the Company dated on June 14, 2012, Haining Schinder Tanning Co., Ltd. ("Haining Schinder Tanning"), a wholly-owned subsidiary of the Company established in the PRC, issued and completed the registration of corporate bonds (the "Corporate Bonds") with Shenzhen Stock Exchange on June 14, 2012. The principal amount of the Corporate Bonds was RMB150,000,000, with a term of three years. The coupon rate of the Corporate Bonds for the first two years is fixed at 8.10% per annum, and the coupon rate of the Corporate Bonds for the third year is subject to adjustment at the discretion of Haining Schinder Tanning which would not be lower than 1-year fixed deposit market interest rate and would not be higher than the regulation in PRC, which is three times of the lending rate published by the People's Bank of China at the end of second year of the Corporate Bonds. The coupon interest of the Corporate Bonds is paid annually.

At the end of the second year from the issue of the Corporate Bonds, eligible investors have the right to sell the Corporate Bonds held by them, in whole or in part, back to Haining Schinder Tanning at a total consideration equivalent to the total face value of the corresponding Corporate Bonds to be sold.

The directors of the Company considered the fair value of the embedded derivatives embedded in the Corporate Bonds is insignificant because it is highly likely that the coupon rate of the Corporate Bonds for the third year will not significantly deviate from the market interest rate after the initial 2-year term if the investors do not exercise their right to sell the Corporate Bonds at the end of the second year term.

The issue of the Corporate Bonds was guaranteed by the Company, Zhejiang Kasen Industrial Group Co., Limited, a wholly-owned subsidiary of the Company, and Mr. Zhu.

The underwriting fee amounted to RMB8,550,000, of which RMB2,000,000 was paid during the year.

The effective interest rate of the Corporate Bonds for the initial 2-year period is 10.36% per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

34. SHARE CAPITAL

	Number of ordinary shares at US$0.00015 each	*US$'000*
Authorized share capital of the Company:		
At January 1, 2011, December 31, 2011 and December 31, 2012	266,666,666,666	40,000

	Number of ordinary shares	*US$*	Equivalent to *RMB'000*
Issued and fully paid ordinary shares of the Company			
At January 1, 2011	1,156,722,985	173,508	1,395
Exercise of share options	5,600,000	840	5
At December 31, 2011 and December 31, 2012	1,162,322,985	174,348	1,400

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

35. SHARE OPTION

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

At December 31, 2012, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 23,000,000 (2011: 26,800,000), representing 1.98% (2011: 2.31%) 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 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 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 Scheme.

The Company granted a total of 30,200,000 share options to the directors and other eligible employees on March 9, 2006 (the "First Batch Option"). The exercise price of the First Batch Option is HK$2.38 (the share price at grant date was HK$2.325).

The Company granted a total of 10,500,000 share options to the directors and other eligible employees on May 5, 2008 (the "Second Batch Option"). The exercise price of the Second Batch Option is HK$1.18 (the share price at the grant date was HK$1.18).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

35. SHARE OPTION (cont'd)

The Company granted a total of 10,000,000 share options to a consultant of the Company (the "Share Option Grantee") on May 13, 2009 (the "Third Batch Option"). The Share Option Grantee is an independent third party and not connected with any director, chief executive or substantial shareholder of the Company, or any of their respective associates. The exercise price of the Third Batch Option is HK$0.53 (the share price at the grant date was HK$0.51). As the fair value of the services rendered by the consultant cannot be estimated reliably, the services received are measured with reference to the fair value of share options granted using the Binomial Model.

The Company granted a total of 2,000,000 share options to the directors on October 12, 2009 (the "Fourth Batch Option"). The exercise price of the Fourth Batch Option is HK$1.60 (the share price at the grant date was HK$1.60).

Options granted must be taken up within 21 days from the date of grant, upon payment of HK$1 per option holder.

The Group recorded a share-based payment expense of RMB180,000 for the year ended December 31, 2011 in relation to share options granted by the Company and fully vested during the year ended December 31, 2011.

The following tables disclose details of the Company's share options held by the directors, eligible employees and third party service provider of the Company. The tables disclose movements in such holdings during the years ended December 31, 2011 and 2012:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

35. SHARE OPTION (cont'd)

Exercise price *HK$*	Date of grant	Vesting period	Exercisable period	Outstanding at January 1, 2011	Exercised during the year ended December 31, 2011	Lapsed during the year ended December 31, 2011	Outstanding at December 31, 2011 and January 1, 2012	Lapsed during the year ended December 31, 2012	Outstanding at December 31, 2012
2.38	March 9, 2006	9.3.2006 - 31.12.2006 *(Note 1)*	1.1.2007 - 8.3.2016	9,500,000	–	(250,000)	9,250,000	(1,150,000)	8,100,000
2.38	March 9, 2006	9.3.2006 - 31.12.2007 *(Note 1)*	1.1.2008 - 8.3.2016	9,500,000	–	(250,000)	9,250,000	(1,150,000)	8,100,000
				19,000,000	–	(500,000)	18,500,000	(2,300,000)	16,200,000
1.18	May 5, 2008	5.5.2008 - 31.12.2008 *(Note 2)*	1.1.2009 - 4.5.2018	3,950,000	(300,000)	–	3,650,000	(250,000)	3,400,000
1.18	May 5, 2008	5.5.2008 - 31.12.2009 *(Note 2)*	1.1.2010 - 4.5.2018	3,950,000	(300,000)	–	3,650,000	(250,000)	3,400,000
				7,900,000	(600,000)	–	7,300,000	(500,000)	6,800,000
0.53	May 13, 2009	13.5.2009 - 31.12.2009 *(Note 3)*	1.1.2010 - 12.5.2019	–	–	–	–	–	–
0.53	May 13, 2009	13.5.2009 - 31.12.2010 *(Note 3)*	1.1.2011 - 12.5.2019	5,000,000	(5,000,000)	–	–	–	–
				5,000,000	(5,000,000)	–	–	–	–
1.60	October 12, 2009	12.10.2009 - 30.9.2010 *(Note 4)*	1.10.2010 - 11.10.2019	1,000,000	–	(500,000)	500,000	(500,000)	–
1.60	October 12, 2009	12.10.2009 - 30.9.2011 *(Note 4)*	1.10.2011 - 11.10.2019	1,000,000	–	(500,000)	500,000	(500,000)	–
				2,000,000	–	(1,000,000)	1,000,000	(1,000,000)	–
Total				33,900,000	(5,600,000)	(1,500,000)	26,800,000	(3,800,000)	23,000,000
Exercisable at the end of the reporting period				27,900,000			26,800,000		23,000,000
Weighted average exercise price (HK$)				1.78	0.60	1.86	2.02	2.02	2.03

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

35. SHARE OPTION (cont'd)

Note 1: In relation to the share options granted on March 9, 2006, 50% of the share options with vesting period commencing from March 9, 2006 to December 31, 2006, and the remaining balance of the share options with the vesting period commencing from March 9, 2006 to December 31, 2007.

Note 2: In relation to the share options granted on May 5, 2008, 50% of the share options with vesting period commencing from May 5, 2008 to December 31, 2008, and the remaining balance of the share options with the vesting period commencing from May 5, 2008 to December 31, 2009.

Note 3: In relation to the share options granted on May 13, 2009, 50% of the share options with vesting period commencing from May 13, 2009 to December 31, 2009, and the remaining balance of the share options with the vesting period commencing from May 13, 2009 to December 31, 2010.

Note 4: In relation to the share options granted on October 12, 2009, 50% of the share options with vesting period commencing from October 12, 2009 to September 30, 2010, and the remaining balance of the share options with the vesting period commencing from October 12, 2009 to September 30, 2011.

In respect of the share option exercised for the year ended December 31, 2011, the closing share price at the date of exercise of January 4, 2011 and June 28, 2011 is HK$1.59 and HK$1.30 respectively.

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

Exercise price *HK$*	Date of grant	Vesting period	Exercisable period	Outstanding at January 1, 2011	Exercised during the year ended December 31, 2011	Lapsed during the year ended December 31, 2011	Outstanding at December 31, 2011 and January 1, 2012	Lapsed during the year ended December 31, 2012	Outstanding at December 31, 2012
2.38	March 9, 2006	9.3.2006 - 31.12.2006	1.1.2007 - 8.3.2016	2,700,000	–	(200,000)	2,500,000	–	2,500,000
2.38	March 9, 2006	9.3.2006 - 31.12.2007	1.1.2008 - 8.3.2016	2,700,000	–	(200,000)	2,500,000	–	2,500,000
1.18	May 5, 2008	5.5.2008 - 31.12.2008	1.1.2009 - 4.5.2018	1,050,000	(300,000)	–	750,000	–	750,000
1.18	May 5, 2008	5.5.2008 - 31.12.2009	1.1.2010 - 4.5.2018	1,050,000	(300,000)	–	750,000	–	750,000
1.60	October 12, 2009	12.10.2009 - 30.9.2010	1.10.2010 - 11.10.2019	1,000,000	–	(500,000)	500,000	(500,000)	–
1.60	October 12, 2009	12.10.2009 - 30.9.2011	1.10.2011 - 11.10.2019	1,000,000	–	(500,000)	500,000	(500,000)	–

The above table includes the share options held by the directors appointed and resigned during the year ended December 31, 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

36. RESERVES

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

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

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

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

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

37. ACQUISITION OF ASSETS THROUGH ACQUISITION OF SUBSIDIARIES/ ACQUISITION OF SUBSIDIARIES

On December 11, 2012, the Group completed the acquisition of the entire equity interest of Jiangsu Kasen Property Development Company Limited 江蘇卡森置業有限公司 through a 60% owned subsidiary for a consideration of RMB30,000,000. This transaction has been accounted for as an acquisition of assets as the acquisition does not meet the definition of a business combination.

Fair value of assets and liabilities recognized at the date of acquisition:

	RMB'000
Net assets acquired:	
Property under development	150,375
Property, plant and equipment	265
Bank balances and cash	2,320
Other receivables	41
Amount due to a shareholder	(103,001)
Net assets	50,000
Non-controlling interests	(20,000)
Consideration	30,000
Net cash outflow arising on acquisition:	
Consideration paid in cash	30,000
Less: Bank balances and cash acquired	(2,320)
	27,680

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For the year ended December 31, 2012

37. ACQUISITION OF ASSETS THROUGH ACQUISITION OF SUBSIDIARIES/ ACQUISITION OF SUBSIDIARIES (cont'd)

For the year ended December 31, 2011, there were two acquisitions have been accounted for using the purchase method.

On July 19, 2011, the Group acquired 60.08% interest in Hangzhou Zoutianxia International Travel Agency Company Limited 杭州走天下國際旅行社有限公司 ("Zoutianxia") from an independent third party at a consideration of RMB3,360,000. Zoutianxia is engaged in the business of providing travel packages and other related services in PRC.

On September 26, 2011, the Group acquired 100% interest in Jiande Xin'an Jiang Hot Spring Resort Company Limited 建德市新安江溫泉度假村有限公司 ("Jiande Hot Spring Resort") at a consideration of RMB34,970,000 (including Acquisition – related costs of RMB302,000) from an independent third party. Jiande Hot Spring Resort is engaged in hot spring resort operation in Jiande, PRC.

Zoutianxia and Jiande Hot Spring Resort were acquired to diversify the Group's business.

Fair value of assets and liabilities recognized at the respective date of acquisition:

	Zoutianxia *RMB'000*	**Jiande Hot Spring Resort** *RMB'000*	**Total** *RMB'000*
Property, plant and equipment	17	65,464	65,481
Inventory	–	332	332
Trade and other receivables	10,122	52	10,174
Bank balances and cash	592	750	1,342
Trade and other payables	(5,092)	(2,230)	(7,322)
Short-term bank borrowing	–	(29,700)	(29,700)
Net assets	5,639	34,668	40,307
Non-controlling interests	(2,279)	–	(2,279)
Consideration excluding the acquisition related cost	3,360	34,668	38,028
Net cash outflow arising on acquisition:			
Consideration paid in cash	3,360	34,668	38,028
Less: Bank balances and cash acquired	(592)	(750)	(1,342)
	2,768	33,918	36,686

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37. ACQUISITION OF ASSETS THROUGH ACQUISITION OF SUBSIDIARIES/ ACQUISITION OF SUBSIDIARIES (cont'd)

The fair value of trade and other receivables at the dates of acquisition of Zoutianxia and Jiande Hot Spring Resort amounted to RMB10,122,000 and RMB52,000, respectively, which are the same as the gross contractual amounts. The best estimate at acquisition dates of the contractual cash flows not expected to be collected amounted to nil for both companies.

Acquisition-related costs amounting to RMB302,000 have been excluded from the consideration transferred and have been recognized as an expense in the current year, within the "other expenses" line item in the consolidated statement of comprehensive income.

Non-controlling interests

The non-controlling interests in Zoutianxia recognized at the acquisition date were measured by reference to the non-controlling interests' proportionate share of the fair value of the net assets of Zoutianxia and amounted to approximately RMB2,279,000.

38. DISPOSAL/LOSS OF CONTROL OF A SUBSIDIARY

In December 2011, the Group entered into an agreement with independent third parties to dispose of 100% interest of a subsidiary, La Kassa for an aggregate consideration of approximately RMB41,000,000. The disposal was completed on March 22, 2012, on which date the Group lost control of La Kassa.

The net assets of La Kassa at the date of disposal were as follows:

	RMB'000
Bank balance and cash	359
Other receivable	49
Building	27,844
Prepaid lease payments	12,592
Trade and other payables	(17,715)
Net assets disposed of	23,129
Gain on disposal	17,871
Total consideration, satisfied by cash	41,000
Net cash inflow arising on disposal:	
Total cash consideration received during the year *(note)*	31,000
Bank balance and cash disposed of	(359)
	30,641

Note: An amount of RMB10,000,000 was received during the year ended December 31, 2011.

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38. DISPOSAL/LOSS OF CONTROL OF A SUBSIDIARY (cont'd)

Pursuant to a Board resolution dated on March 29, 2011, the resolution in respect of the administration of a wholly owned subsidiary, Sofas UK, which carried out retail sales of furniture in the United Kingdom, was duly passed. Accordingly, the Group filed the necessary documentation with the High Court of Justice (Bristol District Registry) in United Kingdom and administrators were appointed. The administration became effective from March 30, 2011, on which date the control of Sofas UK was lost. After consultation of a legal counsel for legal advice, the directors of the Company are in the opinion that the Group has lost its control over Sofas UK since administration became effective.

An analysis of the assets and liabilities of Sofas UK at the date when the Group lost control were as follows:

	RMB'000
Bank balances and cash	11,686
Inventories	32,149
Trade and other receivables	14,837
Other long term liabilities	(43,455)
Trade and other payables *(Note)*	(219,142)
Carrying amount of brandname (included in intangible assets of the Group)	2,330
Net liabilities	(201,595)
Add: Allowance made by the Group related to trade and other receivables due from Sofas UK	127,814
Cumulative exchange differences in respect of net liabilities of the subsidiary reclassified from equity to profit or loss on loss of control of a subsidiary	1,531
Gain on loss of control of Sofas UK	(72,250)

For the year ended December 31, 2011, the net cash outflow arising on loss of control of a subsidiary with an amount of RMB11,686,000 is disclosed as an investing activity in consolidated statement of cash flows.

Note: The amount above includes a balance due to the Group of approximately RMB127,814,000 which had been fully eliminated in the Group prior to the loss of control. The Group had fully impaired the amount due from Sofas UK.

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For the year ended December 31, 2012

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Categories of financial instruments

	2012	2011
	RMB'000	*RMB'000*
Financial assets		
Loans and receivables		
(including cash and cash equivalents)	**1,484,132**	1,390,906
Available-for-sale investments	**494,366**	380,796
Financial assets held for trading		
– Derivative financial instrument	**–**	497
Financial liabilities		
Amortized cost	**3,207,300**	2,489,452

(b) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, trade, bills and other receivables, receivable from disposal of assets, bank balances and cash, pledged 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 summarized below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to the fixed rate pledged bank deposits and bank and other borrowings as set out in notes 28 and 31 respectively. It is the Group's policy to keep its borrowings at fixed rate of interest so as to minimize the cash flow interest rate risk.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

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

Market risk (cont'd)

Interest rate risk (cont'd)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point (2011: 50 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2011: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended December 31, 2012 would increase/decrease by RMB2,103,000 (2011: increase/decrease by RMB3,268,000). 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 and such related bank balances and cash, trade, bills and other receivables and trade, bills and other payables arising from time to time. In addition, the Group has short term bank and other borrowings denominated in US dollars. The derivative financial instrument used has no direct relationship with the individual transactions denominated in US dollars but also give rise to foreign exchange risk exposure for the Group.

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**	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
USD	**39,806**	37,762	**144,478**	25,400
HKD	**242**	320	**–**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

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

Market risk (cont'd)

Foreign currency risk (cont'd)

Sensitivity analysis

The Group is mainly exposed to currency of USD.

5% (2011: 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, 2012, if the functional currency of the entities had been strengthened by 5% against USD, profit for the year would have been increased by RMB3,926,000 (2011: decreased by RMB464,000) and there would be equal and opposite impact on profit for the year if the functional currency of the entities has been weakened by 5% against USD. It is mainly as a result of foreign exchange losses on translation of USD denominated trade, bills and other receivables and bank balances and cash cannot be compensated by foreign exchange gains on translation of USD denominated trade, bills and other payables and bank and other borrowings.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Other price risk

The Group is exposed to equity price risk mainly through its investment in listed equity securities classified as available-for-sale financial assets and derivative financial instrument. The Group would closely monitor the investment for any change in value.

The notional amount of the Group's outstanding foreign currency forward contracts are set out in note 27.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the end of the reporting period. A 5% increase or decrease is used and represents management assessment of the reasonably possible change in equity prices.

If the price of the listed equity instrument had been 5% higher/lower, available-for-sale investments valuation reserve would increase/decrease by RMB18,527,000 (2011: RMB13,893,000) for the Group as a result of the changes in fair value of available-for-sale investments.

Derivative financial instrument has exposure to other price risk but as the directors of the Company consider the exposure is insignificant, no sensitivity analysis is therefore presented.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

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

Credit risk

As at December 31, 2012, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties and financial guarantees provided by the Group is arising from the carrying amount of the respective recognized financial assets as stated in the consolidated statement of financial position and the amount of contingent liabilities in relation to financial guarantee issued by the Group as disclosed in note 45.

In order to minimize the credit risk of receivables, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of receivables to ensure that adequate impairment losses are made for irrecoverable amounts. In addition, the Group maintained export credit insurance of major overseas customers to protect the Group against the risk that the overseas customers may default settlement.

The credit risk on financial guarantee provided to the customers in respect of mortgage loan is limited because the related properties can be resold in the market if the customer fail to repay the mortgage loan.

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

For the deposit paid for acquisition of a subsidiary and advance payment for acquisition of land for development, the management of the Group has assessed the financial position of the counterparties and also the approval progress of the land title so as to recover the amounts paid by the Group.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the receivable due from the largest customer disclosed in note 6, 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.

Liquidity risk

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

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

Other than continuously monitoring the actual cash flows by management, the Group also relies on bank and other borrowings as a significant source of liquidity. As at December 31, 2012, the Group has available unutilized short-term bank loan facilities of approximately RMB779,022,000 (2011: RMB506,595,000) as a liquidity management resource.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (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. For the contractual maturity details of the derivative instruments, the effect is not significant to the Group and not presented below.

	Weighted average effective interest rate %	0 – 60 days RMB'000	61 – 90 days RMB'000	91 – 365 days RMB'000	1 – 2 years RMB'000	Over 2 years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount at December 31, 2012 RMB'000
2012								
Non-derivative financial liabilities								
Trade, bills and other payables	–	1,674,911	–	–	–	–	1,674,911	1,674,911
Bank and other borrowings	6.31	244,221	427,148	689,961	167	6,501	1,367,998	1,286,546
Amounts due to a non-controlling shareholder of a subsidiary	–	103,001	–	–	–	–	103,001	103,001
Other long-term liabilities	8.1	–	–	12,150	156,075	–	168,225	142,842
Total		2,022,133	427,148	702,111	156,242	6,501	3,314,135	3,207,300

	Weighted average effective interest rate %	0 – 60 days RMB'000	61 – 90 days RMB'000	91 – 365 days RMB'000	1 – 2 years RMB'000	Over 2 years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount at December 31, 2011 RMB'000
2011								
Non-derivative financial liabilities								
Trade, bills and other payables	–	1,058,563	–	–	–	–	1,058,563	1,058,563
Bank and other borrowings	6.31	438,638	60,355	1,015,261	195	6,924	1,521,373	1,430,889
Total		1,497,201	60,355	1,015,261	195	6,924	2,579,936	2,489,452

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(c) Fair-value

The fair value of investment in HCLM classified as available-for-sale investments is arrived at the market value of the freely trade share discounted for lack of marketability. The respective discount for lack of marketability is calculated using Black-Scholes pricing model. The basis of valuations is carried out by an independent qualified professional valuer.

The fair value of foreign currency forward contracts are measured by using a forward pricing model in deriving the market value at the end of the reporting period.

The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

Fair value measurements recognized in the statement of financial position

The following provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(c) Fair-value (cont'd)

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

	Equity security at Level 1	Derivative financial liabilities at Level 2	Equity security at Level 3	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At January 1, 2012	**10,000**	**497**	**370,486**	**380,983**
Total gains or losses:				
– Fair value loss through settlement	**–**	**(338)**	**–**	**(338)**
– Other comprehensive income	**–**	**–**	**123,570**	**123,570**
Settlement	**(10,000)**	**(159)**	**–**	**(10,159)**
At December 31, 2012	**–**	**–**	**494,056**	**494,056**
At January 1, 2011	20,000	2,751	432,510	455,261
Total gains or losses:				
– Fair value gain through settlement	–	342	–	342
– Unrealized fair value change	–	497	–	497
– Other comprehensive income	–	–	(62,024)	(62,024)
Settlement	(10,000)	(3,093)	–	(13,093)
At December 31, 2011	10,000	497	370,486	380,983

There were no transfers between Level 1, 2 and 3 in the current year.

40. 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 maximizing the return to equity holders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debts, which includes the bank and other borrowings disclosed in note 31, advances from a director and a related company disclosed in note 47(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

For the year ended December 31, 2012

41. 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$1,250 (HK$1,000 before June 2012) 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 RMB6,307,000 (2011: RMB5,871,000) represents contributions paid and payable to the above schemes by the Group in respect of the current accounting period.

42. PLEDGE OF ASSETS

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

	2012	2011
	RMB'000	*RMB'000*
Buildings	**124,568**	133,351
Prepaid lease payments	**25,108**	26,016
Pledged bank deposits	**240,815**	185,180
Properties under development and held for sale	**533,175**	553,615
	923,666	898,162

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For the year ended December 31, 2012

43. LEASE COMMITMENT

As lessee

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

	2012	2011
	RMB'000	*RMB'000*
Within one year	**20,649**	12,174
In the second to fifth year inclusive	**31,040**	30,996
Over five years	**19,956**	23,283
	71,645	66,453

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

44. CAPITAL AND OTHER COMMITMENTS

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

	2012	2011
	RMB'000	*RMB'000*
Expenditure contracted for but not provided in the consolidated financial statements in respect of		
– Acquisition of property, plant and equipment	**12,635**	43,176
– Properties under development	**1,012,040**	696,727
	1,024,675	739,903

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

45. CONTINGENT LIABILITIES

The Group provided guarantees of RMB295,248,000 (2011: RMB150,059,000) at December 31, 2012 to banks in favour of its customers in respect of the mortgage loans provided by the banks to those customers for the purchase of the Group's properties. These guarantees provided by the Group to the banks will be released upon receiving the building ownership certificate of the respective properties by the banks from the customers as a pledge for security to the mortgage loans granted.

46. INFORMATION OF FINANCIAL POSITION OF THE COMPANY

The information of financial position of the Company as at December 31, 2012 is as follows:

	Note	**2012**	2011
		RMB'000	*RMB'000*
ASSETS			
Long term equity investments in subsidiaries		**920,449**	589,958
Other receivables		**295**	265
Amounts due from subsidiaries		**1,934**	332,328
Bank balances and cash		**993**	4,841
		923,671	927,392
LIABILITIES			
Other payables		**41,907**	38,105
		41,907	38,105
NET ASSETS		**881,764**	889,287
CAPITAL AND RESERVES			
Share capital		**1,400**	1,400
Reserves	*(a)*	**880,364**	887,887
TOTAL EQUITY		**881,764**	889,287

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

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

Note:

(a) Reserve of the Company

	The Company				
	Share premium	**Special reserve**	**Share option reserve**	**Accumulated losses**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at January 1, 2011	1,313,274	168,659	19,193	(564,944)	936,182
Dividend recognized as distribution *(note 13)*	–	–	–	(28,565)	(28,565)
Issue of share upon exercise of share options	4,213	–	(1,375)	–	2,838
Recognition of equity-settled share-based payments *(note 35)*	–	–	180	–	180
Release upon lapse of share options	–	–	(1,158)	1,088	(70)
Loss for the year	–	–	–	(22,678)	(22,678)
As at December 31, 2011	1,317,487	168,659	16,840	(615,099)	887,887
Release upon lapse of share options	–	–	(2,802)	984	(1,818)
Loss for the year	–	–	–	(5,705)	(5,705)
As at December 31, 2012	**1,317,487**	**168,659**	**14,038**	**(619,820)**	**880,364**

47. CONNECTED AND RELATED PARTY DISCLOSURES

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

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

Connected persons and related parties	*Notes*	**Nature of transactions**	**2012** **RMB'000**	2011 RMB'000
Haining Yujie Material Recycling Co., Ltd. ("Yujie") 海寧宇潔物資回收有限公司	*(i)*	Sales of scrap materials by the Group	**3,288**	3,653
Furniture and Bedding Concepts Ltd. ("Bedding Concepts") (Formerly known as Sleep City Holdings Ltd)	*(i)*	Sales of upholstered furniture by the Group	**–**	43,919
Starcorp Corporation Pty., Ltd. ("Starcorp")	*(i)*	Sales of upholstered furniture by the Group	**1,952**	2,764
Haining Xingying Furniture Co., Ltd. ("Haining Xingying") 海寧星瑩傢俱有限公司	*(i)*	Sales of leather by the Group	**371**	705
		Sales of upholstered furniture by the Group	**–**	42
		Purchase of wooden products by the Group	**4,671**	24,693
Zhejiang Sunbridge Industrial Group Company Limited ("Sunbridge")	*(i)*	Purchase of wooden products by the Group	**7,491**	14,408
Related parties				
Liema Furniture	*(ii)*	Sales of leather by the Group	**1,321**	6,868
		Rental expenses	**2,600**	–
		Utilities expenses	**453**	–
Youge	*(ii)*	Purchase of kitchen utensils furniture by the Group	**2,051**	2,429
		Sales of upholstered furniture by the Group	**38**	–

Notes:

(i) Mr. Zhu, controlling shareholder and director of the Company, indirectly controls more than 30% of the voting power at Sunbridge's general meeting. Mr. Zhu has significant influence and beneficial interests in Yujie, Bedding Concepts, Starcorp and Haining Xingying through Sunbridge. The directors of the Company confirmed the transactions are in accordance to the Chapter 14A of the Listing Rules.

(ii) Liema Furniture and Youge are associates of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Name of related companies	*Notes*	**2012 RMB'000**	2011 RMB'000
Trade in nature			
Haining Xingying	*(i)*	**(7,953)**	(13,610)
Liema Furniture	*(i)*	**412**	313
Starcorp	*(i)*	**1,792**	2,341
Bedding Concepts	*(i)*	**196**	33,290
Yujie	*(i)*	**1,450**	1,976
Youge	*(i)*	**(5,235)**	(2,021)
Sunbridge	*(i)*	**(16,835)**	(11,831)
Non-trade in nature			
Sunbridge	*(ii)*	**–**	(3,432)
Yujie	*(ii)*	**–**	15
Hangzhou Great Star Industrial Co., Ltd 杭州巨星科技股份有限公司	*(ii)*	**(16,500)**	–
		(42,673)	7,041
Name of director			
Mr. Zhu	*(ii)*	**(9,660)**	(9,681)
		(52,333)	(2,640)
Represented by:			
Amounts due from related companies, included in trade receivables under current assets		**3,850**	38,832
Amounts due from related companies, included in other receivables under current assets		**–**	15
Amounts due to related companies, included in trade payables under current liabilities		**(30,023)**	(28,374)
Advance from a related company, included in other payables under current liabilities		**(16,500)**	(3,432)
Advance from a director, included in other payables under current liabilities		**(9,660)**	(9,681)
		(52,333)	(2,640)

Notes:

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

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

(c) Details of the share options granted to the directors are set out in note 35.

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

(e) Detail of the financial guarantees granted by a related party are set out in note 31.

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48. EVENT AFTER THE REPORTING PERIOD

Subsequent to December 31, 2012, the Group completed its negotiations with MELX Co., Ltd. ("MELX"), for the subscription of 100% shares of MELX at the subscription price of ¥100,000,000 (equivalent to approximately RMB6,880,000). The transaction was completed on January 29, 2013 and the acquisition cost of RMB6,880,000 was satisfied in cash. Details of the subscription are set out in the Company's announcement dated January 28, 2013.

MELX has over 100 years of expertise and experience in the manufacturing of leather products including automotive leather with its headquarter based in Japan. It currently owns various production facilities, land and factories in Japan for the manufacturing of leather products. The Group is in the process to determine the financial impacts of the transaction to the Group.

49. PRINCIPAL SUBSIDIARIES

The following table lists major subsidiaries of the Company as at December 31, 2012 and 2011 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	Attributable equity interest of the Company indirectly 2012 %	2011 %	Principal activities
Haining Kasen Real Estate Co., Ltd. 海寧卡森地產有限公司*(Note a)*	PRC	RMB60,000,000	**100**	100	Production and processing of leather and tailored products
Haining Hainix Sofa Co., Ltd. 海寧漢林沙發有限公司*(Note b)*	PRC	US$6,000,000	**100**	100	Production and sale of sofas, dining chairs and other furniture products
Haining Hengsen Furniture Co., Ltd. 海寧恒森傢俱有限公司*(Note a)*	PRC	RMB50,000,000	**100**	100	Production of furniture and glass fiber reinforced plastic products; wood processing
Haining Hidea Furniture Co., Ltd. 海寧慧達傢俱有限公司*(Note b)*	PRC	US$7,800,000	**100**	100	Production and sale of sofas, dining chairs and other furniture products
Haining Home Impression Furniture Co., Ltd. 海寧家美傢俱有限公司*(Notes b & c)*	PRC	US$11,430,000	**–**	100	Production and sale of upholstered furniture
Haining Kareno Furniture Co., Ltd. 海寧卡雷諾傢俬有限公司*(Note b)*	PRC	US$3,600,000	**100**	100	Production and sale of upholstered furniture

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49. PRINCIPAL SUBSIDIARIES (cont'd)

Name of the company	Country of establishment and operations	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Company indirectly 2012 %	2011 %	Principal activities
Haining Kasen Leather Co., Ltd. 海寧卡森皮革有限公司*(Note b)*	PRC	US$3,000,000	**100**	100	Production and sale of upholstered furniture
Haining Schinder Tanning Co., Ltd. 海寧森德皮革有限公司*(Note b)*	PRC	US$30,155,000	**100**	100	Production and sale of automotive leather
Hainan Boao Kasen Property Development Co., Ltd. ("Hainan Boao") 海南博鰲卡森置業有限公司*(Note b)*	PRC	RMB100,000,000	**92**	92	Property development
Shanghai La Kassa Furniture Co., Ltd. 上海禾美傢俱有限公司*(Note b)*	PRC	US$4,000,000	**–**	100	Production and sale of upholstered furniture
Yancheng Sujia Real Estate Development Co. Ltd. 鹽城市蘇嘉房地產開發有限公司*(Note b)*	PRC	RMB63,580,000	**100**	100	Property development
Zhejiang Kasen Industrial Group Co., Limited 浙江卡森實業集團有限公司*(Note b)*	PRC	RMB896,240,000	**100**	100	Research, development, production and sales of furniture leather
Zhejiang Kasen Property Development Co., Ltd. 浙江卡森置業有限公司*(Note a)*	PRC	RMB400,000,000	**100**	100	Investment holding
Jiangsu Kasen Property Development Co., Ltd. 江蘇卡森置業有限公司*(Note a)*	PRC	RMB50,000,000	**60**	–	Property development

Notes:

(a) The companies are limited liability companies.

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

(c) The company has merged to Haining Schinder Tanning Co., Ltd. for the year.

None of the subsidiaries had issued any debt securities at the end of the year except for Haining Schinder Tanning which has issued RMB150 million corporate bonds, in which the Group has no interest.