KASEN INTERNATIONAL HOLDINGS LIMITED
卡森國際控股有限公司

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

(Stock Code: 496)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2014

The board (the "Board") of directors (the "Directors") of Kasen International Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended December 31, 2014 together with comparative figures for the same period of 2013, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2014

	NOTES	**2014** *RMB'000*	2013 *RMB'000*
Turnover	3	**3,230,327**	3,439,200
Cost of sales		**(2,852,868)**	(2,761,776)
Gross profit		**377,459**	677,424
Other income	4	**21,578**	50,784
Selling and distribution costs		**(164,335)**	(151,803)
Administrative expenses		**(211,651)**	(180,315)
Other gains and losses	5	**160,237**	(12,002)
Share of losses of associates		**–**	(4,253)
Finance costs	6	**(62,964)**	(40,653)
Profit before tax	7	**120,324**	339,182
Income tax expenses	8	**(102,494)**	(169,967)
Profit for the year		**17,830**	169,215

	NOTE	**2014**	2013
		RMB'000	*RMB'000*
Other comprehensive income (loss)			
Items that may be subsequently reclassified to profit or loss:			
Fair value (loss) gain on available-for-sale investments		**(230,720)**	364,216
Income tax on fair value change of available-for-sale investments		**57,680**	(91,054)
Exchange difference arising on translation		**(481)**	(231)
Reclassification from revaluation reserve to profit or loss on disposal of available-for-sale investments		**(197,972)**	–
Reclassification from revaluation reserve to profit or loss on income tax relating to disposal of available-for-sale investments		**49,493**	–
		(322,000)	272,931
Total comprehensive (loss) income for the year		**(304,170)**	442,146
Profit (loss) for the year attributable to:			
Owners of the Company		**32,418**	173,422
Non-controlling interests		**(14,588)**	(4,207)
		17,830	169,215
Total comprehensive (loss) income attributable to:			
Owners of the Company		**(289,582)**	446,353
Non-controlling interests		**(14,588)**	(4,207)
		(304,170)	442,146
Earnings per share	10		
Basic		**RMB2.79 cents**	RMB14.92 cents
Diluted		**RMB2.79 cents**	RMB14.90 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2014

	NOTES	2014 *RMB'000*	2013 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**923,774**	752,721
Prepaid lease payments – non-current portion		**73,704**	67,362
Intangible assets		**938**	1,162
Interests in associates		**–**	–
Available-for-sale investments – non-current portion		**223,056**	859,213
Deferred tax assets		**82,456**	91,602
Deposits paid for acquisition of land use rights		**68,458**	20,000
Other long-term assets		**–**	620
		1,372,386	1,792,680
CURRENT ASSETS			
Available-for-sale investments – current portion		**190,920**	–
Inventories		**601,911**	459,541
Properties under development		**3,249,721**	3,355,805
Properties held for sale		**1,426,793**	1,140,048
Amounts due from non-controlling interests of subsidiary		**4,769**	–
Trade, bills and other receivables	11	**1,655,427**	1,528,423
Prepaid lease payments – current portion		**2,581**	2,129
Tax recoverable		**13,790**	13,987
Prepaid land appreciation tax		**41,050**	52,491
Pledged bank deposits		**244,495**	199,028
Restricted bank deposits for property development business		**9,101**	29,615
Bank balances and cash		**324,388**	560,147
		7,764,946	7,341,214
CURRENT LIABILITIES			
Trade, bills and other payables	12	**1,856,171**	1,896,980
Deposits received in respect of pre-sale of properties		**1,044,265**	1,023,479
Bank and other borrowings – due within one year		**1,666,765**	1,480,098
Exchangeable bonds		**216,000**	–
Tax payable		**166,909**	253,849
Amount due to non-controlling interests of subsidiaries		**127,474**	114,374
Other long-term liabilities – current portion		**33,222**	145,345
		5,110,806	4,914,125
NET CURRENT ASSETS		**2,654,140**	2,427,089
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,026,526**	4,219,769

	2014	2013
	RMB'000	*RMB'000*
NON-CURRENT LIABILITIES		
Deferred tax liabilities	**228,369**	326,289
Bank and other borrowings – due after one year	**679,865**	458,116
Other long-term liabilities	**10,984**	17,160
	919,218	801,565
NET ASSETS	**3,107,308**	3,418,204
CAPITAL AND RESERVES		
Share capital	**1,400**	1,400
Reserves	**2,961,307**	3,260,017
Equity attributable to owners of the Company	**2,962,707**	3,261,417
Non-controlling interests	**144,601**	156,787
TOTAL EQUITY	**3,107,308**	3,418,204

Notes:

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

In the current year, the Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board ("IASB") for the first time in the current year, which are effective from the Group's financial period beginning on January 1, 2014.

Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting
IFRIC 21	Levies

The application of the new and revised IFRS in the current year had 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.

New and revised IFRSs issued but not yet effective

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

IFRS 9	Financial Instruments[1]
IFRS 14	Regulatory Deferral Accounts[2]
IFRS 15	Revenue from Contracts with Customers[3]
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations[5]
Amendments to IAS 1	Disclosure Initiative[5]
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[5]
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions[4]
Amendments to IFRSs	Annual Improvements to IFRSs 2010-2012 Cycle[6]
Amendments to IFRSs	Annual Improvements to IFRSs 2011-2013 Cycle[4]
Amendments to IFRSs	Annual Improvements to IFRSs 2012-2014 Cycle[5]
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants[5]
Amendments to IAS 27	Equity Method in Separate Financial Statements[5]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception[5]

1 Effective for annual periods beginning on or after January 1, 2018
2 Effective for first annual IFRS financial statements beginning on or after January 1, 2016
3 Effective for annual periods beginning on or after January 1, 2017
4 Effective for annual periods beginning on or after July 1, 2014
5 Effective for annual periods beginning on or after January 1, 2016
6 Effective for annual periods beginning on or after July 1, 2014, with limited exceptions

The directors of the Company anticipate that the application of the above new and revised IFRSs will have no material impact on the consolidated financial statement except for the application of IFRS 15 which may have impact on the disclosure set out in these consolidated financial statements attached to the annual report.

3. 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").

Segment revenues and results

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

Revenue

For the year ended December 31, 2014

	Manufacturing	Properties development	Retail	Others	Segment total	Eliminations	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
TURNOVER							
External sales	**2,375,828**	**718,348**	**17,913**	**118,238**	**3,230,327**	**–**	**3,230,327**
Inter-segment sales	**968**	**–**	**–**	**5,050**	**6,018**	**(6,018)**	**–**
Total	**2,376,796**	**718,348**	**17,913**	**123,288**	**3,236,345**	**(6,018)**	**3,230,327**

For the year ended December 31, 2013

	Manufacturing	Properties development	Retail	Others	Segment total	Eliminations	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
TURNOVER							
External sales	1,851,864	1,468,074	16,041	103,221	3,439,200	–	3,439,200
Inter-segment sales	2,820	–	–	15,696	18,516	(18,516)	–
Total	1,854,684	1,468,074	16,041	118,917	3,457,716	(18,516)	3,439,200

Results

	2014	2013
	RMB'000	*RMB'000*
Segment results		
– Manufacturing *(note)*	**80,353**	(4,142)
– Properties development	**(11,660)**	222,403
– Retail	**(1,340)**	(9,725)
– Others	**(45,573)**	(38,366)
	21,780	170,170
Unallocated corporate expenses	**(2,953)**	(4,080)
Unallocated other gains and losses	**(997)**	(1,724)
Gain on bargain purchase of a subsidiary	**–**	4,849
Profit for the year	**17,830**	169,215

The accounting policies of the operating segments are the same as the Group's accounting policies. 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.

Note: Included in the result of manufacturing segment was a gain on disposal of available-for-sale investments amounting to RMB190,820,000. The available-for-sale investments were invested and managed under the manufacturing segment.

Geographical information

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

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

The Group's revenue from external customers by geographical location is detailed below:

	Year ended December 31,	
	2014	2013
	RMB'000	*RMB'000*
United States	**444,787**	234,574
PRC, including Hong Kong	**2,601,400**	3,062,840
Europe	**91,026**	92,068
Japan	**40,245**	37,308
Others	**52,869**	12,410
	3,230,327	3,439,200

Information about major customers

The following table summarizes revenue for customers which accounted for 10% or more of net sales:

	Year ended December 31,	
	2014	2013
	RMB'000	*RMB'000*
Customer A[1]	**496,976**	492,443
Customer B[1]	**454,631**	486,813

[1] Revenue from Manufacturing

(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:

	2014	2013
	RMB'000	*RMB'000*
Sale of goods		
Manufacturing		
Upholstered furniture	**666,059**	459,128
Furniture leather	**248,099**	255,359
Automotive leather	**1,461,670**	1,137,377
Residential properties	**718,348**	1,468,074
Retail of upholstered furniture	**17,913**	16,041
	3,112,089	3,335,979
Provision of services		
Others *(note)*	**118,238**	103,221
Total	**3,230,327**	3,439,200

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

4. OTHER INCOME

Details of other income are as follows:

	2014	2013
	RMB'000	*RMB'000*
Government grants *(note)*	**8,053**	11,939
Income from sales of scrap materials	**630**	4,645
Interest income	**7,516**	19,007
Dividend income from available-for-sale investments	**4,034**	5,985
Rental income	**1,345**	4,401
Others	**–**	4,807
	21,578	50,784

Note: Government grants represent various incentives received from government for business development.

5. OTHER GAINS AND LOSSES

	2014	2013
	RMB'000	*RMB'000*
Reversal of impairment loss recognized in respect of trade and other receivables	**3,206**	5,756
Impairment loss recognized in respect of property under development	**(9,015)**	–
Impairment loss recognized in respect of property, plant and equipment	**(278)**	–
Gain on disposal of property, plant and equipment	**2,619**	400
Net foreign exchange loss	**(9,517)**	(2,962)
Impairment loss recognized in respect of trade and other receivables	**(9,175)**	(6,392)
Donation	**(1,794)**	(1,482)
Penalty	**(138)**	(9,571)
Gain on disposal of available-for-sale investments	**190,820**	–
Gain on bargain purchase of a subsidiary	**–**	4,849
Gain on disposal of an associate	**–**	10
Loss on sale of assets held for sale	**–**	(44)
Others	**(6,491)**	(2,566)
	160,237	(12,002)

6. FINANCE COSTS

	2014	2013
	RMB'000	*RMB'000*
Interest on:		
Bank borrowings wholly repayable within five years	**93,318**	94,899
Corporate bonds wholly repayable within five years	**8,971**	14,653
Other borrowings not wholly repayable within five years	**4,978**	6,840
Total borrowing costs	**107,267**	116,392
Less: Amounts capitalized in respect of properties under development	**(44,303)**	(75,739)
	62,964	40,653

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.

7. PROFIT BEFORE TAX

	2014 *RMB'000*	2013 *RMB'000*
Profit before tax has been arrived at after charging:		
Amortization of intangible assets	**460**	436
Depreciation of property, plant and equipment	**65,467**	56,290
Total depreciation and amortization	**65,927**	56,726
Release of prepaid lease payments	**2,206**	2,129
Auditor's remuneration	**3,800**	3,800
Cost of inventories recognized as expenses (including allowance of inventories of RMB21,594,000 (2013: RMB7,303,000))	**2,194,915**	1,697,933
Cost of properties recognized as cost of sale	**573,597**	994,224
Operating lease rentals in respect of land and buildings	**19,525**	25,190
Total employee benefit expenses (including directors' emoluments)	**265,852**	208,860

8. INCOME TAX EXPENSES

	2014 *RMB'000*	2013 *RMB'000*
Current year		
– PRC enterprise income tax	**58,824**	131,468
– Japan	**112**	91
	58,936	131,559
(Overprovision) underprovision of income tax in previous years		
– PRC enterprise income tax	**(956)**	3,876
PRC Land appreciation tax ("LAT")	**26,115**	89,516
Deferred tax	**18,399**	(54,984)
	102,494	169,967

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%.

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

Haining Schinder Tanning Co., Ltd, one subsidiary of the Group obtained a High and New Technology Enterprise status for the periods from January 1, 2013 to December 31, 2015, respectively, and entitled to a preferential tax rate of 15% for the years ended December 31, 2014 and 2013.

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.

9. DIVIDENDS

	2014	2013
	RMB'000	*RMB'000*
Dividends recognised as distributions during the year:		
2013 final, paid – HK1.00 cent per share (equivalent to approximately RMB0.79 cent) (2013: nil)	**9,227**	–

No dividend has been proposed during 2014 nor since the end of the reporting period.

10. 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

	2014	2013
	RMB'000	*RMB'000*
Profit for the purposes of basic and diluted earnings per share, being profit attributable to owners of the Company	**32,418**	173,422

Number of shares

	2014	2013
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,162,322,985**	1,162,322,985
Effect of dilutive potential ordinary shares – share options	**1,400,675**	1,544,806
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,163,723,660**	1,163,867,791

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 2014 and 2013.

11. TRADE AND BILLS RECEIVABLES

The Group grants a credit period ranging from 30 days to 120 days to their manufacturing 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:

	2014	2013
	RMB'000	*RMB'000*
Aged:		
Within 60 days	**439,594**	341,865
61 – 90 days	**92,944**	72,433
91 – 180 days	**19,576**	15,141
181 – 365 days	**3,154**	3,881
Over 1 year	**1,235**	3,235
	556,503	436,555

12. TRADE AND BILLS PAYABLES

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

	2014	2013
	RMB'000	*RMB'000*
Within 60 days	**1,155,932**	1,287,422
61 – 90 days	**64,710**	131,351
91 – 180 days	**261,314**	38,332
181 – 365 days	**39,856**	39,184
1 – 2 years	**27,885**	43,345
Over 2 years	**26,316**	26,093
	1,576,013	1,565,727

13. 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:

	2014	2013
	RMB'000	*RMB'000*
Buildings	**300,048**	117,010
Prepaid lease payments	**68,611**	24,800
Pledged bank deposits	**244,495**	199,028
Available-for-sale investments	**222,740**	–
Properties under development and held for sale	**2,260,130**	2,347,584
	3,096,024	2,688,422

14. CAPITAL AND OTHER COMMITMENTS

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

	2014	2013
	RMB'000	*RMB'000*
Expenditure contracted for but not provided in the consolidated financial statements in respect of		
– Acquisition of property, plant and equipment	**52,861**	120,720
– Properties under development	**997,106**	1,167,650
Expenditure authorized but not contracted in respect of		
– Acquisition of land use rights	**32,405**	56,236
	1,082,372	1,344,606

15. CONTINGENT LIABILITIES

The Group provided guarantees of RMB450,465,000 (2013: RMB328,718,000) at December 31, 2014 to banks in favour of its customers in respect of the mortgage loans provided by the banks to those customers for the purchase of the Group's properties. These guarantees provided by the Group to the banks will be released upon receiving the building ownership certificate of the respective properties by the banks from the customers as a pledge for security to the mortgage loans granted. The directors consider that the fair value of the above guarantees is insignificant on initial recognition and at the report dates as it is not probable that an outflow in settlement will be required.

16. EVENTS AFTER THE REPORTING PERIOD

On February 17, 2015, the directors of the Company resolved to liquidate Melx Co. Ltd ("Melx"). On February 27, 2015, application to terminate the civil rehabilitation plan was submitted to the Tokyo District Court. On March 3, 2015, the Tokyo District Court has approved the termination of the civil rehabilitation plan for Melx, and appointed an administrator who shall take control over the assets and liabilities of Melx so that the assets should not be disposed for the time being until the commencement of liquidation procedures as declared by the Tokyo District Court. In addition, the operating activities of Foshan Melx Leather Co., Ltd ("FMC"), wholly-owned subsidiary of Melx, have been ceased. As a result of the foregoing, all the assets of Melx and FMC as of December 31, 2014 have been written down to their respective recoverable amount.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OVERVIEW

Financial Review

For the year ended December 31, 2014, the Group recorded a consolidated turnover of approximately RMB3,230.3 million, representing a decrease of approximately 6.1% as compared to approximately RMB3,439.2 million for the year ended December 31, 2013.

The Group's gross profit for the year of 2014 was approximately RMB377.5 million, representing a decrease of approximately 44.3% as compared to approximately RMB677.4 million in the year of 2013 and the Group's gross profit margin in 2014 was at 11.7%, compared to 19.7% in the year of 2013.

During the year under review, the net profit attributable to owners of the Company was approximately RMB32.4 million, representing a decrease of approximately 81.3% as compared to approximately RMB173.4 million in the year of 2013. The decrease in the net profit was mainly due to (i) the substantial decrease in the delivery of properties during the year of 2014 which in turn translates into a substantial decline in the Group's revenue generated from the property development segment; (ii) the sharp increase of raw material prices for the Group's manufacturing segment; and (iii) the increase of loss suffered by a subsidiary of the Group due to increase in operational expenses during the year under review.

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, restaurant, hotel 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, 2014 together with the comparative figures for the corresponding period of year 2013:

	2014		2013		**Y-O-Y Change**
	RMB'Million	%	*RMB'Million*	%	%
Manufacturing	**2,375.9**	**73.5**	1,851.9	53.8	28.3
Automotive Leather	***1,461.7***	***45.2***	*1,137.4*	*33.1*	*28.5*
Upholstered Furniture	***666.1***	***20.6***	*459.1*	*13.3*	*45.1*
Furniture Leather	***248.1***	***7.7***	*255.4*	*7.4*	*-2.9*
Property Development	**718.3**	**22.2**	1,468.1	42.7	-51.1
Retail business	**17.9**	**0.6**	16.0	0.5	11.9
Others	**118.2**	**3.7**	103.2	3.0	14.5
Total	**3,230.3**	**100.0**	3,439.2	100.0	-6.1

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 RMB2,375.9 million, representing an increase of approximately 28.3% as compared to RMB1,851.9 million in 2013.

During the year under review, this segment recorded an operating profit of RMB80.4 million, as compared to an operating loss of RMB4.1 million in 2013. A brief discussion of the performance of the three operating divisions is as follows:

Automotive Leather

According to the statistical data published by China Association of Automobile Manufacturers, the passenger vehicle sales maintained a 10% year-on-year increase in the year of 2014 and the top six automakers accounted for approximately 80% of the market share in PRC. The market concentration ratio maintains its uprising trend and the Group is well positioned with a strong business relationship with some of the top automakers. Due to the overall favourable market environment and the Group's solid position in this industrial sector, the turnover from automotive leather division achieved a record level of RMB1,461.7 million, representing an increase of approximately 28.5% compared to RMB1,137.4 million in the year of 2013.

During the year under review, the Group acquired a new leather plant in Wuji City of Hebei Province, which will enable the Group to enhance its footprints and development within the leather manufacturing industry further to the north of the PRC, by taking advantage of the matured leather industrial chain locally in Wuji city, optimizing the geographical and industrial structure of the Group's leather development, which will be beneficial to the long-term development of the Group's leather manufacturing business as a whole.

Upholstered Furniture

Sale of upholstered furniture included finished sofa and sofa cut-and-sew with the US market as major destination. As a reputable OEM manufacturer, the Group successfully broadened its customer base by actively participating in furniture exhibitions held in the US. In addition, consolidated efforts were made at plant level to improve product efficiency and to reduce costs. As a result, turnover generated from this division amounted to RMB666.1 million in 2014 as compared to RMB459.1 million in 2013, representing a substantial increase of approximately 45.1%.

In the PRC market, the Group opened eight Design and Experience Centers and introduced medium to higher end furniture lines under the brand name of Kasen Helpdeco. Still at an experimental stage, sales from retail business in 2014 was approximately RMB17.9 million, representing an increase of approximately 11.9% as compared to RMB16.0 million in 2013.

Furniture Leather

The Group's priority in furniture leather production is to meet the internal leather requirement of its upholstered furniture division. Additionally, the Group supplied furniture leather to some major international furniture makers. The Group's sale of furniture leather was RMB248.1 million in 2014, representing a decrease of approximately 2.9% as compared to RMB255.4 million in 2013.

Property Development Business

As of December 31, 2014, the Group has six projects at various stages of development in different geographical locations in the PRC. Since many of the premises are under construction, fewer properties are delivered during the past year which, compounded with a downturn in the property market, resulted in a substantial decrease in turnover for the Group's property development segment. The turnover from the property development segment was RMB718.3 million in 2014, representing a decrease of approximately 51.1% as compared to RMB1,468.1 million in 2013. An operating loss generated from this segment in 2014 was RMB11.7 million, as compared to an operating profit of RMB222.4 million in 2013.

Group Property Project Portfolio as at December 31, 2014

No.	Project Name	Location	Interests Attributable to the Group	Total Site Area (sq.m.)	Status	Usage
1	Asia Bay	Boao, Hainan	92%	590,165	Under development	Residential
2	Sanya Project	Sanya, Hainan	77%	1,423,987	Under development	Water park and hotel
3	Qianjiang Continent	Yancheng, Jiangsu	100%	335,822	Under development	Residential
4	Kasen Star City	Haining, Zhejiang	100%	469,867	Under development	Residential
5	Changbai Paradise	Changbai Mountain, Jilin	89%	291,662	Under development	Residential and hotel
6	Qianjiang Oasis	Yancheng, Jiangsu	55%	108,138	Under development	Residential
Total				3,219,641		

Analysis of Properties Under Development as at December 31, 2014

No.	Project Name	Total GFA (sq.m.)	GFA under development (sq.m.)	Total Saleable GFA (sq.m.)	GFA sold as at December 31, 2014 (sq.m.)	GFA delivered as at December 31, 2014 (sq.m.)	Average Selling Price (RMB/sq.m.)
1	Asia Bay	718,665	342,435	590,165	79,853	64,844	20,158
2	Qianjiang Continent	775,292	775,292	670,065	641,105	599,031	5,647
3	Kasen Star City	1,042,588	595,171	709,009	142,036	48,131	6,168
4	Changbai Paradise	179,077	179,077	110,330	21,547	–	–
5	Qianjiang Oasis	335,301	55,556	266,206	19,558	–	–
Total		3,050,923	1,947,531	2,345,775	904,099	712,006	

Operating Expense, Taxation and Profit Attributable to Owners

The selling and distribution costs during the year under review increased to approximately RMB164.3 million, as compared to approximately RMB151.8 million in 2013, mainly attributable to an increase in transportation costs of approximately RMB10.5 million due to increased export sales in manufacturing business. As a result, the Group's selling and distribution costs to turnover in 2014 increased to approximately 5.1% as compared to approximately 4.4% in 2013.

The administrative costs in 2014 was approximately RMB211.7 million, representing an increase of approximately RMB31.4 million as compared to approximately RMB180.3 million in 2013. The increase was mainly due to (1) an increase of salary of approximately RMB13.8 million, including approximately RMB9.1 million increase in salary from certain number of subsidiaries newly set up both in the second half of 2013 and the second half of 2014 and (2) increase in depreciation of property, plant and equipment of approximately RMB6.9 million mainly from certain property development subsidiaries. Apart from these main changes, all other administrative costs and expenses increased slightly at a steady pace.

The Group's finance cost in 2014 was approximately RMB63.0 million, representing an increase of approximately RMB22.4 million, as compared to approximately RMB40.6 million in 2013, mainly due to (1) the increase of loan interests of approximately RMB29.3 million since the increase in bank loans made during 2014 and also the decrease in capitalisation of interests charged in the bank loans used for financing the Group's property development projects, offset by (2) decrease of loan interests from the corporate bond issued in June 2012 by approximately RMB5.7 million because approximately RMB120 million of corporate bonds were redeemed in June 2014.

The Group's other gains and losses in 2014 recorded at a net gain of approximately RMB160.2 million, representing an increase of approximately RMB172.2 million, as compared to a net loss of approximately RMB12.0 million in 2013. The significant increase was mainly due to a net gain of approximately RMB187.7 million on disposal of 1.37% of equity securities in Haining China Leather Market Co., Ltd. ("HCLM"). HCLM operates department stores in the PRC and its shares are listed on the Shenzhen Stock Exchange. The Group disposed such 1.37% of equity securities in HCLM in the open trading market on the Shenzhen Stock Exchange. For details, please refer to the announcement of the Company dated August 28, 2014.

The Group's income tax in 2014 was approximately RMB102.5 million, representing a decrease of approximately RMB67.5 million, as compared to approximately RMB170.0 million in 2013. The decrease resulted from (1) a decrease in PRC income tax of approximately RMB77.5 million mainly due to a decrease in taxable profits generated by the property development business at the subsidiary level, together with (2) a decrease in PRC land appreciation tax of approximately RMB63.4 million from the property development projects, which was offset by (3) a decrease in deferred taxation credit of approximately RMB73.4 million.

With the reasons mentioned above, profit attributable to owners of the Company for the year 2014 decreased by approximately 81.3% to RMB32.4 million (2013: RMB173.4 million).

CAPITAL EXPENDITURES

Capital expenditure (excluding assets acquired through acquisition of subsidiaries during the year) in 2014 increased to approximately RMB195.5 million from approximately RMB88.3 million in 2013. The capital expenditure mainly comprised the amount of approximately RMB195.3 million spent on the purchase of property, plant and equipment for operational purpose during the year under review.

FINANCIAL RESOURCES AND LIQUIDITY

Bank and Other Borrowings

As at December 31, 2014, the Group's bank and other borrowings amounted to approximately RMB2,346.6 million, representing a 21.1% increase from approximately RMB1,938.2 million as at December 31, 2013. Besides, a wholly-owned subsidiary of the Company, Haining Schinder Tanning Co., Ltd., issued corporate bonds in the PRC on June 14, 2012 at the issue size of RMB150 million, with a term of three years, and approximately RMB120 million of corporate bonds were redeemed in June 2014. Also another wholly-owned subsidiary of the Company, Zhejiang Kasen Industrial Group Co., Ltd., issued exchangeable bonds in the PRC on December 29, 2014 at the issue size of RMB216 million, with a term of two years. For details of the corporate bonds and the exchangeable bonds, please refer to the announcements of the Company dated June 14, 2012 and December 24, 2014 respectively.

Turnover Period, Liquidity and Gearing

The Group's existing inventory primarily comprised leather crust used for production, accounted for approximately 41.6% of the total inventory of approximately RMB601.9 million in 2014 (2013: approximately RMB459.5 million). In 2014, the inventory turnover period maintained at 99 days (2013: 98 days).

In 2014, the Group continued to maintain a strict credit policy. The account and bills receivables turnover days of the Group's manufacturing and retail segments maintained at 84 days in 2014 (2013: 84 days).

The accounts and bills payable turnover days of the Group's manufacturing and retail segments decreased to 81 days in 2014 (2013: 98 days).

As at December 31, 2014, the Group's current ratio was 1.52 (December 31, 2013: 1.49). The Group's cash and cash equivalent balance was approximately RMB324.4 million as at December 31, 2014 (December 31, 2013: approximately RMB560.1 million). This represents a gearing ratio of 77.4% as at December 31, 2014 (December 31, 2013: 59.3%) and a net debt-to-equity ratio of 66.4% as at December 31, 2014 (December 31, 2013: 42.1%). The gearing ratio is based on bank borrowings to shareholders' equity and the net debt-to-equity ratio is based on bank borrowings net of cash and cash equivalent to shareholders' equity. In 2014, the Group's credit facilities were renewed on an on-going basis, which provided sufficient cash to finance the Group's working capital requirement during the year under review.

MATERIAL ACQUISITION AND DISPOSAL

On November 21, 2014, the Group acquired 100% equity interest in Wuji Kasen Industrial Co., Ltd ("Wuji Kasen") for the consideration of RMB23,260,000 from its connected parties. Upon completion of such acquisition, Wuji Kasen become a wholly-owned subsidiary of the Company. For details, please refer to the announcement of the Company dated November 21, 2014.

Save as disclosed above, the Group did not have any material acquisitions or disposals during the year ended December 31, 2014.

CONTINGENT LIABILITIES

As at December 31, 2014, the Group had certain contingent liabilities. For details, please refer to note 15 above.

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 13 above.

CAPITAL COMMITMENTS

As at December 31, 2014, the Group had contracted, but not provided for, a total capital expenditure of RMB1,082.4 million (2013: RMB1,344.6 million), in which an amount of RMB997.1 million (2013: RMB1,167.7 million) was in respect of properties under development.

FOREIGN EXCHANGE EXPOSURE

The Group is principally engaged in export-related business, and transactions (including sale and procurements) were mainly denominated in US dollars, and most of the trade receivables was exposed to exchange rate fluctuation.

EMPLOYEES AND EMOLUMENTS POLICIES

As at December 31, 2014, the Group employed a total of approximately 4,960 full time employees (December 31, 2013: approximately 4,600), including management staff, technicians, salespersons and workers. In 2014, the Group's total expense on the remuneration of employees was approximately RMB265.9 million (2013: approximately RMB208.9 million), representing approximately 8.2% (2013: 6.1%) 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 (the "Remuneration Committee"), who are authorized by the shareholders of the Company (the "Shareholders") in the annual general meeting (the "AGM"), having regard to the Group's operating results, individual performance and comparable market statistics.

The Group has also adopted a share option scheme for the purpose of providing incentives to Directors, eligible employees and third party service providers. Further details in relation to the scheme will be included in the annual report to be despatched by the Company in due course.

FUTURE PLANS AND PROSPECTS

The slowdown in Chinese economy poses many challenges to the Group's core manufacturing business with continuously rising labor costs, shortage of bank loans, and industrial wide overcapacity. However, the Group is confident that with its more than 20 years of experience in the leather and upholstery furniture industry, this segment will maintain its momentum for further growth. To enhance its core competitiveness, the Group will further invest in production machineries to offset labor cost increases. In addition, the Group will also implement innovative marketing strategies to broaden its customer base.

More specifically, the Group has established leather manufacturing plants in key strategic geographical areas such as Zhejiang, Jiangsu and Hebei Provinces. New technology and high environmental compliance are introduced in the plants of the Group to fend off competitors. With centralized raw cowhide purchasing, the Group will be able to maintain its cost competitiveness. Concerted efforts will also be made in research and development to ensure the Group's traditional advantage in leather product innovation is further enhanced.

For the upholstery furniture business, the Group has regained its reputation as a reliable OEM partner in 2014 with much increased sales. The recovery in the US economy has provided the Group with further opportunities to expand. The Group is optimistic that with a good foundation already laid out in 2014, revenue and profitability in this segment will be further improved.

For the property development business, the Group will take a more prudent approach and focus on the projects that are already under development. As many of the Group's projects are in third and fourth tiered cities where there are likely to be more uncertainties, the Group will carry out aggressive market campaigns with attractive promotion packages to reduce inventories. Given the unfavorable market condition, the Group is not expecting to expand its land acquisition while weighing out options to dispose some of its early stage projects.

The Group's other businesses, such as the PRC domestic furniture retail, water park development, and resort hotel operations, have all made positive progress in the past 12 months. However, these businesses are still at experimental stage and will not contribute significantly to the Group's result in the near future.

FINAL DIVIDENDS

The Directors do not recommend the payment of any final dividend for the year ended December 31, 2014 (2013: final dividend of HK1.00 cent per ordinary share) and proposed that profit for the year be retained. Further, there is no arrangement under which a shareholder of the Company has waived or agreed to waive any dividends.

CLOSURE OF REGISTER OF MEMBERS FOR AGM

For the purpose of determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from May 27, 2015 to May 29, 2015 (both days inclusive), during which period no transfer of shares of the Company will be effected. In order to be entitled to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrars in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on May 27, 2015.

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

The Company and any of its subsidiaries did not purchase, sell or redeem any of the Company's listed securities during the year ended December 31, 2014.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions ("CG Code Provisions") set out in the Corporate Governance Code as stated in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") for the year ended December 31, 2014, except for the deviation to CG Code Provision A.2.1 as stated below.

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.

COMPLIANCE WITH MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of the 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, 2014, each of them has complied with the provisions with the required standards as set out in the Model Code.

AUDIT COMMITTEE

An audit committee of the Company (the "Audit Committee") was established by the Company in compliance with Rules 3.21 and 3.22 of the Listing Rules. The Audit Committee comprises all the three independent non-executive Directors namely, Mr. Sun Steve Xiaodi, Mr. Zhang Yuchuan and Mr. Zhou Lingqiang. The Audit Committee has reviewed with management and the external auditors on the accounting principles and practices adopted by the Group. The Audit Committee has held meetings with the Company's senior management to review, supervise and discuss the Company's financial reporting and internal control principles 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 during the year ended December 31, 2014.

The annual results of the Company for the year ended December 31, 2014 have been reviewed by the Audit Committee.

The written terms of reference of the Audit Committee are available on the websites of the Stock Exchange and the Company.

REMUNERATION COMMITTEE

A remuneration committee was established by the Company to establish policies in respect of remuneration structure for all Directors and senior management of the Company, review and determine the remuneration of the directors and the senior management of the Company. The remuneration committee comprises two independent non-executive Directors namely, Mr. Zhou Lingqiang and Mr. Zhang Yuchuan and an executive Director namely, Mr. Lee Lawrence. Mr. Zhou Lingqiang is the chairman of the remuneration committee.

The written terms of reference of the Remuneration Committee are available on the websites of the Stock Exchange and the Company.

NOMINATION COMMITTEE

The nomination committee (the "Nomination Committee") comprises of two independent non-executive Directors namely Mr. Sun Steve Xiaodi and Mr. Zhou Lingqiang and an executive Director namely, Mr. Zhang Mingfa, Michael. Mr. Sun Steve Xiaodi is the chairman of the Nomination Committee. The Nomination Committee is responsible for nominating Directors, reviewing the structure, size and the composition (including the skills, knowledge, diversity and experience) of the Board regularly and identifying and nominating qualified individuals to be appointed as new Directors.

The terms of reference of the Nomination Committee are available on the websites of the Stock Exchange and the Company.

The Nomination Committee adopted the "Board Diversity Policy" in relation to the nomination and appointment of new directors. The Nomination Committee selects board candidates based on a range of diversity perspectives with reference to the Company's business model and specific needs, including but not limited to gender, age, race, language, cultural background, educational background, industry experience and professional experience.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended December 31, 2014 as set out in the Preliminary Announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended December 31, 2014.

PUBLICATION OF INFORMATION ON THE EXCHANGE'S WEBSITE

The annual report of the Company for the year ended December 31, 2014 containing all the information required by the Listing Rules will be despatched to the Shareholders and published on the website of the Stock Exchange at http://www.hkex.com.hk and the website of the Company at http://www.irasia.com/listco/hk/kasen/index.htm in due course.

ANNUAL GENERAL MEETING

It is proposed that the annual general meeting of the Company will be held on May 29, 2015. Notice of the annual general meeting will be published on the website of the Stock Exchange at http://www.hkex.com.hk and the website of the Company at http://www.irasia.com/listco/hk/kasen/index.htm and despatched to the Company's shareholders on or about April 10, 2015.

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

PRC, March 27, 2015

As at the date of this announcement, the executive Directors are Mr. Zhu Zhangjin, Mr. Lee Lawrence and Mr. Zhang Mingfa, Michael, the non-executive Director is Mr. Qiu Jian Ping, and the independent non-executive Directors are Mr. Sun Steve Xiaodi, Mr. Zhang Yuchuan and Mr. Zhou Lingqiang.

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