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, 2018

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, 2018, together with comparative figures for the year ended December 31, 2017, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2018

	NOTES	**2018**	2017
		RMB'000	*RMB'000*
Revenue	*4*	**3,608,540**	1,605,880
Cost of sales		**(2,552,510)**	(1,273,520)
Gross profit		**1,056,030**	332,360
Other income	*5*	**20,388**	17,833
Selling and distribution costs		**(228,908)**	(317,679)
Administrative expenses		**(232,733)**	(203,835)
Net provision for impairment loss recognised in respect of trade and other receivables	*8*	**(32,422)**	(7,041)
Other gains and losses	*6*	**34,875**	7,830
Finance costs	*7*	**(17,630)**	(17,013)
Profit/(loss) before tax	*8*	**599,600**	(187,545)
Income tax expenses	*9*	**(164,941)**	(31,832)
Profit/(loss) for the year		**434,659**	(219,377)

	NOTES	2018 RMB'000	2017 RMB'000
Other comprehensive income/(loss) for the year			
Items that will not be reclassified to profit or loss:			
Fair value loss on financial assets through other comprehensive income		**(5,080)**	–
Income tax relating to fair value change of financial assets through other comprehensive income		**1,270**	–
		(3,810)	–
Items that may be subsequently reclassified to profit or loss:			
Fair value loss on available-for-sale investments		**–**	(22,003)
Income tax relating to fair value change of available-for-sale investments		**–**	5,501
Exchange difference arising on translation		**672**	99
		672	(16,403)
Total comprehensive income/(loss) for the year		**431,521**	(235,780)
Profit/(loss) for the year attributable to:			
– Owners of the Company		**449,799**	(203,351)
– Non-controlling interests		**(15,140)**	(16,026)
		434,659	(219,377)
Total comprehensive income/(loss) for the year attributable to:			
– Owners of the Company		**446,684**	(219,754)
– Non-controlling interests		**(15,163)**	(16,026)
		431,521	(235,780)
Earnings/(loss) per share	*11*		
– Basic		**RMB30.10 cents**	(RMB13.46 cents)
– Diluted		**RMB29.93 cents**	(RMB13.46 cents)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2018

	NOTES	**2018** **RMB'000**	2017 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**1,429,707**	916,156
Prepaid lease payments – non-current portion		**132,896**	34,980
Intangible assets		**830**	234
Deferred tax assets		**50,529**	68,122
Prepayment for acquisition of property, plant and equipment		**95,980**	–
Financial assets at fair value through other comprehensive income		**18,203**	–
Prepayment for acquisition of freehold and leasehold land		**351,579**	89,085
		2,079,724	1,108,577
CURRENT ASSETS			
Available-for-sale investments		**–**	48,503
Inventories		**85,756**	81,038
Properties under development for sale		**2,881,767**	3,554,601
Properties held for sale		**765,579**	1,075,101
Amounts due from non-controlling interests of subsidiaries		**52,650**	20,000
Trade and other receivables	*12*	**1,177,848**	1,325,486
Prepaid lease payments – current portion		**3,554**	1,012
Prepaid income tax		**28,050**	5,186
Prepaid land appreciation tax		**50,429**	75,086
Pledged bank deposits		**83,652**	161,000
Restricted bank deposit for property development business		**485,856**	834,511
Bank balances and cash		**457,708**	439,931
		6,072,849	7,621,455
CURRENT LIABILITIES			
Trade, bills and other payables	*13*	**1,113,512**	1,293,048
Contract liabilities		**2,846,605**	–
Deposits received in respect of pre-sale of properties		**–**	3,741,311
Bank and other borrowings – due within one year		**354,997**	407,974
Tax payable		**223,206**	149,072
Amounts due to non-controlling interests of subsidiaries		**123,228**	117,288
		4,661,548	5,708,693
NET CURRENT ASSETS		**1,411,301**	1,912,762
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,491,025**	3,021,339

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

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 and trading of upholstered furniture; (ii) properties development; and (iii) tourism resort-related operations.

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

(a) In the current year, the Group has applied the following new IFRSs issued by the International Accounting Standards Board ("IASB") for the first time, which are effective from the Group's financial period beginning on January 1, 2018.

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

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

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

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

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

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

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

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

i. Classification and measurement of financial instruments

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

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

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

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

Notes:

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

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

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

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

ii. Impairment of financial assets

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

Impact of the ECL model

(a) Impairment of trade receivables

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

(b) Impairment of other financial assets at amortised cost

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

iii. Hedge accounting

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

Transition

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1 *Effective for annual periods beginning on or after January 1, 2019*

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

3 *Business combinations for which the acquisition date is on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period*

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

5 *No mandatory effective date yet determined but available for early adoption*

The directors of the Company anticipate that the application of the above new and revised IFRSs will have no material impact on the consolidated financial statements except for the IFRS 16 may have impacts on the disclosure set out in these consolidated financial statements attached to the annual report.

3. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurement

The financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values.

4. SEGMENT INFORMATION AND REVENUE

(a) Segment information

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

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

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

– Others, comprising mainly operation of resort, provision of travel and tourism-related services, and provision of property management service ("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, 2018

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

For the year ended December 31, 2017

	Manufacturing	Properties development	Others	Eliminations	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
External sales	696,314	756,188	153,378	–	1,605,880
Inter-segment sales	–	–	20,098	(20,098)	–
Total	696,314	756,188	173,476	(20,098)	1,605,880

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

Disaggregation of revenue from contracts with customers

For the year ended December 31, 2018

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

Results

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

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit (loss) mainly represents the profit earned by (loss from) each segment without allocation of central administration costs, directors' salaries and exchange gain (loss). This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

Geographical information

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

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

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

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
United States	**546,436**	574,651
PRC, including HK	**2,941,248**	976,676
Europe	**67,449**	51,789
Others	**53,407**	2,764
	3,608,540	1,605,880

Information about major customer

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

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

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

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

(b) Revenue

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

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

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

5. OTHER INCOME

An analysis of other income is as follows:

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

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

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

6. OTHER GAINS AND LOSSES

An analysis of other gains and losses is as follows:

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

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

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

Impairment loss in 2017 represents the estimated written down of properties under development and held for sale to net realisable value at the end of the reporting period with reference to prevailing market conditions, anticipated variable selling expenses and cost of completion.

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

7. FINANCE COSTS

An analysis of finance costs is as follows:

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

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

8. PROFIT/(LOSS) BEFORE TAX

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

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

Note a: During the year ended December 31, 2018, the amounts mainly included (i) RMB14,714,000 ECL provision for amount due from vendor in respect of deposit paid for acquisition of land in Malaysia since the vendor had failed to refund the remaining part of the deposits to the Group; (ii) RMB12,837,000 ECL provision for the trade receivables made based on historical loss data of the trade receivables adjusted with forward-looking information.

During the year ended December 31, 2017, the amount mainly included an impairment loss of RMB5,900,000 deposit paid by the Group in prior year for acquisition of land for development for sale in PRC. As there was no refund of the deposit paid by the Group from the counterparty since the judgement announced by local Court in 2017. Management provided an impairment loss of RMB5,900,000, based on its best estimates of outcomes, in profit or loss for the year in 2017.

9. INCOME TAX EXPENSES

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

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

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%. One of the subsidiary in the PRC has been approved as new and high technology enterprise, which entitles to concessionary tax rate of 15% from 2018 to 2020. The subsidiary needs to re-apply for the preferential tax treatment when the preferential tax period expired in 2020.

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

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

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

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

10. DIVIDENDS

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

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

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

No dividend has been proposed or paid during 2017.

11. EARNINGS (LOSS) PER SHARE

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

Profit/(loss) for the year

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

Basic earnings (loss) per share

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

Weighted average number of ordinary shares

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

Diluted earnings (loss) per share

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

Number of shares

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

For the year ended December 31, 2017, diluted loss per share was the same as basic loss per share as the effect of the Company's outstanding share options were anti-dilutive.

12. TRADE RECEIVABLES

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

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

13. 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:

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

14. PLEDGE OF ASSETS

At the end of the reporting period, certain of the Group's assets have been pledged to secure the borrowings and the general banking facilities of the Group and certain connected parties, namely Haining Kasen Leather, Haining Schinder and Dafeng Huasheng (collectively named as the "CCT Group"). The aggregate carrying amounts of the pledged assets of the Group at the end of the reporting period are as follows:

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

15. CAPITAL AND OTHER COMMITMENTS

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

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

16. CONTINGENT LIABILITIES

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

The Group provided guarantees of RMB1,247,399,000 at December 31, 2018 (2017: RMB2,038,471,000) to banks in favour of its customers in respect of the mortgage loans provided by the banks to those customers for the purchase of the Group's properties. These guarantees provided by the Group to the banks will be released upon receiving the building ownership certificate of the respective properties by the banks from the customers as a pledge for security to the mortgage loans granted. The directors of the Company consider that the fair value of the above guarantees is insignificant on initial recognition and at the report dates as it is not probable that an outflow in settlement will be required.

(b) Financial guarantee issued

Due to the disposal of the manufacturing – leather division ("Disposal") during year ended December 31, 2016, the Group recognized financial guarantees issued to banks until December 31, 2018 in respect of banking facilities granted to CCT Group ("Financial Guarantee A") and Haining Home Direct Furniture Company Limited, a subsidiary prior to the Disposal ("Financial Guarantee B") (Financial Guarantee A and Financial Guarantee B together the "Financial Guarantees"). The Financial Guarantees have been renewed for the period from January 1, 2019 to December 31, 2021. Details of the Financial Guarantees are disclosed in the announcements and circulars of the Company dated September 12, 2016, October 4, 2016, November 20, 2018 and December 11, 2018 respectively.

As at December 31, 2018 and 2017, the directors of the Company do not consider it probable that a claim will be made against the Group under the Financial Guarantees, and therefore the Financial Guarantees are measured at its fair values initially recognized less cumulative amortization.

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

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OVERVIEW

Financial Review

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

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

The net profit attributable to owners of the Company was approximately RMB449.8 million in the year ended December 31, 2018 (2017: a net loss of RMB203.4 million). The turnaround from loss to profit was largely attributable to (1) the significant increase in the overall gross profit of approximately RMB723.7 million, which included the increase in gross profit of the property development segment of approximately RMB668.2 million resulted from the increase in the delivery of residential buildings for the Group's property development projects in the PRC; and (2) the sharp decrease of approximately RMB93.9 million in the selling costs incurred in relation to the sales and the pre-sale properties in 2018 as compared with the same period in 2017.

Review by Business Segments

The Group's reportable business segments in 2018 principally consist of manufacturing and trading of upholstered furniture, property development and others (comprising mainly tourism resort-related operation, operation of restaurant, hotel and provision of travel-related services).

The table below shows the total turnover of the Group by business segments for the year ended December 31, 2018 together with the comparative figures for the year ended December 31, 2017:

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

Manufacturing Business

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

Property Development Business

As at December 31, 2018, the Group had in total six property development projects under different stages of development in Mainland China. The Group had no new property development project commenced in 2018. The turnover from the property development segment was RMB2,708.1 million in 2018, representing an increase of approximately 258.1% as compared to RMB756.2 million in 2017. The increase in sales was mainly due to the significant increase of delivery of properties from the Group's existing projects. As a result, an operating profit generated from this segment in 2018 was RMB437.0 million, as compared to an operating loss of RMB217.0 million in 2017.

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

No.	Project Name	Location/Postal address	Interests Attributable to the Group	Total Site Area *(sq.m.)*	Status	Estimated year/actual year of completion *(Note)*	Usage
1	Asia Bay	Boao. Asia Bay, Binhai Avenue, Boao Town, Qionghai City, Hainan Province	92%	590,165	Under development	2023	Residential and tourism resort
2	Sanya Project	Dream Water Park, Shibu Nongchang Road, Tianya District, Sanya City, Hainan Province	80.5%	1,423,987	Under development	2028	Residential, hotel and tourism resort
3	Qianjiang Continent	No.66 Middle Dongjin Road, Tinghu District, Yancheng City, Jiangsu Province	100%	335,822	Completed	2015	Residential and commercial
4	Kasen Star City	No. 1 Haiyun Road, Haining City, Zhejiang Province	100%	469,867	Under development	2019	Residential and commercial
5	Changbai Paradise	Baihe Town, Er Dao, Antu County, Yanji City, Jilin Province	89%	118,195	Completed	2015	Residential and hotel
6	Qianjiang Oasis	No.29 Kaichuang Road, Yandu District, Yancheng City, Jiangsu Province	55%	108,138	Under development	2020	Residential and commercial
Total				3,046,174			

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

Analysis of Properties Under Development as at December 31, 2018

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

Operating Expenses, Taxation and Profit Attributable to Owners

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

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

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

The Group recorded a net gain of approximately RMB34.9 million in other gains and losses in 2018, while it recorded a net gain of approximately RMB7.8 million in 2017. For details of the other gains and losses, please refer to note 6 to the consolidated financial statements.

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

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

CAPITAL EXPENDITURE

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

FINANCIAL RESOURCES, LIQUIDITY AND CAPITAL STRUCTURE

Bank and Other Borrowings

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

Turnover Period, Liquidity and Gearing

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

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

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

As at December 31, 2018, the Group's current ratio was 1.30 (December 31, 2017: 1.34). The Group's cash and cash equivalent balance was approximately RMB457.7 million as at December 31, 2018 (December 31, 2017: approximately RMB439.9 million). As at December 31, 2018, included in cash and cash equivalent balance of the Group was approximately 96.4% (2017: 95.6%) of bank balance denominated in RMB, approximately 3.1% (2017: 4.1%) denominated in USD, and approximately 0.5% (2017: 0.3%) denominated in HKD and Japanese Yen currency. This represents a gearing ratio of 31.6% as at December 31, 2018 (December 31, 2017: 15.7%) and a net debt-to-equity ratio of 15.5% as at December 31, 2018 (December 31, 2017: 0.1%). The gearing ratio is based on bank borrowings to shareholders' equity and the net debt-to-equity ratio is based on bank borrowings net of cash and cash equivalent to shareholders' equity. In 2018, the Group's credit facilities were renewed on an on-going basis, which provided sufficient cash to finance the Group's working capital requirement during the year under review.

Capital Structure

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

MATERIAL ACQUISITION AND DISPOSAL

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

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

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

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

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

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

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

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

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

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

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

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

SIGNIFICANT INVESTMENTS

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

CONTINGENT LIABILITIES

As at December 31, 2018, the Group had certain contingent liabilities. For details, please refer to note 16 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 14 to the consolidated financial statements.

CAPITAL COMMITMENTS

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

FOREIGN EXCHANGE EXPOSURE

The upholstered furniture export-related business of the Group (including sales and procurements) was mainly denominated in U.S. dollars, and most of the trade receivables were exposed to exchange rate fluctuation. The Group currently does not engage in any hedging activities but will continue to monitor the situation and make necessary arrangement as and when appropriate.

EMPLOYEES AND EMOLUMENT POLICIES

As at December 31, 2018, the Group employed a total of approximately 3,400 full time employees (December 31, 2017: approximately 3,400), including management staff, technicians, salespersons and workers. In 2018, the Group's total expense on the remuneration of employees was approximately RMB206.4 million (2017: approximately RMB172.8 million), representing approximately 5.7% (2017: 10.8%) of the operating revenue of the Group. The Group's emolument policies for employees are formulated on the performance of individual employees, which are reviewed regularly on an annual basis. Apart from the provident fund scheme (for Hong Kong employees), state-managed retirement pension scheme (for the PRC employees) and medical insurance, discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance.

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

The Group has also adopted share option schemes for the purpose of providing incentives to Directors, eligible employees and third party service providers. Further details in relation to the schemes will be set out in the "Directors' Report" section of the annual report of the Company for the year ended December 31, 2018.

FUTURE PLANS AND PROSPECTS

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

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

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

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

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

DIVIDENDS

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

The Directors do not recommend the payment of any final dividend for the year ended December 31, 2018 (2017: Nil).

There is no arrangement that a Shareholder has waived or agreed to waive any dividends.

CLOSURE OF REGISTER OF MEMBERS FOR AGM

For the purpose of determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from May 28, 2019 to May 31, 2019 (both days inclusive), during which period no transfer of shares of the Company will be effected. In order to be entitled to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on May 27, 2019.

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

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

CORPORATE GOVERNANCE CODE

The Company has complied with the code provisions (the "CG Code Provisions") set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the year ended December 31, 2018, except for the deviation to CG Code Provision A.2.1 as stated below.

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Specific enquiries have been made with all Directors, who have confirmed that, during the year ended December 31, 2018, each of them has complied with the provisions with the required standards as set out in the Model Code.

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. As at December 31, 2018 and as at the date of this preliminary announcement, the Audit Committee comprises all the three independent non-executive Directors namely, Mr. Du Haibo, 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, internal control principles and risk management effectiveness and to make recommendations to improve the Company's internal control, and to ensure that management has discharged its duty to have an effective internal control system during the year ended December 31, 2018.

The annual results of the Company for the year ended December 31, 2018 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.

SCOPE OF WORK OF MESSRS. BDO LIMITED

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, 2018 as set out in this preliminary announcement have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO Limited 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 BDO Limited on this preliminary announcement.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended December 31, 2018.

PUBLICATION OF INFORMATION ON THE EXCHANGE'S WEBSITE

The annual report of the Company for the year ended December 31, 2018 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.

AGM

It is proposed that the AGM of the Company will be held on May 31, 2019. Notice of the AGM 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 Shareholders on or about March 22, 2019.

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

PRC, March 8, 2019

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

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