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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)

**UNAUDITED ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED DECEMBER 31, 2019**

The board (the “Board”) of directors (the “Directors”) of Kasen International Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended December 31, 2019, together with comparative figures for the year ended December 31, 2018, as below. For the reasons explained in the paragraph headed “Review of Unaudited Annual Results” in this announcement, the auditing process for the annual results of the Group for the year ended December 31, 2019 has not been completed.

**UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME**

For the year ended December 31, 2019

	<i>NOTES</i>	2019 RMB’000 (Unaudited)	2018 RMB’000 (audited)
Revenue	4	3,413,185	3,608,540
Cost of sales		(2,220,202)	(2,552,510)
Gross profit		1,192,983	1,056,030
Other income	5	17,649	20,388
Selling and distribution costs		(191,722)	(228,908)
Administrative expenses		(252,867)	(232,733)
Impairment loss on trade and other receivables		(13,307)	(32,422)
Other gains and losses	6	(42,045)	34,875
Finance costs	7	(47,127)	(17,630)
Profit before tax	8	663,564	599,600
Income tax expenses	9	(182,352)	(164,941)
Profit for the year		481,212	434,659

	<i>NOTES</i>	2019 RMB'000 (Unaudited)	2018 RMB'000 (audited)
Other comprehensive income for the year			
Items that will not be reclassified to profit or loss:			
Fair value loss on financial assets through other comprehensive income		(761)	(5,080)
Income tax relating to fair value change of financial assets through other comprehensive income		190	1,270
		(571)	(3,810)
Item that may be subsequently reclassified to profit or loss:			
Exchange difference arising on translation		2,318	672
Total comprehensive income for the year		482,959	431,521
Profit/(loss) for the year attributable to:			
– Owners of the Company		435,886	449,799
– Non-controlling interests		45,326	(15,140)
		481,212	434,659
Total comprehensive income/(loss) for the year attributable to:			
– Owners of the Company		437,819	446,684
– Non-controlling interests		45,140	(15,163)
		482,959	431,521
Earnings per share	<i>11</i>		
– Basic		RMB29.18 cents	RMB30.10 cents
– Diluted		RMB29.03 cents	RMB29.93 cents

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2019

	<i>NOTES</i>	2019 RMB'000 (Unaudited)	2018 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		1,618,576	1,429,707
Right-of-use assets		177,436	–
Prepaid lease payments – non-current portion		–	132,896
Intangible assets		1,383	830
Deferred tax assets		49,439	50,529
Prepayment for acquisition of property, plant and equipment		44,305	95,980
Deposits paid for acquisition of a subsidiary		8,000	–
Financial assets at fair value through other comprehensive income		17,442	18,203
Prepayment for acquisition of freehold and leasehold land		276,274	351,579
		2,192,855	2,079,724
CURRENT ASSETS			
Inventories		83,922	85,756
Properties under development for sale		1,431,249	2,881,767
Properties held for sale		1,048,009	765,579
Amounts due from non-controlling interests of subsidiaries		24,359	52,650
Trade and other receivables	<i>12</i>	1,111,709	1,177,848
Prepaid lease payments – current portion		–	3,554
Prepaid income tax		23,595	28,050
Prepaid land appreciation tax		10,497	50,429
Pledged bank deposits		46,093	83,652
Restricted bank deposit for property development business		111,037	485,856
Bank balances and cash		211,903	457,708
		4,102,373	6,072,849

	<i>NOTES</i>	2019 RMB'000 (Unaudited)	2018 RMB'000 (audited)
CURRENT LIABILITIES			
Trade, bills and other payables	<i>13</i>	981,468	1,113,512
Lease liabilities – current portion		6,384	–
Contract liabilities		648,545	2,846,605
Bank and other borrowings – due within one year		309,660	354,997
Tax payable		239,674	223,206
Amounts due to non-controlling interests of subsidiaries		111,196	123,228
		<u>2,296,927</u>	<u>4,661,548</u>
NET CURRENT ASSETS		<u>1,805,446</u>	<u>1,411,301</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>3,998,301</u>	<u>3,491,025</u>
NON-CURRENT LIABILITIES			
Deferred tax liabilities		22,015	27,067
Lease liabilities – non current portion		15,334	–
Bank and other borrowings – due after one year		600,435	545,000
		<u>637,784</u>	<u>572,067</u>
NET ASSETS		<u>3,360,517</u>	<u>2,918,958</u>
CAPITAL AND RESERVES			
Share capital		1,712	1,712
Reserves		3,285,399	2,847,580
Equity attributable to owners of the Company		3,287,111	2,849,292
Non-controlling interests		73,406	69,666
TOTAL EQUITY		<u>3,360,517</u>	<u>2,918,958</u>

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 and revised IFRSs issued by the International Accounting Standards Board (“IASB”) for the first time, which are effective from the Group’s financial period beginning on January 1, 2019.

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

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

IFRS 16 Leases

IFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces IAS 17 Leases (“IAS 17”), IFRIC-Int 4 Determining whether an Arrangement contains a Lease, SIC-Int 15 Operating Leases-Incentives and SIC-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. From a lessee’s perspective, almost all leases are recognised in the statement of financial position as a right-of-use assets and a lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor’s perspective, the accounting treatment is substantially unchanged from IAS 17.

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

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

(a) *New definition of a lease*

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

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

(b) *Lessee accounting and transitional impact*

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

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

- (i) the Group elected not to apply the requirements of IFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of IFRS 16, i.e. where the lease term ends on or before December 31, 2019;
- (ii) when measuring the lease liabilities at the date of initial application of IFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and
- (iii) when measuring the right-of-use assets at the date of initial application of IFRS 16, the Group relied on the previous assessment for onerous contract provisions as at December 31, 2018 as an alternative to performing an impairment review.

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

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

Lease liabilities

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

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

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

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

Right-of-use assets

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

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

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

Amendments to IAS 1 and IAS 8	Amendment to definition of materiality ¹
Amendments to IFRS 3 (Revised)	Definition of a business ¹
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform ¹
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
IFRS 17	Insurance Contracts ²

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

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

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

The directors of the Company anticipate that the application of the above new and revised IFRSs will have no material impact on the consolidated financial statements.

3. BASIS OF PREPARATION

(a) **Statement of compliance**

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

(b) **Basis of measurement**

The financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values as explained in the accounting policies set out in the notes to the consolidated financial statements attached to the annual report.

Historical cost is generally based on the fair value of the consideration given in exchange for goods.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IFRS 16 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 Inventories or value in use in IAS 36 Impairment of Assets.

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 owned by the Group, provision of travel and tourism-related services, and provision of property management service ("Others")

Segment revenues

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

For the year ended December 31, 2019

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

For the year ended December 31, 2018

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

Disaggregation of revenue from contracts with customers

For the year ended December 31, 2019

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

For the year ended December 31, 2018

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

Segment result

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

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

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,	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
United States	511,746	546,436
PRC, including HK	2,757,858	2,941,248
Europe	52,106	67,449
Others	91,475	53,407
	<u>3,413,185</u>	<u>3,608,540</u>

Information about major customer

No customer in 2019 and 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:

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

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:

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

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

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

6. OTHER GAINS AND LOSSES

An analysis of other gains and losses is as follows:

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

Note a: In view that the operation of the water park in Sanya, PRC for the year ended December 31, 2019 is not as expected, the management of the Group identified indication of impairment loss for certain property, plant and equipment. For the purposes of impairment assessment, the management of the Group estimated the recoverable amounts for these property, plant and equipment based on fair value less cost of disposal. The management of the Group estimated an impairment of RMB22,000,000 on these property, plant and equipment recognized in profit or loss for the year ended December 31, 2019 (2018: nil).

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

7. FINANCE COSTS

An analysis of finance costs is as follows:

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

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

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

8. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

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

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

9. INCOME TAX EXPENSES

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

	2019 RMB'000 (Unaudited)	2018 <i>RMB'000</i> (Audited)
Income tax		
– for the current year	116,798	91,402
– (over)/under provision in respect of prior years	(84,211)	1,713
	<u>32,587</u>	<u>93,115</u>
LAT	<u>153,537</u>	<u>63,764</u>
Deferred tax	<u>(3,772)</u>	<u>8,062</u>
	<u>182,352</u>	<u>164,941</u>

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 on 2020.

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

The Directors considered the amount involved in 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.

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.

10. DIVIDENDS

	2019 RMB'000 (Unaudited)	2018 <i>RMB'000</i> (Audited)
Special dividend HK\$ nil (2018: HK\$0.3) per ordinary share	<u>–</u>	<u>389,885</u>

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

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

11. EARNINGS PER SHARE

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

Profit for the year

	2019 RMB'000 (Unaudited)	2018 <i>RMB'000</i> (Audited)
Profit for the year for the purposes of basic and diluted earnings per share, being profit attributable to owners of the Company	<u>435,886</u>	<u>449,799</u>

Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB435,886,000 (2018: RMB449,799,000) and the weighted average of 1,493,636,881 ordinary shares (2018: 1,494,316,297 shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

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

Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB435,886,000 (2018: RMB449,799,000) and the weighted average of 1,501,677,977 ordinary shares (2018: 1,502,924,708 shares) in issue during the year, calculated as follows:

Number of shares

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

12. TRADE RECEIVABLES

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

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

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:

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

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 (ceased to be a connected party when the Company being informed in early 2019), Haining Schinder Leather Company Limited and Yancheng Dafeng Huasheng Leather Company Limited, (collectively as "CCT Group"). The aggregate carrying amounts of the pledged assets of the Group at the end of the reporting period are as follows:

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

15. CAPITAL AND OTHER COMMITMENTS

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

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

16. CONTINGENT LIABILITIES

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

The Group provided guarantees of RMB1,571,081,000 at December 31, 2019 (2018: RMB1,247,399,000) to banks in favour of its customers in respect of the mortgage loans provided by the banks to those customers for the purchase of the Group's properties. These guarantees provided by the Group to the banks will be released not over a year upon receiving the building ownership certificate of the respective properties by the banks from the customers as a pledge for security to the mortgage loans granted. The directors of the Company consider that the fair value of the above guarantees is insignificant on initial recognition and at the report dates as it is not probable that an outflow in settlement will be required.

(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 with original maturity date at 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”), which has been renewed in November 2018 for 3 years between January 1, 2019 and December 31, 2021. Details of the Financial Guarantees are disclosed in the announcement and circular of the Company dated September 12, 2016, October 4, 2016, November 20, 2018 and December 12, 2018 respectively.

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

The movement of financial guarantee liabilities is shown as below:

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

The maximum liabilities of the Group as at December 31, 2019 in respect of the Financial Guarantee A and Financial Guarantee B is RMB394,800,000 (2018: RMB394,800,000) and RMB374,100,000 (2018: RMB374,100,000) respectively.

17. EVENTS AFTER REPORTING PERIOD

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

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OVERVIEW

Financial Review

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

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

The net profit attributable to owners of the Company was approximately RMB435.9 million in the year ended December 31, 2019 (2018: RMB449.8 million), representing a decrease of approximately RMB13.9 million (a decrease of approximately 3.1%) as compared with the year of 2018.

Review by Business Segments

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

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

Manufacturing and Trading of Upholstered Furniture Business

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

Property Development Business

As at December 31, 2019, the Group had in total six property development projects under different stages of development in Mainland China. The Group had no new property development project in 2019. The turnover from the property development segment was RMB2,552.1 million in 2019, representing a decrease of approximately 5.8% as compared to RMB2,708.1 million in 2018. The decrease in sales was mainly due to the decrease in delivery of properties in 2019. As a result, an operating profit generated from this segment in 2019 was RMB408.6 million, representing a decrease of approximately 6.5% as compared to an operating profit of RMB437.0 million in 2018.

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

No.	Project Name	Location/Postal address	Interests Attributable to the Group	Total Site Area (sq.m.)	Status	Estimated year/actual year of completion (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	Completed	2019	Residential and commercial
5	Changbai Paradise	Baihe Town, Er Dao, Antu County, Yanji City, Jilin Province	89%	118,195	Completed	2015	Residential and hotel
6	Qianjiang Oasis	No.29 Kaichuang Road, Yandu District, Yancheng City, Jiangsu Province	55%	108,138	Under development	2020	Residential and commercial
Total				<u>3,046,174</u>			

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

Analysis of Properties Under Development as at December 31, 2019

No.	Project Name	Total GFA (sq.m.)	GFA under development /completed (sq.m.)	Total Saleable GFA (sq.m.)	Accumulated	Accumulated	Average Selling Price (RMB/sq.m.)
					GFA sold as at December 31, 2019 (sq.m.)	GFA delivered as at December 31, 2019 (sq.m.)	
1	Asia Bay	718,665	342,435	590,165	174,910	164,125	32,150
2	Qianjiang Continent	775,292	775,292	669,717	660,352	658,899	7,327
3	Kasen Star City	957,224	957,224	708,730	701,423	693,174	9,796
4	Changbai Paradise	122,412	122,412	122,010	39,467	38,558	8,933
5	Qianjiang Oasis	337,071	337,071	282,323	218,718	212,668	6,757
Total		<u>2,910,664</u>	<u>2,534,434</u>	<u>2,372,945</u>	<u>1,794,870</u>	<u>1,767,424</u>	

Operating Expenses, Taxation and Profit Attributable to Owners

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

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

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

The Group recorded a net loss of approximately RMB42.0 million in other gains and losses in 2019, while it recorded a net gain of approximately RMB34.9 million in 2018. For details of the other gains and losses, please refer to note 6 to the consolidated financial statements.

The Group's income tax in 2019 was approximately RMB182.4 million, representing an increase of approximately RMB17.5 million, as compared to approximately RMB164.9 million in 2018. The increase was mainly attributable to (1) an increase in PRC income tax for current year of approximately RMB25.4 million mainly due to an increase in taxable profits generated at the subsidiary level especially for the property development segment with increased operating profit; and (2) an increase in PRC land appreciation tax of approximately RMB89.8 million from the property development projects which was offset by (3) the decrease in deferred taxation charge of approximately RMB11.8 million and (4) over-provision of income tax in respect of prior years of approximately RMB84.2 million.

Based on the aforesaid factors, profit attributable to owners of the Company in 2019 decreased by approximately 3.1% to approximately RMB435.9 million (2018: RMB449.8 million).

CAPITAL EXPENDITURE

Capital expenditure in 2019 decreased to approximately RMB275.4 million (including construction in progress of approximately RMB209.9 million and freehold land prepayment made in 2018 of approximately RMB42.6 million) from approximately RMB585.7 million in 2018. The capital expenditure mainly comprised the amount of approximately RMB275.4 million spent on the purchase of property, plant and equipment for operational purpose during the year under review.

FINANCIAL RESOURCES, LIQUIDITY AND CAPITAL STRUCTURE

Bank and Other Borrowings

As at December 31, 2019, the Group's bank and other borrowings amounted to approximately RMB910.1 million, (in which approximately 1.3% (2018: 1.8%) was denominated in USD and approximately 98.7% (2018: 98.2%) was denominated in RMB) representing an increase of approximately 1.1% from approximately RMB900.0 million as at December 31, 2018.

Turnover Period, Liquidity and Gearing

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

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

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

As at December 31, 2019, the Group's current ratio was 1.79 (December 31, 2018: 1.30). The Group's cash and cash equivalent balance was approximately RMB211.9 million as at December 31, 2019 (December 31, 2018: approximately RMB457.7 million). As at December 31, 2019, included in cash and cash equivalent balance of the Group was approximately 80.7% (2018: 92.0%) of bank balance denominated in RMB, approximately 17.2% (2018: 7.0%) denominated in USD, and approximately 2.1% (2018: 1.0%) denominated in HKD and Japanese Yen currency. This represents a gearing ratio of 27.7% as at December 31, 2019 (December 31, 2018: 31.6%) and a net debt-to-equity ratio of 21.2% as at December 31, 2019 (December 31, 2018: 15.5%). The gearing ratio is based on bank borrowings to shareholders' equity and the net debt-to-equity ratio is based on bank borrowings net of cash and cash equivalent to shareholders' equity. In 2019, the Group's credit facilities were renewed on an on-going basis, which provided sufficient cash to finance the Group's working capital requirement during the year under review.

Capital Structure

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

MATERIAL ACQUISITION AND DISPOSAL

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

FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

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

SIGNIFICANT INVESTMENTS

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

CONTINGENT LIABILITIES

As at December 31, 2019, the Group had certain contingent liabilities. For details, please refer to note 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, 2019, the Group had contracted, but not provided for, a total capital expenditure of RMB2,324.8 million (2018: RMB2,331.1 million), in which an amount of RMB216.5 million (2018: RMB1,111.7 million) was in respect of properties under development.

FOREIGN EXCHANGE EXPOSURE

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

EMPLOYEES AND EMOLUMENT POLICIES

As at December 31, 2019, the Group employed a total of approximately 3,300 full time employees (December 31, 2018: approximately 3,400), including management staff, technicians, salespersons and workers. In 2019, the Group's total expense on the remuneration of employees was approximately RMB226.5 million (2018: approximately RMB206.4 million), representing approximately 6.6% (2018: 5.7%) of the operating revenue of the Group. The Group's emolument policies for employees are formulated on the performance of individual employees, which are reviewed regularly on an annual basis. Apart from the provident fund scheme (for Hong Kong employees), state-managed retirement pension scheme (for the PRC employees), national social security fund scheme (for Cambodia employees) and medical insurance, discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance.

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

The Group has also adopted share option schemes for the purpose of providing incentives to Directors, eligible employees and third party service providers. Further details in relation to the schemes will be set out in the "Directors' Report" section of the annual report of the Company for the year ended December 31, 2019.

FUTURE PLANS AND PROSPECTS

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

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

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

EVENTS AFTER THE REPORTING PERIOD

Certain events affecting the Group occurred after the reporting period. For details, please refer to Note 17 to this preliminary results announcement.

DIVIDENDS

The Directors do not recommend the payment of any final dividend for the year ended December 31, 2019 (2018: Nil), on the assumption that the audited annual results of the Company for the year ended December 31, 2019 to be published upon completion of the auditing process will be consistent in all material respects with the unaudited results set out herein.

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 26, 2020 to May 29, 2020 (both days inclusive), during which period no transfer of shares of the Company will be effected. In order to be entitled to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on May 25, 2020.

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, 2019.

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, 2019, 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. During the year under review, the Company did not separate the roles of chairman and chief executive. Mr. Zhu Zhangjin, Kasen assumed the role both as the chairman and chief executive officer of the Company responsible for overseeing the operations of the Group during the year ended December 31, 2019. The Company considered appointing a new chief executive officer to replace Mr. Zhu if a candidate with suitable leadership, knowledge, skills and experience can be identified within or outside the Group. However, due to the nature and extent of the Group's operations, in particular in the PRC and the in-depth knowledge and experience in the leather and upholstered furniture market required for the position of chief executive officer, the Company was not able to identify such a candidate to replace Mr. Zhu during the year ended December 31, 2019.

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

Following sustained development and growth of the Company, the Company will continue to monitor and revise the Company's corporate governance policies in order to ensure that such policies can meet the general rules and standards required by The Stock Exchange of Hong Kong Limited (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, 2019, each of them has complied with the provisions with the required standards as set out in the Model Code.

AUDIT COMMITTEE

The 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, 2019 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, 2019.

The unaudited annual results of the Company for the year ended December 31, 2019 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.

REVIEW OF UNAUDITED ANNUAL RESULTS

The auditing process for the annual results for the year ended December 31, 2019 has not been completed due to the COVID-19 coronavirus outbreak. The unaudited annual results contained herein have not been agreed with the Company’s auditors as required under Rule 13.49(2) of the Listing Rules. An announcement relating to the audited results will be made when the auditing process has been completed in accordance with Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants.

FURTHER ANNOUNCEMENT(S)

Following the completion of the auditing process, the Company will issue further announcement(s) in relation to the audited results for the year ended December 31, 2019 as agreed by the Company's auditors and the material differences (if any) as compared with the unaudited annual results contained herein. In addition, the Company will issue further announcement as and when necessary if there are other material development in the completion of the auditing process. The Company expects the auditing process will be completed on or before April 15, 2020 and in any event not later than April 29, 2020.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended December 31, 2019.

PUBLICATION OF INFORMATION ON THE EXCHANGE'S WEBSITE

The annual report of the Company for the year ended December 31, 2019 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 29, 2020. 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 April 28, 2020.

The financial information contained herein in respect of the annual results of the Group have not been audited and have not been agreed with the auditors. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

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

PRC, March 31, 2020

As at the date of this announcement, the executive Directors are Mr. Zhu Zhangjin, Ms. Zhou Xiaohong and Mr. Zhu Ruijun 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>