卡森國際控股有限公司

KASEN INTERNATIONAL HOLDINGS LIMITED

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

stock code : 00496

Annual Report 2008

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-Executive Directors

LU Yungang, Ken
CHOW Joseph
GU Mingchao

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

YIU Hoi Yan, Kate

STOCK CODE

0496.HK

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

259 Qianjiang Road West
Haining City
Zhejiang Province 314400
China

PLACE OF BUSINESS IN HONG KONG

Room 1605
Tai Tung Building
8 Fleming Road
Wanchai
Hong Kong

PRINCIPAL BANKERS

Industrial and Commercial Bank of China,
Zhejiang Province Branch
China Construction Bank, Haining Sub branch
Bank of China, Haining Sub branch
Agricultural Bank of China, Haining Sub branch
Communication Bank of China, Haining Sub branch
Agricultural Development Bank of China,
Haining Sub branch
China Mingsheng Banking Corporation Ltd.,
Yuhang Sub branch
Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank (Hong Kong) Limited

LEGAL ADVISORS

As to Hong Kong law
Sidley Austin

As to Cayman Islands law
Conyers Dill & Pearman

PRINCIPAL SHARE REGISTRAR

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman KY1-1107
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Rooms 1806-1807, 18th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

AUDITORS

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

AUTHORISED REPRESENTATIVES

ZHANG Mingfa, Michael
YIU Hoi Yan, Kate

COMPANY WEBSITE

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

Financial Highlights

RESULTS

	For the year ended December 31,				
	2008	2007	2006	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**1,893,990**	3,310,727	3,916,513	3,475,457	2,852,391
(Loss) profit before taxation	**(271,991)**	(175,440)	105,134	278,665	257,176
(Loss) profit attributable to equity holders of the Company	**(273,804)**	(194,149)	64,143	265,699	225,701

FINANCIAL POSITION

	At December 31,				
	2008	2007	2006	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cash and cash equivalents	**389,647**	508,850	380,973	372,278	213,458
Total borrowings	**1,442,557**	1,580,864	1,257,089	1,291,738	1,880,251
Total assets	**4,379,745**	4,139,450	4,074,528	4,441,690	4,036,944
Total liabilities	**2,444,183**	2,169,604	1,891,551	2,143,824	2,835,568
Equity attributable to equity holders of the Company	**1,854,058**	1,917,154	2,108,865	2,199,560	1,091,104

FINANCIAL AND OPERATING RATIOS

	At December 31,				
	2008	2007	2006	2005	2004
Dividend payout ratio (%)[1]	**–**	–	54.5%	30.0%	–
Debt to equity ratio (%)[2]	**74.5%**	80.3%	57.6%	56.2%	156.5%
Net debt to equity ratio (%)[3]	**54.4%**	54.4%	40.1%	40.0%	138.7%
Trade receivable turnover days[4]	**48**	46	46	54	35
Inventory turnover days[5]	**147**	146	139	172	211
Current ratio[6]	**110.9%**	118.7%	135.4%	138.3%	93.7%
(Loss) earning per share (RMB)					
Basic	**(0.26)**	(0.20)	0.06	0.41	0.47
Diluted	**(0.26)**	(0.20)	0.06	0.34	0.35

Notes:

1. The dividend per ordinary share divided by the profit (loss) attributable to equity holders of the Company per ordinary share.
2. Interest-bearing debt divided by total equity as at the end of the year.
3. Interest-bearing debt minus bank balances and cash divided by the total equity as at the end of each year.
4. Trade receivables as at the end of the year divided by turnover and multiplied by 365 days.
5. Inventories as at the end of the year divided by cost of sales and multiplied by 365 days.
6. Current assets divided by current liabilities as at the end of each year.
7. The adoption of new accounting standards in 2008 has no material impact to the Group.

Directors and Management Profiles

EXECUTIVE DIRECTORS

ZHU Zhangjin, Kasen (朱張金), aged 43, is the founder of the Group and the chairman of the Company. Mr. Zhu is also an executive director of the Company (the "Director") and the chief executive officer of the Company. Before founding the Group in 1995, Mr. Zhu was involved in several business ventures in the areas of textile, leather processing, garment, trading, etc. With over 21 years of experience in the leather manufacturing industry, Mr. Zhu has extensive knowledge in the upholstered furniture industry in the PRC and has been a successful entrepreneur in leather manufacturing related businesses. Mr. Zhu is also the vice chairman of the China Leather Association. In recognition of his contribution to promote the development of the leather manufacturing industry, Mr. Zhu was awarded the "Top Ten Businessmen in Zhejiang" in 2004. In 2006, Mr. Zhu was one of the 10 recipients of the prestigious "National May 4th Youth Award (全國五四青年獎章)". In 2007, Mr. Zhu received the National May Day Award.

ZHOU Xiaosong (周小松), aged 53, joined the Group on June 12, 1995 and is an executive Director. He is also the vice president and general manager of the Group's Leather Manufacturing Division. Mr. Zhou has spent more than 19 years in the leather manufacturing industry. He is now the director of the Group's research and development center. Mr. Zhou obtained a diploma in Economics and Management from the Adult College of Hangzhou University in 1999. In 2005, Mr. Zhou was appointed as an arbitrator by the China International Economic and Trade Arbitration Commission (CIETAC).

ZHANG Mingfa, Michael (張明發), aged 48, joined Zhejiang Kasen Industrial Co., Ltd., a subsidiary of the Company, on October 1, 1997 as vice president of the Import and Export Division. Mr. Zhang Mingfa, Michael was appointed an executive Director with effect from November 10, 2008. He has more than 28 years of experience in the leather manufacturing industry. Mr. Zhang is the director of the Logistics Department of Zhejiang Kasen Industrial Co., Ltd. Mr. Zhang is a qualified international business engineer and obtained the qualification certificate approved by the Ministry of Commerce of the PRC in 1995. In 1984, Mr. Zhang obtained a diploma in leather industry from Chengdu University of Technology. Mr. Zhang also obtained a diploma in Business Administration from Zhejiang University of Technology in 1989.

INDEPENDENT NON-EXECUTIVE DIRECTORS

LU Yungang, Ken (陸運剛), aged 46, joined the Company as an independent non-executive Director on June 17, 2005. Mr. Lu is the founder and the managing director of APAC Capital Advisors Limited ("APAC"), a Hong Kong based investment management company that specializes in Greater China equities, as well as an independent non-executive director of Enerchina Holdings Ltd., and a director of AsiaInfo Holdings, Inc. Prior to setting up APAC, Mr. Lu has worked for a number of financial institutions including Credit Suisse First Boston, JP Morgan Securities Asia Inc. and Schroders Asia Limited, holding various posts including Head of China Research when he was with Credit Suisse First Boston. Mr. Lu obtained his Bachelor of Science degree from the Beijing University in July 1985 and his Master of Science degree from the Brigham Young University, Provo, Utah in 1991. He obtained a Ph.D. in Management from the University of California in September 1998.

CHOW Joseph (周凡), aged 46, joined the Company as an independent non-executive Director on July 11, 2005. Mr. Chow is currently an independent non-executive director of Intime Department Store (Group) Co. Ltd., and managing director of Goldman Sachs (Asia) LLC, and has held senior managerial positions in various companies, including as chief financial officer of Harbour Networks Limited, as chief financial officer of China Netcom (Holdings) Company Limited, as the director of strategic planning of Bombardier Capital Inc., as vice president of international operations of Citigroup and as the corporate auditor of GE Capital. Mr. Chow obtained a Bachelor of Arts degree in Political Science from Nanjing Institute of International Relations in 1984 and a MBA from the University of Maryland at College Park in 1993.

Gu Mingchao (顧鳴超), aged 65, retired. Mr. Gu joined the Company as an independent non-executive Director on October 1, 2008. Mr. Gu is currently an independent non-executive director of the Bank of Communications Co., Limited. From September 1979 to May 1994, Mr. Gu worked for the Bank of China, serving successively as deputy section chief of the International Settlement Section of Lianyungang Branch, head of Lianyungang Branch, director of the General Office, chief of Personnel Division, deputy head and head of Jiangsu Branch, and head of Zhejiang Branch. From June 1994 to June 2000, Mr. Gu served as the vice president and executive director of The Export-Import Bank of China. Between July 2000 and July 2003, Mr. Gu served as the chairman of the Board of Supervisors of China Galaxy Securities Company Limited, designated by the State Council. Mr. Gu also served as the chairman of the Board of Supervisors of the Bank of Communications, designated by the State Council, from August 2003 to August 2004. From September 2004 to April 2007, Mr. Gu served as the chairman of the Board of Supervisors of Agricultural Bank of China, designated by the State Council. Mr. Gu graduated from Shanghai Foreign Trade Institute in 1968.

SENIOR MANAGEMENT

ZHONG Jian (鍾劍), aged 38, joined the Company as vice president on August 1, 2007 and took up the position of chief financial officer on September 30, 2007. Mr. Zhong received a Bachelor of Finance degree from the Central University of Finance and Economics in 1992, a Master of International Finance from Renmin University of China in 2002 and EMBA degree from Chinese Europe International Business School in 2008. Mr. Zhong was the vice president and the chief financial officer of Zhejiang Sunbridge Industrial Group Company Limited from July 2004 to July 2007. He also worked as the director of corporate finance department in Export and Import Bank of China from 1995 to 2004.

YU Guanlin (余關林), aged 46, joined the Group in 1995 and is the production manager and deputy general manager of the Group. He is currently the general manager for the Group's Cut-and-sew Operations Division. Before joining the Group, Mr. Yu founded a garment company and was responsible for its design and production. Mr. Yu has extensive knowledge and experience in the upholstered furniture manufacturing industry.

ZHANG Guming (張顧明), aged 43, joined the Group in 2003 and is the general manager of the Group's sofa manufacturing subsidiaries. He is currently the vice president and Director of the Group's Sofas Production Division. Before joining the Group, Mr. Zhang was the executive deputy general manager of Haining Dunnu Fashion Co., Ltd from May 2000 to February 2003. Prior to that, Mr. Zhang had been responsible for production management in several local companies that manufactured leather, footwear and textile. Mr. Zhang has extensive knowledge and experience in corporate management and the leather industry. In 2001, he received a MBA from a joint program organized by the Shanghai University of Finance and Economics and the Webster University of the US.

ZHOU Xiaohong (周小紅), aged 40, joined the Group in 1995 and is the cashier and treasury manager of the Group. She is currently the vice president of the Group in charge of internal auditing. Ms. Zhou obtained a Diploma in Management from China University of Geosciences in 2003.

SUN Guilong (孫桂龍), aged 52, joined the Company in July 2008 and is the chairman of the board committee of Zhejiang Kasen Property Development Co., Ltd. Before joining the Company, Mr. Sun had served in the local government for 30 years. Mr. Sun was the governor of Guodian Town Government, Haining and the secretary of Guodian Town Communist Committee from November 1996 to October 2001, and was the director of Haining Planning and Construction Bureau from November 2001 to March 2007, and then he was the vice director of Haining Lianhang Economic Zone from April 2007 to July 2008.

HOU Wei (侯為), aged 44, joined Zhejiang Kasen Property Development Co., Ltd as the general manager in February 2008. Mr. Hou has 16 years of experience in the real estate industry. Prior to joining the Group, Mr. Hou had been engaged in construction and planning design at Hangzhou Industrial Design Institute from 1986 to 1993, and had held the department manager position in Zhejiang Economic and Trading Real Estate Co., Ltd from 1993 to 2002. He worked as the director and vice president of Tonghe Property Investment Co., Ltd from 2002 to early 2008. Mr. Hou completed a Master degree course of Business Management in Zhejiang University and obtained a Bachelor of Project Management degree from Dongbei University of Finance & Economics in 2003 and 2005 respectively.

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

YIU Hoi Yan, Kate (姚凱欣), aged 36, joined the Company as an accountant on April 29, 2004 and was later promoted as the company secretary and finance and administrative manager of the Company. She has over 13 years of experience in auditing and accounting. She is a member of the ACCA and the Hong Kong Institute of Certified Public Accountants. Ms. Yiu obtained a Bachelor of Arts (Honors) in Accountancy from the City University of Hong Kong in 1995.

Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors (the "Board"), I am pleased to present the annual results of the Company and its subsidiaries (the "Group") for the year ended December 31, 2008.

BUSINESS REVIEW

Mainly due to the global economic crisis and the continuing depressed US housing market that seriously affected the furniture business, the Group's turnover was RMB1,894.0 million in 2008, representing a decrease of 42.8% as compared to the same period in 2007. The Group suffered a loss attributable to equity holders of RMB273.8 million for the year ended December 31, 2008. The Board did not recommend the payment of a final dividend.

2008 has been a difficult year for the leather and furniture business. As a major original equipment manufacturer ("OEM") partner for the US upholstered furniture industry, our sales were inevitably deeply impacted by the sub-prime loan crises and the economic recession in the US. Our profit margin was further squeezed by the continuing appreciation of RMB and the intense competition in domestic furniture manufactures. Realizing that the industry-wide slowdown has not hit the bottom and these unfavorably factors will still exist, even deteriorate in the year of 2009, the Group has decided to make an impairment of inventory, trade receivables and property, plant and equipment.

PROSPECTS AND FUTURE PLANS

The US housing market is still in its worst state and the 2009 outlook in the furniture industry will be gloomy. As a major OEM partner, we will try our best with all measures to strengthen our competitiveness and increase shareholders' value.

Focusing on the OEM Business

Despite unfavorable market conditions, the Group remains committed to improve its OEM business performance and maintain its position as China's leading manufacturer of leather products and upholstered furniture. During the year under review, the Group has implemented a series of reforming measures including cost-saving, management optimization, business units reconstruction and incentive schemes. We have strong confidence in our unique advantage in the vertically-integrated business model. We are aiming to develop more OEM business opportunities from world-wide market.

Strengthening our domestic retail business

Although China faced possible set-backs in its development, it is still the largest and most prosperous market in the world. The PRC government is now focusing on incentive domestic consumption policy and this will be a good chance for the Group to further expand its domestic furniture retail business. The Group has enacted its retail chain shops plan since 2007 and three stores were opened in Shanghai, Hangzhou and Dalian. We are planning to allocate more resources to retail sector with prudence.

Consolidation and Reform

The Group expanded its production capacities before 2006 and built several manufacturing facilities in the past few years. Considering the relatively low level capacity utilization, we are taking steps to consolidate the production capacities. We will dispose of a piece of land for the use of leather and furniture production to PRC local government and relocate the production facilities. As a result, the production structure and process will be re-designed and re-planned. We believe that it will be a good opportunity for the Group to further control cost, improve managerial efficiency and the Group's profit to create more value for our shareholders.

I would like to express my sincere appreciation to my fellow Directors, management team and employees for their contribution and dedication to the Group and deep thanks to our shareholders, customers, suppliers and business partners for their continuing support and still being with us during these difficult times.

ZHU Zhangjin, Kasen
Chairman

The PRC, April 6, 2009

Management Discussion and Analysis

RESULTS OVERVIEW

For the year ended December 31, 2008, the Group recorded a consolidated turnover of RMB1,894.0 million, representing a decrease of 42.8% compared with RMB3,310.7 million for the year ended December 31, 2007.

The Group's gross profit margin in 2008 was 4.6%, representing a decrease of 4.4 percentage points as compared to 2007. During the period under review, the global financial turmoil and economic crisis severely hit the furniture business all over the world. As a result, the Group's selling price was further squeezed by the customers, and also there were intense pricing competition in the industry. The Group then reduced its selling price during the year of 2008. Due to the anticipated deterioration of the business environment and declination of demand for leather and upholstered furniture, the Group made its impairment for inventory of RMB86.4 million in 2008 (2007: RMB99.6 million) as the net realizable value of certain types of leather was reduced due to a decline in market demand.

The net loss attributable to equity holders of the Company was RMB273.8 million in 2008, compared to the net loss RMB194.1 million in 2007.

SALES ANALYSIS BY PRODUCTS

The table below shows the total turnover by product category for the year ended December 31, 2008:

	2008		2007		**Y-O-Y Change**
	RMB'Million	**%**	RMB'Million	%	%
Upholstered Furniture	**1,216.0**	**64.2%**	2,573.9	77.7%	-52.8%
Leather Sofa	***722.0***	***38.1%***	*1,653.3*	*49.9%*	*-56.3%*
Fabric Sofa	***107.7***	***5.7%***	*313.2*	*9.5%*	*-65.6%*
Leather Cut-and-Sew	***355.4***	***18.8%***	*428.7*	*12.9%*	*-17.1%*
Fabric Cut-and-Sew	***30.9***	***1.6%***	*178.7*	*5.4%*	*-82.7%*
Furniture Leather	**478.1**	**25.2%**	461.3	13.9%	3.6%
Automotive Leather	**170.2**	**9.0%**	217.9	6.6%	-21.9%
Others	**29.7**	**1.6%**	57.6	1.8%	-48.5%
Total	**1,894.0**	**100.0%**	3,310.7	100.0%	-42.8%

Upholstered Furniture

Sales of upholstered furniture including finished sofa and sofa cut-and-sew accounted for 64.2% of the Group's total revenue in 2008 (2007: 77.7%). The economic recession and depressed demand in the US housing market continuously affected the sales of home furnishing and furniture.

In addition, the completion of disposal of interests in Haining Oyi May Sofa Co., Ltd. and Zhejiang Liema Furniture Co., Ltd., (the "Subsidiary Disposals"), former sofa manufacturing subsidiaries of the Company, further affected the Group's consolidated sales.

As a result of the above, the Group's upholstered furniture sales experienced a decrease of 52.8%, from RMB2,573.9 million in 2007 to RMB1,216.0 million in 2008.

Furniture Leather

The Group's priority in furniture leather production is to meet the internal leather requirement of its upholstered furniture division. As the Group's production of upholstered furniture declined, and with the Group's efforts in developing external market, the Group's external sales of furniture leather increased by 3.6%, from RMB461.3 million in 2007 to RMB478.1 million in 2008.

Automotive Leather

The automotive leather operation recorded a 21.9% decrease in turnover for the year ended December 31, 2008. Without tax rebates for finished leather exports and due to downturn in the foreign automobile industry, the Group's automotive leather export was severely affected in 2008. However, on realizing the rapid growth of automobile industry in the PRC, the Group has put more resources in the development of automotive leather sector and achieved a 71.8% increase in domestic sales from RMB93.4 million in 2007 to RMB160.6 million in 2008.

Property Development

In 2008, the Group started entering into the commercial real estate sector through the development of commercial and residential properties in Yancheng of Jiangsu Province ("Yancheng Project"). As delivery of some of the units of the residential buildings will only take place in mid 2009, therefore no revenue or profit has been recognized in the accounts of the Group in 2008 in respect of the development of Yancheng Project, and the pre-sale deposits received by the Group from its customers will only be recognized as the Group's revenue and profit upon the delivery of such units.

SALES ANALYSIS BY REGION

The table below shows the total turnover by geographic market for the year ended December 31, 2008:

	2008		2007		**Y-O-Y Change**
	RMB'Million	**%**	RMB'Million	%	%
USA	**802.8**	**42.4%**	2,041.1	61.7%	-60.7%
Europe	**259.2**	**13.7%**	293.5	8.9%	-11.7%
Australia	**13.7**	**0.7%**	100.5	3.0%	-86.4%
PRC, including HK	**788.5**	**41.6%**	792.3	23.9%	-0.5%
Others	**29.8**	**1.6%**	83.3	2.5%	-64.2%
Total	**1,894.0**	**100.0%**	3,310.7	100.0%	-42.8%

The overall US furniture industry environment was still tough and had not shown any improvement in 2008. Our performance in 2008 was therefore severely affected. For the year ended December 31, 2008, the Group's sales to the US market declined by 60.7%, and the percentage of US sales to total turnover reduced to 42.4%, representing a 19.3 percentage points drop compared to the year of 2007.

The Group's expansion into the European market is still ongoing. In 2008, the Group's European sales decreased by 11.7%, and this segment accounted for 13.7% of the Group's total turnover as compared to 8.9% in 2007.

The Group's sales to Australian market was RMB13.7 million in 2008, as compared to RMB100.5 million in 2007, representing a decrease of 86.4%.

The Group's sales to the PRC domestic market mainly involved furniture leather, automotive leather and designed upholstered furniture, the turnover of which represented 41.6% of its total sales in 2008.

OPERATING EXPENSE, TAXATION AND LOSS ATTRIBUTABLE TO EQUITY HOLDERS

The Group's selling and distribution costs in 2008 decreased to RMB69.2 million, compared to RMB116.7 million in 2007. The decrease was resulted from (1) a decrease in transportation charges by RMB53.0 million, representing a 63% decrease, due to the Subsidiary Disposals and the decrease in Group's turnover; offset by (2) an increase of approximately RMB7.0 million in operating lease rentals for the two Kasen Home Furnishing Stores opened in Hangzhou and Dalian in 2008. As a result, the percentage of selling and distribution costs to turnover rose from 3.5% in 2007 to 3.7% in 2008.

The administrative costs in 2008 decreased to RMB130.0 million, compared to RMB158.4 million in 2007, mainly due to a decrease in employees benefit expenses by RMB11.2 million as a result of the Subsidiary Disposals and a decrease of RMB13.8 million in the net foreign exchange losses.

Other expenses in 2008 were RMB93.5 million, compared to RMB179.3 million in 2007. The decrease was resulted from a decrease of RMB158.0 million in goodwill impairment, offset by the increase in (1) impairment loss on trade receivables by RMB35.2 million, (2) impairment loss on property, plant and equipment by RMB23.8 million, and (3) amortisation of property for development by RMB8.8 million.

The Group's finance costs in 2008 was RMB108.5 million, an increase of RMB16.9 million as compared to RMB91.6 million in 2007 as there was an increase in average loan interest rate in 2008 as compared to 2007.

The Group's income tax in 2008 was RMB6.2 million, a decrease of RMB8.4 million compared to RMB14.6 million in 2007, due to significant drop in taxable operating profit generated in 2008.

For reasons mentioned above, the loss attributable to equity holders of the Company was RMB273.8 million in 2008, compared to the loss of RMB194.1 million in 2007.

CAPITAL EXPENDITURES

Capital expenditure in 2008 decreased to RMB74.7 million from RMB323.1 million in 2007. The capital expenditure was mainly comprised of an amount of RMB30.1 million spent on the purchase of property, plant and equipment for operational purpose, and a payment of RMB14.9 million on purchase of the land use right to use a plot of land in the Xieqiao Town, Haining City, Zhejiang Province, the PRC for property development purpose. In addition, the Group spent RMB24.4 million as demolition costs for the development of a plot of land in Hunan Province, the PRC.

FINANCIAL RESOURCES AND LIQUIDITY

Bank and other borrowings

As at December 31, 2008, the Group's bank and other borrowings amounted to RMB1,442.6 million, accounted for a 8.7% decrease from RMB1,580.9 million as at December 31, 2007. For details, please refer to note 31 to the Consolidated Financial Statements.

Turnover Period, Liquidity and Gearing

The Group's inventory primarily represented raw cowhides and wet blues used for production, accounted for approximately 33.0% of the total inventory of RMB727.1 million in 2008 (2007: RMB1,205.8 million). In 2008, the inventory turnover period slightly increased to 147 days (2007: 146 days) due to the weaken demand in market.

In 2008, the Group continued to maintain a strict credit policy. Many of the Group's customers are also in their difficult time, resulting in a modest increase in account receivables turnover days to 48 days (2007: 46 days).

The accounts payable turnover days decreased to 25 days in 2008 (2007: 30 days).

As at December 31, 2008, the Group's current ratio decreased to 1.11 (December 31, 2007: 1.19) and quick ratio increased to 0.81 (December 31, 2007: 0.63), respectively. The Group's cash and cash equivalent balance was RMB389.6 million as at December 31, 2008 (December 31, 2007: RMB508.9 million). This represents a gearing ratio of 72.3% as at December 31, 2008 (December 31, 2007: 81.9%) and a net debt-to-equity ratio of 51.3% as at December 31, 2008 (December 31, 2007: 55.4%). 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 2008, the Group's credit facilities were able to renew on an on-going basis, which provide sufficient cash to finance the Group's working capital requirement during the year.

MATERIAL ACQUISITION AND DISPOSAL

The Group disposed of its equity interests in two sofa manufacturing subsidiaries to realize the value of its interests in such subsidiaries so as to concentrate on its manufacturing resources and improve efficiency.

During the period under review, the Group acquired (1) 99% equity interest in Qionghai Bodi Real Estate Co., Ltd., (2) the entire issued share capital of Investwise International Limited and (3) 100% equity interest in Yancheng Sujia Real Estate Development Company Limited which holds properties under development in Jiangsu Province, PRC. The acquisition has provided the Group with a good opportunity to further participate in its property development business.

For details, please refer to notes 20, 35 and 36 to the Consolidated Financial Statements.

CONTINGENT LIABILITIES

As at December 31, 2008, the Group had no contingent liabilities.

PLEDGE OF ASSETS

Some of the Group's assets have been pledged to secure the bank borrowings of the Group. For details, please refer to note 40 to the Consolidated Financial Statements.

FOREIGN EXCHANGE EXPOSURE

The Group is principally engaged in export-related business, and transactions (including sales and procurements) were mainly denominated in US dollars, and most of the trade receivables was exposed to fluctuation. In 2008, the Group used forward contract and some other financial instruments to hedge foreign exchange risk, and recorded a gain of RMB1,646,000.

EMPLOYEES AND EMOLUMENTS POLICIES

As at December 31, 2008, the Group employed a total of approximately 5,400 full time employees (December 31, 2007: 11,000), including management staff, technicians, salespersons and workers. In 2008, the Group's total expense on the remuneration of employees was RMB188.0 million (2007: RMB270.0 million), representing 9.93% (2007: 8.16%) of the operating revenue of the Group. The Group's emolument policies for employees are formulated on the performance of individual employees, which are reviewed regularly every year. Apart from the provident fund scheme (according to the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees) or 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 with reference to their qualification and experience, responsibilities undertaken, contribution to the Group, and the prevailing market level of remuneration for executives of similar position.

KEY RISK FACTORS

Exchange Risk

As the Group is principally engaged in export-related business and transactions entered into by the Group are primarily denominated in US dollar (approximately 64% in 2008), management of the Company considers that the Group is exposed to foreign exchange fluctuation risks. Although a portion of the Group's procurements is denominated in US dollar and currency risks can be partly reduced, the Group is still subject to great effects of exchange rate fluctuations. The Group has monitored its foreign exchange exposure and utilized appropriate financial instruments for hedging purposes.

Commodities Risk

Raw cowhides and wet-blues are the principal raw materials of the Group's business, accounted for approximately 45% of the Group's cost of sales in 2008. As such, the Group is exposed to the fluctuations in the price of cattle raw hides. The Group remains cautious about the future trend of cowhides prices.

Cyclical Demand for Furniture

Historically, the furniture industry was cyclical in nature, fluctuating with economic cycles, and was sensitive to general economic conditions, home buying, interest rate levels, etc. The downturn in the US housing market has adversely impacted the Group's sales to this major market. The current financial uncertainties in the US may prolong and can further depress the market conditions for residential furniture.

Export VAT Rebates

In order to reduce its massive trade surplus, the Chinese government has gradually reduced its export VAT rebates for many business sectors. Export VAT rebates for some of the Group's product segments have been reduced since July 1, 2007, from 8% to nil for finished leather and from 13% to 5% for leather cut-and-sew. These reductions had affected the Group's profitability. There may be further reductions that will continue to affect the Group's profitability.

Processing Trade Policy Change

Since 2006, the Chinese government has been introducing changes to the processing trade ("加工貿易") policy – such as moving certain widely used materials to the prohibited category – aimed at restricting the production and export of high pollution, high energy consumption and resource consuming products. Pursuant to the latest policy implemented by the PRC government in July 2007, enterprises engaged in the processing trade industry in the prohibited category are required to pay a mandatory duty deposit for imported raw materials. As the Group's products fall into the category of prohibited industry, it will be required to pay a substantial amount of duty deposit to the PRC customs. This will cause adverse impact to the Group's cash flow and will incur increased financial costs.

Environmental Risk

The production of leather is pollutive. As the Chinese government is tightening the environmental protection policies, the Group's production activities will be put under close scrutiny. The Group has at all time adhered to high standard of social and environmental duties, and welcomes the government's new initiatives. However, it is possible that further investment will need to be made by the Group to upgrade waste treatment facilities and this will in turn increases the Group's waste treatment costs.

FUTURE PLANS AND PROSPECTS

The US housing market is still in its worst state and the 2009 outlook in furniture industry will be gloomy. However, we are still confident of overcoming potential challenges and keep committed to strengthening the Group's competitiveness and increasing shareholders' value.

Focusing on the OEM Business

The Group will still leverage on its advantage in upholstered furniture production as a reputable OEM partner. After several years of fast growth, the Group faced its largest set-backs since it stepped into the furniture industry. To overcome the challenges ahead and grasp potential business opportunities, the Group will take a series of actions, including cost-saving plan, management optimization, business model reconstruction, incentive schemes, etc. to further strengthen our competitiveness. Shorter delivery time, higher quality products, lower costs and increase in flexibility will keep us distinguished from our peers and will be highly recognized by our customers.

We treasure the good business relationship established with our customers during the past years and will continue to work with them closely to pass the difficult time. Also, we are aiming to develop more OEM business opportunities from global market.

Domestic Expansion Plan

After prudent and extensive research on the Chinese domestic market for furniture, the Group took its first step into domestic furniture market in 2007. During the period under review, the Group implemented its retail chain shops plan and opened two self-operating stores under its own brand name "Kasen Home Furnishing" in Hangzhou and Dalian, respectively. Together with our flagship store in Shanghai, these stores will provide domestic customers with high quality furniture at a reasonable price. We are pleased to see that the turnover from such business was growing steadily in the past two years. It will take two to three years for the Group to build a strong own brand in the furniture retail business.

Reforming Measures

In the past few years, the Group maintained a leading position in the leather and upholstered furniture industry based on the unique advantage of its vertically integrated platform. We are now facing more furious competition under the global economic downturn. To develop more business opportunities and improve the profit, the Group is implementing a comprehensive business consolidation plan. After disposing of some land which was used for the Group's production, the Group had consolidated and re-arranged its manufacturing resources in a more efficient manner. These will help the Group to further control cost, improve operational efficiency and improve the Group's profit margins.

Real Estate Development

In May 2008, the Group entered into an agreement to acquire a parcel of land with a site area of approximately 346,846.67 square meters located in the central of Yancheng City, Jiangsu Province, which has been ear-marked for the development of commercial and residential buildings. The construction of some of the residential buildings will be completed and delivered by the mid of 2009.

The Group also owns land situated in Boao of Hainan Province, and Changsha of Hunan Province. The Group will regularly monitor the market trend, and assess the opportunities in making use of these land to contribute profits.

Directors' Report

The Directors present their annual report and the audited consolidated financial statements for the year ended December 31, 2008.

The shares of the Company were listed on the Stock Exchange with effect from October 20, 2005.

PRINCIPAL ACTIVITIES

The Company is as an investment holding company. Its subsidiaries are principally engaged in the processing of raw cowhides and wet blues into finished leather or fully assembled leather products, and property development.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2008 are set out in the consolidated income statement on page 30.

The Directors do not recommend the payment of any final dividend for the year ended December 31, 2008.

DISTRIBUTABLE RESERVES OF THE COMPANY

The amount of the Company's reserves available for distribution to shareholders as at December 31, 2008, calculated in accordance with International Financial Reporting Standards, was approximately RMB980.9 million.

FINANCIAL SUMMARY

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

PROPERTY, PLANT AND EQUIPMENT

During the year of 2008, the Group had acquired property, plant and equipment of approximately RMB30.1 million for the purpose of expanding its production capacity.

Details of these and other movements in the property, plant and equipment of the Group during the year of 2008 are set out in note 15 to the financial statements.

DONATIONS

During the year 2008, the Group had made charitable donations in cash of RMB1,000,000 to 中國共產主義青年團 for the Sichuan earthquake and RMB500,000 to 海寧市慈善總會 for 冠名慈善愛心基金. All these donations were made in the PRC.

SHARE CAPITAL

Details of the Company's share capital are set out in note 32 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year of 2008, the aggregate sales attributable to the Group's five largest customers comprised approximately 31.6% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 10.2% of the Group's total sales.

The aggregate purchases during the year of 2008 attributable to the Group's five largest suppliers were approximately 45.5% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 27.5% of the Group's total purchases.

None of the Directors, their associates or any shareholders who, to the knowledge of the Directors, owned more than 5% of the Company's issued share capital had any interest in the share capital of any of the five largest customers and suppliers of the Group.

DIRECTORS

The Directors during the year of 2008 and up to the date of this report are:

Executive Directors

ZHU Zhangjin, Kasen *(Chairman)*
ZHOU Xiaosong
ZHANG Mingfa, Michael *(appointed on November 10, 2008)*
ZHU Jianqi *(resigned on November 10, 2008 to pursue other interests)*

Non-executive Director

LI Hui, David *(resigned on October 1, 2008 to pursue other interests)*

Independent non-executive Directors

LU Yungang, Ken
CHOW Joseph
GU Mingchao *(appointed on October 1, 2008)*
ZHANG Huaqiao, Joe *(resigned on October 1, 2008 to pursue other interests)*

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

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

BRIEF DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief details of Directors and senior management are set out on pages 4 to 5.

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

As at December 31, 2008, the interests of the Directors and chief executives and their associates in the shares of the Company (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as contained in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") are as follows:

(1) Long positions in shares of the Company

	Number of shares held, capacity and nature of interest			
Name of Directors	**Directly beneficially owned**	**Through controlled corporation**	**Total number of shares interested**	**Percentage of the Company's issued share capital**
Zhu Zhangjin ("Mr Zhu")	1,154,000	503,292,635 (Note)	504,446,635	43.35%
Zhou Xiaosong	8,173,912	–	8,173,912	0.70%
Zhang Mingfa, Michael	1,980,000	–	1,980,000	0.17%

Note: 503,292,635 shares are beneficially owned by Joyview Enterprises Limited ("Joyview"), a company wholly and beneficially owned by Mr. Zhu.

(2) Long positions in underlying shares of the Company

Long positions in underlying shares of the Company are separately disclosed in the section "Share Option Scheme" below.

Save as disclosed herein, none of the Directors nor the chief executives of the Company has any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as at December 31, 2008.

SHARE OPTION SCHEME

Particulars of the Company's share option scheme are set out in note 33 to the financial statements.

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

For any options granted to Directors, chief executives or substantial shareholders of the Company, options to be granted shall be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the proposed grantee of options).

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company on October 20, 2005 (representing 101,404,536 shares of the Company) without prior approval from the shareholders. The number of shares issued and to be issued in respect of options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the total shares of the Company in issue at any point in time, without prior approval from the shareholders.

The amount payable on acceptance of an option is HK$1.00. In relation to any options granted under the Scheme, the exercise price is determined by the Directors, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

The Scheme does not contain any minimum period(s) for which an option must be held before it can be exercised. However, at the time of granting of the options, the Company may specify any such minimum period(s).

Unless otherwise terminated by the Board or the shareholders in general meeting in accordance with the terms of the Scheme, the Scheme shall be valid and effective for a period of 10 years from the date on which it becomes unconditional which was October 10, 2005, after which no further options will be granted or offered but the provisions of the Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting options granted prior to the expiry of the 10-years period or otherwise as may be required in accordance with the provisions of the Scheme.

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

Name of Director	Exercise price HK$	Number of share options: Outstanding as at January 1, 2008	Granted from January 1, 2008 to December 31, 2008	Lapsed from January 1, 2008 to December 31, 2008	Outstanding as at December 31, 2008	Percentage of total issued share capital	Exercisable period	Notes
Zhu Zhangjin	2.38	1,000,000	–	–	1,000,000	0.08%	1/1/2007 to 8/3/2016	1,5,6
	2.38	1,000,000	–	–	1,000,000	0.08%	1/1/2008 to 8/3/2016	2,5,6
Zhou Xiaosong	2.38	1,000,000	–	–	1,000,000	0.08%	1/1/2007 to 8/3/2016	1,5,6
	2.38	1,000,000	–	–	1,000,000	0.08%	1/1/2008 to 8/3/2016	2,5,6
	1.18	–	500,000	–	500,000	0.04%	1/1/2009 to 4/5/2018	3,5,6
	1.18	–	500,000	–	500,000	0.04%	1/1/2010 to 4/5/2018	4,5,6
Zhu Jianqi (Note 7)	2.38	1,000,000	–	(1,000,000)	–	–	1/1/2007 to 8/3/2016	1,5,6
	2.38	1,000,000	–	(1,000,000)	–	–	1/1/2008 to 8/3/2016	2,5,6
	1.18	–	500,000	(500,000)	–	–	1/1/2009 to 4/5/2018	3,5,6
	1.18	–	500,000	(500,000)	–	–	1/1/2010 to 4/5/2018	4,5,6
Zhang Mingfa, Michael (Note 7)	2.38	500,000	–	–	500,000	0.04%	1/1/2007 to 8/3/2016	1,5,6
	2.38	500,000	–	–	500,000	0.04%	1/1/2008 to 8/3/2016	2,5,6
	1.18	–	250,000	–	250,000	0.02%	1/1/2009 to 4/5/2018	3,5,6
	1.18	–	250,000	–	250,000	0.02%	1/1/2010 to 4/5/2018	4,5,6
Lu Yungang	2.38	200,000	–	–	200,000	0.02%	1/1/2007 to 8/3/2016	1,5,6
	2.38	200,000	–	–	200,000	0.02%	1/1/2008 to 8/3/2016	2,5,6
	1.18	–	300,000	–	300,000	0.03%	1/1/2009 to 4/5/2018	3,5,6
	1.18	–	300,000	–	300,000	0.03%	1/1/2010 to 4/5/2018	4,5,6
Chow Joseph	2.38	200,000	–	–	200,000	0.02%	1/1/2007 to 8/3/2016	1,5,6
	2.38	200,000	–	–	200,000	0.02%	1/1/2008 to 8/3/2016	2,5,6
	1.18	–	300,000	–	300,000	0.03%	1/1/2009 to 4/5/2018	3,5,6
	1.18	–	300,000	–	300,000	0.03%	1/1/2010 to 4/5/2018	4,5,6
Zhang Huaqiao (Note 7)	1.18	–	500,000	(500,000)	–	–	1/1/2009 to 4/5/2018	3,5,6
	1.18	–	500,000	(500,000)	–	–	1/1/2010 to 4/5/2018	4,5,6
		7,800,000	4,700,000	(4,000,000)	8,500,000	0.72%		
Other employees in aggregate	2.38	8,750,000	–	(1,100,000)	7,650,000	0.66%	1/1/2007 to 8/3/2016	1,5,6
	2.38	8,750,000	–	(1,100,000)	7,650,000	0.66%	1/1/2008 to 8/3/2016	2,5,6
	1.18	–	2,900,000	–	2,900,000	0.25%	1/1/2009 to 4/5/2018	3,5,6
	1.18	–	2,900,000	–	2,900,000	0.25%	1/1/2010 to 4/5/2018	4,5,6
		25,300,000	10,500,000	(6,200,000)	29,600,000	2.54%		

Notes:

1. Pursuant to the Scheme, these share options were granted on March 9, 2006 and are exercisable at HK$2.38 per Share from January 1, 2007 to March 8, 2016.
2. These share options were granted pursuant to the Scheme on March 9, 2006 and are exercisable at HK$2.38 per Share from January 1, 2008 to March 8, 2016.
3. These share options were granted pursuant to the Scheme on May 5, 2008 and are exercisable at HK$1.18 per Share from January 1, 2009 to May 4, 2018.
4. These share options were granted pursuant to the Scheme on May 5, 2008 and are exercisable at HK$1.18 per Share from January 1, 2010 to May 4, 2018.
5. These share options represent personal interest held by the relevant participants as beneficial owner.
6. Except the lapsed share option stated above, up to December 31, 2008, none of these share options were exercised nor cancelled.
7. On October 1, 2008, Mr. Zhang Huaqiao resigned as an independent non-executive Director. On November 10, 2008, Mr. Zhu Jianqi resigned as executive Director, and Mr. Zhang Mingfa, Michael was appointed as executive Director.

SUBSTANTIAL SHAREHOLDERS

As at December 31, 2008, the following persons (other than Directors or chief executives of the Company stated in "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures") had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Shareholder	Capacity	Short position	Long position	Number of issued shares held	Percentage of the Company's issued share capital
Joyview[2]	Beneficial owner	–	503,292,635	503,292,635	43.25%
Warburg Pincus & Co.[1]	Interest of controlled corporation	–	185,989,966	185,989,966	15.98%
Warburg Pincus Partners LLC[1]	Interest of controlled corporation	–	185,989,966	185,989,966	15.98%
Warburg Pincus Private Equity VIII L.P.[1]	Beneficial owner	–	90,120,988	90,120,988	7.74%
Warburg Pincus International Partners L.P.[1]	Beneficial owner	–	89,137,811	89,137,811	7.66%

Notes:

1. Warburg Pincus International Partners, L.P., and Warburg Pincus Private Equity VIII L.P. are part of the Warburg Pincus Funds. The general partner of the Warburg Pincus Funds is Warburg Pincus Partners LLC, which is a subsidiary of Warburg Pincus & Co. Each of Warburg Pincus Partners LLC and Warburg Pincus & Co. is therefore deemed to be interested in the shares held by the Warburg Pincus Funds, which includes Warburg Pincus International Partners, L.P. and Warburg Pincus Private Equity VIII L.P. as well as four other funds consisted in the Warburg Pincus Funds.

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

Save as disclosed herein, the Company has not been notified of any other person (other than a Director or a chief executive of the Company) who had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at December 31, 2008.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Other than the share option scheme disclosed in note 33 to the financial statements, at no time during the year of 2008 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

CONNECTED TRANSACTIONS

During the year ended December 31, 2008, the Group entered into the following transactions with its connected persons.

(1) Acquisition of the entire issued share capital of Investwise International Limited

On May 26, 2008, an agreement was entered into between the Company, Joyview and Mr. Zhu Zhangjin, pursuant to which the Company acquired from Joyview the entire issued share capital of Investwise International Limited for a consideration of RMB209,002,000, which was satisfied by the allotment and issue of 174,425,616 ordinary shares by the Company to Joyview.

(2) Acquisition of 45% equity interest in Yancheng Sujia Real Estate Development Co., Ltd.

On May 26, 2008, an agreement was entered into between Zhejiang Kasen Property Development Co., Ltd., a wholly-owned subsidiary of the Company, and Haining Zhongyuan Real Estate Co., Ltd., an independent third party, pursuant to which Zhejiang Kasen Property Development Co., Ltd. acquired from Haining Zhongyuan Real Estate Co., Ltd. 45% equity interest in Yancheng Sujia Real Estate Development Co., Ltd. for a consideration of RMB171,002,000, which was settled in cash.

All the above two transactions constituted connected transactions for the Company under Chapter 14A of the Listing Rules and are subject to reporting and announcement requirements as well as independent shareholders' approval requirements under the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

During the year ended December 31, 2008, the Group entered into the following continuing transactions with its connected persons. The transactions constituted "continuing connected transactions" for the Company under the Listing Rules. Waivers from strict compliance with the announcement requirements, or the announcement and independent shareholders' approval requirements, had been received from the Stock Exchange. The transactions are subject to the reporting requirements set out in Chapter 14A of the Listing Rules.

(1) Agreement for sale of production wastes to Yujie

On December 17, 2007, Haining Yujie Material Recycling Co., Ltd. ("Yujie") entered into a renewal agreement with the Group which will expire on December 31, 2010 and, subject to compliance with the Listing Rules requirements regarding connected transactions, is renewable for a term of 3 years thereafter. Yujie is a 80% owned subsidiary of Zhejiang Sunbridge Industrial (Group) Co., Ltd. ("Sunbridge") and Sunbridge is a company in which Mr. Zhu Zhangjin indirectly controls more than 30% of the voting power at its general meetings. The pricing under this agreement was determined with reference to: (i) a comparable market price based on the type of waste involved, in the case of cowhides, whether the cowhides are processed or not; or (ii) by agreement between the parties based on prices no less favourable to/from third parties or reasonably agreed between the parties, if no comparable market price can be taken as a reference. Details of this agreement have been set out in the Company's announcement dated December 17, 2007.

Pursuant to this renewal agreement, the Company agreed to sell certain production wastes (including materials such as residue leather, used tubs, hair and fat) to Yujie ("Haining Yujie Transactions"). Yujie is one of the largest recycling companies in Haining and is located near many of the Group's production facilities (all within approximately 10 km). The Company believes that by selling wastes to Yujie, the Group will achieve an efficient management of disposal logistics and an effective supervision of its employees in its sale of wastes. During the year under review, the aggregate amount of the transactions under this renewal agreement was RMB5,001,000 and the annual cap amount granted by the Stock Exchange was RMB19,500,000.

(2) Agreement for purchase of wet blues from Kezilesu Xinrong, Yili Horgos and Baiyin Kasen

On December 17, 2007, Kezilesu Xinrong Leather Co., Ltd. ("Kezilesu Xinrong"), Yili Horgos Leather Co., Ltd. ("Yili Horgos") and Baiyin Kasen Leather Co., Ltd. ("Baiyin Kasen") entered into an agreement with the Group which will expire on December 31, 2010 and, subject to compliance with the Listing Rules requirements regarding connected transactions, is renewable for a term of 3 years thereafter. Each of Kezilesu Xinrong, Yili Horgos and Baiyin Kasen is subsidiary of Sunbridge and Sunbridge is a company in which Mr. Zhu Zhangjin indirectly controls more than 30% of the voting power at its general meetings. The pricing under this agreement was determined with reference to: (i) a comparable market price; or (ii) by agreement between the parties based on prices no less favourable to/from third parties or reasonably agreed between the parties, if no comparable market price can be taken as a reference. In general, the Company would compare the quotations obtained from various potential suppliers and determine the price after taking into consideration the quality of the wet blues to be supplied by the relevant suppliers. Details of this agreement have been set out in the Company's circular dated January 7, 2008.

Pursuant to this renewal agreement, the Group agreed to purchase wet blues from Kezilesu Xinrong, Yili Horgos and Baiyin Kasen. Kezilesu Xinrong, Yili Horgos and Baiyin Kasen are the largest importers of raw cowhides purchased from Xinjiang, Gansu and Qinghai of Northwest China or neighboring countries, such as Kazakhstan, Tajikistan, Uzbekistan and Kyrgyzstan, and process such raw cowhides into wet blues. Although the Group possesses wet blues processing capacity, its tannery facility in Haining does not produce sufficient wet blues for its production needs. As a result, the Group had to source wet blues externally from time to time. Further, it would also save transportation and handling costs if the processing and enhancement of raw cowhides into wet blues were carried out near the place of origin of the raw cowhides. During the year under review, the aggregate amount of the transactions under this agreement was RMB108,831,000 and the annual cap amount granted by the Stock Exchange was RMB212,000,000.

(3) Agreement for sale of upholstered furniture to Starcorp

On February 22, 2006, Starcorp Corporation Pty. Ltd. ("Starcorp") entered into an agreement with the Group which expired on December 31, 2008 and, subject to compliance with Listing Rules requirements regarding connected transactions, renewable for a term of 3 years thereafter. Starcorp is a 70% owned subsidiary of Sunbridge and Sunbridge is a company in which Mr. Zhu Zhangjin indirectly controls more than 30% of the voting power at its general meetings. The pricing under this agreement was determined by reference to the prevailing market price. Details of this agreement have been set out in the circular dated March 16, 2006. Pursuant to this agreement, the Group agreed to sell upholstered furniture to Starcorp. Starcorp's core business is retail sales of wooden and other upholstered furniture in Australia and the Company considers that this provides a good opportunity for the Group to increase its sales of the upholstered furniture in the Australian market. During the year, the aggregate value of the transaction under this agreement was RMB9,085,000 and the annual cap amount granted by the Stock Exchange was RMB180,000,000.

(4) Agreement for sale of upholstered furniture to Sleep City

On December 17, 2007, Sleep City Holdings Limited ("Sleep City") entered into an agreement with the Group which will expire on December 31, 2010 and, subject to compliance with the Listing Rules requirements regarding connected transactions, is renewable for a term of 3 years thereafter. Sleep City is a 35% owned subsidiary of Sunbridge and Sunbridge is a company in which Mr. Zhu Zhangjin indirectly controls more than 30% of the voting power at its general meetings. The pricing under this agreement was determined with reference to: (i) a comparable market price where the normal cost of billing of the furniture concerned will be taken into account; or (ii) by agreement between the parties based on prices no less favourable to/from third parties or reasonably agreed between the parties, if no comparable market price can be taken as a reference. Details of this agreement have been set out in the Company's circular dated January 7, 2008.

Pursuant to this agreement, the Group agreed to sell upholstered furniture to Sleep City. The Sleep City and its subsidiaries are principally engaged in retail sales of upholstered furniture in Australia. Sleep City is one of the Australia's largest privately owned companies of specialty bedding stores and it is expanding its business to upholstered furnitures. Its demand for upholstered furnitures imported from China is big and continuous. The Directors consider that the transactions with the Sleep City Group as contemplated under this agreement are in the interest of the Company and the shareholders as a whole as it would render regular sales to one of the largest privately owned companies of specialty bedding stores in Australia. During the year under review, the aggregate value of the transactions under this agreement was US$1,152,000 (equivalent to RMB7,834,000) and the annual cap amount granted by the Stock Exchange was US$12,000,000.

(5) Transactions with Haining Haipai

On March 6, 2008, the Group announced the sale of wooden frames and scrapped leather (the "Wooden Frames and Scrapped leather Transactions") and sub-contracted the manufacturing of leather sofa cover service (the "Sub-contract Transactions") to Haining Haipai during the year ended December 31, 2007. Haining Haipai is the subsidiary of Haining Ounuoya Import & Export Co., Ltd which is the major shareholder of Haining Oyi May, a former subsidiary of the Company. The pricing of these transactions was determined with reference to: (i) a comparable market price where the normal cost of billing of the leather sofa cover, the wooden frames and scrapped leather concerned was taken into account; or (ii) by agreement between the parties based on prices no less favourable to/from third parties or reasonably agreed between the parties, if no comparable market price was taken as a reference. Details of these transactions have been set out in the announcement dated March 6, 2008.

Haining Oyi May has ceased to be a subsidiary of the Company since January 10, 2008. As such, any transactions entered or to be entered into between the Company's subsidiaries and Haining Haipai after January 10, 2008 will no longer constitute connected transactions for the Company under Chapter 14A of the Listing Rules. There was no transaction between the Group and Haining Haipai during the period from January 1, 2008 to January 10, 2008.

Pursuant to Rule 14A.38 of the Listing Rules, the Board engaged the auditor of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditor has reported their factual findings on these procedures to the Board. Based on the work performed, the auditor of the Company have provided a letter and confirmed that the aforesaid continuing connected transactions (1) have been approved by the Board; (2) are in accordance with the pricing policies of the Group; (3) have been entered into in accordance with the terms of the relevant agreements governing the transactions; and (4) have not exceeded the caps granted by the Stock Exchange.

In the opinion of the independent non-executive Directors, the continuing connected transactions entered into by the Group were:

(i) in the ordinary and usual course of business of the Group;

(ii) either (a) on normal commercial terms; or (b) where there is no available comparison, on terms that are no less favorable to the Group than terms to or from independent third parties; and

(iii) in accordance with the agreements governing the transactions on terms that are fair and reasonable so far as the shareholders.

Save as disclosed above and in note 43 to the financial statements, there was no other transaction which needs to be disclosed as connected transaction in accordance with the requirements of the Listing Rules during the year ended December 31, 2008.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Save as disclosed under the headings "Connected Transaction" and "Continuing Connected Transactions", there were no contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly and indirectly, subsisted at the end of the year or at any time during the year ended December 31, 2008.

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

Pursuant to the general mandate granted by the shareholders of the Company, the Board of Directors resolved on November 10, 2008 to repurchase the Company's shares of up to 10% of the issued shares of the Company as at the date of May 29, 2008. As at December 31, 2008, the Company had repurchased 817,000 ordinary shares on the Stock Exchange at an aggregate consideration of HK$596,240. All of such shares were subsequently cancelled. Details of this share repurchase are set out in note 32 to the financial statements. 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, 2008.

SUFFICIENCY OF PUBLIC FLOAT

Based on information available to the Company and within the knowledge of its Directors, the Company has maintained sufficient public float as required under the Listing Rules throughout the year ended December 31, 2008.

DIRECTOR'S INTERESTS IN COMPETING BUSINESS

None of the Directors holds any interests in any competing business against the Company or any of its jointly controlled entities and subsidiaries for the year ended December 31, 2008.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION OF INDEPENDENCE

The Company has received, from each of its independent non-executive Directors, namely Messrs. LU Yungang, Ken, CHOW Joseph, GU Mingchao, a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of its independent non-executive Directors are independent.

POST BALANCE SHEET EVENT

Pursuant to a sale and purchase agreement dated February 27, 2009, Cardina International Company Limited ("Cardina"), a wholly-owned subsidiary of the Company, agreed to acquire from Emporio Holdings Plc, an independent third party, the entire issued share capital of Sofas UK Plc for a consideration of £1.00. Sofas UK Plc is a company incorporated and registered in England. Completion of the sale and purchase of shares took place on March 2, 2009 and Cardina assumed all the liabilities of Sofas UK Plc in a total amount of £10,785,704 as of January 31, 2009.

AUDIT COMMITTEE

An Audit Committee was established by the Company to review and supervise the Company's financial reporting process and internal controls. The Audit Committee comprises all the independent non-executive Directors. Mr. CHOW Joseph is the chairman of the Audit Committee.

The annual results of the Company have been reviewed by the Audit Committee.

REMUNERATION COMMITTEE

A Remuneration Committee was established by the Company to establish policies, review and determine the remuneration of the Directors and the senior management of the Company. The Remuneration Committee, comprises two independent non-executive Directors and an executive Director. Mr. GU Mingchao is the chairman of the Remuneration Committee.

AUDITOR

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

On behalf of the Board

ZHU Zhangjin, Kasen
Director

The PRC, April 6, 2009

Corporate Governance Report

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

The Company has complied with the "Code on Corporate Governance Practices" (the "CG Code") as set out in Appendix 14 of the Listing Rules throughout the year ended December 31, 2008, except for the following deviations:

CODE PROVISION A.2.1

Under CG Code Provision A.2.1, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. The Company does not at present separate the roles of chairman and chief executive officer. Mr. Zhu Zhangjin, Kasen is the chairman and chief executive officer of the Company responsible for overseeing the operations of the Group. The Company is still considering appointing a new chief executive officer to replace Mr. Zhu if 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 Mainland China and the in-depth knowledge and experience in the leather and upholstery furniture market is 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.

CODE PROVISION A.4.1

Under CG Code Provision A.4.1, non-executive Directors should be appointed for a specific term and subject to re-election. The current independent non-executive Directors, namely Mr. Chow Joseph, Mr. Lu Yungang, Ken and Mr. GU Mingchao are not appointed for specific terms, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Articles which has provided that at every annual general meeting, one-third of the Directors for the time being or, if their number is not a multiple of three, the number nearest to but not less than one-third, shall retire from office by rotation. Given that the provisions stipulated under the Articles, the Company considers that appropriate measures have been taken by the Company regarding its corporate governance practices. The Board will keep these matters under review and 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.

The Board will keep these matters under review. Following sustained development and growth of the Company, we 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") 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 period under review, they were in compliance with the provisions of the Model Code. All Directors declared that they have complied with the Model Code for the year ended December 31, 2008.

BOARD OF DIRECTORS

The primary responsibilities of the Board are to establish long term strategies, administrate and oversee the operations and financial policies and set up and regularly review the Company's performance. The Board comprises six members, including three executive Directors and three independent non-executive Directors. The Board members for the year ended December 31, 2008 were:

Executive Directors

Mr. ZHU Zhangjin, Kasen *(Chairman)*
Mr. ZHOU Xiaosong
Mr. ZHANG Mingfa, Michael *(appointed on November 10, 2008)*
Mr. ZHU Jianqi *(resigned on November 10, 2008 to pursue other interests)*

Non-executive Director

Mr. LI Hui, David *(resigned on October 1, 2008 to pursue other interests)*

Independent non-executive Directors

Mr. LU Yungang, Ken
Mr. CHOW Joseph
Mr. GU Mingchao *(appointed on October 1, 2008)*
Mr. ZHANG Huaqiao, Joe *(resigned on October 1, 2008 to pursue other interests)*

The Biographical details of all Directors and the relationships between them are set out in the "Directors and Management Profiles" section on pages 4 to 5 of this annual report, the Company's website: http://www.kasen.com.cn, and http://www.irasia.com/listco/hk/kasen/index.htm. None of the Directors has any financial, business, family or other material or relevant relationships among members of the Board.

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

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

The Company has purchased Directors & Officers Liability and Company Reimbursement Insurance for all its Directors and some of its senior management.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

NON-EXECUTIVE DIRECTOR

The current non-executive Director is not appointed for specific terms, but is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Articles.

BOARD COMMITTEES

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

Audit Committee

The audit committee comprises all the independent non-executive Directors:

Mr. Chow Joseph *(Chairman of the Audit Committee)*
Mr. Lu Yungang, Ken
Mr. GU Mingchao *(appointed on October 1, 2008)*
Mr. ZHANG Huaqiao, Joe *(resigned on October 1, 2008)*

The audit committee was set up with written terms of reference prepared based on "A Guide for Effective Audit Committees" published by the Hong Kong Institute of Certified Public Accountants and the CG Code adopted. The primary duties of the audit committee are to review the Company's annual reports and accounts and interim reports and results announcements and to provide advice and comments thereon to the Directors. The members meet regularly with the external auditors and the Company's senior management for the review, supervision and discussion of the Company's financial reporting and internal control procedures and ensure that management has discharged its duty to have an effective internal control system.

During the year ended December 31, 2008, the audit committee held three meetings to review the annual and interim results, and to make recommendations to improve the Company's internal control. The chief financial officer, internal audit officer and representatives of the external auditors attended the meetings.

Remuneration Committee

The remuneration committee comprises three members, the majority of which are independent non-executive Directors:

Mr. GU Mingchao *(Chairman of the Remuneration Committee, appointed on October 1, 2008)*
Mr. Li Hui, David *(Chairman of the Remuneration Committee, resigned on October 1, 2008)*
Mr. Lu Yungang, Ken
Mr. Zhou Xiaosong *(appointed on October 1, 2008)*
Mr. Zhang Huaqiao, Joe *(resigned on October 1, 2008)*

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

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

During the year ended December 31, 2008, the remuneration committee held one meeting to review the remuneration package of the Board members and the senior management.

NUMBER OF MEETINGS AND DIRECTORS' ATTENDANCE

The individual attendance record of each director at the meetings of the Board, remuneration committee and audit committee during the year ended December 31, 2008 is set out below:

	Attendance/Number of Meetings		
Name of Directors	**Board**	**Remuneration Committee**	**Audit Committee**
Executive Directors			
Mr. ZHU Zhangjin, Kasen *(Chairman)*	5/5	N/A	N/A
Mr. ZHOU Xiaosong *(Member of Remuneration Committee, appointed on October 1, 2008)*	5/5	0/1	N/A
Mr. ZHANG Mingfa, Michael *(appointed on November 10, 2008)*	0/5	N/A	N/A
Mr. ZHU Jianqi *(resigned on November 10, 2008)*	5/5	N/A	N/A
Non-executive Director			
Mr. LI Hui, David *(resigned on October 1, 2008)* *(Chairman of Remuneration Committee, resigned on October 1, 2008)*	5/5	1/1	N/A
Independent Non-executive Directors			
Mr. CHOW Joseph *(Chairman of Audit Committee)*	5/5	N/A	3/3
Mr. LU Yungang, Ken *(Member of Audit Committee and Remuneration Committee)*	5/5	1/1	3/3
Mr. GU Mingchao *(appointed on October 1, 2008)* *(Member of Audit Committee and Chairman of Remuneration Committee, all appointed on October 1, 2008)*	0/5	0/1	0/3
Mr. ZHANG Huaqiao, Joe *(resigned on October 1, 2008)* *(Member of Audit Committee and Remuneration Committee, all resigned on October 1, 2008)*	5/5	1/1	3/3

NOMINATION OF DIRECTORS

The Company believes that it is not necessary to establish a separate nomination committee to nominate Directors. The task of nominating Directors is vested with the Board. The Board reviews the structure and the composition of the Board regularly, then identifies and nominates qualified individuals to be appointed as new Directors of the Company.

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended December 31, 2008.

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

AUDITORS' REMUNERATION

The remuneration paid to the external auditors of the Company in respect of audit services and non-audit services for the year ended December 31, 2008 amounted to approximately RMB4.9 million and RMB2.3 million, respectively.

INTERNAL CONTROL

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

SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

The rights of shareholders and the procedures for them to demand a poll on resolutions at shareholders' meetings are contained in the Articles. Details of such rights to demand a poll and the poll procedures are included in all circulars to shareholders prior to December 31, 2008 and will be explained during the proceedings of meetings. Poll results, if any, will be posted on both the websites of the Stock Exchange and the Company no later than 30 minutes before the earlier of the morning session or any pre-opening session on the next business day of the shareholders' meeting.

The general meetings of the Company provide a platform for communication between the shareholders and the Board. The Chairman of the Board as well as chairman of the remuneration committee and audit committee or if, in their absence, other members of the respective committees, and where applicable, the independent board committee, are available to answer questions at the shareholders' meetings. The Company continues to enhance communications and relationships with its investors. Enquiries from investors are dealt with in an informative and timely manner.

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

Independent Auditor's Report

Deloitte.
德勤

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

We have audited the consolidated financial statements of Kasen International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 30 to 88, which comprise the consolidated balance sheet as at December 31, 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at December 31, 2008 and of the Group's loss and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
April 6, 2009

Consolidated Income Statement

For the year ended December 31, 2008

	Notes	**2008** **RMB'000**	2007 RMB'000
Turnover	6	**1,893,990**	3,310,727
Cost of sales		**(1,806,760)**	(3,011,190)
Gross profit		**87,230**	299,537
Other income	7	**49,476**	70,921
Distribution costs		**(69,224)**	(116,721)
Administrative expenses		**(130,017)**	(158,420)
Other expenses	8	**(93,517)**	(179,281)
Share of (losses) profits of associates		**(7,439)**	103
Finance costs	9	**(108,500)**	(91,579)
Loss before taxation	10	**(271,991)**	(175,440)
Taxation	12	**(6,192)**	(14,584)
Loss for the year		**(278,183)**	(190,024)
Attributable to:			
Equity holders of the Company		**(273,804)**	(194,149)
Minority interests		**(4,379)**	4,125
		(278,183)	(190,024)
Dividend		**–**	–
Loss per share	13		
Basic and diluted		**(26) cents**	(20) cents

Consolidated Balance Sheet

As at December 31, 2008

	Notes	2008 RMB'000	2007 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**572,078**	952,492
Prepaid lease payments – non-current portion	16	**61,031**	102,265
Properties for development	17	**948,919**	314,781
Goodwill	18	**–**	–
Intangible assets	19	**1,870**	1,321
Interests in associates	20	**49,634**	15,833
Investment in a jointly controlled entity	21	**2,614**	2,614
Available-for-sale investments	22	**43,278**	43,278
Other long term assets	23	**–**	143,360
Deferred tax assets	24	**5,916**	–
		1,685,340	1,575,944
CURRENT ASSETS			
Inventories	25	**727,128**	1,142,720
Properties under development	26	**747,936**	–
Trade, bills and other receivables	27	**463,382**	573,960
Prepaid lease payments – current portion	16	**1,949**	2,311
Prepaid land appreciation tax		**5,938**	–
Tax recoverable		**22,943**	6,682
Derivative financial instruments	28	**–**	16,151
Pledged bank deposits	29	**120,997**	85,743
Bank balances and cash	29	**389,647**	504,549
		2,479,920	2,332,116
Assets classified as held for sale	14	**214,485**	231,390
		2,694,405	2,563,506
CURRENT LIABILITIES			
Trade, bills and other payables	30	**376,421**	429,657
Deposit received in respect of pre-sale properties		**617,516**	–
Derivative financial instruments	28	**627**	–
Bank and other borrowings – due within one year	31	**1,429,002**	1,546,812
Tax payable		**7,062**	7,722
		2,430,628	1,984,191
Liabilities classified as held for sale	14	**–**	175,013
		2,430,628	2,159,204
NET CURRENT ASSETS		**263,777**	404,302
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,949,117**	1,980,246
NON-CURRENT LIABILITIES			
Bank and other borrowings – due after one year	31	**13,555**	10,400
		13,555	10,400
NET ASSETS		**1,935,562**	1,969,846

Consolidated Balance Sheet (cont'd)

As at December 31, 2008

	Note	2008 RMB'000	2007 RMB'000
CAPITAL AND RESERVES			
Share capital	32	**1,404**	1,227
Reserves		**1,852,654**	1,915,927
Equity attributable to equity holders of the Company		**1,854,058**	1,917,154
Minority interests		**81,504**	52,692
Total equity		**1,935,562**	1,969,846

The consolidated financial statements on pages 30 to 88 were approved and authorized for issue by the Board of Directors on April 6, 2009 and are signed on its behalf by:

Zhu Zhangjin, Kasen
Director

Zhou Xiaosong
Director

Consolidated Statement of Changes in Equity

For the year ended December 31, 2008

	Attributable to equity holders of the Company									
	Share capital RMB'000	**Share premium** RMB'000	**Statutory reserve** RMB'000 (note 34a)	**Special reserve** RMB'000 (note 34b)	**Share option reserve** RMB'000	**Reserve on acquisition** RMB'000 (note 34c)	**Retained earnings** RMB'000	**Sub-total** RMB'000	**Minority interests** RMB'000	**Total equity** RMB'000
At January 1, 2007	1,227	1,121,546	180,004	168,659	15,486	(30,968)	652,911	2,108,865	74,112	2,182,977
(Loss) profit for the year and total recognized income and expense for the year	–	–	–	–	–	–	(194,149)	(194,149)	4,125	(190,024)
Recognition of equity-settled share-based payments (note 33)	–	–	–	–	2,438	–	–	2,438	–	2,438
Acquisition of additional interests in subsidiaries from minority shareholders	–	–	–	–	–	–	–	–	(3,600)	(3,600)
Dividend paid to minority shareholders	–	–	–	–	–	–	–	–	(21,945)	(21,945)
Appropriation to statutory reserve	–	–	11,689	–	–	–	(11,689)	–	–	–
At December 31, 2007	1,227	1,121,546	191,693	168,659	17,924	(30,968)	447,073	1,917,154	52,692	1,969,846
Loss for the year and total recognized income and expense for the year	–	–	–	–	–	–	(273,804)	(273,804)	(4,379)	(278,183)
Issue of new shares (note 35b)	178	208,824	–	–	–	–	–	209,002	–	209,002
Release upon lapse of share options	–	–	–	–	(2,976)	–	2,976	–	–	–
Recognition of equity-settled share-based payments (note 33)	–	–	–	–	2,237	–	–	2,237	–	2,237
Shares repurchased and cancelled	(1)	(530)	–	–	–	–	–	(531)	–	(531)
Acquired on acquisition of subsidiaries (note 35a)	–	–	–	–	–	–	–	–	1,011	1,011
Disposal of subsidiaries (note 36)	–	–	–	–	–	–	–	–	(47,160)	(47,160)
Capital contribution from minority shareholders	–	–	–	–	–	–	–	–	80,000	80,000
Dividend paid to minority shareholders	–	–	–	–	–	–	–	–	(660)	(660)
At December 31, 2008	**1,404**	**1,329,840**	**191,693**	**168,659**	**17,185**	**(30,968)**	**176,245**	**1,854,058**	**81,504**	**1,935,562**

Consolidated Cash Flow Statement

For the year ended December 31, 2008

	2008 RMB'000	2007 RMB'000
OPERATING ACTIVITIES		
Loss before taxation	**(271,991)**	(175,440)
Adjustments for:		
Allowances for inventories	**86,384**	99,639
Amortization of intangible assets	**559**	500
Amortization of prepaid lease payments	**1,473**	2,707
Amortization of properties for development	**8,824**	–
Compensation for cancellation of grant of land	**(21,430)**	–
Depreciation of property, plant and equipment	**84,253**	94,498
Finance costs	**108,500**	91,579
Gain on disposal of an associate	**(305)**	(1,056)
Gain on disposal of available-for-sale investments	**–**	(157)
Gain on disposals of subsidiaries	**(2,399)**	(7,720)
Gain on fair value change on foreign currency forward contracts	**(1,646)**	(16,151)
Gain on fair value change on an investment property	**–**	(5,671)
Goodwill impairment	**–**	157,958
Impairment loss recognized in respect of property, plant and equipment	**30,791**	7,004
Impairment loss recognized in respect of trade and other receivables	**45,538**	10,368
Dividend income of available-for-sale investments	**(48)**	–
Interest income	**(7,465)**	(6,358)
Loss on disposal of property, plant and equipment	**656**	396
Share-based payment expense	**2,237**	2,438
Share of losses (profits) of associates	**7,439**	(103)
Operating cash flows before movements in working capital	**71,370**	254,431
Decrease in inventories	**278,661**	2,220
Increase in properties under development	**(91,464)**	–
Decrease (increase) in trade, bills and other receivables	**146,249**	(28,790)
(Decrease) increase in trade, bills and other payables	**(182,546)**	3,414
Change in derivative financial instruments	**18,424**	–
Increase in deposit received in respect of pre-sale properties	**58,556**	–
Cash generated from operations	**299,250**	231,275
Income taxes paid	**(11,343)**	(29,629)
Income taxes refunded	**–**	8,975
NET CASH FROM OPERATING ACTIVITIES	**287,907**	210,621

Consolidated Cash Flow Statement (cont'd)

For the year ended December 31, 2008

	Notes	2008 RMB'000	2007 RMB'000
INVESTING ACTIVITIES			
Acquisition of subsidiaries	35	**(118,115)**	–
(Increase) decrease in pledged bank deposits		**(71,075)**	49,532
Purchase of property, plant and equipment		**(30,062)**	(39,644)
Acquisition of investment in an associate		**(29,700)**	–
Increase in properties for development		**(26,781)**	(276,209)
Purchase of intangible assets		**(1,114)**	(394)
Proceed from disposal of investment in an associate		**7,880**	12,054
Interest received		**7,465**	6,358
Disposal of subsidiaries	36	**9,630**	24,823
Proceeds from disposal of property, plant and equipment		**3,779**	95
Decrease (increase) in other long term assets		**3,260**	(143,360)
Dividend income of available-for-sale investments		**48**	–
Purchase of prepaid lease payments		**–**	(82)
Payment for acquisition of additional interests in subsidiaries		**–**	(3,600)
Acquisition of available-for-sale investments		**–**	(42,968)
Deposit paid for acquisition of land use rights		**(37,818)**	–
Compensation for cancellation of grant of land received		**21,430**	–
Proceeds from sale of available-for-sale investments		**–**	157
NET CASH USED IN INVESTING ACTIVITIES		**(261,173)**	(413,238)
FINANCING ACTIVITIES			
Repayment of bank and other borrowings		**(2,373,200)**	(2,084,233)
Interest paid		**(109,648)**	(85,336)
Dividends paid to minority shareholders		**(660)**	(21,945)
Shares repurchased		**(531)**	–
Bank and other borrowings raised		**2,231,102**	2,528,008
Capital contribution from minority shareholders		**80,000**	–
Advance from a related party		**27,000**	–
Repayment to related companies		**–**	(6,000)
NET CASH (USED IN) FROM FINANCING ACTIVITIES		**(145,937)**	330,494
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(119,203)**	127,877
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**508,850**	380,973
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**389,647**	508,850
Represented by			
– Bank balances and cash		**389,647**	504,549
– Bank balances and cash included in assets held for sale		**–**	4,301
		389,647	508,850

Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

1. GENERAL

The Company is a public limited company incorporated in the Cayman Islands and its shares are listed on the Stock Exchange of Hong Kong Limited ("Stock Exchange") since October 20, 2005. Its parent and ultimate holding company is Joyview Enterprises Limited (incorporated in the British Virgin Islands). 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) the processing of raw cowhides, wet blues into finished leather or fully assembled leather products; and (ii) property development.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group and its ability to meet its ongoing obligations in light of its financial position as at December 31, 2008. At the balance sheet date, the Group had consolidated net current assets of approximately RMB263,777,000, of which bank balances and cash as at December 31, 2008 was approximately RMB510,644,000 (including RMB120,997,000 pledged for borrowings within one year) and borrowings due within one year were approximately RMB1,429,002,000.

The Group's operating results for the year continue to show a loss of approximately RMB278,183,000 (2007: RMB190,024,000). The turnover of the Group for the year has decreased from RMB3,311 million for the year ended December 31, 2007 to RMB1,894 million for the year ended December 31, 2008. Despite the decrease in turnover of the Group, the operating cash flow has improved during the year. The net cash from operating activities increased from approximately RMB210,621,000 to RMB287,907,000. In order to improve the liquidity of the Group, the directors continued to negotiate with the banks to provide credit facilities on an ongoing basis. As at March 31, 2009, the Group has available unutilized short-term bank loan facilities of approximately RMB784 million as liquidity management resources. The directors consider that the existing facilities can provide sufficient cash to finance the Group's working capital requirement and the Group is able to renew the existing credit facilities on an ongoing basis. In addition, a related company and a director of the Company have confirmed in writing that the advances from both parties, amounting to RMB151,939,000 and are included in other payables, would not be demanded for repayment until the Group is able to have adequate funds to meet in full its financial obligations as they fall due for the foreseeable future. The related company has also confirmed in writing that it will continue to provide corporate guarantee to the Group for the Group's bank borrowings. Accordingly, the consolidated financial statements are prepared on a going concern basis.

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

In the current year, the Group has applied the following amendments and interpretations ("new IFRSs") issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB which are or have become effective.

IAS 39 & IFRS 7 (Amendments)	Reclassification of Financial Assets
IFRIC 11	IFRS 2: Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction

The adoption of the new IFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

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

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

IFRSs (Amendments)	Improvement to IFRSs[1]
IAS 1 (Revised)	Presentation of Financial Statements[2]
IAS 23 (Revised)	Borrowing Costs[2]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
IAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
IAS 39 (Amendment)	Eligible Hedged Items[3]
IFRS 1 & IAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
IFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
IFRS 3 (Revised)	Business Combinations[3]
IFRS 7 (Amendment)	Improving Disclosures about Financial Instruments[2]
IFRS 8	Operating Segments[2]
IFRIC 9 & IAS 39 (Amendments)	Embedded Derivatives[6]
IFRIC 13	Customer Loyalty Programmes[4]
IFRIC 15	Agreements for the Construction of Real Estate[2]
IFRIC 16	Hedges of a Net Investment in a Foreign Operation[5]
IFRIC 17	Distributions of Non-cash Assets to Owners[3]
IFRIC 18	Transfers of Assets from Customers[7]

1 Effective for annual periods beginning on or after January 1, 2009 except the amendments to IFRS 5, effective for annual periods beginning on or after July 1, 2009
2 Effective for annual periods beginning on or after January 1, 2009
3 Effective for annual periods beginning on or after July 1, 2009
4 Effective for annual periods beginning on or after July 1, 2008
5 Effective for annual periods beginning on or after October 1, 2008
6 Effective for annual periods ending on or after June 30, 2009
7 Effective for transfers on or after July 1, 2009

The application of the amendment to IAS 40 "Investment Property" which is contained in IFRSs (Amendments) "Improvement to IFRSs" may affect the accounting for property under construction or development for future use as an investment property of the Group. The carrying amount of the construction in progress was RMB15,107,000 as at December 31, 2008. The amendment to IAS 40 brings such property within the scope of IAS 40 which, therefore, shall be accounted for under the fair value model in accordance with the Group's accounting policy. Such property is currently accounted for at cost less impairment in accordance with IAS 16 "Property, Plant and Equipment". The amendment is to be applied prospectively and is effective for the Group's financial period beginning on January 1, 2009.

The application of IFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after July 1, 2009. IAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

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

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

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

Basis of consolidation

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

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

Where necessary, adjustments are made to the financial statements of the subsidiaries to bring the accounting policies used in line with those used by other members of the Group.

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

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the consolidation. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

The acquisition of business is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognized at their fair values at the acquisition date.

Goodwill arising on acquisition is recognized as an asset and measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized immediately in the profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair values of the assets, liabilities and contingent liabilities recognized.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

Acquisition of additional interests in subsidiaries

On acquisition of additional interest in a subsidiary, the difference between the fair values and the carrying values of the underlying assets and liabilities attributable to the additional interest in a subsidiary acquired is charged to reserve on acquisition. Goodwill or discount arising on the acquisition of the additional interest is calculated as the difference between the additional cost of the interest acquired and the increase in the Group's interest, based on the fair value of all identifiable assets and liabilities of the subsidiary.

On subsequent disposal of a subsidiary or disposal of the underlying assets of that subsidiary, the attributable reserve on acquisition is included in the determination of the amount of profit or loss on disposal.

Interest in associates

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

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted by post-acquisition changes in the Group's share of net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. An additional share of losses is provided for and a liability is recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

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

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

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interests in the relevant associate.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted by post-acquisition changes in the Group's share of net assets of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognizing its share of further losses. An additional share of losses is provided for and a liability is recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, unrealized profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

Non-current assets held for sale

Non-current assets or disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

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

Revenue recognition

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

Sales of goods are recognized when goods are delivered and title has been passed.

Revenue from sale of properties in the ordinary course of business is recognized when all of the following criteria are met:

- the significant risk and rewards of ownership of the properties are transferred to buyers;
- neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties are retained;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Income from properties developed for sale is recognized when the properties are physically delivered. Payments received from the purchasers prior to this stage are recorded as pre-sale deposits and presented as current liabilities.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is charged so as to write off the cost of assets, other than construction in progress, over their estimated useful lives and after taking into account of the estimated residual value, using the straight-line method. The estimated useful lives and residual values are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognized impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the assets (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognized.

Properties for development

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Properties under development

Properties under development under current assets which are developed for future sale in the ordinary course of business are stated at the lower of cost and net realizable value. Cost includes the cost of land use rights, development expenditures, borrowing costs capitalized and other direct attributable expenses. No depreciation has been provided for properties under development.

Leasing

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

Operating lease payments are recognized as an expense on a straight-line basis over the lease term. Benefits received and receivable as an incentive to enter into an operating lease are recognized as a reduction of rental expense over the lease term on a straight-line basis.

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

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants

Government grants are recognized as income over the periods necessary to match them with the related costs. Grants related to expense items are recognized in the same period as those expenses are charged in the consolidated income statement and are reported separately as 'other income'.

Retirement benefits costs

Payments to defined contribution retirement benefits schemes, including mandatory provident fund schemes and state-managed retirement benefit schemes, are charged as expenses when employees have rendered service entitling them to the contributions.

Share-based payments

Equity-settled share-based payments to employees

The fair value of services received is determined by reference to the fair value of the share options granted at the grant date.

For grants of share options which are conditional upon satisfying specified vesting conditions, the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve). The impact of the revision of the estimates during the vesting period, if any, is recognized in profit or loss with a corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognized in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in share option reserve will be transferred to retained profits.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Notes to the Consolidated Financial Statements (cont'd)

For the year ended December 31, 2008

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the assets and are recognized in the consolidated income statement when the asset is derecognized.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

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

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs are determined on the weighted average cost method. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

Financial assets and financial liabilities are recognized on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

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

Financial assets

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

Trade, bills and other receivables, pledged bank deposits and bank balances and cash

These non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

At each balance sheet date subsequent to initial recognition, loans and receivables are carried at amortized cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale investments

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

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

Effective interest method

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets

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

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

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

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

For certain categories of financial asset, such as trade, bills and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, an impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's non-derivative financial liabilities are classified as other financial liabilities.

Trade, bills and other payables and bank and other borrowings

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

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognized on an effective interest basis.

Equity instruments

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

Derivative financial instruments

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

Financial guarantee contract

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognized initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with HKAS 18 *Revenue*.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Allowance for inventories

Management of the Group reviews the inventories at each balance sheet date and makes allowance for obsolete and slow-moving inventory items identified that no longer suitable for use in production. Management estimates the net realisable value for such items based primarily on the latest invoices prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and make allowance for obsolete items. As at December 31, 2008, the carrying amount of inventories is approximately RMB727,128,000 (2007: RMB1,142,720,000) (net of allowance for inventories RMB211,091,000 (2007: RMB124,707,000)).

Estimated impairment of property, plant and equipment

Management of the Group reviews the carrying amount of the property, plant and equipment to determine whether there is any indication that the assets are suffered an impairment loss. When there is objective evidences noted, the Group considered the recoverable amount of the assets by reference to the estimated future cash flows that are able to generate from the assets or their estimated disposal proceeds. The final cash flow from the assets may differ from that estimated by management. During the year, the Group has recognized impairment losses in respect of plant and equipment amounted to RMB30,791,000 (2007:RMB7,004,000).

Estimated impairment of trade and other receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at December 31, 2008, the carrying amount of trade and other receivables is RMB260,102,000 (2007: RMB448,492,000) (net of allowance for doubtful debts of RMB106,790,000 (2007: RMB63,486,000)).

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

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

For management purposes, the Group is currently organized into five operating divisions. These divisions are the basis on which the Group reports its primary segment information.

Business segment

During the year, the Group has presented its business by the following segments:

– Upholstered furniture, comprising leather and fabric upholstered furniture and furniture covers;

– Furniture leather;

– Automotive leather;

– Properties development; and

– Others (mainly included sales of wooden frame and retail business)

Segment information about these businesses is presented below:

For the year ended December 31, 2008

CONSOLIDATED INCOME STATEMENT

	Upholstered furniture RMB'000	Furniture leather RMB'000	Automotive leather RMB'000	Properties development RMB'000	Others RMB'000	Eliminations RMB'000	Consolidated RMB'000
REVENUE – sale of goods							
External sales	1,215,960	478,090	170,253	–	29,687	–	1,893,990
Inter-segment sales	313,716	722,360	–	–	76,904	(1,112,980)	–
Total	1,529,676	1,200,450	170,253	–	106,591	(1,112,980)	1,893,990

Inter-segment sales are charged at prevailing market rates.

	Upholstered furniture RMB'000	Furniture leather RMB'000	Automotive leather RMB'000	Properties development RMB'000	Others RMB'000	Eliminations RMB'000	Consolidated RMB'000
RESULT							
Segment result	(37,213)	(92,239)	17,761	(31,782)	(41,481)	–	(184,954)
Unallocated income							41,887
Unallocated expenses							(15,689)
Gain on disposal of subsidiaries							2,399
Gain on disposal of an associate							305
Share of losses of associates	(5,456)	(16)	–	(1,645)	(322)	–	(7,439)
Finance costs							(108,500)
Loss before taxation							(271,991)
Taxation							(6,192)
Loss for the year							(278,183)

Notes to the Consolidated Financial Statements (cont'd)

For the year ended December 31, 2008

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segment *(Continued)*

For the year ended December 31, 2008

CONSOLIDATED BALANCE SHEET

	Upholstered furniture RMB'000	Furniture leather RMB'000	Automotive leather RMB'000	Properties development RMB'000	Others RMB'000	Consolidated RMB'000
ASSETS						
Segment assets	619,772	756,257	142,464	1,819,062	150,675	3,488,230
Interests in associates	19,505	–	–	28,055	2,074	49,634
Interest in a jointly controlled entity	–	2,614	–	–	–	2,614
Assets classified as held for sale (Note)	–	213,030	1,331	–	124	214,485
Unallocated corporate assets						624,782
						4,379,745
LIABILITIES						
Segment liabilities	72,481	82,823	6,903	660,283	16,585	839,075
Unallocated corporate liabilities						1,605,108
						2,444,183

Note: During the year ended December 31, 2008, those assets classified as held for sale contributed revenue and operating results to the respective segments and the results generated was included as segment results.

For the year ended December 31, 2008

OTHER INFORMATION

	Upholstered furniture RMB'000	Furniture leather RMB'000	Automotive leather RMB'000	Properties development RMB'000	Others RMB'000	Consolidated RMB'000
Capital additions attributable to segment	14,533	4,181	61	45,341	9,127	73,243
Unallocated capital additions						1,114
Depreciation and amortization attributable to segment	29,990	42,686	3,833	10,075	7,946	94,530
Unallocated depreciation and amortization						579
Impairment losses on property, plant and equipment attributable to segment	6,293	22,971	1,259	–	268	30,791
Impairment losses recognized in respect of trade and other receivables attributable to segment	19,286	17,444	2,531	2,967	3,310	45,538
Allowance for inventories	28,984	56,312	565	–	523	86,384
Loss (gain) on disposal of property, plant and equipment attributable to segment	433	34	223	–	(34)	656

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segment *(Continued)*

For the year ended December 31, 2007

CONSOLIDATED INCOME STATEMENT

	Upholstered furniture RMB'000	Furniture leather RMB'000	Automotive leather RMB'000	Properties development RMB'000	Others RMB'000	Eliminations RMB'000	Consolidated RMB'000
REVENUE – sale of goods							
External sales	2,573,856	461,269	217,980	–	57,622	–	3,310,727
Inter-segment sales	994,756	948,459	–	–	121,107	(2,064,322)	–
Total	3,568,612	1,409,728	217,980	–	178,729	(2,064,322)	3,310,727

Inter-segment sales are charged at prevailing market rates.

	Upholstered furniture RMB'000	Furniture leather RMB'000	Automotive leather RMB'000	Properties development RMB'000	Others RMB'000	Eliminations RMB'000	Consolidated RMB'000
RESULT							
Segment result	(83,458)	(42,969)	(11,814)	–	11,401	–	(126,840)
Unallocated income							50,732
Unallocated expenses							(16,632)
Gain on disposal of subsidiaries							7,720
Gain on disposal of an associate							1,056
Share of profits of associates	–	(228)	–	331	–	–	103
Finance costs							(91,579)
Loss before taxation							(175,440)
Taxation							(14,584)
Loss for the year							(190,024)

Notes to the Consolidated Financial Statements (cont'd)

For the year ended December 31, 2008

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segment *(Continued)*

For the year ended December 31, 2007

CONSOLIDATED BALANCE SHEET

	Upholstered furniture RMB'000	Furniture leather RMB'000	Automotive leather RMB'000	Properties development RMB'000	Others RMB'000	Consolidated RMB'000
ASSETS						
Segment assets	946,705	1,402,775	185,323	451,873	98,327	3,085,003
Interests in associates	–	13,437	–	2,396	–	15,833
Interest in a jointly controlled entity	–	2,614	–	–	–	2,614
Assets classified as held for sale (Note)	231,390	–	–	–	–	231,390
Unallocated corporate assets						804,610
						4,139,450
LIABILITIES						
Segment liabilities	178,686	116,240	6,844	–	45,471	347,241
Unallocated corporate liabilities						1,647,350
Liabilities classified as held for sale (Note)	175,013	–	–	–	–	175,013
						2,169,604

Note: During the year ended December 31, 2007, those assets classified as held for sale contributed revenue and operating results to the respective segments and the results generated was included as segment results.

For the year ended December 31, 2007

OTHER INFORMATION

	Upholstered furniture RMB'000	Furniture leather RMB'000	Automotive leather RMB'000	Properties development RMB'000	Others RMB'000	Consolidated RMB'000
Capital additions attributable to segment	13,882	17,332	1,699	263,781	6,735	303,429
Unallocated capital additions						19,650
Depreciation and amortization attributable to segment	45,009	41,240	5,589	–	5,341	97,179
Unallocated depreciation and amortisation						526
Impairment losses on property, plant and equipment attributable to segment	2,252	2,951	1,801	–	–	7,004
Impairment losses recognized (reversed) in respect of trade and other receivables attributable to segment	15,610	(6,128)	(2,250)	–	3,136	10,368
Goodwill impairment	157,958	–	–	–	–	157,958
Allowance for inventories	14,448	69,021	15,855	–	315	99,639
Loss (gain) on disposal of property, plant and equipment attributable to segment	133	255	13	–	(5)	396

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Geographical segment

Segment assets are substantively located in the People's Republic of China ("PRC").

The following table provides an analysis of the Group's sales by geographical market based on geographical location of customers:

	2008 **RMB'000**	2007 RMB'000
United States	**802,766**	2,041,107
PRC, including Hong Kong	**788,552**	792,301
Europe	**259,223**	293,506
Australia	**13,677**	100,546
Others	**29,772**	83,267
	1,893,990	3,310,727

7. OTHER INCOME

Details of other income are as follows:

	2008 **RMB'000**	2007 RMB'000
Government grants		
Grants for technology development	**619**	1,480
Grants for export sales	**216**	9,676
Incentive for business development	**340**	3,691
Other grants	**3,379**	4,177
	4,554	19,024
Compensation for cancellation of grant of land (note)	**21,430**	–
Net gain from sale of raw materials	**330**	3,755
Interest income	**7,465**	6,358
Gain on disposals of subsidiaries (note 36)	**2,399**	7,720
Gain on disposal of an associate (note 20)	**305**	1,056
Gain on fair value change on foreign currency forward contracts	**1,646**	16,151
Gain on fair value change on an investment property	**–**	5,671
Dividend income of available-for-sale investment	**48**	–
Rental income	**4,370**	373
Others	**6,929**	10,813
	49,476	70,921

Note: The Management Committee of Haining Economic Development Zone (the "Haining Economic Development Zone") cancelled its grant of a piece of land to the Group and returned the deposit of RMB17,061,668 in last year. During the year, the Haining Economic Development Zone paid RMB21,430,000 to the Group as compensation.

Notes to the Consolidated Financial Statements (cont'd)

For the year ended December 31, 2008

8. OTHER EXPENSES

	2008 RMB'000	2007 RMB'000
Impairment loss recognized in respect of property, plant and equipment	**30,791**	7,004
Impairment loss recognized in respect of trade and other receivables (Note)	**45,538**	10,368
Donation	**1,607**	1,394
Goodwill impairment (note 18)	**–**	157,958
Others	**15,581**	2,557
	93,517	179,281

Note: Included in impairment loss recognized in respect of trade and other receivables, an impairment loss of approximately RMB25,965,000 is related to an associate of the Group, Zhejiang Liema Furniture Co., Ltd.

9. FINANCE COSTS

	2008 RMB'000	2007 RMB'000
Interest on:		
Bank borrowings wholly repayable within five years	**108,937**	90,797
Other borrowings wholly repayable within five years	**126**	272
Other borrowings not wholly repayable within five years	**170**	510
Total borrowing costs	**109,233**	91,579
Less: amounts capitalized in respect of properties under development (note 26)	**(733)**	–
	108,500	91,579

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

10. LOSS BEFORE TAXATION

Loss before taxation has been arrived at after charging:

	2008 RMB'000	2007 RMB'000
Amortization of intangible assets (included in administrative expenses)	**559**	500
Amortization of prepaid lease payments	**1,473**	2,707
Amortization of properties for development (included in other expenses)	**8,824**	–
Depreciation of property, plant and equipment	**84,253**	94,498
Total depreciation and amortization	**95,109**	97,705
Auditor's remuneration	**4,865**	5,064
Cost of inventories recognized as expenses	**1,806,760**	3,011,190
Loss on disposal of property, plant and equipment	**656**	396
Operating lease rentals in respect of land and buildings	**16,861**	10,051
Net foreign exchange (gains) losses	**(729)**	26,740
Gain on disposal of available-for-sale investments	**–**	(157)
Total employee benefit expenses	**188,366**	270,209

11. DIRECTORS AND EMPLOYEES' EMOLUMENTS

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

2008

	Zhu Zhangjin, Kasen ("Mr. Zhu") RMB'000	Zhou Xiaosong RMB'000	Zhu Jianqi RMB'000 (Note 2)	Zhang Mingfa, Michael RMB'000 (Note 2)	Li Hui, David RMB'000 (Note 1)	Lu Yungang, Ken RMB'000	Chow Joseph RMB'000	Zhang Huaqiao, Joe RMB'000 (Note 1)	Gu Mingchao RMB'000 (Note 1)	Total RMB'000
Fees	–	–	–	–	–	160	160	120	40	480
Other emoluments										
Salaries and other benefits	340	238	198	40	–	–	–	–	–	816
Contributions to retirement benefits schemes	2	2	2	–	–	–	–	–	–	6
Share-based payment expenses	–	263	–	33	–	158	158	–	–	612
Total emoluments	342	503	200	73	–	318	318	120	40	1,914

2007

	Mr. Zhu RMB'000	Zhou Xiaosong RMB'000	Zhu Jianqi RMB'000	Zhang Mingfa, Michael RMB'000	Li Hui, David RMB'000	Lu Yungang, Ken RMB'000	Chow Joseph RMB'000	Zhang Huaqiao, Joe RMB'000	Gu Mingchao RMB'000	Total RMB'000
Fees	–	–	–	–	–	175	175	175	–	525
Other emoluments										
Salaries and other benefits	340	238	238	–	–	–	–	–	–	816
Contributions to retirement benefits schemes	2	2	2	–	–	–	–	–	–	6
Share-based payment expenses	378	378	378	–	–	76	76	–	–	1,286
Total emoluments	720	618	618	–	–	251	251	175	–	2,633

Notes:

(1) On October 1, 2008, Mr. Li Hui and Mr. Zhang Huaqiao resigned as directors of the Company and Mr. Gu Mingchao was appointed as a director of the Company.

(2) On November 10, 2008, Mr. Zhu Jianqi resigned as a director of the Company and Mr. Zhang Mingfa was appointed as a director of the Company, who is one of the five individuals with the highest emoluments in the Group.

11. DIRECTORS AND EMPLOYEES' EMOLUMENTS *(Continued)*

Two (2007: three) of the five individuals with the highest emoluments in the Group were directors of the Company whose emoluments are included in the disclosures as above. The emoluments of the remaining three (2007: two) individuals (including remuneration of Mr. Zhang Mingfa, Michael) was as follows:

	2008 **RMB'000**	2007 RMB'000
Basic salaries and other benefits	**1,110**	653
Contributions to retirement benefits schemes	**14**	12
Share based payment	**1,026**	453
	2,150	1,118

Their emoluments were within the following bands:

	2008	2007
Nil to HK$1,000,000	**2**	2
HK$1,000,001 to HK$1,500,000	**1**	–

During the year, no emoluments were paid by the Group to the directors and five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year (2007: Nil).

12. TAXATION

	2008 **RMB'000**	2007 RMB'000
Hong Kong Profits Tax		
– Current year	**–**	19
– Overprovision in previous year	**(18)**	(42)
PRC enterprise income tax		
– Current year	**4,082**	15,602
– Under (over) provision of income tax in previous year	**2,128**	(995)
	6,192	14,584

On June 26, 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% of estimated assessable profit for the year (2007: 17.5%).

PRC enterprise income tax is calculated at the applicable rates to the PRC subsidiaries. Pursuant to the relevant laws and regulations in the PRC, certain subsidiaries are exempted from PRC Enterprise Income Tax ("EIT") for two years starting from its first profit-making year, followed by a 50% reduction in tax rate for the next three years (the "Tax Exemptions").

On March 16, 2007, the PRC promulgated Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No.63 of the President of the PRC. On December 6, 2007, the State Council of the PRC issued Implementation Regulation of the New Law. The New Law and Implementation Regulation will change the tax rate to 25% for subsidiaries operated in PRC from January 1, 2008 onwards.

12. TAXATION *(Continued)*

According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax (Guofa [2007] No.39), certain of the group entities operated in the PRC have been entitled to the following tax concession under the New Law:

(1) The tax exemption and 50% deduction from foreign enterprise income tax for the foreign investment enterprises is still applicable until the end of the five-year transitional period under the New Law.

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

Under the New Law and Implementation Regulations issued by the State Council, PRC withholding income tax is applicable to interest and dividends payable to investors that are "non-tax resident enterprises", which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such interest or dividends have their sources within the PRC. Under such circumstances, dividends distributed from the PRC subsidiaries to off-shore group entities shall be subject to the withholding tax at 10% or a lower treaty rate. Under tax treaty, withholding tax rate on distributions to Hong Kong resident companies is 5%. Based on the anticipated dividends to be distributed by the PRC entities, no withholding tax has been provided.

The tax charge for the year can be reconciled to the loss before taxation per the consolidated income statement as follows:

	2008 **RMB'000**	2007 RMB'000
Loss before taxation	**(271,991)**	(175,440)
Tax rate applicable to the major operation of the Group	**25%**	26.4%
Tax at the domestic income tax rate	**(67,998)**	(46,316)
Tax effect of share of result of associates	**1,860**	(27)
Tax effect of expenses/losses not deductible for tax purpose	**1,173**	41,220
Tax effect of income not taxable for tax purpose	**(7,399)**	(2,796)
Tax effect of deductible temporary differences not recognized	**45,437**	19,652
Tax effect of tax losses not recognized	**42,112**	13,747
Tax effect of Tax Exemptions	**(11,103)**	(13,511)
Tax effect of different tax rates of subsidiaries operating with different tax regulations in the PRC and in Hong Kong	**–**	3,652
Under (over) provision in previous years	**2,110**	(1,037)
Taxation for the year	**6,192**	14,584

At December 31, 2008, the Group has unused tax losses of approximately RMB233,119,000 (2007: RMB61,121,000) available to offset against future profits. A deferred tax asset has been recognized in respect of such losses of RMB23,664,000 (2007: Nil). No deferred tax asset has been recognized in respect of the remaining due to the unpredictability of future profit streams. The tax losses of approximately RMB192,661,000 (2007: RMB61,121,000) will expire in five years from the dates they were incurred. Other tax losses may be carried forward indefinitely.

Details of the deferred tax are set out in note 24.

13. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to the equity holders of the Company are based on the following data:

Loss

	2008 **RMB'000**	2007 RMB'000
Loss for the purposes of basic and diluted loss per share, being loss attributable to equity holders of the Company	**273,804**	194,149

Number of shares

	2008	2007
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**1,069,319,451**	990,048,369

The share options granted to the employees of the Group has no effect to the diluted loss per share because the exercise price of the Company's share options was higher than average market price for shares during the share option outstanding period for the years ended December 31, 2008 and 2007.

14. ASSETS/LIABILITIES HELD FOR SALE

(a) Pursuant to a Board resolution dated October 8, 2007 and shareholders' approval on November 23, 2007, the Company entered into a binding agreement with two independent third parties to dispose of a 50.5% owned subsidiary, Haining Oyi May Sofa Co., Ltd. ("Oyi May") (海寧歐意美沙發有限公司), for a consideration of RMB24,508,000. As at December 31, 2007, this disposal has not been completed due to delay of local government approval. The assets and liabilities attributable to Oyi May have been classified as a disposal group held for sale and are presented separately in the consolidated balance sheet. The segment results contributed by this subsidiary is included in the Group's upholstered furniture production activities for segment reporting purposes (see note 6).

14. ASSETS/LIABILITIES HELD FOR SALE *(Continued)*

(a) *(Continued)*

The major classes of assets and liabilities of Oyi May classified as held for sale are as follows:

	2007 RMB'000
Property, plant and equipment	74,377
Prepaid lease payments	9,083
Intangible assets	54
Inventories	63,064
Trade, bills and other receivables	52,565
Pledged bank deposits	27,946
Bank balances and cash	4,301
Assets classified as held for sale (note 6)	231,390
Trade, bills and other payables	151,361
Bank and other borrowings	23,652
Liabilities classified as held for sale (note 6)	175,013
Net assets classified as held for sale	56,377
Less: Intercompany balances owed to other Group's entities	(15,800)
Less: minority interests	(20,085)
Net assets classified as held for sale attributable to the Group	20,492

The disposal of interest in Oyi May was completed on January 10, 2008 and the related assets and liabilities at the date of the disposal is disclosed in note 36.

(b) Pursuant to a Board resolution dated December 31, 2008, certain subsidiaries of the Company entered into an agreement with Haining City Xieqiao Town Construction and Development Company Limited, the nominee of Haining City Xieqiao Town People's Government, regarding the relocation of the manufacturing plant of such subsidiaries to fulfill local government urban redevelopment plan requirements for a consideration to be received from local government.

The segment results contributed by these subsidiaries are included in the Group's upholstered furniture production activities for segment reporting purposes (see note 6).

The net proceeds of the disposal has exceeded the carrying amount of the relevant prepaid lease payments and buildings as at December 31, 2008 and accordingly, no impairment loss has been recognized.

The major classes of assets of the Group classified as held for sale are as follows:

	2008 **RMB'000**
Buildings included in property, plant and equipment	**188,624**
Prepaid lease payments	**25,861**
Assets classified as held for sale (note 6)	**214,485**

Up to the date of report, this disposal had not been completed.

Notes to the Consolidated Financial Statements (cont'd)

For the year ended December 31, 2008

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and equipment RMB'000	Motor vehicles RMB'000	Furniture, fixtures and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At January 1, 2007	891,641	496,154	31,837	50,193	16,980	1,486,805
Additions	3,882	18,727	8,580	3,692	4,763	39,644
Disposals	(239)	(17,684)	(150)	(101)	(4,680)	(22,854)
Disposals of subsidiaries	(73,763)	(10,974)	(791)	(2,303)	(496)	(88,327)
Transfers	13,117	584	–	–	(13,701)	–
Reclassified as held for sale	(63,312)	(23,137)	(3,809)	(2,386)	–	(92,644)
At December 31, 2007	771,326	463,670	35,667	49,095	2,866	1,322,624
Additions	3,082	5,049	4,251	2,120	15,560	30,062
Acquired on acquisition of subsidiaries	336	–	1,240	275	–	1,851
Disposals	(819)	(8,386)	(1,502)	(180)	(425)	(11,312)
Disposals of subsidiaries	(91,956)	(28,682)	(2,902)	(2,750)	(217)	(126,507)
Transfers	2,067	220	390	–	(2,677)	–
Reclassified as held for sale	(255,134)	–	–	–	–	(255,134)
At December 31, 2008	**428,902**	**431,871**	**37,144**	**48,560**	**15,107**	**961,584**
DEPRECIATION AND IMPAIRMENT						
At January 1, 2007	115,392	156,300	16,867	24,647	–	313,206
Provided for the year	40,449	41,635	4,773	7,641	–	94,498
Eliminated on disposals	–	(15,708)	(135)	(40)	–	(15,883)
Eliminated on disposal of subsidiaries	(7,532)	(1,727)	(346)	(821)	–	(10,426)
Impairment loss recognized	502	6,502	–	–	–	7,004
Reclassified as held for sale	(9,078)	(6,745)	(1,365)	(1,079)	–	(18,267)
At December 31, 2007	139,733	180,257	19,794	30,348	–	370,132
Provided for the year	34,596	38,342	5,133	6,182	–	84,253
Acquired on acquisition of subsidiaries	71	–	327	77	–	475
Eliminated on disposals	(748)	(4,534)	(1,266)	(167)	–	(6,715)
Eliminated on disposal of subsidiaries	(11,946)	(8,302)	(1,096)	(1,576)	–	(22,920)
Impairment loss recognized	–	30,791	–	–	–	30,791
Reclassified as held for sale	(66,510)	–	–	–	–	(66,510)
At December 31, 2008	**95,196**	**236,554**	**22,892**	**34,864**	**–**	**389,506**
CARRYING AMOUNTS						
At December 31, 2008	**333,706**	**195,317**	**14,252**	**13,696**	**15,107**	**572,078**
At December 31, 2007	631,593	283,413	15,873	18,747	2,866	952,492

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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

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

Buildings	20 years or lease term, whichever is shorter
Plant and equipment	10 – 15 years
Motor vehicles	4 – 5 years
Furniture, fixtures and equipment	5 – 10 years

As at December 31, 2008, the title deeds of buildings with net carrying amount of RMB40,918,000 (2007: RMB42,446,000) has not been obtained. The directors believe that the relevant title deeds will be granted in the due course and the absence of official certificate does not impair the value of the relevant properties of the Group.

During the year, the Group has recognized impairment losses in respect of plant and equipment amounted to RMB30,791,000 (2007: RMB7,004,000). These losses are attributable to the suspension of certain processing leather operation. The impairment losses represented the differences between fair value less costs to sell and the carrying value of those assets. Fair value less costs to sell is determined by reference to the estimated amount the Group would obtain from the disposal of the assets.

16. PREPAID LEASE PAYMENTS

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

	2008 **RMB'000**	2007 RMB'000
Analyzed for reporting purposes as:		
Non-current assets	**61,031**	102,265
Current assets	**1,949**	2,311
	62,980	104,576

	2008 **RMB'000**	2007 RMB'000
Without title deeds	**13,278**	13,668
With title deeds	**49,702**	90,908
	62,980	104,576

The directors believe that the relevant title deeds will be granted to the Group in due course.

17. PROPERTIES FOR DEVELOPMENT

	2008 RMB'000	2007 RMB'000
COST		
At January 1	**314,781**	–
Acquired on acquisition of subsidiaries (note 35)	**601,281**	–
Additions	**41,681**	263,781
Transfer from investment property	**–**	51,000
At December 31	**957,743**	314,781
ACCUMULATED AMORTIZATION		
At January 1	**–**	–
Provided for the year	**8,824**	–
At December 31	**8,824**	–
CARRYING AMOUNTS		
At December 31	**948,919**	314,781

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

18. GOODWILL

	2008 RMB'000	2007 RMB'000
COST		
At January 1 and December 31	**181,006**	181,006
ACCUMULATED IMPAIRMENT LOSS		
At January 1	**181,006**	23,048
Impairment loss recognized in the year	**–**	157,958
At December 31	**181,006**	181,006
CARRYING AMOUNTS		
At December 31	**–**	–

Goodwill acquired in a business combination is allocated, at acquisition date, to the cash generating units ("CGUs") that are expected to benefit from that business combination.

During the financial year of 2007, the Group assessed the recoverable amount of the goodwill, and determined that goodwill associated with the Group's upholstered furniture operation was impaired in aggregate of RMB181 million. The recoverable amount of the upholstered furniture operation was assessed by reference to the estimated value in use of the CGUs.

The main factor contributing to the impairment of the cash-generating units were deteriorating demand from customers as a result of the downturn in the US housing market, the appreciation of the RMB against the US dollars, increase in the costs of chemicals, foam, timber and labor, and the reduction of export tax rebates.

19. INTANGIBLE ASSETS

	RMB'000
COST	
At January 1, 2007	2,218
Additions	394
Disposals of subsidiaries	(5)
Classified as held for sale (note 14)	(177)
At December 31, 2007	2,430
Additions	1,114
Disposals of subsidiaries	(12)
At December 31, 2008	**3,532**
ACCUMULATED AMORTIZATION	
At January 1, 2007	733
Provided for the year	500
Eliminated on disposals of subsidiaries	(1)
Classified as held for sale (note 14)	(123)
At December 31, 2007	1,109
Provided for the year	559
Eliminated on disposals of subsidiaries	(6)
At December 31, 2008	**1,662**
CARRYING AMOUNTS	
At December 31, 2008	**1,870**
At December 31, 2007	1,321

Intangible assets represent expenditure incurred for upgrade of computer software and are amortized over five years.

Notes to the Consolidated Financial Statements (cont'd)

For the year ended December 31, 2008

20. INTERESTS IN ASSOCIATES

	2008 RMB'000	2007 RMB'000
Cost of investment in associates, unlisted	**57,661**	16,667
Share of post-acquisition losses	**(8,027)**	(834)
	49,634	15,833

In March 2008, the Group had acquired 49.5% equity interest in Chengdu Longteng Shoes Market Investment and Development Co. Ltd. for a cash consideration of RMB29,700,000.

In September 2008, the Group had disposed of its 35% interest in Sichuan Longteng Leather Co. Ltd. to an independent third party. The consideration of the disposal was RMB13,726,000, of which the unsettled consideration of RMB5,846,000 included as other receivable at the year ended. The Group recorded a disposal gain of RMB305,000 for such transaction.

Particulars of the associates indirectly held by the Company at December 31, 2008 and 2007 are as follows:

Name of associate	Place of incorporation/ registration	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/registered capital indirectly held by the Company		Principal activities
			2008 %	2007 %	
Haining Xieqiao Senbo Water Co. Ltd. 海寧市斜橋森博水務有限公司	PRC	RMB10,000,000	**30**	30	Collection and transportation of waste water
Chengdu Longteng Shoes Market Investment and Development Co. Ltd. 成都隆騰鞋城投資開發有限公司	PRC	RMB60,000,000	**49.5**	–	Property development
Zhejiang Liema Furniture Co. Ltd. 浙江獵馬傢俬有限公司 (note 36)	PRC	USD7,000,000	**45.5**	–	Production and sales of upholstered furniture
Sichuan Longteng Leather Co. Ltd. 四川隆騰皮業有限公司	PRC	USD5,000,000	**–**	35	Manufacturing and sales of leather products

20. INTERESTS IN ASSOCIATES *(Continued)*

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

	2008 RMB'000	2007 RMB'000
Total assets	**347,889**	50,609
Total liabilities	**(238,036)**	(5,276)
Net assets	**109,853**	45,333
Group's share of net assets of associates	**49,634**	15,833
Revenue	**116,590**	73,284
(Losses) profits for the year	**(16,387)**	891
Group's share of (losses) profits of associates for the year	**(7,439)**	103

21. INVESTMENT IN A JOINTLY CONTROLLED ENTITY

	2008 RMB'000	2007 RMB'000
Cost of unlisted investment in a jointly controlled entity	**2,614**	2,614

The interest in a jointly controlled entity as at December 31, 2007 and 2008 represents a 50% interest in 海寧市卡森－美如可思皮革有限公司 (Haining Kasen-Melx Leather Co., Ltd.) ("Kasen-Melx"), an equity joint venture established in the PRC. The jointly controlled entity was established for the principal activity of trading in leather and other furniture products.

The summarized financial information in respect of the Group's jointly controlled entity attributable to the Group's interest therein, which are accounted for using the equity method is set out below:

	2008 RMB'000	2007 RMB'000
Current assets	**3,312**	2,734
Non-current assets	**70**	95
	3,382	2,829
Current liabilities	**(582)**	(113)
Net assets	**2,800**	2,716
Revenue	**559**	1,531
Expenses	**(82)**	(138)
Profit for the year	**80**	40

Notes to the Consolidated Financial Statements (cont'd)

For the year ended December 31, 2008

22. AVAILABLE-FOR-SALE INVESTMENTS

	2008 RMB'000	2007 RMB'000
Unlisted equity securities		
– 4.92% equity interest in		
Haining China Market Co., Ltd ("HCLM")	**42,968**	42,968
Unlisted debt securities	**310**	310
	43,278	43,278

The principal activity of HCLM is the operation of department stores in the PRC.

The unlisted equity securities are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

23. OTHER LONG TERM ASSETS

Other long term assets represent the deposits and initial payments paid for acquisition of:

	2008 RMB'000	2007 RMB'000
A subsidiary primarily holding a property (note)	**–**	79,200
An office	**–**	19,260
Land use rights in the PRC under medium-term lease from the Government	**–**	44,900
	–	143,360

Note: Pursuant to an equity transfer agreement dated December 20, 2007, the Company agreed to acquire 99% equity interest in Qionghai Bodi Real Estate Co., Ltd. (琼海博地置業有限公司) ("Qionghai Bodi") from an independent third party for a consideration of approximately RMB100 million. The acquisition was accounted for as acquisition of assets and liabilities and the deposit paid of RMB79,200,000 had been included in an other long term assets. On January 7, 2008, the acquisition has completed and details are set out in note 35a.

24. DEFERRED TAX ASSETS

The deferred tax assets recognized by the Group and the movements thereon during the current and prior years are as follows:

	Tax losses RMB'000
At January 1, 2007, December 31, 2007 and January 1, 2008	–
Acquired on acquisition of subsidiaries (note 35b)	5,916
At December 31, 2008	**5,916**

24. DEFERRED TAX ASSETS *(Continued)*

Details of unrecognized deferred tax assets in respect of other deductible temporary differences at the balance sheet date are as follows:

	2008	2007
	RMB'000	RMB'000
Impairment of property, plant and equipment	**7,698**	–
Allowance for bad and doubtful debts	**26,698**	17,103
Allowance for inventories	**52,772**	31,175
Others	**4,915**	–
	92,083	48,278

No deferred tax asset has been recognized in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilized.

25. INVENTORIES

	2008	2007
	RMB'000	RMB'000
Raw materials	**219,789**	258,303
Work in progress	**427,892**	771,779
Finished goods	**79,447**	112,638
Total, net of allowance for inventories	**727,128**	1,142,720

	2008	2007
	RMB'000	RMB'000
Allowance for inventories		
Balance at beginning of the year	**124,707**	25,068
Allowance for inventories	**86,384**	99,639
Balance at end of the year	**211,091**	124,707

Notes to the Consolidated Financial Statements (cont'd)

For the year ended December 31, 2008

26. PROPERTIES UNDER DEVELOPMENT

	RMB'000
At January 1, 2007, December 31, 2007 and January 1, 2008	–
Acquired on acquisition of subsidiaries (note 35b)	655,739
Addition of development expenditure	92,197
At December 31, 2008	**747,936**

During the year, the interest capitalized in the properties under development was an amount of RMB733,000. Certain of the properties under development are expected to be realised within twelve months from the balance sheet date while the remainings are expected to be realised after twelve months from the balance sheet date.

27. TRADE, BILLS AND OTHER RECEIVABLES

	2008	2007
	RMB'000	RMB'000
Trade receivables	**333,001**	424,841
Less: allowance for doubtful debts	**(85,378)**	(34,153)
	247,623	390,688
Bills receivables	**11,317**	–
Deposits paid for acquisition of land use rights (Note)	**107,732**	23,914
Prepayments	**29,723**	86,249
Prepaid non-income tax	**54,508**	15,305
Other receivables	**33,891**	87,137
Less: allowance for doubtful debts for other receivables	**(21,412)**	(29,333)
	463,382	573,960

Note: The Group had made some deposits in respect of proposed acquisition of certain land use rights. No formal agreements for the acquisitions have been signed and the amount is refundable if the Group does not proceed with the acquisition.

27. TRADE, BILLS AND OTHER RECEIVABLES *(Continued)*

The Group grants a credit period ranging from 30 days to 90 days to their trade customers. The aging analysis of trade and bills receivables is as follows:

	2008	2007
	RMB'000	RMB'000
Aged:		
Within 60 days	**133,447**	274,501
61 – 90 days	**44,727**	38,738
91 – 180 days	**60,290**	54,676
181 – 365 days	**15,500**	19,936
Over 1 year	**4,976**	2,837
	258,940	390,688

The Group's trade receivable balances included debtors which are with related parties, details of which are set out in note 43b.

Before accepting any new customers, the Group reviews the credit quality and defines credit limits by customer. Limits attributed to customers are reviewed once a year. The Group maintains a defined credit policy to assess the credit quality of the trade customers. The collection is closely monitored to minimize any credit risk associated with these trade debtors. There has not been significant change in credit quality of the debtors and the directors of the Company considered the debts which are neither past due nor not impaired are with good repayment history.

Included in the Group's trade receivable balances are debtors with aggregate carrying amount of RMB97,011,000 (2007: RMB99,416,000) which are past due but not impaired at the reporting date.

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

	2008	2007
	RMB'000	RMB'000
Aged:		
Within 60 days	**461**	1,466
61 – 90 days	**15,784**	20,501
91 – 180 days	**60,290**	54,676
181 – 365 days	**15,500**	19,936
1 – 2 years	**4,976**	2,837
	97,011	99,416

27. TRADE, BILLS AND OTHER RECEIVABLES *(Continued)*

The directors of the Company assessed the credit quality of those trade debtors that the balances are past due by reviewing their financial position, the past repayment record and the experience on any recent history of default. The amounts net of impairment of RMB97,011,000 (2007: RMB99,416,000) are considered recoverable. The Group does not hold any collateral over these balances.

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

Movement in the allowance for doubtful debts

	2008 **RMB'000**	2007 RMB'000
Balance at beginning of the year	**63,486**	58,213
Amounts written off during the year	**(569)**	(770)
Eliminated on disposal of subsidiaries	**(1,665)**	(1,107)
Impairment recognized in profit or loss	**45,538**	10,368
Reclassified as held for sale	**–**	(3,218)
Balance at end of the year	**106,790**	63,486

28. DERIVATIVE FINANCIAL INSTRUMENTS

	2008 **RMB'000**	2007 RMB'000
(Liabilities) assets		
Foreign currency forward contracts	**(627)**	16,151

Major terms of the foreign currency contracts outstanding at December 31, 2008 are as follows:

Notional amount	**Maturity**	**Exchange rate**
8 contracts to sell US$9,000,000 Aggregated in total	Range from January 9, 2009 to May 11, 2009	Sell US$ at RMB from 6.667 to 6.970

The above derivatives are measured at fair value at each balance sheet date. The fair values are determined based on an independent valuation carried out by independent valuer using a forward pricing model in deriving the market value at the balance sheet date.

29. BANK BALANCES AND CASH

(a) Pledged bank deposits

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

The deposits carry an average fixed interest rate of 1.71% (2007: 0.72%) per annum. The pledged bank deposits will be released upon the settlement of relevant bill payables and bank borrowings.

(b) Bank balances and cash

Bank balances and cash comprised of bank deposits with short maturity at prevailing market interest rate of 0.36% (2007: 0.72%) per annum and cash on hand.

30. TRADE, BILLS AND OTHER PAYABLES

	2008 **RMB'000**	2007 RMB'000
Trade payables	**124,364**	247,657
Bills payables	**3,163**	36,836
Other payables	**50,725**	94,383
Advance from a director (note 43b)	**31,007**	–
Advance from a related company (note 43b)	**120,932**	–
Accruals	**46,230**	50,781
	376,421	429,657

The aging analysis of trade and bills payables is as follows:

	2008 **RMB'000**	2007 RMB'000
Within 60 days	**70,313**	186,645
61 – 90 days	**7,884**	51,954
91 – 180 days	**6,520**	18,268
181 – 365 days	**11,436**	17,500
1 – 2 years	**27,583**	3,169
Over 2 years	**3,791**	6,957
	127,527	284,493

Included in the Group's trade payable balances are balances with related parties. Details of which are set out in note 43b.

During the year of 2003, the local government paid approximately RMB53 million to the Group for the construction of certain infrastructure and public facilities on local government's behalf in a location which is under-developed. The Group applied the amount received from the government to the construction of such facilities and entered into various construction contracts. Up to December 31, 2008, the Group recorded a balance of approximately RMB13 million (2007: RMB13 million) which had not been utilized in the constructions and was included in other payables. Details of the capital commitments of the Group relating to the construction contracts at the balance sheet dates are set out in note 42.

Notes to the Consolidated Financial Statements (cont'd)

For the year ended December 31, 2008

31. BANK AND OTHER BORROWINGS

	2008 RMB'000	2007 RMB'000
Bank borrowings	**1,340,102**	1,546,812
Other borrowings	**102,455**	10,400
Total	**1,442,557**	1,557,212
Analyzed as:		
Secured	**689,729**	958,483
Unsecured	**752,828**	598,729
	1,442,557	1,557,212
Denominated in Euro Dollars (foreign currency)	**–**	23,469
Denominated in United States Dollars (foreign currency)	**169,272**	145,143
Denominated in Renminbi	**1,273,285**	1,388,600
	1,442,557	1,557,212

The bank and other borrowings are repayable as follows:

	2008 RMB'000	2007 RMB'000
Within one year or on demand	**1,429,002**	1,546,812
In more than one year but not more than two years	**4,100**	–
After five years	**9,455**	10,400
	1,442,557	1,557,212
Less: Amount due within one year shown under current liabilities	**(1,429,002)**	(1,546,812)
Amount due after one year	**13,555**	10,400

Bank borrowings are substantively fixed-rate borrowings and carry interests ranging from 4.77% to 8.22% (2007: from 4.86% to 7.62%) per annum.

Other borrowings represent loans advanced by independent third parties and carry fixed interest rate of 2.55% to 6.624% (2007: 2.55%) per annum. Other than an amount of RMB9,455,000 (2007: RMB10,400,000) that is repayable in full in 2018, the amounts are repayable in full in 2009.

Included in unsecured bank borrowings are borrowings of RMB100,000,000 (2007: Nil) guaranteed by a related company in which Mr. Zhu has influence and beneficial interests. An amount of RMB10,835,000 (2007: RMB100,592,000) were guaranteed by certain independent third parties.

31. BANK AND OTHER BORROWINGS *(Continued)*

Certain borrowings were also secured by the assets owned by the Group and details of the assets set out in note 40.

Subsequent to the balance sheet date, the Group had made repayment on short-term bank loans of RMB775 million and used the existing credit facilities to raise RMB573 million bank loans that is repayable in 2010 for the working capital purpose.

32. SHARE CAPITAL

	Number of ordinary shares at US$0.00015 each	US$'000
Authorized share capital of the Company:		
At January 1, 2007, December 31, 2007 and December 31, 2008	266,666,666,666	40,000

	Number of ordinary shares	Equivalent to	
		US$	RMB'000
Issued and fully paid ordinary shares of the Company			
At January 1, 2007, December 31, 2007 and January 1, 2008	990,048,369	148,507	1,227
Issue of shares (Note)	174,425,616	26,164	178
Shares repurchased and cancelled	(817,000)	(123)	(1)
At December 31, 2008	1,163,656,985	174,548	1,404

Note: During the year, the Company issued 174,425,616 ordinary shares at a price of HK$1.354 per share for the acquisition of 100% equity interest of Investwise International Limited. The allotment was made on July 22, 2008 and details of the transaction are set out in note 35b.

During the year, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	No. of ordinary shares of US$0.00015 each	Price per share Highest	Price per share Lowest	Aggregate consideration paid	Equivalent to
		HK$	HK$	HK$'000	RMB'000
November 2008	817,000	0.74	0.72	596	531

The above shares were cancelled upon repurchase.

33. SHARE OPTION

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

The Company granted a total of 30,200,000 share options to the directors and other eligible employees on March 9, 2006 (the "First Batch Option"). The exercise price of the options is HK$2.38 (the share price immediately before grant date was HK$2.24).

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

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

The First Batch Option could be exercised during the following periods:

Date	Percentage of share options
From January 1, 2007 to March 8, 2016	50%
From January 1, 2008 to March 8, 2016	50%

The Second Batch Option could be exercised during the following periods:

Date	Percentage of share options
From January 1, 2009 to May 4, 2018	50%
From January 1, 2010 to May 4, 2018	50%

The Binomial Model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate with reference to a valuation report prepared by an independent valuer. The value of an option varies with different variables of certain subjective assumptions.

The following assumptions were used in the Binomial Model:

	The First Batch Option	The Second Batch Option
Average risk-free rate of return	4.44%	2.73%
Volatility rate	49%	55.81%
Dividend yield	5.95%	4.22%
Fair value of the options at the date of grant	RMB21,100,000	RMB4,500,000

Expected volatility was determined by using the historical volatility of the Company's share price since its listing.

33. SHARE OPTION *(Continued)*

The Group recorded a share-based payment expense of RMB2,237,000 for the year ended December 31, 2008 (2007: RMB2,438,000).

The following tables disclose details of the Company's share options held by the directors and eligible employees and movements in such holdings during the years ended December 31, 2007 and 2008:

Exercise price HK$	Date of grant	Vesting period	Exercisable period	Outstanding at January 1, 2007	Lapsed during the year ended December 31, 2007	Outstanding at December 31, 2007 and January 1, 2008	Granted during the year ended December 31, 2008	Lapsed during the year ended December 31, 2008	Outstanding at December 31, 2008
2.38	March 9, 2006	9.3.2006 – 31.12.2006	1.1.2007 – 8.3.2016	14,900,000	(2,250,000)	12,650,000	–	(2,100,000)	10,550,000
2.38	March 9, 2006	9.3.2006 - 31.12.2007	1.1.2008 – 8.3.2016	14,900,000	(2,250,000)	12,650,000	–	(2,100,000)	10,550,000
				29,800,000	(4,500,000)	25,300,000	–	(4,200,000)	21,100,000
1.18	May 5, 2008	5.5.2008 – 31.12.2008	1.1.2009 – 4.5.2018	–	–	–	5,250,000	(1,000,000)	4,250,000
1.18	May 5, 2008	5.5.2008 – 31.12.2009	1.1.2010 – 4.5.2018	–	–	–	5,250,000	(1,000,000)	4,250,000
				–	–	–	10,500,000	(2,000,000)	8,500,000
Total				29,800,000	(4,500,000)	25,300,000	10,500,000	(6,200,000)	29,600,000
Exercisable at the balance sheet date						12,650,000			21,100,000

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

Exercise price HK$	Date of grant	Vesting period	Exercisable period	Outstanding at January 1, 2007 and January 1, 2008	Granted during the year ended December 31, 2008	Lapsed during the year ended December 31, 2008	Outstanding at December 31, 2008
2.38	March 9, 2006	9.3.2006 – 31.12.2006	1.1.2007 – 8.3.2016	3,900,000	–	(1,000,000)	2,900,000
2.38	March 9, 2006	9.3.2006 – 31.12.2007	1.1.2008 – 8.3.2016	3,900,000	–	(1,000,000)	2,900,000
1.18	May 5, 2008	5.5.2008 – 31.12.2008	1.1.2009 – 4.5.2018	–	2,350,000	(1,000,000)	1,350,000
1.18	May 5, 2008	5.5.2008 – 31.12.2009	1.1.2010 – 4.5.2018	–	2,350,000	(1,000,000)	1,350,000

In the above table, it includes the share options held by the directors appointed and resigned during the year ended December 31, 2008.

During the year ended December 31, 2008, the total amount of consideration received from the directors and eligible employees for taking up the options granted was HK$14 (2007: Nil).

34. RESERVES

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

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

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

(d) The Company suffered loss of RMB31,519,000 for the year ended December 31, 2008 (2007: RMB39,574,000).

35. ACQUISITION OF ASSETS AND LIABILITIES THROUGH ACQUISITION OF SUBSIDIARIES/ ACQUISITION OF ADDITIONAL INTEREST IN SUBSIDIARIES

(a) On January 7, 2008, the Group acquired 99% equity interest in Qionghai Bodi from an independent party not connected with the Group, for a consideration of RMB100,062,000.

The principal activity of Qionghai Bodi is property development in Hainan Province of the PRC and the major assets of Qionghai Bodi are the property development sites in the PRC. Accordingly, the transaction has been accounted for as the acquisition of assets and liabilities through the acquisition of a subsidiary.

The net assets acquired in the transaction are as follows:

	Value as at January 7, 2008 RMB'000
Net assets acquired:	
Properties for development	**185,013**
Other receivables	**677**
Bank balances and cash	**79**
Other payables	**(84,696)**
Net assets	**101,073**
Minority interests	**(1,011)**
Net assets acquired	**100,062**
Total consideration, satisfied by:	
Cash	**20,862**
Other long-term assets – deposit paid	**79,200**
	100,062
Net cash outflow arising on acquisition:	
Cash consideration paid	**(20,862)**
Bank balances and cash acquired	**79**
	(20,783)

35. ACQUISITION OF ASSETS AND LIABILITIES THROUGH ACQUISITION OF SUBSIDIARIES/ ACQUISITION OF ADDITIONAL INTEREST IN SUBSIDIARIES *(Continued)*

(b) In July 2008, the Group acquired (i) from its ultimate holding company 100% equity interest in Investwise International Limited, an investment holding company, which owns 55% equity interest in Yancheng Sujia Real Estate Development Co., Ltd. (鹽城蘇嘉房地產開發有限公司) ("Yancheng Sujia"), for a consideration of approximately RMB209,002,000. The consideration for the acquisition has been satisfied by the allotment of 174,425,616 shares issued by the Company to the ultimate holding company; and (ii) 45% equity interest in Yancheng Sujia from an independent third party for a cash consideration of approximately RMB171,002,000.

The principal activity of Yancheng Sujia is property development. Accordingly, the transactions have been accounted for as the acquisition of assets and liabilities through the acquisition of subsidiaries.

The net assets acquired in the transaction are as follows:

	Fair value as at August 1, 2008 RMB'000
Net assets acquired:	
Property, plant and equipment	1,376
Properties for development	416,268
Properties under development	655,739
Deferred tax asset	5,916
Other receivables	56,685
Tax recoverable	17,708
Bank balances and cash	77,615
Other payables (Note)	(148,398)
Deposit received in respect of pre-sales properties	(558,960)
Bank borrowing	(140,000)
	383,949
Total consideration satisfied by:	
Cash, including transaction costs incurred	174,947
Shares issued (Note 32)	209,002
	383,949
Net cash outflow arising on acquisition:	
Cash consideration paid, including transaction costs incurred	(174,947)
Bank balances and cash acquired	77,615
	(97,332)

Note: Included in the amount RMB93,932,000 was advanced from a related party and RMB31,007,000 was advanced from a director.

36. DISPOSAL OF SUBSIDIARIES

As referred to note 14a, the Group entered into an agreement to dispose of Oyi May, which carried out upholstered furniture manufacturing operations. The disposal was completed on January 10, 2008, the date on which the control of Oyi May was passed to the acquirer.

During the year, the Group entered into an agreement to dispose of 5% equity interest in a non-wholly owned subsidiary, Zhejiang Liema Furniture Co., Ltd. ("Liema Furniture") 浙江獵馬傢俬有限公司, which carried out upholstered furniture manufacturing operations. The disposal was completed on June 17, 2008, the date on which the control of Liema Furniture was passed to the acquirer. The Group holds 45.5% equity interest in Liema Furniture after the disposal and accounted for Liema Furniture as an associate subsequently.

During the year ended December 31, 2007, the Group entered into agreements to dispose of two wholly-owned subsidiaries, Haining Home Craft Furniture Co., Ltd. ("Home Craft") 海寧家藝傢俱有限公司 and Haining Home Point Furniture Co., Ltd. ("Home Point") 海寧家典傢俱有限公司, both carried out upholstered furniture manufacturing operations. The disposals were completed on January 29, 2007 and August 31, 2007 respectively, on which date the control of Home Craft and Home Point was passed to the acquirers.

The net assets of the disposed subsidiaries at the respective dates of disposal were as follows:

	2008			
	Oyi May RMB'000	**Liema Furniture RMB'000**	**Total RMB'000**	2007 RMB'000
Property, plant and equipment	**74,377**	**103,587**	**177,964**	77,901
Prepaid lease payments	**9,083**	**15,762**	**24,845**	18,480
Intangible assets	**54**	**6**	**60**	4
Inventories	**63,064**	**50,547**	**113,611**	18,573
Trade and other receivables	**53,029**	**63,941**	**116,970**	75,709
Pledged bank deposits	**27,946**	**35,821**	**63,767**	–
Bank balances and cash	**4,301**	**11,701**	**16,002**	54,249
Trade and other payables	**(167,625)**	**(114,031)**	**(281,656)**	(165,902)
Tax payable	**–**	**–**	**–**	(534)
Bank borrowings	**(23,652)**	**(112,557)**	**(136,209)**	–
	40,577	**54,777**	**95,354**	78,480
Minority interests	**(20,085)**	**(27,075)**	**(47,160)**	–
Gain on disposal	**2,245**	**154**	**2,399**	7,720
	22,737	**27,856**	**50,593**	86,200
Satisfied by:				
Cash consideration received	**22,737**	**2,895**	**25,632**	79,072
Interests in an associate	**–**	**24,961**	**24,961**	–
Other receivables	**–**	**–**	**–**	7,128
	22,737	**27,856**	**50,593**	86,200
Net cash inflow (outflow) arising on disposal of subsidiaries:				
Cash consideration received	**22,737**	**2,895**	**25,632**	79,072
Cash and cash equivalents disposed of	**(4,301)**	**(11,701)**	**(16,002)**	(54,249)
	18,436	**(8,806)**	**9,630**	24,823

Oyi May and Liema Furniture did not make any significant contributions to the results and cash flows of the Group during the year.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Categories of financial instruments

	2008 RMB'000	2007 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**782,063**	1,123,596
Financial assets held for trading – Derivative financial instrument	**–**	16,151
Available-for-sale financial assets	**43,278**	43,278
Financial liabilities		
Amortized cost	**1,772,748**	1,936,088
Financial liabilities held for trading – Derivative financial instrument	**627**	–

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade, bills and other receivables, bank balances and cash, pledged bank deposits, trade, bills and other payables, derivative financial instruments and bank and other borrowings. Details of these financial instruments are disclosed in respective notes. The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk.

There has been no significant change to the Group's exposure to financial risks or the manner in which it manages and measures the risk.

The board of directors review and agree policies for managing each of these risks and are summarized below.

Market risk

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to most of the fixed rate bank balances and bank and other borrowings as set out in note 29 and 31 respectively. It is the Group's policy to keep its borrowings at fixed rate of interest so as to minimize the fair value interest rate risk.

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

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

No sensitivity analysis has been prepared as the fluctuation on interest rates will not affected the interest expenses on the borrowings at the balance sheet date.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Foreign currency risk

The Company's and its subsidiaries' functional currency is RMB since majority of the revenue and production costs of the companies are derived and incurred from operations in the PRC.

The Group's exposure to foreign currency risk related primarily to the sales and purchases that are denominated in US dollars and such related bank balances and cash, trade and other receivables and trade and other payables arising from time to time. In addition, the Group has short term bank and other borrowings denominated in US dollars. The derivative financial instrument used has no direct relationship with the transactions denominated in US dollars but also give rise to foreign exchange risk exposure for the Group.

The carrying amounts of the Group's foreign currency denominated non-derivative monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		Liabilities	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
USD (Note)	**294,404**	537,992	**251,163**	328,360
EUR	**437**	18	**–**	23,469
HKD	**224**	192	**–**	1,646
GBP	**8**	12	**–**	–

Note: The amount included bank balances of RMB109,451,000 (2007: RMB175,552,000) and bank loans of RMB169,272,000 (2007: RMB145,143,000) that are denominated in USD.

Sensitivity analysis

The Group is mainly exposed to currency of USD.

5% (2007: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates.

As at December 31, 2008, if RMB had been strengthened by 5% against USD, loss for the year would have been increased by RMB2.2 million (2007: loss for the year would have been RMB10.5 million higher) and there would be equal and opposite impact on loss for the year if RMB has been weakened by 5% against USD. It is mainly as a result of foreign exchange losses on translation of USD denominated trade, bills and other receivables and bank balances and cash cannot be compensated by foreign exchange gains on translation of USD denominated trade, bills and other payables and bank and other borrowings.

Other price risk

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

The notional amount of the Group's outstanding foreign currency forward contracts are set out in note 28.

No sensitivity analysis has been prepared as the price risk to the Group is not considered significant.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk

As at December 31, 2008, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties and financial guarantees provided by the Group is arising from:

– the carrying amount of the respective recognized financial assets as stated in the consolidated balance sheet; and

– the amount of contingent liabilities in relation to financial guarantee issued by the Group as disclosed in note 44.

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

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

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas.

Liquidity risk

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

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

Other than continuously monitoring the actual cash flows by management, the Group also relies on bank and other borrowings as a significant source of liquidity. As at December 31, 2008, the Group has available unutilized short-term bank loan facilities of approximately RMB548,727,000 as a liquidity management resource.

The following tables detail the Group's contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities with the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. For the contractual maturity details of the derivative instruments, the effect is not significant to the Group and not presented below.

Notes to the Consolidated Financial Statements (cont'd)

For the year ended December 31, 2008

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

	Weighted average effective interest rate %	0-60 days RMB'000	61-90 days RMB'000	91-365 days RMB'000	1-2 years RMB'000	Over 2 years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount at December 31, 2008 RMB'000
2008								
Non-derivative financial liabilities								
Trade, bills and other payables		**330,191**	**–**	**–**	**–**	**–**	**330,191**	**330,191**
Bank and other borrowings	**6.84**	**560,848**	**251,474**	**616,680**	**–**	**13,555**	**1,541,228**	**1,442,557**
Total		**891,039**	**251,474**	**616,680**	**–**	**13,555**	**1,871,419**	**1,772,748**

	Weighted average effective interest rate %	0-60 days RMB'000	61-90 days RMB'000	91-365 days RMB'000	1-2 years RMB'000	Over 2 years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount at December 31, 2007 RMB'000
2007								
Non-derivative financial liabilities								
Trade, bills and other payables		378,876	–	–	–	–	378,876	378,876
Bank and other borrowings	6.24	127,272	588,632	501,899	329,009	10,400	1,654,382	1,557,212
Total		506,148	588,632	501,899	329,009	10,400	2,033,258	1,936,088

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(c) Fair-value

The fair value of financial assets and financial liabilities (including derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

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

38. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to equity holders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debts, which includes the bank and other borrowings disclosed in note 31, advances from a director and a related company disclosed in note 43b and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained earnings.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

39. RETIREMENT BENEFITS PLAN

The Group contributes to a local municipal government retirement scheme for all qualifying employees in the PRC. The employer and its employees are each required to make contributions to the scheme at the rates specified in the scheme's rules. The only obligation of the Group with respect to the retirement scheme is to make the required contributions under the scheme.

In addition, the Group operates a Mandatory Provident Fund ("MPF") Scheme for its qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes at the lower of HK$1,000 or 5% of relevant payroll costs monthly to the MPF Scheme, which contribution is matched by employees.

The total cost charged to the consolidated income statement of approximately RMB7,210,000 (2007: RMB13,936,000) represents contributions paid and payable to the above schemes by the Group in respect of the current accounting period. As at December 31, 2008, contributions of approximately Nil (2007: RMB2,367,000) in respect of the reporting period had not been paid to the above schemes.

Notes to the Consolidated Financial Statements (cont'd)

For the year ended December 31, 2008

40. PLEDGE OF ASSETS

At the balance sheet date, certain of the Group's assets have been pledged to secure the borrowings and the general banking facilities of the Group. The aggregate carrying amount of the pledged assets of the Group at the balance sheet date is as follows:

	2008 **RMB'000**	2007 RMB'000
Buildings	**272,913**	481,671
Prepaid lease payments	**38,224**	72,325
Pledged bank deposits	**120,997**	113,689
Assets classified as held for sale	**175,228**	–
	607,362	667,685

41. LEASE COMMITMENT

As lessee

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancelable operating leases, which fall due as follows:

	2008 **RMB'000**	2007 RMB'000
Within one year	**18,519**	16,253
In the second to fifth year inclusive	**134,112**	89,991
	152,631	106,244

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

42. CAPITAL AND OTHER COMMITMENTS

At the balance sheet date, the Group had capital and other commitments as follows:

	2008 **RMB'000**	2007 RMB'000
Expenditure contracted for but not provided in the consolidated financial statements in respect of		
– Acquisition of property, plant and equipment	**15,936**	19,260
– Properties under development	**146,112**	–
– Construction of certain infrastructure and public facilities in the PRC on behalf of the government (note 30)	**13,072**	13,202
– Acquisition of a subsidiary (note 23)	**–**	20,862
	175,120	53,324

43. CONNECTED AND RELATED PARTY DISCLOSURES

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

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

Connected persons and related parties	Notes	**Nature of transactions**	**2008 RMB'000**	2007 RMB'000
Baiyin Kasen Leather Co., Ltd. ("Baiyin") 白銀卡森皮革有限公司	(i)	Sales by the Group	**–**	7
		Purchase by the Group	**103,299**	68,992
Joyview Enterprises Limited, the ultimate holding company of the Company	(ii)	Acquisition of subsidiaries (note 35)	**209,002**	–
Haining Haipai Leather Industry Co., Ltd. ("Haining Haipai") 海寧海派皮業有限公司	(iii)	Sales by the Group	**–**	7,608
		Subcontracted manufacturing of leather sofa cover provided by the Group	**–**	1,956
Haining Yujie Material Recycling Co., Ltd. ("Yujie") 海寧宇潔物資回收有限公司	(i)	Sales of production wastes by the Group	**5,001**	11,040
Kezilesu Xinrong Leather Co., Ltd. 克孜勒蘇新蓉皮革有限公司	(i)	Purchase by the Group	**–**	15,713
Sleep City Holdings Ltd ("Sleep City")	(i)	Sales by the Group	**7,834**	–
Yili Horgos Leather Co., Ltd. ("Yili Horgos") 伊犁霍爾果斯皮革有限公司	(i)	Purchase by the Group	**5,532**	34,873
AoLin Furniture (Shanghai) Co., Ltd. 澳林家具（上海）有限公司 ("AoLin")	(i)	Sales by the Group	**–**	238
Haining Kasen-Melx Leather Co., Ltd. ("Kasen-Melx")	(iv)	Interest expense	**80**	–
		Purchase by the Group	**–**	2,141
		Rental income	**12**	–
		Sales by the Group	**918**	764
		Sales of raw materials by the Group	**49**	–
Haining Liema Leather Garments Co., Ltd.	(vii)	Interest expense	**–**	16
Haining Xieqiao Senbo Water Co., Ltd. ("Senbo Water") 海寧市斜橋森博水務有限公司	(v)	Provision of sewage treatment service to the Group	**63**	91
Liema Furniture	(vi)	Sales by the Group	**6,640**	–
		Sales of raw materials by the Group	**38**	–
Zhejiang Sunbridge Industrial (Group) Co., Ltd. ("Sunbridge") 浙江森橋實業（集團）有限公司	(ii)	Sales by the Group	**–**	23
Haining Changhong Import and Export Co., Ltd. ("Changhong I&E") 海寧長虹進出口有限公司	(vii)	Sales by the Group	**–**	414
Starcorp Group:				
– Starcorp Corporation Pty., Ltd. ("Starcorp")	(i)	Sales by the Group	**8,792**	53,065
– Haining Xingying Furniture Co., Ltd. 海寧星瑩傢俱有限公司	(i)	Sales by the Group	**19**	–
– Shanghai Starcorp Furniture Sales Co., Ltd. 上海思達可傢俱銷售有限公司	(i)	Sales by the Group	**274**	–

43. CONNECTED AND RELATED PARTY DISCLOSURES *(Continued)*

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

Notes:

(i) Mr. Zhu has influence and beneficial interests in the company through Sunbridge.
(ii) Mr. Zhu has influence and beneficial interests in the company.
(iii) Oyi May is no longer part of (the Group since January 10, 2008. Any transactions entered into or to be entered into between the Group and Haining Hapai, the related party of Oyi May, after January 10, 2008 will no longer constitute related party or connected party transaction of the Group.
(iv) Kasen-Melx is a jointly controlled entity of the Group.
(v) Senbo Water ceased to be a subsidiary and became an associate of the Group since May 2007.
(vi) Liema Furniture ceased to be a subsidiary and became an associate of the Group since June 2008.
(vii) A director of a non-wholly owned subsidiary has influence and beneficial interests in the company.

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

Name of related companies	Notes	**2008 RMB'000**	2007 RMB'000
Trade in nature			
AoLin	(i)	**–**	5
Baiyin	(i)	**(12)**	–
Haining Haipai	(i)	**–**	39
Kasen-Melx	(i)	**(991)**	196
Liema Furniture	(i)	**859**	–
Senbo Water	(i)	**115**	99
Sleep City	(i)	**2,803**	–
Starcorp	(i)	**5,167**	19,861
Yili Horgos	(i)	**(29)**	922
Yujie	(i)	**2,946**	3,250
Non-trade in nature			
Sunbridge	(iii)	**(120,932)**	–
Haining Liema Leather Garments Co., Ltd. 海寧獵馬皮革服裝有限公司	(ii)	**–**	(81)
		(110,074)	24,291
Name of director			
Mr. Zhu	(iii)	**(31,007)**	–
		(141,081)	24,291
Represented by:			
Amounts due from related companies, included in trade receivables under current assets		**11,890**	24,372
Advance from a related company, included in other payables under current liabilities		**(120,932)**	–
Advance from a director, included in other payables under current liabilities		**(31,007)**	–
Amounts due to related companies, included in trade payables under current liabilities		**(1,032)**	(81)
		(141,081)	24,291

43. CONNECTED AND RELATED PARTY DISCLOSURES *(Continued)*

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

Notes:

(i) The amounts are trade in nature and unsecured, interest-free and repayable according to credit terms.
(ii) The amounts are unsecured, carried interest rate of 6.696% per annum and repayable on demand.
(iii) The amount is unsecured, interest-free and repayable on demand.

(c) Details of the share options granted to the directors are set out in note 33.

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

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

44. CONTINGENT LIABILITIES

As at December 31, 2007, the Group had provided guarantee to banks in connection with short-term bank loans of RMB120 million extended to a former subsidiary, Haining Home Point Furniture Co., Ltd ("HHPF"). HHPF has also pledged its properties to secure those bank loans of approximately RMB90 million as at December 31, 2007.

In the opinion of the directors of the Company, no relevant financial liabilities had been recognized in the consolidated financial statements as the effect to the Group's financial statements was immaterial and the possibility of the third party defaults the bank loan repayment was remote.

During the year ended December 31, 2008, the guarantee was released.

45. PRINCIPAL SUBSIDIARIES

The following table lists major subsidiaries of the Company as at December 31, 2008 and 2007 which, in the opinion of the directors, principally affected the results or net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Name of the company	Country of establishment and operations	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Company indirectly 2008 %	2007 %	Principal activities
Haining Gaosheng Industrial Co., Ltd. (Formerly known as: Haining Gaosheng Leather Co., Ltd.) 海寧高盛實業有限公司 (原名：海寧高盛皮革有限公司) (note a)	PRC	RMB60,000,000	**95**	95	Production and processing of leather and tailored products
Haining Hainix Sofa Co., Ltd. 海寧漢林沙發有限公司 (note b)	PRC	US$6,000,000	**95.05**	95.05	Production and sale of sofas, dining chairs and other furniture products
Haining Hengsen Furniture Co., Ltd. 海寧恒森傢俱有限公司 (note a)	PRC	RMB30,000,000	**100**	100	Production of furniture and glass fiber reinforced plastic products; wood processing
Haining Hidea Furniture Co., Ltd. 海寧慧達傢俱有限公司 (note b)	PRC	US$7,800,000	**100**	100	Production and sale of sofas, dining chairs and other furniture products
Haining Home Impression Furniture Co., Ltd. 海寧家美傢俱有限公司 (note b)	PRC	US$11,430,000	**100**	100	Production and sale of upholstered furniture
Haining Kareno Furniture Co., Ltd. 海寧卡雷諾傢俬有限公司 (note b)	PRC	US$3,600,000	**100**	100	Production and sale of upholstered furniture

Notes to the Consolidated Financial Statements (cont'd)

For the year ended December 31, 2008

45. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of the company	Country of establishment and operations	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Company indirectly 2008 %	2007 %	Principal activities
Haining Kasen Leather Co., Ltd. 海寧卡森皮革有限公司 (note b)	PRC	US$3,000,000	**100**	100	Production and sale of upholstered furniture
Haining Oyi May Sofa Co., Ltd. 海寧歐意美沙發有限公司 (note a)	PRC	US$5,000,000	**–**	50.5	Production and sale of upholstered furniture
Haining Schinder Tanning Co., Ltd. 海寧森德皮革有限公司 (note b)	PRC	US$1,000,000	**100**	100	Production and sale of automotive leather
Qionghai Bodi Real Estate Co., Ltd. 琼海博地置業有限公司 (note b)	PRC	RMB10,000,000	**99**	–	Property development
Shanghai La Kassa Furniture Co., Ltd. 上海禾美傢俱有限公司 (note b)	PRC	US$4,000,000	**100**	100	Production and sale of upholstered furniture
Yancheng Sujia Real Estate Development Co. Ltd. (note b) 鹽城市蘇嘉房地產開發有限公司	PRC	RMB50,000,000	**100**	–	Property development
Zhejiang Kasen Industrial Co., Limited 浙江卡森實業有限公司 (note b)	PRC	RMB896,240,000	**100**	100	Research, development, production and sales of furniture leather
Zhejiang Kasen Property Development Co., Ltd. (Formerly known as: Haining Higher Points Investment Development Co., Ltd.) 浙江卡森置業有限公司 （原名：海寧高點投資有限公司）(note a)	PRC	RMB400,000,000	**100**	100	Investment holding
Zhejiang Liema Furniture Co., Ltd. 浙江獵馬傢俬有限公司 (note a and c)	PRC	US$7,000,000	**–**	50.5	Production and sale of upholstered furniture

Notes:

(a) The companies are limited liability companies.

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

(c) As set out in note 36, the company is re-designated to an associate during the year.

None of the subsidiaries had issued any debt securities at the end of the year.

46. NON-CASH TRANSACTION

The Group had a non-cash transaction as set out in note 35b for the acquisition of a subsidiary.

47. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, the Group has entered into an agreement with an independent third party to acquire the entire issued share capital of Sofas UK Plc at a consideration of GBP1.00 (equivalent to approximately RMB9.8). Sofas UK Plc is engaged in furniture and retail businesses in the United Kingdom. Details are set out in the announcement of the Company dated on February 27, 2009. The carrying value of the net liability of Sofas UK Plc as at the date of acquisition of Sofas UK Plc was approximately GBP500,457 (equivalent to approximately RMB5,020,000).

The Group is in the process of assessing the fair value of the identified assets and liabilities of Sofas UK Plc at the date of acquisition so as to determine any goodwill or discounts on acquisition arising from this transaction.