

Directors' Report

The directors present their annual report and the audited consolidated financial statements for the year ended December 31, 2006.

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

PRINCIPAL ACTIVITIES

The Company acts 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.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2006 are set out in the consolidated income statement on page 35.

An interim dividend of approximately RMB3.53 cents (equivalent to US0.44 cents or HK3.45 cents) per ordinary share amounting to RMB34.68 million (equivalent to HK\$34.16 million) was paid to the shareholders during the year. The directors do not recommend the payment of any final dividend for the year ended December 31, 2006.

DISTRIBUTABLE RESERVES OF THE COMPANY

The amount of the Company's reserves available for distribution to shareholders as at December 31, 2006, calculated in accordance with International Financial Reporting Standards, was approximately RMB840 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, the Group acquired property, plant and equipment of approximately RMB73 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 are set out in note 15 to the financial statements.

SHARE CAPITAL

Details of the Company's share capital are set out in note 28 to the financial statements.

Directors' Report (cont'd)

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 39% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 13% of the Group's total sales.

The aggregate purchase during the year attributable to the Group's five largest suppliers was less than 26% of the Group's total purchases.

None of the directors, their associates or any shareholders which, 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 of the Company during the year and up to the date of this report are:

Executive directors

ZHU Zhangjin, Kasen (*Chairman*)

ZHOU Xiaosong

ZHU Jianqi

Non-executive director

LI Hui, David

(appointed on May 30, 2006)

SUN Qiang Chang

(resigned on May 30, 2006)

Independent non-executive directors

LU Yungang, Ken

CHOW Joseph

ZHANG Huaqiao, Joe

(appointed on July 3, 2006)

SHI Zhengfu

(resigned on July 3, 2006)

In accordance with provision 87 of the Articles, Messrs., Zhu Zhangjin, Zhang Huaqiao, Joe and Lu Yungang, Ken will retire from office of directors by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general 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 6.

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

As at December 31, 2006, 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 Companies (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

Name of Director	Number of shares held, capacity and nature of interest			Percentage of the Company's issued share capital
	Directly beneficially owned	Through controlled corporation	Total number of shares interested	
Zhu Zhangjin	–	328,867,019 (Note)	328,867,019	33.22%
Zhou Xiaosong	8,173,912	–	8,173,912	0.83%
Zhu Jianqi	7,478,260	–	7,478,260	0.76%

Note: 328,867,019 shares are beneficially owned by Joyview Enterprises Limited, a company wholly-owned by Mr. Zhu Zhangjin

(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, 2006.

Directors' Report (cont'd)

SHARE OPTION SCHEME

Particulars of the Company's share option scheme are set out in note 29 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 of the Company (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 Company's 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 Company's 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 of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

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

Directors' Report (cont'd)

During the year ended December 31, 2006, 30,200,000 share options were granted to eligible Directors and employees of the Group and details are as follows:

Name or category of participant	Exercise price HK\$	Number of share options			Outstanding as at December 31, 2006	Percentage of total issued share capital	Exercisable period	Notes
		Outstanding as at January 1, 2006	Granted from January 1, 2006 to December 31, 2006	Cancelled from January 1, 2006 to December 31, 2006				
<i>Directors</i>								
Zhu Zhangjin	2.38	-	1,000,000	-	1,000,000	0.10%	1/1/2007 to 8/3/2016	1,3,4
	2.38	-	1,000,000	-	1,000,000	0.10%	1/1/2008 to 8/3/2016	2,3,4
Zhou Xiaosong	2.38	-	1,000,000	-	1,000,000	0.10%	1/1/2007 to 8/3/2016	1,3,4
	2.38	-	1,000,000	-	1,000,000	0.10%	1/1/2008 to 8/3/2016	2,3,4
Zhu Jianqi	2.38	-	1,000,000	-	1,000,000	0.10%	1/1/2007 to 8/3/2016	1,3,4
	2.38	-	1,000,000	-	1,000,000	0.10%	1/1/2008 to 8/3/2016	2,3,4
Lu Yungang, Ken	2.38	-	200,000	-	200,000	0.02%	1/1/2007 to 8/3/2016	1,3,4
	2.38	-	200,000	-	200,000	0.02%	1/1/2008 to 8/3/2016	2,3,4
Chow Joseph	2.38	-	200,000	-	200,000	0.02%	1/1/2007 to 8/3/2016	1,3,4
	2.38	-	200,000	-	200,000	0.02%	1/1/2008 to 8/3/2016	2,3,4
Shi Zhengfu	2.38	-	200,000	(200,000)	-	-	1/1/2007 to 8/3/2016	1,3,4
	2.38	-	200,000	(200,000)	-	-	1/1/2008 to 8/3/2016	2,3,4
		-	7,200,000	(400,000)	6,800,000	0.68%		
<i>Other employees in aggregate</i>	2.38	-	11,500,000	-	11,500,000	1.16%	1/1/2007 to 8/3/2016	1,3,4
	2.38	-	11,500,000	-	11,500,000	1.16%	1/1/2008 to 8/3/2016	2,3,4
		-	30,200,000	(400,000)	29,800,000	3.00%		

Directors' Report (cont'd)

Notes:

1. Pursuant to the Scheme adopted by a resolution of the Shareholders on September 24, 2005 and adopted by a resolution of the Board on September 26, 2005, 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 represent personal interest held by the relevant participants as beneficial owner.
4. Except the cancelled share option stated above, up to December 31, 2006, none of these share options were exercised nor lapsed.

SUBSTANTIAL SHAREHOLDERS

As at December 31, 2006, 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 Enterprises Limited ²	Beneficial owner	–	328,867,019	328,867,019	33.22%
Warburg Pincus & Co. ¹	Interest of controlled corporation	–	186,989,966	186,989,966	18.88%
Warburg Pincus Partners LLC ¹	Beneficial owner	–	186,989,966	186,989,966	18.88%
Warburg Pincus Private Equity VIII L.P. ¹	Beneficial owner	–	90,605,988	90,605,988	9.15%
Warburg Pincus International Partners L.P. ¹	Beneficial owner	–	89,616,811	89,616,811	9.05%

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 Enterprises Limited is a company beneficially owned as to 100% by Mr. Zhu Zhangjin.

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, 2006.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Other than the share option scheme disclosed in note 29 to the financial statements, at no time during the year 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, 2006, the Group entered into the following transactions with its connected persons.

(1) Acquisition of further interests in Haining Hainix

On June 1, 2006, Zhejiang Kasen Industrial Co., Ltd ("Zhejiang Kasen"), a wholly-owned subsidiary of the Company, entered into an agreement with Haining Zhiyuan Leather Supplementary Material Operation, Haining Zheji Material Operation, and Haining Tianke Sofa Accessories Operation (collectively the "Vendors"), pursuant to which Zhejiang Kasen has agreed to acquire from the Vendors the sale interests, representing 44.55% of the paid up capital of Haining Hainix Sofa Ltd ("Haining Hainix"), a subsidiary of the Company, at the consideration of approximately RMB34.2 million. Details of the acquisition have been set out in the circular dated June 15, 2006.

Prior to the acquisition, Haining Hainix was owned as to 25.5% by Higher Point Investment, 25% by Cardina, 11.6% by Haining Zhiyuan Leather Supplementary Material Operation, 4.95% by Haining Tianke Sofa Accessories Operation, 4.95% by Haining Yushi Commercial & Trading Operation and remaining 28% by Haining Zheji Material Operation. The Company has 50.5% indirect interest in Haining Hainix. Since Haining Zhiyuan Leather Supplementary Operation and Haining Zheji Material Operation hold respectively more than 10% of the equity interests of Haining Hainix, they are therefore connected persons of the Company under the Listing Rules. Thus, the acquisition constitutes a connected transaction for the Company under the Listing Rules.

The Directors believe that the acquisition provides a good opportunity for the Company to take full operation benefits of Haining Hainix. In addition, expected sales and profits of Haining Hainix to be accounted for in the future will be attributed as to 95.05% to the Shareholders. The Directors also noted that Haining Hainix has procured some key customers who are mainly manufacturers of upholstered furniture products located in the United States and Australia and has established a large customer base. Upon completion, the Directors intend to fully capitalize on the growing customer base of Haining Hainix and thereby increasing its sales volume.

On the basis of the consideration of RMB34.2 million payable for the acquisition, the consideration would imply a discount of approximately RMB1.1 million or approximately 3.2%, which was arrived at arm's length negotiation between the relevant parties and on normal commercial terms, and by reference to the net asset value of Haining Hainix as of December 31, 2005 as adjusted by the appreciation amount of the land and buildings of approximately RMB35.7 million valued by the independent valuer, Sallmanns (Far East) Limited in May 2006.

Directors' Report (cont'd)

(2) Acquisition of further interests in Haining Hidea

On June 1, 2006, Zhejiang Kasen entered into an agreement with Haining Huiteng Garments Material Operation and Haining Liangda Sofa Accessories Operation (collectively the "Vendors"), pursuant to which Zhejiang Kasen has agreed to acquire from the Vendors the sale interests, representing 49.5% of the paid up capital of Haining Hidea Furniture Co. Ltd ("Haining Hidea"), a subsidiary of the Company, at the consideration of approximately RMB15.7 million. Details of the acquisition have been set out in the circular dated June 15, 2006.

Prior to the acquisition, Haining Hidea was owned as to 27% by Haining Huiteng Garments Material Operation, 25.5% by Higher Point Investment, 25% by Cardina and remaining 22.5% by Haining Liangda Sofa Accessories Operation. The Company has 50.5% indirect interest in Haining Hidea. Since Haining Huiteng Garments Material Operation and Haining Liangda Sofa Accessories Operation hold respectively more than 10% of the equity interests of Haining Hidea, they are therefore connected persons of the Company under the Listing Rules. Thus, the acquisition constitutes a connected transaction for the Company under the Listing Rules.

The Directors believe that the acquisition provides a good opportunity for the Company to take full operation benefits of Haining Hidea. In addition, expected sales and profits of Haining Hidea to be accounted for in the future will be attributed as to 100% to the Shareholders. The Directors also considered that the business operation could be managed more efficiently and effectively once the Group obtains a greater control of the board composition. Furthermore, the Group plans to utilize Haining Hidea's production facilities for its expanded customer base.

On the basis of the consideration of RMB15.7 million payable for the acquisition, the consideration would imply a discount of approximately RMB8.1 million or approximately 34.0%, which was arrived at arm's length negotiation between the relevant parties and on normal commercial terms, and by reference to the net asset value of Haining Hidea as of December 31, 2005 as adjusted by the appreciation amount of the land and buildings of approximately RMB26.2 million valued by the independent valuer, Sallmanns (Far East) Limited in May 2006.

CONTINUING CONNECTED TRANSACTIONS

During the year ended December 31, 2006, the Group entered into the following continuing transactions with its connected persons. The transactions are defined by the Listing Rules as "continuing connected transactions". 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 purchase of sofa fabrics from Wansheng Silk

On January 1, 2005, Haining Wansheng Silk Waving Co., Ltd. ("Wansheng Silk") entered into an agreement with Haining Wansheng Furniture Co., Ltd. ("Wansheng Furniture") and Haining Kasen Leather Co., Ltd. ("Haining Kasen"), a wholly-owned subsidiary of the Company, which will expire on December 31, 2007 and, subject to compliance with Listing Rules requirements regarding connected transactions, automatically renewable for a term of 3 years thereafter. Wansheng Silk is an associate of Mr. Sun Jianxin, an executive director of Wansheng Furniture, and therefore Wansheng Silk is a connected person of the Company. The pricing under this agreement is determined by reference to the prevailing market price. Details of this agreement between Wansheng Silk, Wansheng Furniture and Haining Kasen have been set out in the prospectus of the Company dated October 10, 2005 ("the Prospectus").

Pursuant to this agreement, Wansheng Furniture and Haining Kasen purchase sofa fabrics for use in making upholstered furniture from Wansheng Silk. Wansheng Silk is a manufacturer of silk and other fabrics, suitable for use in sofas. During the year, the aggregate value of the transaction under this agreement was RMB9,541,000, within the estimate of RMB10,000,000 as disclosed in the Prospectus.

(2) Agreement for sale of production wastes to Yujie

On January 1, 2005, Haining Yujie Material Recycling Co., Ltd. ("Yujie") entered into an agreement with Zhejiang Kasen Industrial Co., Ltd. ("Zhejiang Kasen") which will expire on December 31, 2007 and, subject to compliance with Listing Rules requirements regarding connected transactions, automatically renewable for a term of 3 years thereafter. Yujie is an 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 general meetings. The pricing under this agreement is determined by reference to the prevailing market price. Details of this agreement have been set out in the Prospectus.

Pursuant to this agreement, Yujie will purchase wastes (including residue leather, used tubs, hair and fat) from the Company's subsidiaries (including Zhejiang Kasen, Haining Kasen, Haining Home Impression Furniture Co., Ltd., Haining Schinder Tanning Co., Ltd., Haining Gaosheng Leather Co., Ltd. and Haining Kareno Furniture Co., Ltd.). 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 the sale of wastes. During the year, the aggregate value of the transaction under this agreement was RMB8,975,000, within the estimate of RMB18,000,000 as disclosed in the Prospectus.

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

On January 1, 2005, 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 Zhejiang Kasen which will expire on December 31, 2007 and, subject to compliance with Listing Rules requirements regarding connected transactions, automatically renewable for a term of 3 years thereafter. Kezilesu Xinrong, Yili Horgos and Baiyin Kasen are each a subsidiary of Sunbridge and Sunbridge is a company in which Mr. Zhu Zhangjin indirectly controls more than 30% of the voting power at general meetings. The pricing under this agreement is determined by reference to the prevailing market price. Details of this agreement have been set out in the Prospectus.

Directors' Report (cont'd)

Pursuant to this agreement, the Company will purchase wet blues from Kezilesu Xinrong, Yili Horgos and Baiyin Kasen. Kezilesu Xinrong, Yili Horgos and Baiyin Kasen are the largest importer of raw cowhides in Southern Xinjiang, Northern Xinjiang and Gansu Provinces respectively, and they process such raw cowhides into wet blues. The Group needs to source wet blues externally from time to time and it would also be an advantage in saving transportation and handling costs for the Group if the processing and enhancement of raw cowhides into wet blues were performed near the place of origin of the raw cowhides. During the year, the aggregate value under this agreement for the purchases of wet blues from Kezilesu Xinrong, Yili Horgos and Baiyin Kasen were RMB60,220,000, RMB34,242,000 and RMB68,854,000 respectively. The aggregate of these purchases are within the estimate of RMB510,000,000 as disclosed in the Prospectus.

(4) 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 will expire on December 31, 2008 and, subject to compliance with Listing Rules requirements regarding connected transactions, automatically 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 general meetings. The pricing under this agreement is 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 will 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. The annual cap in respect of the continuing transactions for the three years ending December 31, 2008 are RMB110 million, RMB150 million, and RMB180 million respectively. During the year, the aggregate value of the transaction under this agreement was RMB49,209,000, within the estimate of RMB110,000,000 as disclosed in the circular dated March 16, 2006.

(5) Agreement for sales of outdoor leisure products to North Pole

On February 22, 2006, the Group entered into several agreements with North Pole Ltd. and North Pole (China) Ltd. (collectively the "North Pole Agreements"), which will expire on December 31, 2008 and, subject to compliance with Listing Rules requirements regarding connected transactions, automatically renewable for 3 year terms thereafter. North Pole Ltd. and North Pole (China) Ltd. are subsidiaries of a shareholder of the Company for the continuing sales transactions. North Pole Ltd., is owned, among others, as to approximately 46.1% by North Pole Holdings Ltd. and approximately 46.1% by North Pole International Holdings Ltd., both of which are in turn wholly-owned by Warburg Pincus Funds. North Pole (China) Ltd. is a wholly-owned subsidiary of North Pole Ltd. The annual cap in respect of the continuing transactions for the three years ending December 31, 2008 are RMB250 million, RMB500 million, and RMB800 million respectively. The pricing under this agreement is 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 Company will sell outdoor leisure products to North Pole Ltd. and North Pole (China) Ltd. North Pole Ltd. is a leading manufacturer of outdoor leisure products such as camping tents, furniture and sleeping bags with its sourcing and manufacturing operations mainly located in the PRC whereas its commercial operations are mainly located in the United States. The Company believes that the entering into of the North Pole Agreements will enable the Group to further utilise its existing production capacity to diversify and expand its products mix and revenue base. During the year, the aggregate value of the transaction under this agreement was RMB10,830,000, within the estimate of RMB250,000,000 as disclosed in the circular dated March 16, 2006.

Directors' Report (cont'd)

Pursuant to Rule 14A.38 of the Listing Rules, the board of directors engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the board of directors. Based on the work performed, the auditors of the Company have provided a letter and confirmed that the aforesaid continuing connected transaction (1) have been approved by the board of directors of the Company; (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 transaction; and (4) have not exceeded the caps allowed by the Stock Exchange in the previous waiver.

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 of the Company.

Save as disclosed above, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules during the year ended December 31, 2006.

DIRECTORS' INTEREST IN CONTRACTS

Save as disclosed under the heading "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 of the Company had a material interest, whether directly and indirectly, subsisted at the end of the year or at any time during the year.

Directors' Report (cont'd)

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 July 31, 2006 to repurchase the Company's shares of up to 10% of the issued shares of the Company as at the date of May 30, 2006. During the year, the Company repurchased 23,997,000 ordinary shares on the Stock Exchange at an aggregate consideration of HK\$25,165,000. All of the shares were subsequently cancelled. The nominal value of the cancelled shares of RMB29,730 (equivalent to USD3,600) was debited to share capital and the excess of relevant aggregate consideration over nominal value was debited to the Company's share premium. Details of the repurchases are as follows:

Month of the repurchases	Total number of the ordinary shares repurchased	Highest price paid per share HK\$	Lowest price paid per share HK\$	Aggregate consideration HK\$'000
August 2006	23,997,000	1.0503	0.9986	25,165

The purchases were made for the benefit of the shareholders as a whole as they enhanced the net asset value and/or earnings per share of the Company.

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.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is available to the Company and within the knowledge of its directors, the Company has maintained a sufficient public float as required under the Listing Rules throughout the year ended December 31, 2006.

DIRECTOR'S INTERESTS IN COMPETING BUSINESS

None of the Directors hold any interests in any competing business against the Company or any of its jointly-controlled entities and subsidiaries for the year ended December 31, 2006.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Article of Association, or the laws of the Caymans 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 the independent non-executive directors, Messrs. LU Yungang, Ken, CHOW Joseph, ZHANG Huaqiao, Joe, a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

POST BALANCE SHEET EVENTS

- (1) A tender submitted by Haining Higher Point Investment Development Co., Ltd. ("Haining Higher Point"), a wholly-owned subsidiary of the Company, for the acquisition of a piece of land (the "Land") for an aggregate consideration of RMB253.75 million was accepted on January 29, 2007. The Group, Haining Zhejiang Leather and Garment Market Investment and Development Company Limited ("Haining Leather Market"), and Haining Zhengyang Trading Co., Ltd. ("Haining Zhengyang Trading"), collectively the "Joint Venture Partners", will form a Joint Venture to hold and develop the Land into a leather product retail mall. On February 5, 2007, Haining Higher Point paid the total consideration of RMB203.75 million to Changsha Municipal Bureau of State Land and Resources, 80% of the land price and the total amount of the transaction levy, which was funded from the internal resources of the Group and the remaining 20% of the land price, being RMB50 million, was funded by Haining Leather Market. The cash payments by the Group were from the fund generated from the Group's operating activities.

On March 15, 2007, the Joint Venture Partners, entered into a preliminary joint venture agreement, the total registered capital of which is RMB360 million. The Group will hold 51% interest of the proposed joint venture with an investment amount of approximately RMB184 million.

- (2) Pursuant to a board resolution on January 29, 2007, the Company disposed of a subsidiary, Haining Home Craft Furniture Co., Ltd. (海寧家藝家具有限公司) to an independent third party for RMB44.7 million. The net asset value of the subsidiary amounted to RMB41 million as at December 31, 2006.

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 the three independent non-executive directors of the Company. 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. The Remuneration Committee, comprises the two independent non-executive directors and a non-executive director of the Company. Mr. Li Hui, David is the chairman of the Remuneration Committee.

AUDITORS

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

On behalf of the Board

ZHU Zhangjin, Kasen

Director

Hong Kong, April 16, 2007