



**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 : 496*

**INTERIM  
REPORT  
2007**



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## BUSINESS REVIEW AND PROSPECTS

### RESULTS OVERVIEW

For the six months ended June 30, 2007, the Group recorded a consolidated turnover of RMB1,770.5 million (six months ended June 30, 2006: RMB2,044.8 million), representing a decrease of 13.4%.

The Group's gross profit for the first half of 2007 was RMB223.7 million (six months ended June 30, 2006: RMB245.1 million) with gross profit margin of 12.6%, representing a decrease of 8.7% in gross profit when compared with that of the corresponding period in 2006.

The profit attributable to equity holders of the Company for the first half of 2007 was RMB46.5 million (six months ended June 30, 2006: RMB77.9 million), representing a decrease of approximately 40.4% when compared with that of the corresponding period in 2006.

### Sales Analysis by Products

The table below shows the total turnover by product category for the six months ended June 30, 2007, together with the comparative figures for the corresponding period of last year:

|                            | 2007           |              | Six Months Ended June 30,<br>2006 |       | Change<br>% |
|----------------------------|----------------|--------------|-----------------------------------|-------|-------------|
|                            | RMB'Million    | %            | RMB'Million                       | %     |             |
| Upholstered Furniture      | <b>1,405.3</b> | <b>79.4</b>  | 1,661.3                           | 81.1  | -15.4       |
| <i>Leather Sofa</i>        | <b>893.0</b>   | <b>50.5</b>  | 995.4                             | 48.7  | -10.3       |
| <i>Fabric Sofa</i>         | <b>142.2</b>   | <b>8.0</b>   | 193.2                             | 9.4   | -26.4       |
| <i>Leather Cut-and-Sew</i> | <b>304.1</b>   | <b>17.2</b>  | 317.0                             | 15.4  | -4.1        |
| <i>Fabric Cut-and-Sew</i>  | <b>66.0</b>    | <b>3.7</b>   | 155.7                             | 7.6   | -57.6       |
| Furniture Leather          | <b>208.5</b>   | <b>11.8</b>  | 310.2                             | 15.2  | -32.8       |
| Automotive Leather         | <b>122.7</b>   | <b>6.9</b>   | 53.7                              | 2.7   | 128.5       |
| Others                     | <b>34.0</b>    | <b>1.9</b>   | 19.6                              | 1.0   | 73.5        |
| Total                      | <b>1,770.5</b> | <b>100.0</b> | 2,044.8                           | 100.0 | -13.4       |

### ***Upholstered Furniture***

Sales of upholstered furniture including finished sofa and sofa cut-and-sew accounted for 79.4% of the Group's total revenue. The downturn in the US housing market severely affected the sales of home furnishing and furniture products. Most of the Group's major US customers, i.e., upholstered furniture manufacturers and retailers, have experienced difficulties in their businesses. This has in turn affected the Group's sales.

## BUSINESS REVIEW AND PROSPECTS (cont'd)

### RESULTS OVERVIEW (cont'd)

#### Sales Analysis by Products (cont'd)

##### *Upholstered Furniture* (cont'd)

In order to improve profitability, the Group increased its selling prices on certain loss-making products. Some of our customers did not accept the price increases and decided to reduce their outsourcing orders.

In addition, during the first half of 2007, the Group closed its manufacturing facilities in Shanghai due to increasing operating costs. This has further impacted the Group's sales.

As a result of the above, the Group's upholstered furniture sales experienced a decrease of 15.4%, from RMB1,661.3 million in the first half of 2006 to RMB1,405.3 million in the current period.

##### *Furniture Leather*

The Group's priority in furniture leather production is to meet the internal leather requirement of its upholstered furniture division. Due to the increase in raw cowhide price and the shortage in cowhide supply pipeline, the Group's external sales of furniture leather decreased by 32.8%.

##### *Automotive Leather*

The automotive leather operation, although achieved an increase of 128.5% in turnover, continued to underperform market. Through major US automotive seating companies, such as Intier Automotive and Johnson Controls, the Group was able to secure supply contract for some major US automotive models. However, due to the reduction in tax rebates for finished leather exports, the Group's price advantage was undermined, which led to the Group attained less than its expected sales volume.

#### Sales Analysis by Region

The table below shows the total turnover by geographic market for the six months ended June 30, 2007, together with the comparative figures for the corresponding period of last year:

|                           | 2007           |              | Six Months Ended June 30, 2006 |       | Change<br>% |
|---------------------------|----------------|--------------|--------------------------------|-------|-------------|
|                           | RMB'Million    | %            | RMB'Million                    | %     |             |
| USA                       | <b>1,213.1</b> | <b>68.5</b>  | 1,536.7                        | 75.2  | -21.1       |
| Europe                    | <b>147.7</b>   | <b>8.3</b>   | 108.5                          | 5.3   | 36.1        |
| Australia                 | <b>50.7</b>    | <b>2.9</b>   | 51.3                           | 2.5   | -1.2        |
| PRC (including Hong Kong) | <b>331.2</b>   | <b>18.7</b>  | 319.0                          | 15.6  | 3.8         |
| Others                    | <b>27.8</b>    | <b>1.6</b>   | 29.3                           | 1.4   | -5.1        |
| Total                     | <b>1,770.5</b> | <b>100.0</b> | 2,044.8                        | 100.0 | -13.4       |

## **BUSINESS REVIEW AND PROSPECTS (cont'd)**

### **RESULTS OVERVIEW (cont'd)**

#### **Sales Analysis by Region (cont'd)**

During the period under review, the Group's sales to the US market declined by 21.1%, and the percentage of US sales to the Group's total turnover reduced to 68.5%, representing a 6.7 percentage point drop as compared to the corresponding period of last year. This decrease is mainly due to the US housing market downturn which had led to slower residential furniture sales. In addition, some of our US customers were unwilling to accept our price increases and cut down their outsourcing orders.

The Group's expansion into the European market is still at an initial stage. For the first half of 2007, the Group was able to grow its European business by 36.1%, and this segment accounted for 8.3% of the Group's total turnover.

The Group's strategy of working with retail customers in Australia had caused the termination of supply relationship with a major OEM customer. The impact of such termination has now been remedied due to increased orders from retail customers. As a result, the Group's sales to the Australian market was only marginally reduced.

The Group's sales to the PRC domestic market mainly involved furniture leather and automotive leather, the turnover of which represented 18.7% of its total sales. Business in this segment increased by 3.8% during the first half of 2007 as the Group gave priority to its own needs of furniture leather amid raw material price increase.

#### **Gross Margin Analysis**

The Group's profit margin has continuously been under pressure: (1) The continued appreciation of the RMB has been a major adverse factor for the Group's profitability as more than 80% of the Group's sales are denominated in US dollars; (2) Although the price of raw cowhides and wet-blues, which accounts for about 45% of the Group's cost of sales, have stabilized during the period under review, it was still well above its historical average by between 20%-30%; (3) With the global inflation of commodities prices, costs of chemicals, foam, timber and, to a lesser extent, labor, also experienced increases; and (4) Export tax rebates were reduced as part of the Chinese government's initiative in reducing its massive trade surplus.

However, the Group has taken several steps in improving its gross profit margin. Raw material procurement and supply chain management have been improved, and new incentive scheme was introduced to motivate its business units. The Group also was partially successful in negotiating price increases for some of its products. In addition, the Group terminated the sales of certain loss making products in failing to reach new pricing agreements with customers.

As a result of the above, the Group's gross profit margin recorded a modest increase of 0.6 percentage point.

## **BUSINESS REVIEW AND PROSPECTS** (cont'd)

### **OPERATING EXPENSES, TAXATION AND PROFIT ATTRIBUTABLE TO EQUITY HOLDERS**

Under the FOB trading terms, the marine freight charges of almost all the exporting business of the Group were borne by the customers. However, due to the increased trucking costs charged by third party logistics providers after the change of exporting ports, the Group's land transportation costs increased by RMB5.1 million, or 12.5%. As a result, the Group's distribution costs for the period increased by 5.1% as compared to the corresponding period of last year, and the percentage of distribution costs to turnover rose to 3.2% from 2.7%.

During the period under review, the Group was able to cut down its bad debt provisions, travel and entertainment expenses. However, exchange losses increased by RMB7.2 million on the Group's trade receivables arising from the RMB appreciation. Total employee remuneration increased also by RMB5.1 million. Overall, the Group's administrative expenses reduced by RMB2.2 million, or 2.9%. However, the percentage of administrative costs to turnover rose to 4.2% from 3.8% during the corresponding period of last year.

Despite the increase in its bank borrowings, the Group has been successful in switching to credit facilities with lower interest rates. As a result, the Group's finance cost reduced by RMB4.4 million or 9.3% as compared to the same period of last year.

Most of the Group's operations are carried out in the economic and technological development zones and coastal open areas of the PRC where income tax relieves are allowed in accordance with relevant income tax laws and regulations. As some of the tax relieves reduced or expired during the period under review, the overall effective tax rate of the Group increased significantly to 16.1%.

For reasons mentioned above, the profit attributable to equity holders of the Company was RMB46.5 million (six months ended June 30, 2006: RMB77.9 million), representing a decrease of 40.4% in the corresponding period of last year.

### **NEW PROJECT DEVELOPMENT**

#### **Retail Mall Project**

To further diversify its revenue sources and implement its domestic marketing plans, the Group has formed a joint venture company with Haining Leather Market, a well-known and experienced developer and operator of large leather product shopping malls in China, and Haining Zhengyang Trading, a domestic company incorporated in the PRC and an independent third party. The joint venture company, in which the Group has a 60% equity interest, will be looking for new sites in major cities to develop large specialized leather product shopping malls. On January 29, 2007, the joint venture partners, through Haining Higher Point, the Group's wholly-owned subsidiary, have successfully tendered a land of approximately 145,078 square meters in Changsha, Hunan province with a consideration of RMB253.75 million. Development of the Changsha land is expected to begin in 2008 as the Group is still in the process of obtaining necessary permits from the local authorities. In the meantime, the Group, in collaboration with its joint venture partners, is actively looking for new sites in other cities.

## **BUSINESS REVIEW AND PROSPECTS (cont'd)**

### **NEW PROJECT DEVELOPMENT (cont'd)**

#### **Kasen Home Furnishing Stores**

The Group believes that, with its fast growing economy, China's residential furniture market will go through major changes in the next few years. The mid to higher end segments are likely to offer faster growth potentials, while large players will emerge as stronger competitors in the market. The Group has secured two leases in Shanghai and Hangzhou with a total floor area of more than 8,000 square meters as its flagship stores. These stores will be opened in the second half of 2007.

### **FINANCIAL RESOURCES AND LIQUIDITY**

As at June 30, 2007, the Group had cash and cash equivalent of RMB562.8 million (as at December 31, 2006: RMB381.0 million) and a total borrowings of RMB1,608.4 million (as at December 31, 2006: RMB1,257.1 million). This represents a gearing ratio of 71.6% (as at December 31, 2006: 57.1%) and a net debt-to-equity ratio of 46.4% (as at December 31, 2006: 39.7%). 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.

As at June 30, 2007, the Group's inventory, comprising of mainly raw cowhides and wet blues, was RMB1,442.3 million, representing an increase of RMB116.1 million or 8.8% as compared to the previous year end. Inventory turnover day for the six months ended June 30, 2007 has increased to 168 days as compared to 139 days as at December 31, 2006.

The Group's trade and bills receivables have increased by RMB15.2 million from RMB490.5 million as at December 31, 2006 to RMB505.7 million as at June 30, 2007. Trade and bills receivables turnover day has increased to 51 days for the six months ended June 30, 2007 from 46 days as at the previous year end. There has been no major change in trading terms or deterioration in collections.

Prepaid lease payments (non-current portion) of RMB375.1 million is mainly composed of an amount of RMB253.8 million paid for the acquisition of the land in Changsha. This amount will be reclassified as land use right when the title of the land is obtained.

### **MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES**

The Group disposed a subsidiary during the six months ended June 30, 2007. For details, please refer to note 6 to the Condensed Consolidated Financial Statements.

### **PLEDGE OF ASSETS**

The Group pledged deposits to banks to secure the bills payable issued by the Group and the bank facilities granted to the Group. The deposits carry an average interest rate of 0.72%.

## **BUSINESS REVIEW AND PROSPECTS (cont'd)**

### **CONTINGENT LIABILITIES**

As at June 30, 2007, no contingent liabilities were noted by the directors of the Company.

### **EMPLOYEES AND EMOLUMENTS POLICIES**

As at June 30, 2007, the Group employs a total of approximately 14,200 full time employees (as at June 30, 2006: approximately 16,000) which included management staff, technicians, salespersons and workers. For the six months ended June 30, 2007, the Group's total expenses on the remuneration of employees is RMB138.9 million (six months ended June 30, 2006: RMB130.2 million). The Group's emolument policies are formulated on the performance of individual employees, which will be reviewed regularly every year. Apart from provident fund scheme (in accordance with 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 will be offered to employees according to the assessment of individual performance. Share option schemes were also adopted to attract and retain talents to contribute to the Group. In relation to staff training, the Group also provides different types of programs for its staff to improve their skills and develop their respective expertise.

### **KEY RISK FACTORS**

#### **Exchange Risk**

As the Group's businesses are principally export-related and transactions are primarily denominated in US dollars (approximately 80%), management considers the Group is exposed to foreign exchange fluctuation risks. Although a substantial portion of the Group's procurements is denominated in US dollars and currency risks can be partly reduced, the Group is still subject to great effects of exchange rate fluctuations. The Group monitors its foreign exchange exposure and is considering utilizing appropriate financial instruments for hedging purposes.

#### **Commodities Risk**

Raw cowhides and wet-blues are the principal raw materials in the Group's business, accounting for approximately 45% of the Group's cost of sales. As such, the Group is exposed to the fluctuations in the price of cattle raw hides. During the past 18 months, the increase of raw cowhides in the world market has adversely affected the Group's profitability. Although the cowhide prices have stabilized in the last six months, they are still well above its historical average. The Group remains cautious about the future trend of cowhide prices.

#### **Cyclical Demand for Furniture**

Historically, the furniture industry is cyclical in nature, fluctuating with economic cycles, and is 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 could 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. Starting from July 1, 2007, export VAT rebates for all of the Group's product segments had been reduced, from 8% to nil for finished leather, from 13% to 5% for leather cut-and-sew, and from 13% to 11% for finished sofa. These reductions will affect the Group's profitability in the second half of 2007 and beyond. In addition, further reductions may also be introduced.



## **BUSINESS REVIEW AND PROSPECTS (cont'd)**

### **KEY RISK FACTORS (cont'd)**

#### **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. In its latest policy switch in July 2007, the government requested that enterprises engaged in the processing trade industry in the prohibited category pay a mandatory duty deposit for imported raw materials. The Group’s products fall into the prohibited industry and will be requested to pay a substantial amount of duty deposit to the customs. This will adversely impact 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 its environmental protection policy, the Group’s production activities will be put under close scrutiny. The Group has always 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 to upgrade the Group’s waste treatment facilities and this will in turn bring increases to the Group’s waste treatment costs.

### **PROSPECTS**

Despite unfavorable market conditions, the Group remains committed to improve its business performance and to increase shareholders’ value. Going forward, the Group will make every effort to strengthen its position as China’s leading manufacturer of leather products and upholstered furniture. However, the Group is cautious about its performance and profitability in its core businesses for the second half of Year 2007 due to the challenging environments.

The Group’s aggressive expansion prior to 2006 has resulted in relatively low level capacity utilization. As the industry wide over capacity is unlikely to abate soon, the Group has taken initiatives to consolidate its production capabilities while realizing returns arising from asset value appreciation. In July 2007, the Group has reached an agreement with a third party to dispose its entire interest in Shanghai La Kassa Furniture Co., Ltd. The Group is also considering disposing or renting out other facilities if there are reasonable offers. Cash generated from the asset consolidation initiatives will be used to finance new business development projects.

In order to capitalize the growth of China’s domestic consumption sector, the Group is exploring new business opportunities. The Kasen Home Furnishing Store projects will introduce Kasen’s quality furniture products to domestic retail customers.

The Group is also entering into the commercial real estate sector through the development of specialized leather product and furniture retail malls in major Chinese cities. In addition, the Group is also assessing the opportunities in China’s residential property sector. The Group is well aware of the risks in its new business development and will ensure that these new projects would bring in added value to its shareholders.

## DISCLOSURE OF INTERESTS

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at June 30, 2007, the interests of the Directors and chief executives of the Company 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

| 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<br><i>(Note)</i>   | 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 June 30, 2007.

## DISCLOSURE OF INTERESTS (cont'd)

### SHARE OPTIONS

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.

## DISCLOSURE OF INTERESTS (cont'd)

### SHARE OPTIONS (cont'd)

Details of the share options granted under the 2006 Share Option Scheme during the period for the six months ended June 30, 2007 were as follows:

| Name or category of participant | Exercise price<br>HK\$ | Number of share options           |                                               |                                                 | Outstanding as at June 30, 2007 | Percentage of total issued share capital | Exercisable period   | Notes |
|---------------------------------|------------------------|-----------------------------------|-----------------------------------------------|-------------------------------------------------|---------------------------------|------------------------------------------|----------------------|-------|
|                                 |                        | Outstanding as at January 1, 2007 | Granted from January 1, 2007 to June 30, 2007 | Cancelled from January 1, 2007 to June 30, 2007 |                                 |                                          |                      |       |
| <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                      | 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 |
|                                 |                        | 6,800,000                         | -                                             | -                                               | 6,800,000                       | 0.68%                                    |                      |       |
| Other employees in aggregate    | 2.38                   | 11,500,000                        | -                                             | (1,050,000)                                     | 10,450,000                      | 1.06%                                    | 1/1/2007 to 8/3/2016 | 1,3,4 |
|                                 | 2.38                   | 11,500,000                        | -                                             | (1,050,000)                                     | 10,450,000                      | 1.06%                                    | 1/1/2008 to 8/3/2016 | 2,3,4 |
|                                 |                        | 29,800,000                        | -                                             | (2,100,000)                                     | 27,700,000                      | 2.80%                                    |                      |       |

## DISCLOSURE OF INTERESTS (cont'd)

### SHARE OPTIONS (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 June 30, 2007, none of these share options were exercised nor lapsed.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Other than the Scheme disclosed above, at no time during the period under review 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.

### SUBSTANTIAL SHAREHOLDERS

As at June 30, 2007, the following persons (other than Directors or chief executives of the Company stated in "Directors' and Chief Executives' 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 <sup>2</sup>                | Beneficial owner                   | –              | 328,867,019   | 328,867,019                  | 33.22%                                           |
| Warburg Pincus & Co. <sup>1</sup>                       | Interest of controlled corporation | –              | 186,989,966   | 186,989,966                  | 18.88%                                           |
| Warburg Pincus Partners LLC <sup>1</sup>                | Beneficial owner                   | –              | 186,989,966   | 186,989,966                  | 18.88%                                           |
| Warburg Pincus Private Equity VIII L. P. <sup>1</sup>   | Beneficial owner                   | –              | 90,605,988    | 90,605,988                   | 9.15%                                            |
| Warburg Pincus International Partners L.P. <sup>1</sup> | Beneficial owner                   | –              | 89,616,811    | 89,616,811                   | 9.05%                                            |
| UBS AG                                                  | Beneficial owner                   | –              | 51,566,000    | 51,566,000                   | 5.21%                                            |

## **DISCLOSURE OF INTERESTS** (cont'd)

### **SUBSTANTIAL SHAREHOLDERS** (cont'd)

*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 above, 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 June 30, 2007.

## CORPORATE GOVERNANCE

The Company has complied with the code provisions as set out in the “Code On Corporate Governance Practices” contained in Appendix 14 to the Listing Rules during the six months ended June 30, 2007, 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 is the Chairman and Chief Executive Officer of the Company responsible for overseeing the operations of the Group. The Company is currently 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 required for the position of Chief Executive Officer, it is not possible 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, subject to re-election. The current non-executive director of the Company, Mr. Li Hui, David and independent non-executive directors of the Company, Mr. Chow Joseph, Mr. Lu Yungang, Ken and Mr. Zhang Huaqiao, Joe 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 Company’s articles of association. 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. 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 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. Having made specific inquiry with all directors of the Company, all directors confirmed that they have complied with the required standard set out in the Model Code during the six months ended June 30, 2007.

## AUDIT COMMITTEE

The Audit Committee, comprises all the three independent non-executive directors of the Company, has reviewed with management and the external auditors the accounting principles and practices adopted by the Group. The Audit Committee has held meetings to discuss the auditing, internal controls and financial reporting matters including the review of the unaudited interim financial statements for the six months ended June 30, 2007.

## REMUNERATION COMMITTEE

The Remuneration Committee comprises two independent non-executive directors and a non-executive director of the Company. Mr. Li Hui is the chairman of the Remuneration Committee. The Remuneration Committee is responsible for establishing policies, reviewing and determining the remuneration of the directors and the senior management.

## OTHER INFORMATION

### INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended June 30, 2007.

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

At no time during the period under review, did the Company nor any of its subsidiaries purchase, sell or redeem any of the Company's listed securities.

### 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 six months ended June 30, 2007.

### PRE-EMPTIVE RIGHTS

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

### DIRECTORS

As at the date of this report, the executive directors of the Company are Mr. Zhu Zhangjin, Mr. Zhou Xiaosong and Mr. Zhu Jianqi, the non-executive director of the Company is Mr. Li Hui, the independent non-executive directors are Mr. Lu Yungang, Mr. Chow Joseph and Mr. Zhang Huaqiao.

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

Hong Kong, September 17, 2007



## REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

**Deloitte.**

德勤

**TO THE BOARD OF DIRECTORS OF  
KASEN INTERNATIONAL HOLDINGS LIMITED**

*(Incorporated in the Cayman Islands with limited liability)*

### INTRODUCTION

We have reviewed the interim financial information set out on pages 16 to 33 which comprises the condensed consolidated balance sheet of Kasen International Holdings Limited (the "Company") as of June 30, 2007 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard ("IAS") 34 "Interim Financial Reporting". The directors are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

September 17, 2007

## CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED JUNE 30, 2007

|                                   | NOTES | Six months<br>ended<br>June 30,<br>2007<br>RMB'000<br>(unaudited) | Six months<br>ended<br>June 30,<br>2006<br>RMB'000<br>(unaudited) |
|-----------------------------------|-------|-------------------------------------------------------------------|-------------------------------------------------------------------|
| Turnover                          | 3     | 1,770,478                                                         | 2,044,773                                                         |
| Cost of sales                     |       | (1,546,780)                                                       | (1,799,707)                                                       |
| Gross profit                      |       | 223,698                                                           | 245,066                                                           |
| Other income                      |       | 8,623                                                             | 24,561                                                            |
| Distribution costs                |       | (57,168)                                                          | (54,412)                                                          |
| Administrative expenses           |       | (74,944)                                                          | (77,193)                                                          |
| Other expenses                    |       | (2,468)                                                           | (3,767)                                                           |
| Share of profits of associates    |       | 435                                                               | 490                                                               |
| Gain on disposals of subsidiaries | 6     | 3,388                                                             | 8,838                                                             |
| Finance costs                     |       | (43,252)                                                          | (47,696)                                                          |
| Profit before taxation            | 4     | 58,312                                                            | 95,887                                                            |
| Taxation                          | 5     | (10,325)                                                          | (8,800)                                                           |
| Profit for the period             |       | 47,987                                                            | 87,087                                                            |
| Attributable to:                  |       |                                                                   |                                                                   |
| Equity holders of the Company     |       | 46,468                                                            | 77,931                                                            |
| Minority interests                |       | 1,519                                                             | 9,156                                                             |
|                                   |       | 47,987                                                            | 87,087                                                            |
| Dividend paid                     | 7     | -                                                                 | 79,575                                                            |
| Earnings per share                | 9     |                                                                   |                                                                   |
| Basic                             |       | RMB5 cents                                                        | RMB8 cents                                                        |
| Diluted                           |       | RMB5 cents                                                        | RMB8 cents                                                        |

**CONDENSED CONSOLIDATED BALANCE SHEET**

AT JUNE 30, 2007

|                                                 | NOTES | June 30,<br>2007<br>RMB'000<br>(unaudited) | December 31,<br>2006<br>RMB'000<br>(audited) |
|-------------------------------------------------|-------|--------------------------------------------|----------------------------------------------|
| <b>NON-CURRENT ASSETS</b>                       |       |                                            |                                              |
| Goodwill                                        |       | 157,958                                    | 157,958                                      |
| Property, plant and equipment                   | 10    | 1,143,002                                  | 1,173,599                                    |
| Prepaid lease payments – non-current portion    | 10    | 375,113                                    | 131,860                                      |
| Intangible assets                               |       | 1,279                                      | 1,485                                        |
| Interests in associates                         |       | 27,163                                     | 26,728                                       |
| Interest in a jointly controlled entity         |       | 2,614                                      | 2,614                                        |
| Available-for-sale investments                  |       | 310                                        | 310                                          |
| Investment properties                           | 10    | 34,582                                     | 32,901                                       |
|                                                 |       | <b>1,742,021</b>                           | 1,527,455                                    |
| <b>CURRENT ASSETS</b>                           |       |                                            |                                              |
| Inventories                                     |       | 1,442,337                                  | 1,326,216                                    |
| Trade and other receivables                     | 11    | 619,912                                    | 568,931                                      |
| Prepayments                                     | 11    | 145,159                                    | 64,917                                       |
| Prepaid lease payments – current portion        | 10    | 2,707                                      | 2,904                                        |
| Amounts due from related companies              |       | 33,193                                     | 36,596                                       |
| Taxes recoverable                               |       | 562                                        | 3,315                                        |
| Pledged bank deposits                           |       | 123,017                                    | 163,221                                      |
| Bank balances and cash                          |       | 562,788                                    | 380,973                                      |
|                                                 |       | <b>2,929,675</b>                           | 2,547,073                                    |
| <b>TOTAL ASSETS</b>                             |       | <b>4,671,696</b>                           | 4,074,528                                    |
| <b>CURRENT LIABILITIES</b>                      |       |                                            |                                              |
| Trade, bills and other payables                 | 12    | 811,192                                    | 604,036                                      |
| Amounts due to related companies                |       | 12,080                                     | 19,467                                       |
| Bank and other borrowings – due within one year | 13    | 1,598,016                                  | 1,246,689                                    |
| Taxes payable                                   |       | 8,168                                      | 10,959                                       |
|                                                 |       | <b>2,429,456</b>                           | 1,881,151                                    |
| <b>NET CURRENT ASSETS</b>                       |       | <b>500,219</b>                             | 665,922                                      |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>    |       | <b>2,242,240</b>                           | 2,193,377                                    |
| <b>NON-CURRENT LIABILITIES</b>                  |       |                                            |                                              |
| Bank and other borrowings – due after one year  | 13    | 10,400                                     | 10,400                                       |
| <b>NET ASSETS</b>                               |       | <b>2,231,840</b>                           | 2,182,977                                    |

**CONDENSED CONSOLIDATED BALANCE SHEET** (cont'd)

AT JUNE 30, 2007

|                                                      | <i>NOTES</i> | <b>June 30,<br/>2007<br/>RMB'000<br/>(unaudited)</b> | December 31,<br>2006<br>RMB'000<br>(audited) |
|------------------------------------------------------|--------------|------------------------------------------------------|----------------------------------------------|
| <b>CAPITAL AND RESERVES</b>                          |              |                                                      |                                              |
| Share capital                                        | 14           | <b>1,227</b>                                         | 1,227                                        |
| Reserves                                             |              | <b>2,155,642</b>                                     | 2,107,638                                    |
| Equity attributable to equity holders of the Company |              | <b>2,156,869</b>                                     | 2,108,865                                    |
| Minority interests                                   |              | <b>74,971</b>                                        | 74,112                                       |
| Total equity                                         |              | <b>2,231,840</b>                                     | 2,182,977                                    |

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

FOR THE SIX MONTHS ENDED JUNE 30, 2007

|                                                                                                 | Attributable to equity holders of the Company |               |                  |                   |                 |                      |                        |                   |           |                    |              |
|-------------------------------------------------------------------------------------------------|-----------------------------------------------|---------------|------------------|-------------------|-----------------|----------------------|------------------------|-------------------|-----------|--------------------|--------------|
|                                                                                                 | Share capital                                 | Share premium | Exchange reserve | Statutory reserve | Special reserve | Share option reserve | Reserve on acquisition | Retained earnings | Total     | Minority interests | Total equity |
|                                                                                                 | RMB'000                                       | RMB'000       | RMB'000          | RMB'000           | RMB'000         | RMB'000              | RMB'000                | RMB'000           | RMB'000   | RMB'000            | RMB'000      |
| At January 1, 2006 (Audited)                                                                    | 1,256                                         | 1,147,408     | (793)            | 169,262           | 168,659         | -                    | -                      | 713,768           | 2,199,560 | 98,306             | 2,297,866    |
| Exchange differences arising on translation of foreign operations recognized directly in equity | -                                             | -             | (206)            | -                 | -               | -                    | -                      | -                 | (206)     | -                  | (206)        |
| Profit for the period                                                                           | -                                             | -             | -                | -                 | -               | -                    | -                      | 77,931            | 77,931    | 9,156              | 87,087       |
| Total recognized income and expense for the period                                              | -                                             | -             | (206)            | -                 | -               | -                    | -                      | 77,931            | 77,725    | 9,156              | 86,881       |
| Capital contribution from minority shareholder                                                  | -                                             | -             | -                | -                 | -               | -                    | -                      | -                 | -         | 5,600              | 5,600        |
| Share-based payment expense                                                                     | -                                             | -             | -                | -                 | -               | 5,800                | -                      | -                 | 5,800     | -                  | 5,800        |
| Acquisition of additional interests in subsidiaries from minority shareholders                  | -                                             | -             | -                | -                 | -               | -                    | (30,968)               | -                 | (30,968)  | (29,188)           | (60,156)     |
| Disposal of subsidiaries                                                                        | -                                             | -             | -                | -                 | -               | -                    | -                      | -                 | -         | (19,230)           | (19,230)     |
| Dividend paid                                                                                   | -                                             | -             | -                | -                 | -               | -                    | -                      | (79,575)          | (79,575)  | (660)              | (80,235)     |
| At June 30, 2006 (Unaudited)                                                                    | 1,256                                         | 1,147,408     | (999)            | 169,262           | 168,659         | 5,800                | (30,968)               | 712,124           | 2,172,542 | 63,984             | 2,236,526    |
| Reversal of exchange differences recognized in previous year                                    | -                                             | -             | 999              | -                 | -               | -                    | -                      | -                 | 999       | -                  | 999          |
| Profit for the period                                                                           | -                                             | -             | -                | -                 | -               | -                    | -                      | (13,788)          | (13,788)  | 10,128             | (3,660)      |
| Total recognized income and expense for the period                                              | -                                             | -             | 999              | -                 | -               | -                    | -                      | (13,788)          | (12,789)  | 10,128             | (2,661)      |
| Share repurchases                                                                               | (29)                                          | (25,862)      | -                | -                 | -               | -                    | -                      | -                 | (25,891)  | -                  | (25,891)     |
| Share-based payment expense                                                                     | -                                             | -             | -                | -                 | -               | 9,686                | -                      | -                 | 9,686     | -                  | 9,686        |
| Dividend paid                                                                                   | -                                             | -             | -                | -                 | -               | -                    | -                      | (34,683)          | (34,683)  | -                  | (34,683)     |
| Appropriation of statutory reserve                                                              | -                                             | -             | -                | 10,742            | -               | -                    | -                      | (10,742)          | -         | -                  | -            |
| At December 31, 2006 (Audited)                                                                  | 1,227                                         | 1,121,546     | -                | 180,004           | 168,659         | 15,486               | (30,968)               | 652,911           | 2,108,865 | 74,112             | 2,182,977    |
| Profit for the period and total recognized income and expense for the period                    | -                                             | -             | -                | -                 | -               | -                    | -                      | 46,468            | 46,468    | 1,519              | 47,987       |
| Share-based payment expense                                                                     | -                                             | -             | -                | -                 | -               | 1,536                | -                      | -                 | 1,536     | -                  | 1,536        |
| Dividend paid                                                                                   | -                                             | -             | -                | -                 | -               | -                    | -                      | -                 | -         | (660)              | (660)        |
| At June 30, 2007 (Unaudited)                                                                    | 1,227                                         | 1,121,546     | -                | 180,004           | 168,659         | 17,022               | (30,968)               | 699,379           | 2,156,869 | 74,971             | 2,231,840    |

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED JUNE 30, 2007

|                                                                                          | NOTES | Six months<br>ended<br>June 30,<br>2007<br>RMB'000<br>(unaudited) | Six months<br>ended<br>June 30,<br>2006<br>RMB'000<br>(unaudited) |
|------------------------------------------------------------------------------------------|-------|-------------------------------------------------------------------|-------------------------------------------------------------------|
| NET CASH FROM OPERATING ACTIVITIES                                                       |       | <b>45,744</b>                                                     | 115,907                                                           |
| INVESTING ACTIVITIES                                                                     |       |                                                                   |                                                                   |
| Purchase of property, plant and equipment                                                |       | <b>(23,061)</b>                                                   | (81,889)                                                          |
| Acquisition of investment property                                                       |       | <b>(1,681)</b>                                                    | -                                                                 |
| Prepaid lease payments made                                                              |       | <b>(253,750)</b>                                                  | -                                                                 |
| Net cash inflow (outflow) arising from disposals of subsidiaries                         | 6     | <b>9,007</b>                                                      | (5,672)                                                           |
| Payment for acquisition of additional interests in subsidiaries                          |       | -                                                                 | (48,877)                                                          |
| Decreased in pledged bank deposits                                                       |       | <b>40,204</b>                                                     | 25,692                                                            |
| Other investing activities                                                               |       | <b>7,557</b>                                                      | 1,819                                                             |
| NET CASH USED IN INVESTING ACTIVITIES                                                    |       | <b>(221,724)</b>                                                  | (108,927)                                                         |
| FINANCING ACTIVITIES                                                                     |       |                                                                   |                                                                   |
| Bank and other borrowings raised                                                         |       | <b>1,497,553</b>                                                  | 1,313,053                                                         |
| Repayment of bank and other borrowings                                                   |       | <b>(1,146,226)</b>                                                | (1,117,718)                                                       |
| Dividends paid to equity shareholders                                                    |       | -                                                                 | (79,575)                                                          |
| Dividends paid to minority shareholders                                                  |       | <b>(660)</b>                                                      | (660)                                                             |
| Advance from a minority shareholder                                                      |       | <b>50,000</b>                                                     | -                                                                 |
| Other financing activities                                                               |       | <b>(42,872)</b>                                                   | (43,258)                                                          |
| NET CASH FROM FINANCING ACTIVITIES                                                       |       | <b>357,795</b>                                                    | 71,842                                                            |
| NET INCREASE IN CASH AND CASH EQUIVALENTS                                                |       | <b>181,815</b>                                                    | 78,822                                                            |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD                                     |       | <b>380,973</b>                                                    | 372,278                                                           |
| CASH AND CASH EQUIVALENTS AT END OF THE PERIOD,<br>represented by bank balances and cash |       | <b>562,788</b>                                                    | 451,100                                                           |

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2007

### 1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The condensed consolidated financial statements of Kasen International Holdings Limited (the “Company”) have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with International Accounting Standard 34 (IAS 34) “Interim Financial Reporting”.

### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost basis except for investment properties which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the consolidated annual financial statements of the Company and its subsidiaries (the “Group”) for the year ended December 31, 2006.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (“new IFRSs”) issued by the International Accounting Standards Board (“IASB”) and the International Financial Reporting Interpretations Committee (the “IFRIC”) of the IASB, which are effective for the Group’s financial year beginning January 1, 2007. The adoption of the new IFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

The Group has not early applied the new or revised standards or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

FOR THE SIX MONTHS ENDED JUNE 30, 2007

**3. SEGMENT INFORMATION**

The Group's primary format for reporting segment information is business segment.

|                                   | <b>Upholstered<br/>furniture</b> | <b>Furniture<br/>leather</b> | <b>Automotive<br/>leather</b> | <b>Others</b>                                     | <b>Eliminations</b> | <b>Total</b>                            |
|-----------------------------------|----------------------------------|------------------------------|-------------------------------|---------------------------------------------------|---------------------|-----------------------------------------|
|                                   | <i>RMB'000</i>                   | <i>RMB'000</i>               | <i>RMB'000</i>                | <i>RMB'000</i>                                    | <i>RMB'000</i>      | <i>RMB'000</i>                          |
| Six months ended<br>June 30, 2007 |                                  |                              |                               |                                                   |                     |                                         |
| <b>Turnover</b>                   |                                  |                              |                               |                                                   |                     |                                         |
| External sales                    | <b>1,405,393</b>                 | <b>208,484</b>               | <b>122,672</b>                | <b>33,929</b>                                     | <b>-</b>            | <b>1,770,478</b>                        |
| Inter-segment sales               | <b>283,547</b>                   | <b>765,815</b>               | <b>-</b>                      | <b>65,352</b>                                     | <b>(1,114,714)</b>  | <b>-</b>                                |
| Six months ended<br>June 30, 2006 |                                  |                              |                               |                                                   |                     |                                         |
| <b>Turnover</b>                   |                                  |                              |                               |                                                   |                     |                                         |
| External sales                    | 1,661,302                        | 310,164                      | 53,710                        | 19,597                                            | -                   | 2,044,773                               |
| Inter-segment sales               | 329,812                          | 1,070,658                    | -                             | 65,946                                            | (1,466,416)         | -                                       |
|                                   |                                  |                              |                               | <b>Six months<br/>ended<br/>June 30,<br/>2007</b> |                     | Six months<br>ended<br>June 30,<br>2006 |
|                                   |                                  |                              |                               | <b>RMB'000</b>                                    |                     | <b>RMB'000</b>                          |

**Results**

## Segment results

|                                |                 |          |
|--------------------------------|-----------------|----------|
| - Upholstered furniture        | <b>70,878</b>   | 130,544  |
| - Furniture leather            | <b>24,970</b>   | 7,763    |
| - Automotive leather           | <b>(636)</b>    | (4,369)  |
| - Others                       | <b>2,535</b>    | (748)    |
|                                | <b>97,747</b>   | 133,190  |
| Unallocated corporate income   | <b>7,880</b>    | 15,651   |
| Unallocated corporate expenses | <b>(4,498)</b>  | (5,748)  |
| Share of profits of associates | <b>435</b>      | 490      |
| Finance costs                  | <b>(43,252)</b> | (47,696) |
| Profit before taxation         | <b>58,312</b>   | 95,887   |
| Taxation                       | <b>(10,325)</b> | (8,800)  |
| Profit for the period          | <b>47,987</b>   | 87,087   |



**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

FOR THE SIX MONTHS ENDED JUNE 30, 2007

**4. PROFIT BEFORE TAXATION**

|                                                                                         | <b>Six months<br/>ended<br/>June 30,<br/>2007<br/>RMB'000</b> | Six months<br>ended<br>June 30,<br>2006<br>RMB'000 |
|-----------------------------------------------------------------------------------------|---------------------------------------------------------------|----------------------------------------------------|
| Profit before taxation has been arrived at after charging (crediting):                  |                                                               |                                                    |
| Amortization of intangible assets                                                       | <b>268</b>                                                    | 143                                                |
| Amortization of prepaid lease payment                                                   | <b>1,388</b>                                                  | 1,551                                              |
| Depreciation of property, plant and equipment                                           | <b>48,007</b>                                                 | 48,534                                             |
| Total depreciation and amortization                                                     | <b>49,663</b>                                                 | 50,228                                             |
| (Write-back of) impairment loss recognized in respect of<br>trade and other receivables | <b>(1,010)</b>                                                | 7,603                                              |
| Write-back of allowances for inventories                                                | <b>(541)</b>                                                  | (3,705)                                            |
| Loss on disposal of property, plant and equipment                                       | <b>303</b>                                                    | 1,468                                              |
| Foreign exchange losses                                                                 | <b>26,064</b>                                                 | 11,487                                             |
| Foreign exchange gain                                                                   | <b>(11,700)</b>                                               | (4,312)                                            |
| Staff costs (including directors' remuneration)                                         | <b>138,882</b>                                                | 130,201                                            |
| Discounts on acquisition of an additional interest of a subsidiary                      | <b>-</b>                                                      | (10,279)                                           |

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE SIX MONTHS ENDED JUNE 30, 2007

### 5. TAXATION

|                                   | <b>Six months<br/>ended<br/>June 30,<br/>2007<br/>RMB'000</b> | Six months<br>ended<br>June 30,<br>2006<br>RMB'000 |
|-----------------------------------|---------------------------------------------------------------|----------------------------------------------------|
| Hong Kong Profits Tax             |                                                               |                                                    |
| – current period                  | –                                                             | 455                                                |
| PRC enterprise income tax         |                                                               |                                                    |
| – current period                  | <b>11,040</b>                                                 | 8,470                                              |
| – over provision in prior periods | <b>(715)</b>                                                  | (125)                                              |
|                                   | <b>10,325</b>                                                 | 8,800                                              |

Hong Kong Profits Tax is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used is 17.5% (2006: 17.5%) for the six months ended June 30, 2007.

PRC enterprise income tax is calculated at the applicable rates to the PRC subsidiaries. Certain subsidiaries of the Company operating in the PRC are eligible for certain tax exemptions and concessions for both periods. The tax holiday is 5 years from the first taxable profit year. Along with the tax reform in China mainland, the income tax rate of the PRC subsidiaries, except subsidiaries within tax holiday, will be unified as 25% effective from January 1, 2008.

### 6. DISPOSAL OF SUBSIDIARIES

During current period, the Group entered into an agreement to dispose of a wholly owned subsidiary, 海寧家藝傢俱有限公司 ("Haining Home Craft Furniture Co., Ltd.") ("Home Craft"), which carried out upholstered furniture manufacturing operations. The disposal was completed on January 29, 2007, on which date the control of Home Craft passed to the acquirer.

During the first half year of 2006, the Group entered into an agreement to dispose of a non-wholly owned subsidiary, 海寧萬盛沙發有限公司 ("Haining Wansheng Furniture Co., Ltd.") ("Wansheng Furniture"), which carried out upholstered furniture manufacturing operations. The disposal was completed on June 29, 2006, on which date the control of Wansheng Furniture passed to the acquirer.

海寧市斜橋森博水務有限公司 ("Haining Senbo Water Co., Ltd.") ("Senbo Water") ceased to be a subsidiary of the Group from May 2006 due to the additional capital injections of its minority shareholder.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

FOR THE SIX MONTHS ENDED JUNE 30, 2007

**6. DISPOSAL OF SUBSIDIARIES (cont'd)**

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

|                                                                | Six months ended | Six months ended June 30, 2006 |             |           |
|----------------------------------------------------------------|------------------|--------------------------------|-------------|-----------|
|                                                                | June 30, 2007    | Wansheng                       |             | Total     |
|                                                                | Home Craft       | Furniture                      | Senbo Water |           |
|                                                                | RMB'000          | RMB'000                        | RMB'000     | RMB'000   |
| Property, plant and equipment                                  | 496              | 70,727                         | 11,510      | 82,237    |
| Prepaid lease payment                                          | 9,306            | 8,928                          | -           | 8,928     |
| Amounts due from related companies                             | -                | 650                            | -           | 650       |
| Inventories                                                    | -                | 50,319                         | -           | 50,319    |
| Trade and other receivables                                    | 26,917           | 75,582                         | 5           | 75,587    |
| Intangible assets                                              | -                | 133                            | -           | 133       |
| Bank balances and cash                                         | 4,593            | 21,421                         | 5,562       | 26,983    |
| Trade and other payables                                       | -                | (106,690)                      | (6,049)     | (112,739) |
| Amount due to related companies                                | -                | (11,345)                       | (250)       | (11,595)  |
| Bank borrowings                                                | -                | (85,000)                       | (800)       | (85,800)  |
|                                                                | <b>41,312</b>    | 24,725                         | 9,978       | 34,703    |
| Minority interests                                             | -                | (12,237)                       | (6,993)     | (19,230)  |
| Gain on disposal                                               | 3,388            | 8,823                          | 15          | 8,838     |
|                                                                | <b>44,700</b>    | 21,311                         | 3,000       | 24,311    |
| Satisfied by:                                                  |                  |                                |             |           |
| Cash consideration received                                    | 13,600           | 21,311                         | -           | 21,311    |
| Transferred to interests in associates                         | -                | -                              | 3,000       | 3,000     |
| Cash consideration receivable                                  | 31,100           | -                              | -           | -         |
| Subtotal                                                       | <b>44,700</b>    | 21,311                         | 3,000       | 24,311    |
| Net cash inflow (outflow) arising on disposal of subsidiaries: |                  |                                |             |           |
| Consideration                                                  | 13,600           | 21,311                         | -           | 21,311    |
| Cash and cash equivalents disposed of                          | (4,593)          | (21,421)                       | (5,562)     | (26,983)  |
|                                                                | <b>9,007</b>     | (110)                          | (5,562)     | (5,672)   |

Home Craft did not make significant contributions to the results and cash flows of the Group during the current period.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE SIX MONTHS ENDED JUNE 30, 2007

### 7. DIVIDEND PAID

|                                                                                                                                                 | <b>Six months<br/>ended<br/>June 30,<br/>2007<br/>RMB'000</b> | Six months<br>ended<br>June 30,<br>2006<br>RMB'000 |
|-------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------|----------------------------------------------------|
| Final, paid – Nil (2006: HK7.58 cents<br>(equivalent to RMB7.85 cents)<br>per ordinary share in respect of<br>the year ended December 31, 2005) | –                                                             | 79,575                                             |

### 8. SHARE OPTIONS

A share option scheme was adopted by the Company pursuant to a 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 and directors 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 exercise price of the options is fixed at HK\$2.38 (the share price immediately before the grant date was HK\$2.24) .

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. The value of an option varies with different variables of certain subjective assumptions.

The share options could be exercised during the following periods:

| <b>Date</b>                           | <b>Percentage of share options</b> |
|---------------------------------------|------------------------------------|
| From January 1, 2007 to March 8, 2016 | 50%                                |
| From January 1, 2008 to March 8, 2016 | 50%                                |

The fair value of the options determined at the date of grant using the Binomial Model was approximately RMB21 million and the Company recorded a share-based payment expense of RMB1,536,000 in the current period (six months ended June 30, 2006: RMB5,800,000).

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS** (cont'd)

FOR THE SIX MONTHS ENDED JUNE 30, 2007

**8. SHARE OPTIONS** (cont'd)

Details of the share options outstanding during the current period are as follows:

|                                                             | <b>Number of share options</b> |
|-------------------------------------------------------------|--------------------------------|
| Outstanding as at January 1, 2007                           | 29,800,000                     |
| Cancelled during the period due to resignation of employees | <u>(2,100,000)</u>             |
| Outstanding as at June 30, 2007                             | <u>27,700,000</u>              |

No share option has been exercised during the current period.

**9. EARNINGS PER SHARE**

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

**Earnings**

|                                                                                                                                  | <b>Six months<br/>ended<br/>June 30,<br/>2007<br/>RMB'000</b> | Six months<br>ended<br>June 30,<br>2006<br>RMB'000 |
|----------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------|----------------------------------------------------|
| Earnings for the purposes of basic and diluted earnings per share,<br>being profit attributable to equity holders of the Company | <u>46,468</u>                                                 | <u>77,931</u>                                      |

**Number of shares**

|                                                                                       | <b>Six months<br/>ended<br/>June 30,<br/>2007</b> | Six months<br>ended<br>June 30,<br>2006 |
|---------------------------------------------------------------------------------------|---------------------------------------------------|-----------------------------------------|
| Number of ordinary shares for the purposes of basic<br>and diluted earnings per share | <u>990,048,369</u>                                | <u>1,014,045,369</u>                    |

The share options granted to the employees of the Group has no effect to the diluted earnings per share because the exercise price of the Company's share options was higher than the average market price for shares during both periods.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE SIX MONTHS ENDED JUNE 30, 2007

### 10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT, PREPAID LEASE PAYMENTS AND INVESTMENT PROPERTIES

During the period, the Group incurred expenditure of approximately RMB23,886,000 (six months ended June 30, 2006: RMB51,237,000) on property, plant and equipment to expand and upgrade the Group's manufacturing facilities. Addition of RMB253,750,000 of prepaid lease payments in this period mainly represented the prepayment for acquisition of land use right for a piece of land for property development in Changsha. The local government is responsible for the land preparation and according to the contract, the Group will be able to obtain the land use right in Changsha before January 29, 2008. As at June 30, 2007, the title deeds of other land use right in the amount of RMB14 million (six months ended June 30, 2006: RMB27 million) have not been obtained.

During the period, the Group disposed of certain property, plant and equipment with a carrying amount of approximately RMB5,980,000 (six months ended June 30, 2006: RMB1,468,000) resulting in loss on disposal of RMB303,000 (six months ended June 30, 2006: Loss of RMB1,468,000). In addition, a carrying amount of approximately RMB496,000 of property, plant and equipment and RMB9,306,000 of prepaid lease payments were disposed of as a result of the disposal of a subsidiary by the Group during the current period.

The Group's investment properties were fair valued by the directors at June 30, 2007 and in their opinion that the fair value approximates to the carrying amount as at June 30, 2007.

### 11. TRADE AND OTHER RECEIVABLES

|                                   | <b>June 30,<br/>2007</b> | December 31,<br>2006 |
|-----------------------------------|--------------------------|----------------------|
|                                   | <b>RMB'000</b>           | RMB'000              |
| Trade and bills receivables       | <b>544,511</b>           | 535,961              |
| Less: accumulated impairment loss | <b>(38,825)</b>          | (45,494)             |
|                                   | <b>505,686</b>           | 490,467              |
| Prepayments                       | <b>145,159</b>           | 64,917               |
| Other receivables                 | <b>133,953</b>           | 92,890               |
| Less: accumulated impairment loss | <b>(19,727)</b>          | (14,426)             |
|                                   | <b>765,071</b>           | 633,848              |

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

FOR THE SIX MONTHS ENDED JUNE 30, 2007

**11. TRADE AND OTHER RECEIVABLES (cont'd)**

The Group grants a credit period ranging from 30 days to 90 days to its trade customers. The aged analysis of trade receivables at the balance sheet date is as follows:

|                                                           | <b>June 30,<br/>2007</b> | December 31,<br>2006 |
|-----------------------------------------------------------|--------------------------|----------------------|
|                                                           | <b>RMB'000</b>           | <b>RMB'000</b>       |
| Within 60 days                                            | <b>341,986</b>           | 345,725              |
| 61-90 days                                                | <b>79,819</b>            | 53,892               |
| 91-180 days                                               | <b>49,882</b>            | 47,468               |
| 181-365 days                                              | <b>31,201</b>            | 35,546               |
| 1-2 years                                                 | <b>2,798</b>             | 7,836                |
| Total trade and bills receivables, net of impairment loss | <b>505,686</b>           | 490,467              |

**12. TRADE, BILLS AND OTHER PAYABLES**

The following is an aged analysis of trade payables at the balance sheet date:

|                                              | <b>June 30,<br/>2007</b> | December 31,<br>2006 |
|----------------------------------------------|--------------------------|----------------------|
|                                              | <b>RMB'000</b>           | <b>RMB'000</b>       |
| Within 60 days                               | <b>387,981</b>           | 286,950              |
| 61-90 days                                   | <b>66,647</b>            | 20,807               |
| 91-180 days                                  | <b>15,490</b>            | 13,080               |
| 181-365 days                                 | <b>13,898</b>            | 10,907               |
| 1-2 years                                    | <b>2,533</b>             | 8,719                |
| Over 2 years                                 | <b>10,852</b>            | 6,445                |
| Total trade payables                         | <b>497,401</b>           | 346,908              |
| Bills payables (Note a)                      | <b>131,550</b>           | 142,479              |
| Other payables and accrued liabilities       | <b>132,241</b>           | 114,649              |
| Advance from a minority shareholder (Note b) | <b>50,000</b>            | -                    |
|                                              | <b>811,192</b>           | 604,036              |

Notes:

- a. All bills payables were not yet due at the balance sheet date.
- b. The amount is unsecured, interest free and repayable on demand.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

FOR THE SIX MONTHS ENDED JUNE 30, 2007

**13. BANK AND OTHER BORROWINGS**

During the period, the Group obtained additional bank loans of approximately RMB1,497,553,000 (six months ended June 30, 2006: RMB1,313,053,000) and made repayments of approximately RMB1,146,226,000 (six months ended June 30, 2006: RMB1,117,718,000). The proceeds from the additional loans were used as working capital of the Group and acquisition of property, plant and equipment for the expansion of the Group's manufacturing facilities.

**14. SHARE CAPITAL**

|                                                                     | Number of<br>ordinary shares | Number of<br>series A<br>preferred<br>shares | Number of<br>series B<br>preferred<br>shares | <i>US\$'000</i> |                |
|---------------------------------------------------------------------|------------------------------|----------------------------------------------|----------------------------------------------|-----------------|----------------|
| <b>Authorized share capital of<br/>the Company</b>                  |                              |                                              |                                              |                 |                |
| At January 1, 2006 &<br>December 31, 2006 &<br>June 30, 2007        | 266,666,666,666              | –                                            | –                                            | 40,000          |                |
|                                                                     | Number of<br>ordinary shares | Number of<br>series A<br>preferred<br>shares | Number of<br>series B<br>preferred<br>shares | <i>US\$</i>     | <i>RMB'000</i> |
| <b>Issued and fully paid<br/>ordinary shares<br/>of the Company</b> |                              |                                              |                                              |                 |                |
| At January 1, 2006                                                  | 1,014,045,369                | –                                            | –                                            | 152,107         | 1,256          |
| Share repurchased                                                   | (23,997,000)                 | –                                            | –                                            | (4)             | (29)           |
| At December 31, 2006 &<br>June 30, 2007                             | 990,048,369                  | –                                            | –                                            | 152,103         | 1,227          |

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. The repurchase was made at the discretion of the Board. Par value of the ordinary shares is US\$0.00015.



**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

FOR THE SIX MONTHS ENDED JUNE 30, 2007

**15. LEASE ARRANGEMENTS*****As lessee***

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

|                                       | <b>June 30,<br/>2007<br/>RMB'000</b> | December 31,<br>2006<br>RMB'000 |
|---------------------------------------|--------------------------------------|---------------------------------|
| Within one year                       | <b>14,159</b>                        | 1,502                           |
| In the second to fifth year inclusive | <b>51,087</b>                        | 3,169                           |
| After five years                      | <b>48,791</b>                        | –                               |
|                                       | <b>114,037</b>                       | 4,671                           |

The lease payments represent rentals payable by the Group for certain office properties and a furniture retail store leased by a subsidiary of the Group before June 30, 2007 on behalf of the newly set-up wholly owned subsidiary established in July 2007.

**16. CAPITAL COMMITMENTS**

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

|                                                                                                                                                                                                                                   | <b>June 30,<br/>2007<br/>RMB'000</b> | December 31,<br>2006<br>RMB'000 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|---------------------------------|
| Capital expenditure contracted for but not provided<br>in the condensed consolidated financial statements<br>in respect of acquisition of property, plant and equipment                                                           | <b>1,358</b>                         | 1,464                           |
| Capital expenditure contracted for but not provided<br>in the condensed consolidated financial statements<br>in respect of construction of certain infrastructure and<br>public facilities in the PRC on behalf of the government | <b>13,530</b>                        | 14,135                          |
|                                                                                                                                                                                                                                   | <b>14,888</b>                        | 15,599                          |

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE SIX MONTHS ENDED JUNE 30, 2007

### 17. CONNECTED AND RELATED PARTY DISCLOSURES

Transactions between group companies have been eliminated on consolidation and are not disclosed in this note. Details of the transactions between the Group and other related parties are disclosed below.

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

| Parties                                                                        | Nature of transactions                      | Notes | Six months ended | Six months ended |
|--------------------------------------------------------------------------------|---------------------------------------------|-------|------------------|------------------|
|                                                                                |                                             |       | June 30, 2007    | June 30, 2006    |
|                                                                                |                                             |       | RMB'000          | RMB'000          |
| <b>Connected and related parties</b>                                           |                                             |       |                  |                  |
| 伊犁霍爾果斯皮革有限公司<br>Yili Horgos Leather Co., Ltd.<br>("Yili Horgos")               | Purchase by the Group                       | (i)   | 16,591           | 19,866           |
| 海寧宇潔物資回收有限公司<br>Haining Yujie Material Recycling<br>Co., Ltd. ("Yujie")        | Sales of production wastes<br>by the Group  | (i)   | 6,103            | 3,988            |
| 白銀卡森皮革有限公司<br>Baiyin Kasen Leather Co., Ltd.<br>("Baiyin Kasen")               | Purchase by the Group<br>Sales by the Group | (i)   | 36,815<br>7      | 44,938<br>-      |
| Starcorp Corporation Pty. Ltd<br>("Starcorp")                                  | Sales by the Group                          | (i)   | 21,608           | 21,341           |
| 克孜勒蘇新蓉皮革有限公司<br>Kezilesu Xinrong Leather Co., Ltd.<br>("Kezilesu Xinrong")     | Purchase by the Group                       | (i)   | 13,366           | 34,153           |
| North Pole Limited                                                             | Sales by the Group                          | (ii)  | -                | 9,746            |
| <b>Related parties</b>                                                         |                                             |       |                  |                  |
| 海寧美景海綿有限公司<br>Future Foam Asia, Inc.<br>("Future Foam")                        | Purchase by the Group                       | (iii) | 34,455           | 33,903           |
| 海寧市卡森-美如可思<br>皮革有限公司<br>Haining Kasen-Melx Leather Co., Ltd.<br>("Kasen-Melx") | Sales by the Group                          | (iv)  | 3,328            | 2,825            |

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS** (cont'd)

FOR THE SIX MONTHS ENDED JUNE 30, 2007

**17. CONNECTED AND RELATED PARTY DISCLOSURES** (cont'd)**(a) The Group had the following significant transactions with the connected and related parties during the period:** (cont'd)

Notes:

- (i) Mr. Zhu Zhangjin, a director of the Company, has influence and beneficial interests in these companies through Sunbridge Industrial Group Co., Ltd.
- (ii) The company is a subsidiary of a major shareholder of the Company.
- (iii) Associate of the Company.
- (iv) Jointly controlled entity of the Company.

**(b) Directors and other key management emoluments**

|                                        | <b>Six months<br/>ended<br/>June 30,<br/>2007</b> | Six months<br>ended<br>June 30,<br>2006 |
|----------------------------------------|---------------------------------------------------|-----------------------------------------|
|                                        | <b>Number of<br/>share options</b>                | Number of<br>share options              |
| Share option outstanding at period end | <b>9,200,000</b>                                  | 9,600,000                               |
|                                        | <b>RMB'000</b>                                    | RMB'000                                 |
| Basic salaries and other benefits      | <b>1,747</b>                                      | 2,505                                   |

**18. SUBSEQUENT EVENTS**

- (a) A new wholly owned subsidiary was set up in July 2007 with a registered capital of RMB10,000,000. The principal business of this subsidiary is sale of home furniture, bedroom furnishing products, household decoration and accessories, textiles, curtains and lightings.
- (b) Pursuant to the Company's circular on July 23, 2007, the Company's Board of Directors decided to dispose of a subsidiary, Shanghai La Kassa Furniture Co., Ltd (上海禾美家具有限公司), to an independent third party for RMB102,310,000 after January 1, 2008.
- (c) Pursuant to a board resolution on August 3, 2007, the Company disposed of a subsidiary, Haining Home Point Furniture Co., Ltd (海寧家典家具有限公司), to two independent third parties for a cash consideration of RMB41,500,000.