# KASEN INTERNATIONAL HOLDINGS LIMITED

# 卡 森 國 際 控 股 有 限 公 司

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

**(Stock Code: 496)**

## ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2007

The board of directors (the "Board") of Kasen International Holdings Limited (the "Company") is pleased to announce the audited results of the Company and its subsidiaries (the "Group") for the year ended December 31, 2007 together with comparative figures for the same period of 2006, as follows:

**CONSOLIDATED INCOME STATEMENT**

*For the year ended December 31, 2007*

| | *Notes* | **2007** *RMB'000* | 2006 *RMB'000* |
|---|---|---|---|
| Turnover | *3* | **3,310,727** | 3,916,513 |
| Cost of sales | | **(3,011,190)** | (3,489,136) |
| Gross profit | | **299,537** | 427,377 |
| Other income | *4* | **70,921** | 71,230 |
| Distribution costs | | **(116,721)** | (107,908) |
| Administrative expenses | | **(168,788)** | (171,115) |
| Other expenses | *5* | **(168,913)** | (29,997) |
| Share of profit of associates | | **103** | 937 |
| Finance costs | *6* | **(91,579)** | (85,390) |
| (Loss) profit before taxation | *7* | **(175,440)** | 105,134 |
| Taxation | *8* | **(14,584)** | (21,707) |
| (Loss) profit for the year | | **(190,024)** | 83,427 |
| Attributable to: | | | |
| Equity holders of the Company | | **(194,149)** | 64,143 |
| Minority interests | | **4,125** | 19,284 |
| | | **(190,024)** | 83,427 |
| Dividend | *10* | **–** | 114,258 |
| (Loss) earning per share | *11* | | |
| Basic | | **(20) cents** | 6 cents |
| Diluted | | **(20) cents** | 6 cents |

**CONSOLIDATED BALANCE SHEET**
*At December 31, 2007*

| | *Notes* | **2007** *RMB'000* | 2006 *RMB'000* |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Goodwill | | **–** | 157,958 |
| Property, plant and equipment | | **952,492** | 1,173,599 |
| Prepaid lease payment – non-current portion | | **102,265** | 131,860 |
| Properties for development | *12* | **314,781** | – |
| Investment properties | | **–** | 32,901 |
| Intangible assets | | **1,321** | 1,485 |
| Investments in associates | | **15,833** | 26,728 |
| Investment in a jointly controlled entity | | **2,614** | 2,614 |
| Available-for-sale investments | | **43,278** | 310 |
| Other long term assets | *13* | **143,360** | – |
| | | **1,575,944** | 1,527,455 |
| **CURRENT ASSETS** | | | |
| Inventories | | **1,142,720** | 1,326,216 |
| Trade and other receivables | *14* | **549,588** | 633,848 |
| Prepaid lease payment – current portion | | **2,311** | 2,904 |
| Amounts due from related companies | *16* | **24,372** | 36,596 |
| Taxes recoverable | | **6,682** | 3,315 |
| Derivative financial instruments | | **16,151** | – |
| Pledged bank deposits | | **85,743** | 163,221 |
| Bank balances and cash | | **504,549** | 380,973 |
| | | **2,332,116** | 2,547,073 |
| Assets classified as held for sale | *9* | **231,390** | – |
| **TOTAL ASSETS** | | **4,139,450** | 4,074,528 |
| **CURRENT LIABILITIES** | | | |
| Trade, bills and other payables | *15* | **429,576** | 604,036 |
| Amounts due to related companies | *16* | **81** | 19,467 |
| Bank and other borrowings – due within one year | | **1,546,812** | 1,246,689 |
| Taxes payable | | **7,722** | 10,959 |
| | | **1,984,191** | 1,881,151 |
| Liabilities classified as held for sale | *9* | **175,013** | – |
| **NET CURRENT ASSETS** | | **404,302** | 665,922 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **1,980,246** | 2,193,377 |
| **NON-CURRENT LIABILITIES** | | | |
| Bank and other borrowings – due after one year | | **10,400** | 10,400 |
| | | **10,400** | 10,400 |
| **NET ASSETS** | | **1,969,846** | 2,182,977 |

| | 2007 | 2006 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **CAPITAL AND RESERVES** | | |
| Share capital | **1,227** | 1,227 |
| Reserves | **1,915,927** | 2,107,638 |
| Equity attributable to equity holders of the Company | **1,917,154** | 2,108,865 |
| Minority interests | **52,692** | 74,112 |
| Total equity | **1,969,846** | 2,182,977 |

*Notes:*

**1. GENERAL**

The Company is a public limited company incorporated in the Cayman Islands and its shares are listed on the Stock Exchange of Hong Kong Limited ("Stock Exchange") since October 20, 2005. Its parent and ultimate holding company is Joyview Enterprises Ltd. (incorporated in the British Virgin Islands). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information attached to the annual report.

The Company acts as an investment holding company. Its subsidiaries are principally engaged in the processing of raw cowhides, wet blues into finished leather or fully assembled leather products. To accommodate market change, the Board of the Company approved and began to develop new business in property and retail industry in late 2007.

**2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS**

In the current year, the Group has applied, for the first time, a number of new standard, amendment and interpretations issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are effective for the Group's financial year beginning January 1, 2007.

| | |
|---|---|
| IFRS 1 (Amendment) | Capital Disclosures |
| IFRS 7 | Financial Instruments: Disclosures |
| IFRIC 7 | Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies |
| IFRIC 8 | Scope of IFRS 2 |
| IFRIC 9 | Reassessment of Embedded Derivatives |
| IFRIC 10 | Interim Financial Reporting and Impairment |

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

The Group has applied the disclosure requirements under IAS 1 (Amendment) and IFRS 7 retrospectively. Certain information presented in prior year under the requirements of IAS 32 has been removed and the relevant comparative information based on the requirements of IAS 1 (Amendment) and IFRS 7 has been presented for the first time in the current year.

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

| | |
|---|---|
| IAS 1 (Revised) | Presentation of Financial Statements[1] |
| IAS 23 (Revised) | Borrowing Costs[1] |
| IAS 27 (Revised) | Consolidated and Separate Financial Statements[2] |
| IAS 32 & 1 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation[1] |
| IFRS 2 (Amendment) | Vesting Conditions and Cancellations[1] |
| IFRS 3 (Revised) | Business Combinations[2] |
| IFRS 8 | Operating Segments[1] |
| IFRIC 11 | IFRS 2: Group and Treasury Share Transactions[3] |
| IFRIC 12 | Service Concession Arrangements[4] |
| IFRIC 13 | Customer Loyalty Programmes[5] |
| IFRIC 14 | IFRS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4] |

1 Effective for annual periods beginning on or after January 1, 2009
2 Effective for annual periods beginning on or after July 1, 2009
3 Effective for annual periods beginning on or after March 1, 2007
4 Effective for annual periods beginning on or after January 1, 2008
5 Effective for annual periods beginning on or after July 1, 2008

The adoption of IFRS 3 (revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after July 1, 2009. IAS 27 (revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

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

## 3. BUSINESS AND GEOGRAPHICAL SEGMENTS

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

**Business segment**

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

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

– Furniture leather;

– Automotive leather;

– Properties development; and

– Others (including sale of wooden frame, retail and others)

Segment information about these businesses is presented below:

| | Upholstered furniture *RMB'000* | Furniture leather *RMB'000* | Automotive leather *RMB'000* | Others *RMB'000* | Eliminations *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|---|
| **2007** | | | | | | |
| **Turnover** | | | | | | |
| External sales | **2,573,856** | **461,269** | **217,980** | **57,622** | **–** | **3,310,727** |
| Inter-segment sales | **994,756** | **948,459** | **–** | **121,107** | **(2,064,322)** | **–** |
| 2006 | | | | | | |
| **Turnover** | | | | | | |
| External sales | 3,122,953 | 615,104 | 150,141 | 28,315 | – | 3,916,513 |
| Inter-segment sales | 603,005 | 2,249,976 | – | 126,818 | (2,979,799) | – |

Inter-segment sales are charged at prevailing market prices.

| | Year ended December 31, 2007 *RMB'000* | 2006 *RMB'000* |
|---|---|---|
| **Result** | | |
| Segment result | | |
| – Upholstered furniture | **(83,458)** | 195,956 |
| – Furniture leather | **(27,631)** | (17,748) |
| – Automotive leather | **(11,042)** | (9,391) |
| – Others | **8,214** | (246) |
| | **(113,917)** | 168,571 |
| Unallocated income | **40,292** | 31,361 |
| Unallocated expenses | **(10,339)** | (10,345) |
| Share of profit of associates | **103** | 937 |
| Finance costs | **(91,579)** | (85,390) |
| (Loss) profit before taxation | **(175,440)** | 105,134 |
| Taxation | **(14,584)** | (21,707) |
| (Loss) profit for the year | **(190,024)** | 83,427 |

**Geographical segment**

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

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

| | 2007 *RMB'000* | 2006 *RMB'000* |
|---|---|---|
| United States | **2,041,107** | 2,825,773 |
| PRC, including Hong Kong | **792,301** | 736,138 |
| Europe | **293,506** | 160,326 |
| Australia | **100,546** | 122,253 |
| Others | **83,267** | 72,023 |
| | **3,310,727** | 3,916,513 |

## 4. OTHER INCOME

Details of other income are as follows:

| | **2007** | 2006 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Government grants | | |
| Grants for technology development | **1,480** | 2,830 |
| Grants for export sales | **9,676** | 18,362 |
| Incentive for business development | **3,691** | 4,274 |
| Other grants | **4,177** | 3,456 |
| | **19,024** | 28,922 |
| Net gain from sale of raw materials | **3,755** | 10,947 |
| Interest income | **6,358** | 8,905 |
| Discounts on acquisition of an additional interest in a subsidiary | **–** | 10,279 |
| Gain on disposals of subsidiaries | **7,720** | 8,838 |
| Gain on disposal of an associate | **1,056** | – |
| Gain on fair value change on foreign currency forward contracts | **16,151** | – |
| Gain on fair value change on investment property | **5,671** | – |
| Others | **11,186** | 3,339 |
| | **70,921** | 71,230 |

## 5. OTHER EXPENSES

| | **2007** | 2006 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Goodwill impairment | **157,958** | 23,048 |
| Impairment loss on property, plant and equipment | **7,004** | – |
| Donation | **1,394** | 2,919 |
| Loss on disposal of property, plant and equipment | **–** | 2,161 |
| Others | **2,557** | 1,869 |
| | **168,913** | 29,997 |

## 6. FINANCE COSTS

| | **2007** | 2006 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Interest on: | | |
| Bank borrowings wholly repayable within five years | **90,797** | 84,611 |
| Other borrowings wholly repayable within five years | **272** | 269 |
| Other borrowings not wholly repayable within five years | **510** | 510 |
| | **91,579** | 85,390 |

## 7. (LOSS) PROFIT BEFORE TAXATION

(Loss) profit before taxation has been arrived at after charging:

| | **2007** | 2006 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Amortization of intangible assets (included in administrative expenses) | **500** | 350 |
| Amortization of prepaid lease payments | **2,707** | 3,277 |
| Depreciation of property, plant and equipment | **94,498** | 95,858 |
| Total depreciation and amortization | **97,705** | 99,485 |
| Auditor's remuneration | **5,064** | 4,619 |
| Cost of inventories recognised as expense | **3,011,190** | 3,489,136 |
| Impairment loss recognised in respect of trade and other receivables | **10,368** | 17,626 |
| Operating lease rentals in respect of land and buildings | **10,051** | 1,892 |
| Net foreign exchange losses | **26,740** | 17,836 |
| Expenses of sampling and products upgrading | **9,453** | 8,048 |
| Gain on disposal of listed securities | **(157)** | – |
| Total employee benefit expenses | **270,209** | 286,659 |

## 8. TAXATION

| | **2007** | 2006 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Hong Kong Profits Tax | | |
| – current year | **19** | 1,027 |
| – (over)under provision in previous year | **(42)** | 58 |
| PRC enterprise income tax | | |
| – current year | **15,602** | 18,717 |
| – (over)under provision of income tax in previous year | **(995)** | 1,905 |
| | **14,584** | 21,707 |

Hong Kong Profits Tax is calculated at 17.5% of estimated assessable profit for the year.

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 holidays and concessions and were exempted from PRC income taxes for the years of 2007 and 2006 ("Tax Holidays"). The maximum Tax Holidays period is 5 years from the first taxable profit year.

As at December 31, 2007, the Group has unused tax losses of approximately RMB61,121,000 (2006: RMB43,761,000) available to offset against future profits, of which losses of RMB28,374,000 (2006: RMB5,527,000) will expire in year 2011, losses of RMB32,747,000 (2006: RMB38,234,000) will expire in year 2012. No deferred tax asset has been recognised in respect of unused tax losses due to the unpredictability of future profit streams.

On March 16, 2007, the PRC promulgated Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No.63 of the president of the PRC. On December 6, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulation will change the tax rate from 26.4% to 25% for subsidiaries located in PRC of the Group from January 1, 2008.

Under the New Tax Law and Implementation Regulations issued by the State Council, PRC income tax at the rate of 10% is applicable to interest and dividends payable to investors that are “non-resident enterprises”, which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such interest or dividends have their sources within the PRC. If the Company is deemed to be a PRC “resident enterprise”, dividends distributed from the Company’s PRC subsidiaries to the Company’s Hong Kong subsidiaries and ultimately to the Company’s Cayman Islands subsidiaries, could be exempted from Chinese dividend withholding tax, and dividends from Cayman Islands subsidiaries to ultimate shareholders would be subject to PRC withholding tax at 10% or a lower treaty rate. There was no such tax implication in 2007.

## 9. ASSETS/LIABILITIES HELD FOR SALE

Pursuant to a Board resolution dated October 8, 2007 and the shareholder’s approval on November 23, 2007, the Company entered into a binding agreement with two independent third parties to dispose of the 50.5% interests in Haining Oyi May Sofa Co., Ltd. (“Oyi May”) (海寧歐意美沙發有限公司), for a consideration of RMB24.5 million. As at December 31, 2007, this disposal has not been completed due to delay of local government approval. The assets and liabilities attributable to Oyi May have been classified as a disposal group held for sale and are presented separately in the consolidated balance sheet.

The subsidiary is included in the Group’s upholstered furniture production activities for segment reporting purposes (see Note 3). The net proceeds of the disposal exceeds the Group’s attributable portion of net carrying amount of the relevant assets and liabilities as at December 31, 2007. Accordingly, no impairment loss has been recognised.

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

| | **2007** |
|---|---|
| | *RMB’000* |
| Property, plant and equipment | 74,377 |
| Inventories | 63,064 |
| Trade and other receivables | 47,772 |
| Pledged bank deposits | 27,946 |
| Bank balances and cash | 4,301 |
| Prepaid lease payment | 9,083 |
| Intangible assets | 54 |
| Amount due from related companies | 4,793 |
| Assets classified as held for sale | 231,390 |
| Trade, bills and other payables | 148,388 |
| Amount due to related companies | 2,973 |
| Bank and other borrowings | 23,652 |
| Liabilities classified as held for sale | 175,013 |
| Net assets classified as held for sale | 56,377 |
| Less: minority interest | (27,907) |
| Net assets classified as held for sale attribute to the Group | 28,470 |

The net assets set out above do not include intercompany balances owed to other Group’s entities amounting to RMB15.8 million.

## 10. DIVIDEND PAID

| | **2007** | 2006 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Dividends recognised as distributions during the year: | | |
| Final 2005 – HK7.59 cents per share | **–** | 79,575 |
| Interim 2006 – HK3.45 cents per share | **–** | 34,683 |
| | **–** | 114,258 |

## 11. (LOSS) EARNING PER SHARE

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

**(Loss) earning**

| | **2007** | 2006 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| (Loss) earning for the purposes of basic and diluted (loss) earning per share, being (loss) profit attributable to equity holders of the Company | **(194,149)** | 64,143 |

**Number of shares**

| | **2007** | 2006 |
|---|---|---|
| Weighted average number of ordinary shares for the purposes of basic and diluted (loss) earning per share | **990,048,369** | 1,004,410,969 |

The share options granted to the employees of the Group has no effect to the diluted (loss) earning per share because the exercise price of the Company's share options was higher than average market price for shares during the share option outstanding period.

## 12. PROPERTIES FOR DEVELOPMENT

| | **2007** | 2006 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| At January 1, 2007 | **–** | – |
| Transfer from investment property | **51,000** | – |
| Additions | **263,781** | – |
| At December 31, 2007 | **314,781** | – |

In 2006, the Group acquired a parcel of land in Boao, Hainan Province with acquisition cost of RMB32,901,000 for capital appreciation purpose under medium-term lease in the PRC and it was recorded as an investment property. Further cost of RMB12.4 million was incurred by the Group in relation to the land. Pursuant to a board resolution dated October 8, 2007, the Group decided that the land will be used for properties development purpose. The preliminary design for the development was commenced and the land was, as a result, reclassified as properties for development at its fair value as at October 8, 2007.

The fair value of the land as at October 8, 2007 was RMB51,000,000 and it was determined by reference to a valuation carried out by Jones Lang LaSalle Sallmanns Limited, an independent qualified professional valuer. The fair value change on investment property up to October 8, 2007 of approximately RMB5,671,000 was recorded as other income for the year ended December 31, 2007 (2006: Nil).

In 2007, the Group acquired another parcel of land in Changsha, Hunan Province with acquisition cost of RMB263,781,000 for properties development purpose.

## 13. OTHER LONG TERM ASSETS

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

| | **2007** | 2006 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| A subsidiary primarily holding a property *(note)* | **79,200** | – |
| An office | **19,260** | – |
| Land use rights in the PRC under medium-term lease from the Government | **44,900** | – |
| | **143,360** | – |

*note*: Pursuant to an equity transfer agreement dated December 20, 2007, the Company agreed to purchase 99% equity interest in Qionghai Bodi Real Estate Co., Ltd. (琼海博地置業有限公司) from an independent third party for a consideration of approximately RMB100 million. As at December 31, 2007, RMB79.2 million have been paid to the vendor and are recorded as an other long term asset at December 31, 2007.

## 14. TRADE RECEIVABLES

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

| | **2007** | 2006 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Aged: | | |
| Within 60 days | **256,714** | 345,725 |
| 61 – 90 days | **37,943** | 53,892 |
| 91 – 180 days | **49,144** | 47,468 |
| 181 – 365 days | **19,691** | 35,546 |
| 1 – 2 years | **2,824** | 7,836 |
| | **366,316** | 490,467 |

## 15. TRADE AND BILLS PAYABLES

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

| | **2007** | 2006 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Aging: | | |
| Within 60 days | **186,645** | 286,950 |
| 61 – 90 days | **19,851** | 20,807 |
| 91 – 180 days | **13,454** | 13,080 |
| 181 – 365 days | **17,500** | 10,907 |
| 1 – 2 years | **3,169** | 8,719 |
| Over 2 years | **6,957** | 6,445 |
| Total trade payables | **247,576** | 346,908 |
| Aging: | | |
| Within 60 days | **–** | 61,156 |
| 61 – 90 days | **32,022** | 26,937 |
| 91 – 180 days | **4,814** | 54,386 |
| Total bills payables | **36,836** | 142,479 |

## 16. AMOUNTS DUE FROM (TO) RELATED COMPANIES

Aging of amounts due from (to) related companies in operating nature is as follows:

| | **2007** | | 2006 | |
|---|---|---|---|---|
| | **Amounts due from related companies** | **Amounts due to related companies** | Amounts due from related companies | Amounts due to related companies |
| | ***RMB'000*** | ***RMB'000*** | *RMB'000* | *RMB'000* |
| Aging: | | | | |
| Within 60 days | **17,787** | **–** | 10,421 | (12,621) |
| 61 – 90 days | **795** | **(81)** | 5,619 | (6,105) |
| 91 – 180 days | **5,532** | **–** | 12,067 | (706) |
| 181 – 365 days | **245** | **–** | 6,303 | (35) |
| 1 – 2 years | **13** | **–** | 2,186 | – |
| 2 – 3 years | **–** | **–** | – | – |
| | **24,372** | **(81)** | 36,596 | (19,467) |

## 17. PLEDGE OF ASSETS

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

| | 2007 | 2006 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Buildings | **481,671** | 468,517 |
| Prepaid lease payments | **72,325** | 82,125 |
| Pledged bank deposits | **113,689** | 163,221 |
| | **667,685** | 713,863 |

## 18. CAPITAL COMMITMENTS

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

| | 2007 | 2006 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment | **19,260** | 1,464 |
| Capital expenditure contracted for but not provided in the consolidated financial statements in respect of construction of certain infrastructure and public facilities in the PRC on behalf of the government | **13,202** | 14,135 |
| Commitment for acquisition of a subsidiary | **20,862** | – |
| | **53,324** | 15,599 |

## 19. CONTINGENT LIABILITIES

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

In the opinion of the directors of the Company, no relevant financial liabilities have been recognised in the consolidated financial statements as the effect of such financial liabilities to the Group's financial statement is immaterial and the possibility that the third party defaults the bank loan repayment is remote.

## 20. POST BALANCE SHEET EVENTS

Pursuant to an equity transfer agreement dated February 19, 2008, a wholly owned subsidiary of the Company agreed to purchase from an independent third party 49.5% equity interest in Chengdu Longteng Shoes Market Investment and Development Co., Ltd. (成都隆騰鞋城投資開發有限公司) for a consideration of RMB29.7 million. This transaction has been approved by local authority on March 7, 2008. Chengdu Longteng Shoes Market Investment and Development Co., Ltd. becomes the associate of the Group since then.

## MANAGEMENT DISCUSSION AND ANALYSIS

All financial figures and ratios in the following discussion include the financial figures of the assets/liabilities held for sale. For more details about this assets/liabilities held for sale, please refer to note 9 to the consolidated financial statements.

## RESULTS OVERVIEW

For the year ended December 31, 2007, the Group recorded a consolidated turnover of RMB3,310.7 million, representing a decrease of 15.5% compared with RMB3,916.5 million of year 2006.

The Group's gross profit margin in 2007 was 9.0%, representing a decrease of 1.9 percentage point as compared to 2006.

For the year ended December 31, 2007, the Group recorded a loss of RMB190.0 million (2006: profit of RMB83.4 million); loss attributable to equity holders of the Company was RMB194.1 million (2006: profit attributable to equity holders of the Company of RMB64.1 million). During the year under review, the Group assessed the recoverable amounts of goodwill from previous acquisitions. Due to the anticipated deterioration of its business environment and further reduction in the forecasted furniture sales, the Group determined that the goodwill associated with the Group's upholstered furniture operation subsidiaries were impaired by an aggregate amount of RMB158.0 million in 2007 (2006: RMB23.0 million). In addition, the Group increased its impairment provision for inventory from RMB11.4 million in 2006 to RMB99.6 million in 2007 as the net realisable value of certain types of leather was reduced due to the reduction in market demand.

## SALES ANALYSIS BY PRODUCTS

The table below shows the total turnover by product category for the year ended December 31, 2007:

| | **2007** | | 2006 | | **Y-O-Y Change** |
|---|---|---|---|---|---|
| | ***RMB'Million*** | ***%*** | *RMB'Million* | *%* | *%* |
| Upholstered Furniture | | | | | |
| Leather Sofa | **1,653.3** | **49.9%** | 1,841.5 | 47.0% | -10.2% |
| Fabric Sofa | **313.2** | **9.5%** | 408.1 | 10.4% | -23.3% |
| Leather Cut-and-Sew | **428.7** | **12.9%** | 626.2 | 16.0% | -31.5% |
| Fabric Cut-and-Sew | **178.7** | **5.4%** | 247.1 | 6.3% | -27.7% |
| Furniture Leather | **461.3** | **13.9%** | 615.1 | 15.7% | -25.0% |
| Automotive Leather | **217.9** | **6.6%** | 150.1 | 3.8% | 45.2% |
| Others | **57.6** | **1.8%** | 28.4 | 0.8% | 103.5% |
| Total | **3,310.7** | **100%** | 3,916.5 | 100% | -15.5% |

### Upholstered Furniture

Sales of upholstered furniture including finished sofa and sofa cut-and-sew accounted for 77.7% of the Group's total revenue for the year ended December 31, 2007 (2006: 79.7%). The subprime crises and downturn in the US housing market severely affected the sales of home furnishing and furniture products. Most of the Group's major US customers have experienced difficulties in their business. This has in turn affected the Group's sales.

In order to consolidate its manufacturing facilities and to increase the utilization rates of its facilities, the Group disposed of its interests in two sofa manufacturing subsidiaries in Haining, Zhejiang province, and suspended another factory in Shanghai. This has further impacted the Group's sales.

As a result of the above, the Group's upholstered furniture sales experienced a decrease of 17.6%, from RMB3,122.9 million in 2006 to RMB2,573.9 million in 2007.

**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 manufacturing costs and the slow down in export-oriented upholstered furniture industry, the Group's external sales of furniture leather decreased by 25.0%, from RMB615.1 million in 2006 to RMB461.3 million in 2007.

**Automotive Leather**

The automotive leather operation achieved a 45.2% increase in turnover for the year ended December 31, 2007. Due to the reduction in tax rebates in 2007 for finished leather exports from 8% to nil, the Group's automotive leather export was severely affected. However, the Group's efforts in domestic market expansion over the years have started to take effect, as domestic sales recorded a 224.4% increase, from RMB28.8 million in 2006 to RMB93.4 million in 2007.

**SALES ANALYSIS BY REGION**

The table below shows the total turnover by geographic market for the year ended December 31, 2007:

| | **2007** | | 2006 | | **Y-O-Y Change** |
|---|---|---|---|---|---|
| | ***RMB'Million*** | *%* | *RMB'Million* | *%* | *%* |
| USA | **2,041.1** | **61.7%** | 2,825.8 | 72.2% | -27.8% |
| Europe | **293.5** | **8.9%** | 160.3 | 4.1% | 83.1% |
| Australia | **100.5** | **3.0%** | 122.3 | 3.1% | -17.8% |
| PRC, including HK | **792.3** | **23.9%** | 736.1 | 18.8% | 7.6% |
| Others | **83.3** | **2.5%** | 72.0 | 1.8% | 15.6% |
| Total | **3,310.7** | **100%** | 3,916.5 | 100.0% | -15.5% |

For the year ended December 31, 2007, the Group's sales to the US market declined by 27.8%, and the percentage of US sales to total turnover reduced to 61.7%, representing a 10.5 percentage points drop as compared to the year of 2006. This decrease was mainly due to the US housing market downturn which had led to slower residential furniture sales.

The Group's expansion into the European market is still ongoing. In 2007, the Group was able to grow its upholstered furniture business in Europe by 83.1%, and this segment accounted for 8.9% of the Group's total turnover as compared to 4.1% in 2006.

The Group's sales to Australia market decreased by 17.8%, from RMB122.3 million in 2006 to RMB100.5 million in 2007.

In 2007, the Group's sales to the PRC domestic market mainly involved furniture leather, automotive leather and upholstered furniture, the turnover of which represented 23.9% of its total sales.

## GROSS MARGIN ANALYSIS

The Group's gross profit margin in 2007 was 9.0%, representing a decrease of 1.9 percentage point as compared to 2006.

The Group's gross profit margin has continuously been under pressure as a result of the following factors: (1) the continued appreciation of RMB has been a major adverse factor for the Group's profitability as more than 80% of the Group's sales is denominated in US dollar; (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 year of 2007, it was still well above its historical average by 20%; (3) with the inflation of commodities prices, costs of chemicals, foam, timber and labor, experienced increases; (4) export tax rebates were reduced as part of China government's initiative in reducing its massive trade surplus; (5) the government further tightened its environmental protection policies, resulting an increase in the Group's waste treatment costs; and (6) the Group increased its impairment provision for inventory from RMB11.4 million in 2006 to RMB99.6 million in 2007 as the net realisable value of certain types of leather was reduced due to the reduction in market demand.

However, the Group has taken several steps to mitigate the negative impact of the above factors to its gross profit margin. Those steps included price increases for some finished products, the termination of loss-making items, and improved cost management for the production processes.

## OPERATING EXPENSE, TAXATION AND LOSS ATTRIBUTABLE TO EQUITY HOLDERS

The Group's selling and distribution costs in 2007 increased to RMB116.7 million as compared to RMB107.9 million in 2006, due mainly to an increase of RMB7.5 million in operating lease rentals for the Kasen Home Furnishing Store in Shanghai and Hangzhou. As a result, the percentage of selling and distribution costs to turnover rose from 2.8% in 2006 to 3.5% in 2007.

The administrative costs were RMB168.8 million in 2007, with a small decrease of 1.4% as compared to RMB171.1 million in 2006. The decrease was resulted from a decrease of RMB13.0 million in share option related expenses and a decrease of RMB7.3 million in bad debt provision, offset by an increase of RMB8.9 million in the net foreign exchange losses.

The other expenses were RMB168.9 million in 2007, an increase of RMB138.9 million as compared to RMB30.0 million in 2006. The increase was mainly attributable to RMB158.0 million goodwill impairment and RMB7.0 million property, plant and equipment impairment. During the year under review, the Group assessed the recoverable amount of goodwill arising from previous acquisitions. Due to the anticipated deterioration of its business environment and further reduction in forecasted furniture sales, the Group determined that goodwill associated with the Group's upholstered furniture operation subsidiaries were impaired by an aggregate amount of RMB158.0 million in 2007 (2006: RMB23.0 million).

The Group's finance cost in 2007 increased by RMB6.2 million or 7.2% compared to year 2006 as (1) the Chinese central bank gradually raised the basic lending rate from 6.12% at the beginning of 2007 to 7.47% at the end of 2007; and (2) the Group increased its bank borrowings.

The Group's income tax in 2007 decreased by RMB7.1 million or 32.8% compared to year 2006, due to the decrease in the Group's profit at subsidiary level. Goodwill impairment, fixed assets impairment, provision for inventory and bad debts have not been deducted for PRC tax computation.

For reasons mentioned above, the loss attributable to equity holders of the Group was RMB194.1 million in 2007, compared to profit attributable to equity holders of RMB64.1 million in 2006.

## CAPITAL EXPENDITURES

Capital expenditure in 2007 decreased by 4.6% to RMB102.3 million (2006: RMB107.3 million), which was mainly comprised of a deposit of RMB19.3 million paid for the acquisition of office in Hangzhou, and an amount of RMB40.0 million spent on the purchase of property, plant and equipment for operational purposes. In addition, the Group spent RMB43.0 million to acquire 4.92% equity interests in Haining Leather Market.

## PROPERTIES FOR DEVELOPMENT

As at December 31, 2007, the Group held the land use right of two parcels of land in the PRC, which were to be utilized for property development. The land in Boao, Hainan Province, with a total of site area of approximately 139,669 square metres, which was acquired in 2006 and incurred total cost of RMB45,329,000 as at December 31, 2007. The land in Changsha, Hunan Province, with a total site area of approximately 145,078 square metres, was acquired in 2007 at a total cost of RMB263,781,000. The Group revalued these two parcels of land at the end of the year under review. The appreciated value in the amount of RMB5,671,000 was recorded as properties for development as at December 31, 2007.

## FINANCIAL RESOURCES AND LIQUIDITY

### Bank borrowings

As at December 31, 2007, the Group's bank borrowings amounted to RMB1,570.5 million, representing an increase of 26.0% from RMB1,246.7 million as at December 31, 2006.

### Turnover Period, Liquidity and Gearing

The Group's inventory primarily composed of raw cowhides and wet blues used for production, accounting for approximately 47.8% of the total inventory of RMB1,205.8 million (2006: RMB1,326.2 million). Due to the decrease in sales, the Group's inventory turnover period in 2007 increased to 146 days (2006: 139 days).

In 2007, the Group continued to maintain a strict credit policy, resulting in a decrease in account receivables turnover days to 43 days (2006: 46 days).

The accounts payable turnover days had a slight increase to 52 days in 2007 (2006: 51 days).

As at December 31, 2007, the Group's current ratio and quick ratio decreased to 1.19 (December 31, 2006: 1.35) and 0.63 (December 31, 2006: 0.65), respectively. The Group's cash and cash equivalent balance was RMB508.9 million (December 31, 2006: RMB381.0 million). This represents a gearing ratio of 79.7% (December 31, 2006: 57.1%) and a net debt-to-equity ratio of 53.9% (December 31, 2006: 39.7%). The increase in gearing ratio was resulted from the increased bank borrowings for the purchase of lands for property developments. The Group intends to fund its property development projects with cash generated from operations and external financing. 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.

## MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES

The Group had disposed of its interests in two subsidiaries in 2007 in order to increase its sofa production facility capacity utilization and acquired 4.92% equity interests in Haining Leather Market as a strategic expansion into domestic leather market.

## FOREIGN EXCHANGE EXPOSURE

RMB appreciated approximately 3.4% and 6.5%, respectively against US dollar in 2006 and 2007. The Group is principally engaged in export-related business and transactions (including sales and procurements) entered into by the Group were mainly denominated in US dollar, and most of its trade receivables was exposed to fluctuation in 2007. The Group used forward contract and some other financial instruments to hedge foreign exchange risk, and recorded a gain of RMB18.1 million.

## FUTURE PLANS AND PROSPECTS

The export-oriented manufacturers for household products in China will continue to face challenges as US economy will not see any turnaround in the foreseeable future and the RMB is expected to accelerate its appreciation. As China inflation rate escalates and the New Labor Contract Law enacted in 2008, the Group has to focus on cost saving programs to go through the rest of 2008.

### Maintaining and strengthening position as a major player in upholstered furniture industry

Compared with other competitors, the Group has a unique advantage in its vertically integrated production and large scale manufacturing capabilities. The Group will leverage on this advantage to work with its major customers and to strengthen its reputation as a quality OEM partner not only with US customers but also with European and Australian customers.

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 2007, the Group disposed of its interests in two manufacturing subsidiaries and leased the facility of La Kassa Furniture Co., Ltd in Shanghai to a third party. The Group is considering further consolidation of its assets and cash generated from this initiative will be used to finance new business development projects.

The Group recognizes the importance of business process efficiency, and will continue improving its raw material procurement and its supply chain management. The Group also implemented a new incentive schemes to motivate its business units. These will lead to the strengthening of the Group's competitiveness.

### Establishing domestic presence to tap into China's growth potentials for consumption goods

*Kasen Home Furnishing Stores*

The residential furniture market in China is currently very fragmented. 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 Group plans to tap into China's growth potentials for mid to high end residential furniture by opening large furniture malls in major cities in China. The first 6,000 square meters flagship store in Shanghai was opened in October 2007, and the second store will be opened in Hangzhou in the middle of 2008. The Group believes that it will take two to three years to build a strong brand in furniture retail business.

*Retail Mall Project*

To further diversify its revenue sources and implement its domestic marketing plans, the Group has acquired 4.92% equity interests in Haining Leather Market, a well-known and experienced developer and operator of large leather product shopping malls in China, and formed a joint venture with Haining Leather Market. The joint venture, in which the Group holds 60% equity interests, will look for new sites in major cities in the PRC to develop large specialized leather product shopping malls. The joint venture company has successfully tendered for a land of approximately 145,078 square meters in Changsha, Hunan province at a total cost of RMB263.78 million. The land will be used to build a leather and furniture retail mall. Most of the shop floors will be sold or leased out to retailers, while the Group intends to retain part of the mall for its Kasen Home Furnishing Stores. Development of the Changsha land is expected to begin in 2008.

*Real estate development*

In addition to the Changsha land, the Group had acquired a parcel of land with a site area of approximately 139,669 square meters in Boao, Hainan province in 2006. In December 2007, the Group acquired Qionghai Bodi Real Estate Co., Ltd. that held a parcel of land with a site area of approximately 450,497 square meters, adjacent to the Group's existing land in Boao. After this acquisition, the Group owns a total site area of 590,166 square metres of lands in Boao which will be used for residential property development projects beginning in late 2008. The Group believes these projects will provide the Group with good opportunity to diversify its business and will contribute to the Group's profitability in the long run.

## DIVIDENDS

The directors of the Company do not recommend the payment of any final dividend for the year ended December 31, 2007.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from May 27, 2008 to May 29, 2008 (both days inclusive), during which period no transfer of shares in the Company will be effected. In order to qualify for the entitlement to attend and vote at the forthcoming annual general meeting, all transfers documents, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch registrar, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on May 26, 2008.

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

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

## EMPLOYEES AND EMOLUMENTS

As at December 31, 2007, the Group employed a total of approximately 11,000 full time employees (2006: 14,800) including management staff, technicians, salespersons and workers. For the year ended December 31, 2007, the Group's total expenses on the remuneration of employees is RMB270.2 million (2006: RMB286.7 million) and represents 8.16% (2006: 7.32%) of the turnover of the Group. The Group's emolument policies for employees are formulated on the performance of individual employees, which will be reviewed regularly every year. Apart from the provident fund scheme (according to the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees) or state-managed retirement pension scheme (for the PRC employees) and medical insurance, discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance.

The emolument policy of the employees of the Group is formulated by the Board with reference to their respective qualification and experience, responsibilities undertaken, contribution to the Group, and the prevailing market level of remuneration of similar position. The emoluments of the Directors are decided by the Board and the Remuneration Committees, who are authorized by the shareholders in the annual general meeting, having regard to the Group's operating results, individual performance and comparable market statistics.

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions set out in Appendix 14 of Code on Corporate Governance Practices ("Code") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") for the year ended December 31, 2007, except for code provisions A.2.1 and A.4.1.

## CODE PROVISION A.2.1

Under 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 the Chairman and the Chief Executive Officer. Mr. Zhu Zhangjin is the Chairman and the 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 is required for the position of the Chief Executive Officer, the Company is unable to determine as to when the appointment of a Chief Executive Officer for the Company can be effected.

## CODE PROVISION A.4.1

Under 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 which has provided that at every annual general meeting, one-third of the directors for the time being or, if their number is not a multiple of three, the number nearest to but not less than one-third, shall retire from office by rotation. Given that the provisions stipulated under the articles of association of the Company, the Company considers that appropriate measures have been taken by the Company regarding its corporate governance practices. The Board will keep these matters under review and will continue to monitor and revise the Company's corporate governance policies in order to ensure that such policies can meet the general rules and standards required by the Stock Exchange.

## COMPLIANCE WITH MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Specific enquiries have been made with all directors, who have confirmed that, during the year ended December 31, 2007, they were in compliance with the provisions of the Model Code. All directors of the Company declared that they have complied with the Model Code for the year ended December 31, 2007.

## AUDIT COMMITTEE

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

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

## REMUNERATION COMMITTEE

A Remuneration Committee was established by the Company to establish policies, review and determine the remuneration of the directors and the senior management. The Remuneration Committee, comprises the two independent non-executive directors and a non-executive director of the Company.

Mr. Li Hui is the chairman of the Remuneration Committee.

## SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated balance sheet, consolidated income statement and the related notes thereto for the year ended December 31, 2007 as set out in the preliminary announcement have been agreed by the Group's auditors, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

## SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended December 31, 2007.

## PUBLICATION OF INFORMATION ON THE EXCHANGE'S WEBSITE

The annual report of the Company for the year ended December 31, 2007 containing all the information required by the Listing Rules will be dispatched to the Company's shareholders and published on the website of the Stock Exchange and the website of the Company at www.irasia.com/listco/hk/kasen/index.htm on or about April 23, 2008.

## ANNUAL GENERAL MEETING

It is proposed that the annual general meeting of the Company will be held on May 29, 2008. Notice of the annual general meeting will be published on the website of the Stock Exchange and the website of the Company at www.irasia.com/listco/hk/kasen/index.htm and despatched to the Company's shareholders on or about April 23, 2008.

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

Hong Kong, April 15, 2008

*As at the date hereof, the Executive Directors are Mr. Zhu Zhangjin, Mr. Zhou Xiaosong and Mr. Zhu Jianqi. The Non-executive Director is Mr. Li Hui. The Independent Non-executive Directors are Mr. Lu Yungang, Mr. Chow Joseph and Mr. Zhang Huaqiao.*

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