# 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, 2008

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, 2008 together with comparative figures for the same period of 2007, as follows:

### CONSOLIDATED INCOME STATEMENT

*For the year ended December 31, 2008*

| | *Notes* | **2008** *RMB'000* | 2007 *RMB'000* |
|---|---|---|---|
| Turnover | *4* | **1,893,990** | 3,310,727 |
| Cost of sales | | **(1,806,760)** | (3,011,190) |
| Gross profit | | **87,230** | 299,537 |
| Other income | *5* | **49,476** | 70,921 |
| Distribution costs | | **(69,224)** | (116,721) |
| Administrative expenses | | **(130,017)** | (158,420) |
| Other expenses | *6* | **(93,517)** | (179,281) |
| Share of (losses) profits of associates | | **(7,439)** | 103 |
| Finance costs | *7* | **(108,500)** | (91,579) |
| Loss before taxation | *8* | **(271,991)** | (175,440) |
| Taxation | *9* | **(6,192)** | (14,584) |
| Loss for the year | | **(278,183)** | (190,024) |
| Attributable to: | | | |
| Equity holders of the Company | | **(273,804)** | (194,149) |
| Minority interests | | **(4,379)** | 4,125 |
| | | **(278,183)** | (190,024) |
| Dividend | | **–** | – |
| Loss per share | *10* | | |
| Basic and diluted | | **(26) cents** | (20) cents |

**CONSOLIDATED BALANCE SHEET**
*At December 31, 2008*

| | Notes | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **572,078** | 952,492 |
| Prepaid lease payments – non-current portion | | **61,031** | 102,265 |
| Properties for development | | **948,919** | 314,781 |
| Intangible assets | | **1,870** | 1,321 |
| Interests in associates | | **49,634** | 15,833 |
| Investment in a jointly controlled entity | | **2,614** | 2,614 |
| Available-for-sale investments | | **43,278** | 43,278 |
| Other long term assets | | **–** | 143,360 |
| Deferred tax assets | | **5,916** | – |
| | | **1,685,340** | 1,575,944 |
| **CURRENT ASSETS** | | | |
| Inventories | | **727,128** | 1,142,720 |
| Properties under development | | **747,936** | – |
| Trade, bills and other receivables | 12 | **463,382** | 573,960 |
| Prepaid lease payments – current portion | | **1,949** | 2,311 |
| Prepaid land appreciation tax | | **5,938** | – |
| Tax recoverable | | **22,943** | 6,682 |
| Derivative financial instruments | 13 | **–** | 16,151 |
| Pledged bank deposits | | **120,997** | 85,743 |
| Bank balances and cash | | **389,647** | 504,549 |
| | | **2,479,920** | 2,332,116 |
| Assets classified as held for sale | 11 | **214,485** | 231,390 |
| | | **2,694,405** | 2,563,506 |
| **CURRENT LIABILITIES** | | | |
| Trade, bills and other payables | 14 | **376,421** | 429,657 |
| Deposit received in respect of pre-sale properties | | **617,516** | – |
| Derivative financial instruments | 13 | **627** | – |
| Bank and other borrowings – due within one year | | **1,429,002** | 1,546,812 |
| Tax payable | | **7,062** | 7,722 |
| | | **2,430,628** | 1,984,191 |
| Liabilities classified as held for sale | 11 | **–** | 175,013 |
| | | **2,430,628** | 2,159,204 |
| **NET CURRENT ASSETS** | | **263,777** | 404,302 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **1,949,117** | 1,980,246 |
| **NON-CURRENT LIABILITIES** | | | |
| Bank and other borrowings – due after one year | | **13,555** | 10,400 |
| | | **13,555** | 10,400 |
| **NET ASSETS** | | **1,935,562** | 1,969,846 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | | **1,404** | 1,227 |
| Reserves | | **1,852,654** | 1,915,927 |
| Equity attributable to equity holders of the Company | | **1,854,058** | 1,917,154 |
| Minority interests | | **81,504** | 52,692 |
| **TOTAL EQUITY** | | **1,935,562** | 1,969,846 |

*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 Limited (incorporated in the British Virgin Islands). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information attached to the annual report.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

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

## 2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

1 Effective for annual periods beginning on or after January 1, 2009 except the amendments to IFRS 5, effective for annual periods beginning on or after July 1, 2009

2 Effective for annual periods beginning on or after January 1, 2009

3 Effective for annual periods beginning on or after July 1, 2009

4 Effective for annual periods beginning on or after July 1, 2008

5 Effective for annual periods beginning on or after October 1, 2008

6 Effective for annual periods ending on or after June 30, 2009

7 Effective for transfers on or after July 1, 2009

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

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

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

## 4. BUSINESS AND GEOGRAPHICAL SEGMENTS

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

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

**Business segment**

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

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

– Furniture leather;

– Automotive leather;

– Properties development; and

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

Segment information about these businesses is presented below:

**For the year ended December 31, 2008**
**Consolidated Income Statement**

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

Inter-segment sales are charged at prevailing market rates.

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

For the year ended December 31, 2007
**Consolidated Income Statement**

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

Inter-segment sales are charged at prevailing market rates.

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

**Geographical segment**

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

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

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

## 5. OTHER INCOME

Details of other income are as follows:

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

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

## 6. OTHER EXPENSES

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

## 7. FINANCE COSTS

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

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

## 8. LOSS BEFORE TAXATION

Loss before taxation has been arrived at after charging:

| | **2008** | 2007 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Amortization of intangible assets (included in administrative expenses) | **559** | 500 |
| Amortization of prepaid lease payments | **1,473** | 2,707 |
| Amortization of properties for development (included in other expenses) | **8,824** | – |
| Depreciation of property, plant and equipment | **84,253** | 94,498 |
| Total depreciation and amortization | **95,109** | 97,705 |
| Cost of inventories recognized as expenses | **1,806,760** | 3,011,190 |
| Loss on disposal of property, plant and equipment | **656** | 396 |
| Net foreign exchange (gains) losses | **(729)** | 26,740 |
| Total employee benefit expenses | **188,366** | 270,209 |

## 9. TAXATION

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

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

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

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

## 10. LOSS PER SHARE

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

**Loss**

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

**Number of shares**

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

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

## 11. ASSETS/LIABILITIES HELD FOR SALE

(a) Pursuant to a Board resolution dated October 8, 2007 and shareholders' approval on November 23, 2007, the Company entered into a binding agreement with two independent third parties to dispose of a 50.5% owned subsidiary, Haining Oyi May Sofa Co., Ltd. ("Oyi May") (海寧歐意美沙發有限公司), for a consideration of RMB24,508,000. As at December 31, 2007, this disposal has not been completed due to delay of local government approval. The assets and liabilities attributable to Oyi May have been classified as a disposal group held for sale and are presented separately in the consolidated balance sheet. The segment results contributed by this subsidiary is included in the Group's upholstered furniture production activities for segment reporting purposes (see note 4).

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

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

The disposal of interest in Oyi May was completed on January 10, 2008.

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

The segment results contributed by these subsidiaries are included in the Group's upholstered furniture production activities for segment reporting purposes (see note 4).

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

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

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

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

## 12. TRADE AND BILLS RECEIVABLES

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

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

## 13. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

## 14. TRADE AND BILLS PAYABLES

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

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

## 15. PLEDGE OF ASSETS

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

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

## 16. CAPITAL AND OTHER COMMITMENTS

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

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

## 17. CONTINGENT LIABILITIES

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

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

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

## 18. POST BALANCE SHEET EVENT

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

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

## MANAGEMENT DISCUSSION AND ANALYSIS

## RESULTS OVERVIEW

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

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

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

## SALES ANALYSIS BY PRODUCTS

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

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

### Upholstered Furniture

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

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

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

### Furniture Leather

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

### Automotive Leather

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

### Property Development

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

## SALES ANALYSIS BY REGION

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

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

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

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

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

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

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

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

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

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

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

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

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

## CAPITAL EXPENDITURES

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

## FINANCIAL RESOURCES AND LIQUIDITY

### Bank and other borrowings

As at December 31, 2008, the Group's bank and other borrowings amounted to RMB1,442.6 million, accounted for a 8.7% decrease from RMB1,580.9 million as at December 31, 2007.

**Turnover Period, Liquidity and Gearing**

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

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

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

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

## MATERIAL ACQUISITION AND DISPOSAL

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

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

## CONTINGENT LIABILITIES

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

## PLEDGE OF ASSETS

Some of the Group's assets have been pledged to secure the bank borrowings of the Group. For details, please refer to note 15 as stated above.

## FOREIGN EXCHANGE EXPOSURE

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

## EMPLOYEES AND EMOLUMENTS POLICIES

As at December 31, 2008, the Group employed a total of approximately 5,400 full time employees (December 31, 2007: 11,000), including management staff, technicians, salespersons and workers. In 2008, the Group's total expense on the remuneration of employees was RMB188 million (2007: RMB270 million), representing 9.93% (2007: 8.16%) of the operating revenue of the Group. The Group's emolument policies for employees are formulated on the performance of individual employees, which are reviewed regularly every year. Apart from the provident fund scheme (according to the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees) or state-managed retirement pension scheme (for the PRC employees) and medical insurance, discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance.

The Group's emolument policies of the employees are formulated with reference to their qualification and experience, responsibilities undertaken, contribution to the Group, and the prevailing market level of remuneration for executives of similar position.

## FUTURE PLANS AND PROSPECTS

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

### Focusing on the OEM Business

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

The Group treasures the good business relationship established with its customers during the past years and will continue to work with them closely to pass the difficult time. Also, the Group is aiming to develop more OEM business opportunities from global market.

### Domestic Expansion Plan

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

**Reforming Measures**

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

**Real Estate Development**

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

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

## DIVIDENDS

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

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from May 26, 2009 to May 29, 2009 (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 25, 2009.

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

Pursuant to the general mandate granted by the shareholders of the Company, the Board resolved on November 10, 2008 to repurchase the Company's shares of up to 10% of the issued shares of the Company as at the date of May 29, 2008. As at December 31, 2008, the Company had repurchased 817,000 ordinary shares on the Stock Exchange at an aggregate consideration of HK$596,240. All of such shares were subsequently cancelled. Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended December 31, 2008.

## 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, 2008, except for code provisions A.2.1 and A.4.1.

## CODE PROVISION A.2.1

Under CG Code Provision A.2.1, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. The Company does not at present separate the roles of chairman and chief executive officer. Mr. Zhu Zhangjin, Kasen is the chairman and chief executive officer of the Company responsible for overseeing the operations of the Group. The Company is still considering appointing a new chief executive officer to replace Mr. Zhu if candidate with suitable leadership, knowledge, skills and experience can be identified within or outside the Group. However, due to the nature and extent of the Group's operations, in particular in Mainland China and the in-depth knowledge and experience in the leather and upholstery furniture market is required for the position of chief executive officer, the Company is unable to determine as to when the appointment of a chief executive officer for the Company can be effected.

## CODE PROVISION A.4.1

Under CG Code Provision A.4.1, non-executive Directors should be appointed for a specific term and subject to re-election. The current independent non-executive Directors, namely Mr. Chow Joseph, Mr. Lu Yungang, Ken and Mr. GU Mingchao are not appointed for specific terms, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the articles of association of the Company 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.

The Board will keep these matters under review. Following sustained development and growth of the Company, we will continue to monitor and revise the Company's corporate governance policies in order to ensure that such policies can meet the general rules and standards required by the Stock Exchange.

## 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 of the Company, who have confirmed that, during the year ended December 31, 2008, 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, 2008.

## AUDIT COMMITTEE

An Audit Committee was established by the Company to review and supervise the Company's financial reporting process and internal controls. The Audit Committee comprises all the independent non-executive directors 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 of the Company. The Remuneration Committee, comprises two independent non-executive directors and an executive director.

Mr. GU Mingchao is the chairman of the Remuneration Committee.

## 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, 2008 as set out in the Preliminary Announcement have been agreed by the Group's auditor, 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, 2008.

## PUBLICATION OF INFORMATION ON THE EXCHANGE'S WEBSITE

The annual report of the Company for the year ended December 31, 2008 containing all the information required by the Listing Rules will be despatched 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 16, 2009.

## ANNUAL GENERAL MEETING

It is proposed that the annual general meeting of the Company will be held on May 29, 2009. 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 16, 2009.

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

PRC, April 6, 2009

*As at the date of this announcement, the executive directors of the Company are Mr. Zhu Zhangjin, Mr. Zhou Xiaosong and Mr. Zhang Mingfa, Michael; and the independent non-executive directors of the Company are Mr. Lu Yungang, Mr. Chow Joseph and Mr. Gu Mingchao.*

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