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, 2009

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, 2009 together with comparative figures for the same period of 2008, as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2009

	Notes	**2009** *RMB'000*	2008 *RMB'000*
Turnover	*3*	**2,398,974**	1,893,990
Cost of sales		**(2,065,075)**	(1,806,760)
Gross profit		**333,899**	87,230
Other income	*4*	**34,234**	47,525
Distribution costs		**(192,827)**	(69,224)
Administrative expenses		**(119,967)**	(117,038)
Other expenses	*5*	**(33,103)**	(30,167)
Gain on disposal of interest in an associate		**21,300**	305
Gain on disposal of properties for development		**4,431**	–
Discount on acquisition of additional interest in a subsidiary		**839**	–
Gain on fair value change on derivative financial instruments		**207**	1,646
Impairment loss recognized in respect of property, plant and equipment		**(34,110)**	(30,791)
Impairment loss recognized in respect of trade and other receivables		**(13,763)**	(45,538)
Impairment loss of goodwill		**(4,139)**	–
Share of profits (losses) of associates		**192**	(7,439)
Share of profit of a jointly controlled entity		**121**	–
Gain on disposal of assets classified as held for sale	*11*	**277,289**	–
Finance costs	*6*	**(62,764)**	(108,500)
Profit (loss) before tax	*7*	**211,839**	(271,991)
Income tax expenses	*8*	**(77,215)**	(6,192)
Profit (loss) for the year		**134,624**	(278,183)

	Notes	2009 RMB'000	2008 RMB'000
Other comprehensive income (expense)			
Fair value gain on available-for-sale investments		**96,635**	–
Deferred tax liability on fair value change of available-for-sale investments		**(24,159)**	–
Exchange differences arising on translation		**(8,152)**	–
		64,324	–
Total comprehensive income (expense) for the year		**198,948**	(278,183)
Profit (loss) for the year attributable to:			
Owners of the Company		**132,675**	(273,804)
Minority interests		**1,949**	(4,379)
		134,624	(278,183)
Total comprehensive income (expense) attributable to:			
Owners of the Company		**196,999**	(273,804)
Minority interests		**1,949**	(4,379)
		198,948	(278,183)
Earnings (loss) per share	*9*		
Basic		**RMB11.40 cents**	RMB(25.61) cents
Diluted		**RMB11.38 cents**	RMB(25.61) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2009

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**498,268**	572,078
Prepaid lease payments – non-current portion		**60,028**	61,031
Properties for development		**519,780**	948,919
Intangible assets		**3,469**	1,870
Interests in associates		**50,426**	49,634
Investment in a jointly controlled entity		**2,735**	2,614
Available-for-sale investments		**139,913**	43,278
Deferred tax assets		**7,761**	5,916
Deposit paid for acquisition of a subsidiary		**70,000**	–
Advance		**165,060**	–
		1,517,440	1,685,340
CURRENT ASSETS			
Inventories		**409,167**	727,128
Properties under development and held for sale		**593,702**	747,936
Trade, bills and other receivables	*10*	**763,726**	463,382
Receivable from disposal of assets classified as held for sale	*11*	**486,774**	–
Prepaid lease payments – current portion		**1,406**	1,949
Prepaid land appreciation tax		**244**	5,938
Tax recoverable		**9,441**	22,943
Pledged bank deposits		**76,092**	120,997
Bank balances and cash		**461,882**	389,647
		2,802,434	2,479,920
Assets classified as held for sale	*11*	**–**	214,485
		2,802,434	2,694,405
CURRENT LIABILITIES			
Trade, bills and other payables	*12*	**576,674**	376,421
Deposits received in respect of pre-sale of properties		**289,232**	617,516
Derivative financial instruments		**537**	627
Bank and other borrowings – due within one year		**1,083,528**	1,429,002
Tax payable		**18,361**	7,062
Other current liabilities		**4,973**	–
		1,973,305	2,430,628
NET CURRENT ASSETS		**829,129**	263,777
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,346,569**	1,949,117

	2009	2008
	RMB'000	*RMB'000*
NON-CURRENT LIABILITIES		
Deferred tax liabilities	**55,156**	–
Bank and other borrowings – due after one year	**198,404**	13,555
Other long-term liabilities	**37,814**	–
	291,374	13,555
NET ASSETS	**2,055,195**	1,935,562
CAPITAL AND RESERVES		
Share capital	**1,404**	1,404
Reserves	**2,050,885**	1,852,654
Equity attributable to owners of the Company	**2,052,289**	1,854,058
Minority interests	**2,906**	81,504
Total equity	**2,055,195**	1,935,562

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. 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) manufacturing of upholstered furniture, furniture leather and automotive leather; (ii) properties development; and (iii) retail of furniture.

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

In the current year, the Group has applied the following new and revised Standards, Amendments and Interpretations ("new and revised IFRSs") issued by the International Accounting Standards Board.

IAS 1 (Revised 2007)	Presentation of Financial Statements
IAS 23 (Revised 2007)	Borrowing Costs
IAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
IFRS 1 & IAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
IFRS 2 (Amendment)	Vesting Conditions and Cancellations
IFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
IFRS 8	Operating Segments
IFRIC 9 & IAS 39 (Amendments)	Embedded Derivatives
IFRIC 13	Customer Loyalty Programmes
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRIC 18	Transfers of Assets from Customers
IFRSs (Amendments)	Improvements to IFRSs issued in 2008, except for the amendment to IFRS 5 that is effective for annual periods beginning on or after July 1, 2009
IFRSs (Amendments)	Improvements to IFRSs issued in 2009 in relation to the amendment of IAS 39

Except as described below, the adoption of the new and revised IFRSs had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

New and revised IFRSs affecting presentation and disclosure only

IAS 1 (Revised 2007) Presentation of Financial Statements
IAS 1 (Revised 2007) has introduced a number of terminology changes, including revised titles for the consolidated financial statements and changes in the format and content of the consolidated financial statements.

IFRS 8 Operating Segments
IFRS 8 is a disclosure standard that has resulted in a redesignation of the Group's reporting segments and change in the basis of measurement of segment profit or loss, segment assets and segment liabilities (see note 3).

Improving Disclosures about Financial Instruments
(Amendments to IFRS 7 Financial Instruments: Disclosures)
The amendments to IFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

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)	Amendment to IFRS 5 as part of Improvements to IFRSs 2008[1]
IFRSs (Amendments)	Improvements to IFRSs 2009[2]
IAS 24 (Revised)	Related Party Disclosures[5]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
IAS 32 (Amendment)	Classification of Rights Issues[4]
IAS 39 (Amendment)	Eligible Hedged Items[1]
IFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
IFRS 1 (Amendment)	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters[6]
IFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
IFRS 3 (Revised)	Business Combinations[1]
IFRS 9	Financial Instruments[7]
IFRIC 14 (Amendment)	Prepayments of a Minimum Funding Requirement[5]
IFRIC 17	Distributions of Non-cash Assets to Owners[1]
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments[6]

1 Effective for annual periods beginning on or after July 1, 2009
2 Amendments that are effective for annual periods beginning on or after July 1, 2009 and January 1, 2010, as appropriate
3 Effective for annual periods beginning on or after January 1, 2010
4 Effective for annual periods beginning on or after February 1, 2010
5 Effective for annual periods beginning on or after January 1, 2011
6 Effective for annual periods beginning on or after July 1, 2010
7 Effective for annual periods beginning on or after January 1, 2013

The application of IFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after January 1, 2010. IAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary.

IFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from January 1, 2013, with earlier application permitted. The Standard requires all recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortized cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost. All other debt investments and equity investments are measured at fair value. The application of IFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Company anticipate that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on the consolidated financial statements.

3. SEGMENT INFORMATION

The Group has adopted IFRS 8 Operating Segments with effect from January 1, 2009. IFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor Standard (IAS 14, Segment Reporting) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments by nature of goods and services supplied by the Group's operating divisions (i.e. upholstered furniture, furniture leather, automotive leather and properties development). However, information reported to Mr. Zhu Zhangjin, the chief executive officer of the Company, for the purpose of resources allocation and performance assessment focuses more specifically on aggregated results of different subsidiaries which have similar nature of products and services provided, similar production processes, similar types of customers for their products and services provided and with similar methods used to distribute the products and services. The principal categories of business are manufacturing, properties development and retail business. The other businesses including provision of property management service are aggregated and presented as "Others". The Group's operating segments under IFRS 8 are therefore as follows:

– Manufacturing of upholstered furniture, furniture leather and automotive leather ("Manufacturing");

– Properties development;

– Retailing of furniture ("Retail"); and

– Others, comprising mainly provision of property management service ("Others").

For the year ended December 31, 2008, the segment results, segment assets and segment liabilities were measured based on the requirement of IAS 14, Segment Reporting. The basis of measurement has been changed to be based on the results, assets and liabilities of the subsidiaries or group of subsidiaries that are engaged in different segments. Information regarding the above segments is reported below. Amounts reported for the prior period have been restated to conform to the requirements of IFRS 8.

Segment revenues and results

The following is an analysis of the Group's revenue and results by operating segment:

Revenue

For the year ended December 31, 2009

	Manufacturing *RMB'000*	**Properties development** *RMB'000*	**Retail** *RMB'000*	**Others** *RMB'000*	**Eliminations** *RMB'000*	**Total** *RMB'000*
TURNOVER						
External sales	**1,530,662**	**708,987**	**157,415**	**1,910**	**–**	**2,398,974**
Inter-segment sales	**57,236**	**–**	**–**	**–**	**(57,236)**	**–**
Total	**1,587,898**	**708,987**	**157,415**	**1,910**	**(57,236)**	**2,398,974**

For the year ended December 31, 2008

	Manufacturing *RMB'000*	Properties development *RMB'000*	Retail *RMB'000*	Others *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
TURNOVER						
External sales	1,887,928	–	5,910	152	–	1,893,990
Inter-segment sales	1,882	–	–	–	(1,882)	–
Total	1,889,810	–	5,910	152	(1,882)	1,893,990

Results

	2009 *RMB'000*	2008 *RMB'000*
Segment results		
– Manufacturing	**285,237**	(195,750)
– Properties development	**(52,341)**	(57,946)
– Retail	**(88,002)**	(16,802)
– Others	**(560)**	(315)
	144,334	(270,813)
Unallocated corporate expenses	**(9,710)**	(7,370)
Profit (loss) for the year	**134,624**	(278,183)

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment profit (loss) represents the profit earned by (loss from) each segment without allocation of central administration costs and directors' salaries. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

Revenue from major products

The following is an analysis of the Group's revenue from its major products and services:

	2009 *RMB'000*	2008 *RMB'000*
Manufacturing		
Upholstered Furniture	**793,608**	1,239,585
Furniture Leather	**352,456**	478,090
Automotive Leather	**384,598**	170,253
Residential properties	**708,987**	–
Retail of furniture	**157,415**	5,910
Others	**1,910**	152
Total	**2,398,974**	1,893,990

Geographical information

The Group's operations are substantively located in the People's Republic of China ("PRC").

The Group's revenue are basically based on the locations of external customers except for revenue from sales of properties, which are based on location of properties sold.

The Group's revenue from external customers by geographical location are detailed below:

	Revenue from external customers Year ended December 31,	
	2009	2008
	RMB'000	*RMB'000*
United States	**586,728**	802,766
PRC, including Hong Kong	**1,536,800**	788,552
Europe	**215,182**	259,223
Australia	**48,187**	13,677
Others	**12,077**	29,772
	2,398,974	1,893,990

4. OTHER INCOME

Details of other income are as follows:

	2009	2008
	RMB'000	*RMB'000*
Government grants		
Grants for technology development	**–**	619
Grants for export sales	**402**	216
Incentive for business development	**210**	340
Other grants	**4,896**	3,379
	5,508	4,554
Compensation for cancellation of grant of land *(note)*	**–**	21,430
Net gain from sale of raw materials	**3,825**	330
Net foreign exchange gains	**587**	729
Interest income	**11,630**	7,465
Gain on disposals of subsidiaries	**–**	2,399
Dividend income from available-for-sale investments	**11**	48
Rental income	**5,446**	4,370
Others	**7,227**	6,200
	34,234	47,525

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 in 2007. During the year ended December 31, 2008, the Haining Economic Development Zone paid RMB21,430,000 to the Group as compensation.

5. OTHER EXPENSES

	2009	2008
	RMB'000	*RMB'000*
Loss on disposal of property, plant and equipment	**4,993**	656
Donation	**142**	1,607
Others	**27,968**	27,904
	33,103	30,167

6. FINANCE COSTS

	2009 *RMB'000*	2008 *RMB'000*
Interest on:		
Bank borrowings wholly repayable within five years	**69,673**	108,937
Other borrowings wholly repayable within five years	**324**	126
Other borrowings not wholly repayable within five years	**144**	170
Total borrowing costs	**70,141**	109,233
Less: amounts capitalized in respect of properties under development	**(7,377)**	(733)
	62,764	108,500

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

7. PROFIT (LOSS) BEFORE TAX

	2009 *RMB'000*	2008 *RMB'000*
Profit (loss) before tax has been arrived at after charging:		
Amortization of intangible assets (included in administrative expenses)	**801**	559
Amortization of properties for development (included in other expenses)	**9,666**	8,824
Depreciation of property, plant and equipment	**63,447**	84,253
Total depreciation and amortization	**73,914**	93,636
Release of prepaid lease payments	**1,546**	1,473
Auditor's remuneration	**5,302**	4,865
Cost of inventories recognized as expenses	**1,353,874**	1,806,760
Cost of properties recognized as cost of sale	**711,201**	–
Allowance of inventories	**21,782**	86,384
Operating lease rentals in respect of land and buildings	**60,332**	16,861
Total employee benefit expenses	**165,989**	188,366

8. INCOME TAX EXPENSES

	2009 *RMB'000*	2008 *RMB'000*
Hong Kong Profits Tax – overprovision in previous year	**–**	(18)
PRC enterprise income tax		
– Current year	**41,682**	4,082
– (Over) under provision of income tax in previous year	**(1,106)**	2,128
	40,576	6,210
PRC Land appreciation tax ("LAT")	**7,487**	–
Deferred tax	**29,152**	–
	77,215	6,192

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from January 1, 2008 onwards.

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").

According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax (Guofa [2008] No.39), certain of the group entities operating in the PRC are entitled to the following tax concession under the EIT Law:

(1) The Tax Exemptions is still applicable until the end of the five-year transitional period under the EIT Law.

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

According to the requirements of the Provisional Regulations of the PRC on LAT (中華人民共和國土地增值稅暫行條例) effective from January 1994, and the Detailed Implementation Rules on the Provisional Regulations of the PRC on LAT (中華人民共和國土地增值稅暫行條例實施細則) effective from January 27, 1995, all income from the sale or transfer of land use rights, buildings and their attached facilities in the PRC is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation value.

9. EARNINGS (LOSS) PER SHARE

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

Profit (loss) for the year

	2009 *RMB'000*	2008 *RMB'000*
Profit (loss) for the year for the purposes of basic and diluted earnings (loss) per share, being profit (loss) attributable to owners of the Company	**132,675**	(273,804)

Number of shares

	2009	2008
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	**1,163,707,944**	1,069,319,451
Effect of dilutive potential ordinary shares – share options	**2,378,532**	–
Weighted average number of ordinary shares for the purposes of diluted earnings (loss) per share	**1,166,086,476**	1,069,319,451

For the year ended December 31, 2008, the share options granted to the directors and employees of the Group were not included in the calculation of 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 year ended December 31, 2008.

10. TRADE AND BILLS RECEIVABLES

The Group grants a credit period ranging from 30 days to 120 days to their trade customers. The aging analysis of trade and bills receivables presented based on the invoice date at the end of reporting period is as follows:

	2009	2008
	RMB'000	*RMB'000*
Aged:		
Within 60 days	**289,222**	133,447
61 – 90 days	**69,390**	44,727
91 – 180 days	**37,042**	60,290
181 – 365 days	**16,109**	15,500
Over 1 year	**8,058**	4,976
	419,821	258,940

11. ASSETS/LIABILITIES CLASSIFIED AS HELD FOR SALE

Pursuant to a Board resolution dated on 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 manufacturing segment for segment reporting purposes (see note 3).

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
Building included in property, plant and equipment	188,624
Prepaid lease payments	25,861
Assets classified as held for sale	214,485

During the year of 2009, the Group demolished the plant and returned all land use rights to the PRC Government. The consideration of the disposal was RMB503,498,000, of which RMB5,000,000 was received during the year. Half of the remaining amount of RMB498,498,000 will be settled on or before June 2010 and the remaining half will be settled on or before December 2010 in accordance with the agreement. The amount is presented in the consolidated statement of financial position as "Receivable from disposal of assets classified as held for sale".

Subsequent to the end of reporting period, the Group had received RMB135,000,000 in April 2010.

The fair value of the receivable at initial recognition, with the effective interest rate of 3.22%, was RMB486,774,000.

The Group has recognized a gain on disposal of RMB277,289,000.

12. TRADE AND BILLS PAYABLES

The aging analysis of trade and bills payables presented based on the invoice date at the end of the reporting period is as follows:

	2009	2008
	RMB'000	*RMB'000*
Within 60 days	**290,868**	70,313
61 – 90 days	**12,061**	7,884
91 – 180 days	**6,196**	6,520
181 – 365 days	**2,784**	11,436
1 – 2 years	**4,108**	27,583
Over 2 years	**3,832**	3,791
	319,849	127,527

13. PLEDGE OF ASSETS

At the end of the reporting period, 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 end of the reporting period is as follows:

	2009	2008
	RMB'000	*RMB'000*
Buildings	**175,649**	272,913
Prepaid lease payments	**39,462**	38,224
Pledged bank deposits	**76,092**	120,997
Assets classified as held for sale	**–**	175,228
Properties under development and held for sale	**171,823**	–
	463,026	607,362

14. CAPITAL AND OTHER COMMITMENTS

At the end of the reporting period, the Group had capital and other commitments as follows:

	2009	2008
	RMB'000	*RMB'000*
Expenditure contracted for but not provided in the consolidated financial statements in respect of		
– Acquisition of property, plant and equipment	**16,644**	15,936
– Acquisition of a subsidiary	**70,801**	–
– Properties under development	**303,051**	146,112
– Construction of certain infrastructure and public facilities in the PRC on behalf of the government	**12,541**	13,072
	403,037	175,120

15. EVENT AFTER REPORTING PERIOD

The following events occurred after the end of the reporting period:

a) In January, 2010, a wholly owned subsidiary of the Company has successfully tendered and paid for a piece of land located in Haining, the PRC at a consideration of RMB151,780,000. The Group acquired the land for properties development with the intention to develop residential and commercial properties in Haining. Part of the piece of land acquired is also a part of the land disposed of by the Group as mentioned in note 11 before the urban redevelopment plan executed by the government.

b) Pursuant to an agreement dated February 24, 2010, the Group has agreed to purchase further 26% interest in Hainan Hejia from Zhejiang Zhongyu Trading Investment Development Co., Ltd ("Zhejiang Zhongyu") a connected party (the "Acquisition") at a consideration of RMB71,780,000. Upon the completion of the Acquisition, the Group will hold 77% interests in Hainan Hejia.

   On the same day, the Group has agreed to sell 2% interest in Hainan Boao, a subsidiary of the Group at a total consideration of RMB43,910,000 to Zhejiang Zhongyu.

   These two transactions have not yet completed at the date of approval of this consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OVERVIEW

For the year ended December 31, 2009, the Group recorded a consolidated turnover of RMB2,399.0 million, representing an increase of 26.7% compared with RMB1,894.0 million for year 2008.

The Group's gross profit margin in 2009 was 13.9%, representing an increase of 9.3 percentage points as compared to 2008. The net profit attributable to owners of the Company was RMB132.7 million in 2009, representing an increase of 148.5% turnaround profit over the net loss of RMB273.8 million in 2008.

During the year under review, the global economy showed a strong sign of recovery from the financial crisis, while Chinese economy recorded a remarkable growth. Through a series of reforming measures including cost-saving, management optimization, business units reconstruction and incentive schemes, we successfully grasped the opportunity to expand and develop our business rapidly. In the year of 2009, the turnover of the Group was further diversified and property development became one of the Group's reportable segments. The sales from property development accounted for 29.6% of the Group's total turnover in 2009.

The results reflect the mixed performance across the Group's three major business segments (manufacturing, property development and retail business) in the challenging economic conditions.

Review by Business Segments

The Group's reportable segments under IFRS 8 are now changed to manufacturing, property development, retail business and others (comprising mainly property management service business).

The table below shows the total turnover by product category for the year ended December 31, 2009:

	2009		2008		**Y-O-Y Change**
	RMB'Million	***%***	*RMB'Million*	*%*	***%***
Manufacturing	**1,530.7**	**63.8%**	1,888.0	99.7%	-18.9%
Upholstered Furniture	***793.6***	***33.1%***	*1,239.6*	*65.5%*	*-36.0%*
Furniture Leather	***352.5***	***14.7%***	*478.1*	*25.2%*	*-26.3%*
Automotive Leather	***384.6***	***16.0%***	*170.3*	*9.0%*	*125.8%*
Property Development	**709.0**	**29.6%**	–	–	N.M.
Retail business	**157.4**	**6.5%**	5.9	0.3%	2,567.8%
Others	**1.9**	**0.1%**	0.1	0%	1,800.0%
Total	**2,399.0**	**100.0%**	1,894.0	100.0%	26.7%

N.M. – not meaningful

Manufacturing Business

During the year under review, manufacturing business was still a core segment of the Group. This business segment, including three major operating divisions: upholstered furniture, furniture leather and automotive leather, recorded a total turnover of RMB1,530.7 million for the year of 2009 (2008: RMB1,888.0 million) and gained an operating profit of RMB285.2 million (2008: an operating loss of RMB195.8 million). Below is a brief discussion of the sales of the three operating divisions.

Upholstered Furniture

Sales of upholstered furniture including finished sofa and sofa cut-and-sew accounted for 33.1% of the Group's total turnover. Facing a fluctuating demand from overseas and rising costs, the Group shifted its strategy from volume-oriented to profit-oriented, and put more priority on the production and promotion of products with higher profit margin. In 2009, the Group conducted a big structure reorganization. Manufacturing facilities were consolidated and excess capacities were minimized. As a result, the Group's upholstered furniture sales decreased from RMB1,239.6 million in 2008 to RMB793.6 million in 2009. Although the Group's reform measures resulted in a decline in sales, the profit margin was improved.

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 decline in the production of upholstered furniture, the Group's sales of furniture leather decreased by 26.3%, from RMB478.1 million in 2008 to RMB352.5 million in 2009.

Automotive Leather

In order to leverage on the rapid growth of China's automobile industry, the Group allocated more resources in the development of automotive leather. After several years of research and business development, the Group has become one of the largest domestic automotive leather suppliers in China. Revenue generated in automotive leather operating division was RMB384.6 million in 2009, representing a significant increase of 125.8% as compared to the year of 2008.

Property Development Business

The turnover in the property development business amounted to RMB709.0 million in the year of 2009.

As delivery of the Phase 1 units of the residential buildings in Yancheng of Jiangsu province ("Yancheng Project") took place during the year under review, the Group recorded a turnover of RMB709.0 million from the Yancheng Project. However, the average selling price of Phase 1 units was relatively low, resulting in an operating loss of RMB52.3 million (2008: RMB57.9 million) during the year of 2009. It is expected that the average selling price of Phases 2 and 3 units will be higher than that of Phase 1.

As the Group's other property projects were still under development during the year under review, no material contribution was made in respect of such property projects to the turnover and profit of the Group in 2009.

Retail Business

In order to capitalize on the Group's expertise in furniture manufacturing and the fine quality of its products, the Group has entered into the furniture retail market both in China and the United Kingdom. The total turnover from retail business recorded an increase of 2,567.8% from RMB5.9 million in 2008 to RMB157.4 million in 2009. As a result of the Group's new investment in the UK retail business market during the year under review, a total operating loss of RMB88.0 million was recorded in this business segment during the year of 2009.

The Group stepped into the domestic furniture retail market in 2007. At present, the Group owns two large sized furniture stores in China and recorded sales of RMB9.9 million in 2009.

The Group entered into the UK furniture retail market in early March 2009 through the acquisition of all the existing shares of Sofas UK, a UK based furniture retailer. In 2009, sales from Sofas UK was RMB147.5 million.

Review by Region

The table below shows the total turnover by geographic market for the year ended December 31, 2009:

	2009 *RMB'Million*	**%**	2008 *RMB'Million*	%	**Y-O-Y Change %**
USA	**586.7**	**24.4%**	802.8	42.4%	-26.9%
PRC, including HK	**1,536.8**	**64.1%**	788.5	41.6%	94.9%
Europe	**215.2**	**9.0%**	259.2	13.7%	-17.0%
Australia	**48.2**	**2.0%**	13.7	0.7%	251.8%
Others	**12.1**	**0.5%**	29.8	1.6%	-59.4%
Total	**2,399.0**	**100.0%**	1,894.0	100.0%	26.7%

During the year under review, the Group's sales to the US market declined by 26.9% as compared to 2008 and the percentage of US sales to the Group's total turnover reduced to 24.4%. Such decrease was caused primarily by the weak demand from the US furniture market as the US economy is yet to recover from the economic downturn.

The Group's expansion into the European market is still undergoing. In 2009, this segment recorded a sales of RMB215.2 million, a decrease of 17.0% as compared to RMB259.2 million in 2008. During the year under review, the Group acquired Sofas UK, a UK based furniture retail chain. The Group believes that the acquisition will offer a good opportunity for it to extend its home furniture retail business in the UK.

The Group's sales to the PRC domestic market showed a significant increase in the year of 2009. The turnover of the sales to the PRC domestic market was RMB1,536.8 million, increased by 94.9%, as compared to RMB788.5 million in the year of 2008. The significant increase was mainly due to the newly generated revenue from the delivery of some of the residential building units in Yancheng of Jiangsu province, and the strong growth in the sales of automotive leather.

Operating Expense, Taxation and Profit Attributable to Owners

The Group's selling and distribution costs during the year under review increased to RMB192.8 million, as compared to RMB69.2 million in 2008, mainly due to (1) an increase of approximately RMB55.6 million in operating lease rentals and government rates for the UK stores newly operated by the Group starting from March 2009, (2) an increase of RMB30.3 million in staff costs for salesperson of the Group's UK stores, and (3) an increase of RMB25.6 million in sales commission and marketing expenses paid, which included RMB9.7 million incurred by the Group's UK stores and RMB12.2 million increased sales commission due to increased sales in automotive leather division. As a result, the selling and distribution costs to turnover in 2009 increased to 8.0% as compared to 3.7% in 2008.

The administrative costs in 2009 was RMB120.0 million, with an increase of RMB3.0 million as compared to RMB117.0 million in 2008. All administrative expenses kept at same level as in 2008.

The Group's finance cost in 2009 was RMB62.8 million, with a decrease of RMB45.7 million, as compared to RMB108.5 million in 2008, due to the reduction of bank lending rate, and also the decrease in the level of outstanding amounts of bank borrowings of the Group during the year under review.

Other expenses in 2009 were RMB33.1 million, as compared to RMB30.2 million in 2008. All other expenses remained at same level as in 2008.

During the year under review, the Group has recognized a gain of RMB277,289,000 on disposal of 9 parcels of land for the use of leather production located in Haining, Zhejiang province.

The Group's income tax in 2009 was RMB77.2 million, with an increase of RMB71.0 million, as compared to RMB6.2 million in 2008, mainly due to (1) an increase in PRC income tax of RMB34.4 million as a result of the increase in taxable operating profits generated from (a) the delivery of some of the residential building units in Yancheng of Jiangsu province and (b) the increased sales of automotive leather division at subsidiary level, (2) the PRC land appreciation tax of RMB7.5 million from the Yancheng project, and (3) the deferred tax of RMB29.1 million charged for the income on relocation of manufacturing plant in Haining, Zhejiang province.

For reasons mentioned above, the Group has made a successful turnaround in its business and became profitable in 2009. Profit attributable to owners of the Company was RMB132.7 million in 2009, as compared to a loss of RMB273.8 million in 2008.

CAPITAL EXPENDITURES

Capital expenditure (excluding assets acquired through acquisition of subsidiaries during the year) in 2009 decreased to RMB58.6 million from RMB74.4 million in 2008. The capital expenditure comprised mainly an amount of RMB43.7 million spent on the purchase of property, plant and equipment for operational purpose, and a payment of RMB14.9 million development cost in Hainan Boao project.

FINANCIAL RESOURCES AND LIQUIDITY

Bank and Other Borrowings

As at December 31, 2009, the Group's bank and other borrowings amounted to RMB1,281.9 million, accounted for a 11.1% decrease from RMB1,442.6 million as at December 31, 2008.

Turnover Period, Liquidity and Gearing

The Group's inventory now primarily represented leather crust (2008: raw cowhides and wet blues) used for production, accounted for approximately 27% of the total inventory of RMB409.2 million in 2009 (2008: RMB727.1 million). In 2009, the inventory turnover period decreased to 110 days (2008: 147 days) due to a shorter production cycle and decrease in inventories resulting from streamlined leather production.

In 2009, the Group continued to maintain a strict credit policy. Many of the Group's customers are also in their difficult time and also a general longer credit term (up to 90 days) granted to customers in automotive leather division, resulting in an increase in account receivables turnover days to 82 days in 2009 (2008: 48 days).

The accounts payable turnover days increased to 51 days in 2009 (2008: 25 days).

As at December 31, 2009, the Group's current ratio increased to 1.42 (December 31, 2008: 1.11) and quick ratio increased to 1.21 (December 31, 2008: 0.81), respectively. The Group's cash and cash equivalent balance was RMB461.9 million as at December 31, 2009 (December 31, 2008: RMB389.6 million). This represents a gearing ratio of 62.1% as at December 31, 2009 (December 31, 2008: 72.3%) and a net debt-to-equity ratio of 39.5% as at December 31, 2009 (December 31, 2008: 51.3%). 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 2009, the Group's credit facilities were able to renew on an on-going basis, which provide sufficient cash to finance the Group's working capital requirement during the year under review.

MATERIAL ACQUISITION AND DISPOSAL

During the year under review, the Group acquired 1) the 100% equity interest in Sofas UK; and 2) the 51% equity interest in Hainan Hejia Property Development Co., Ltd.

The Group disposed of 1) 9 parcels of land for the use of leather production located in Haining, Zhejiang province; 2) a parcel of land located at Changsha City, Hunan province pursuant to a conditional sale and purchase agreement dated April 10, 2009 by Hunan Kasen Property Company Limited to an independent third party at a consideration of RMB287,143,000; and 3) all equity interests in the dissolution of Haining Leather Industry Investment and Development Co., Ltd., a non-wholly owned subsidiary.

CONTINGENT LIABILITIES

As at December 31, 2009, the Group had no contingent liabilities.

PLEDGE OF ASSETS

Some of the Group's assets have been pledged to secure the bank borrowings and the bank facilities granted to the Group. For details, please refer to note 13 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 2009, the Group used forward contract and some other financial instruments to hedge foreign exchange risk, and recorded a gain of RMB207,000.

On the other hand, the Group's exposure to foreign currency in retail segment has increased during the year under review. It was mainly due to the reason that the functional currency in respect of the acquisition of Sofas UK is in GBP while the majority of the purchase of Sofas UK is in USD. However, Sofas UK's foreign exchange risk of GBP against USD is minimised partly by reason of an arrangement reached between Sofas UK and a supplier to fix the settlement rate of payable in its own functional currency. The payable under such arrangement amounted to RMB47,527,000 as at December 31, 2009.

EMPLOYEES AND EMOLUMENTS POLICIES

As at December 31, 2009, the Group employed a total of approximately 4,500 full time employees (December 31, 2008: 5,400), including management staff, technicians, salespersons and workers. In 2009, the Group's total expense on the remuneration of employees was RMB166.0 million (2008: RMB188.0 million), representing 6.92% (2008: 9.93%) 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), state-managed retirement pension scheme (for the PRC employees) or state National Insurance scheme (for the UK 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 by the Board with reference to their respective qualification and experience, responsibilities undertaken, contribution to the Group, and the prevailing market level of remuneration for executives of similar position. The emoluments of the Directors are decided by the Board and the Remuneration Committee, who are authorized by the shareholders of the Company (the "Shareholders") in the annual general meeting, having regard to the Group's operating results, individual performance and comparable market statistics.

FUTURE PLANS AND PROSPECTS

The Group's entry into the domestic property development business has proven to be a successful move with a promising start. Going forward, the property development will be the core business of the Group. To capture the huge potentials in this business segment, the Group will take active strategy to expand the tourism-related property market and build up our reputation in this area. Besides, the Group will also seek for better opportunities to improve its investment.

Restructuring of manufacturing business

A series of restructuring plans in this business segment will be completed during the next one to two years. During the transitional period, the Group will put more emphasis on the research and production of mid to high end leather and in-house product design to improve its competitiveness and profit margins. In addition to the continued development of its customer base in the US and Europe, which are the traditional strongholds of the Group, the Group will extend its business to Asian market, such as Korea and Malaysia. In the automotive leather business, the Group will take active measures to strengthen its leading role in domestic market, In addition to the seat leather covers, the Group will search for other cooperation opportunities in automotive interior furnishings with other automobile factories in China.

Expansion of Retail Business

Domestic Market

The Group currently owns two stores in Shanghai and Hangzhou respectively trading under the brand name of "Kasen Home Furnishings". In these stores, the Group provides domestic customers with quality furniture at affordable price. The Group has strong confidence that its domestic retail business will achieve a steady growth in the coming years. To expand its distribution channel and to improve its market share, the Group will bring in more franchisers to join our domestic sales program. Meanwhile, the Group will implement more effective promotion measures, such as co-operation relationships with property developers and network marketing.

Overseas Market

Through the acquisition of Sofas UK, the Group successfully entered into the retail market in developed countries. The Group currently owns 27 retail stores in the UK trading under the brand name of "Easyliving Furniture". In the future, the Group will open more stores and provide the customers with high quality furniture at competitive price.

Property Development

In Jiangsu province, the Group's investment is poised to make a promising return. During the year under review, the sales from Yancheng Project accounted for a major part of the Group's total turnover. It is estimated that steady income will be generated in the coming years upon the sales in the next phases of this project.

In Hainan province, the Group has two large scale property development projects located in Boao and Sanya, two major tourist destinations, respectively. In January 2010, the PRC government officially approved the "International Tourism Island Strategy of Hainan" which has become an important catalyst to the property development sector in Hainan. The project in Boao is currently under development with a total construction area of approximately 600,000 square meters for residential and commercial purposes. The construction of the first phase started in December 2009 and sales are planned to commence in mid 2010. In Sanya, the Group has a land reserve of more than 1,000,000 square meters and construction will commence in the year of 2011.

The strategy to become a leading provider of tourism-related property distinguished the Group from most property developers in the PRC. In addition to the two large scale projects in Hainan province, the Group is searching for more investment opportunities in other famous tourism resorts. To meet the growing market demands, our products in tourism-related property business will not only include houses, but also property management, tourism services and vacation arrangement.

DIVIDENDS

The directors of the Company do not recommend the payment of any final dividend for the year ended December 31, 2009.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from May 27, 2010 to May 31, 2010 (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, 2010.

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

Pursuant to the general mandate granted by the shareholders of the Company, the Board of Directors resolved on December 27, 2009 to repurchase the Company's shares of up to 10% of the issued shares of the Company as at the date of May 29, 2009. As at December 31, 2009, the Company had repurchased 1,730,000 ordinary shares on the Stock Exchange at an aggregate consideration of HK$2,928,200. All of such shares have been subsequently cancelled in early January 2010. 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, 2009.

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, 2009, 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, Dr. Li Qingyuan 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, 2009, 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, 2009.

AUDIT COMMITTEE

An Audit Committee was established by the Company to review and supervise the Company's financial reporting process and internal controls. The Audit Committee comprises all the independent non-executive directors of the Company. Mr. CHOW Joseph is the chairman of the Audit Committee. The Audit Committee has held meetings to discuss the auditing, internal controls and financial reporting matters.

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 of the Company.

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 statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended December 31, 2009 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, 2009.

PUBLICATION OF INFORMATION ON THE EXCHANGE'S WEBSITE

The annual report of the Company for the year ended December 31, 2009 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 29, 2010.

ANNUAL GENERAL MEETING

It is proposed that the annual general meeting of the Company will be held on May 31, 2010. 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 29, 2010.

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

PRC, April 23, 2010

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. Chow Joseph, Dr. Li Qingyuan and Mr. Gu Mingchao.

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