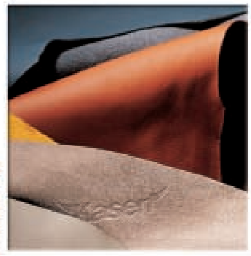
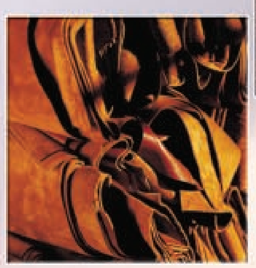
卡森國際控股有限公司

KASEN INTERNATIONAL HOLDINGS LIMITED

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

stock code : 496





Interim Report 2006

Contents

BUSINESS REVIEW AND PROSPECTS

The board (the "Board") of directors (the "Directors") of Kasen International Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended June 30, 2006 together with the comparative figures for the corresponding period in 2005 as follows:

RESULTS AND OPERATIONS

For the six months ended June 30, 2006, the Group recorded a consolidated turnover of RMB2,044.8 million, representing a significant increase of 32.0% compared with RMB1,549.3 million in the corresponding period of last year.

The Group's gross profit for the period was RMB245.1 million with gross profit margin of 12.0% compared with the previous 15.6%. The decrease in gross profit was mainly due to the increase in the cost of raw materials and the appreciation of the RMB. The profit attributable to equity holders of the Company for the period was RMB77.9 million, representing a decrease of 38.3% from RMB126.4 million in the corresponding period of last year.

Revenue Analysis by Product Category

Total Turnover by Product Category
Six Months Ended June 30,

	2006		2005		Y-O-Y Change
	RMB'Million	**%**	RMB'Million	%	%
Leather Sofa *(note)*	**995.4**	**48.7**	652.7	42.1	52.5
Fabric Sofa *(note)*	**193.2**	**9.4**	92.0	5.9	110.0
Leather Cut-and-Sew *(note)*	**317.0**	**15.4**	273.0	17.6	16.1
Fabric Cut-and-Sew *(note)*	**155.7**	**7.6**	193.5	12.5	-19.5
Furniture Leather	**310.2**	**15.2**	269.0	17.4	15.3
Automotive Leather	**53.7**	**2.7**	68.8	4.4	-21.9
Others	**19.6**	**1.0**	0.3	0.1	N.M.
Total	**2,044.8**	**100.0**	1,549.3	100.0	32.0

N.M. – Not meaningful.

Note: These product categories are classified as "Upholstered Furniture Segment" as in Note 4 to the Condensed Consolidated Financial Statements.

During the period under review, the Group has continued to record significant increase in its upholstered furniture business which currently accounts for 81.2% of the Group's total turnover. The Group produced a total of 1,539,000 seats of finished sofa, representing an increase of 64.4% compared with last year. External sales of sofa cut-and-sew remained flat as the cut-and-sew factories were focusing on providing for increased in-house requirements.

BUSINESS REVIEW AND PROSPECTS (cont'd)

RESULTS AND OPERATIONS (cont'd)

Revenue Analysis by Product Category (cont'd)

The Group produces furniture leather for both in-house production and external sales. Compared with the same period of last year, total sales from this business unit grew by 39.5% while external sales grew by 15.3%.

The Group's automotive leather business had a disappointing first half as sales declined by 21.9%, due mainly to a slow start in the domestic market.

Revenue Analysis by Geographic Market

Total Turnover by Geographic Market
Six Months Ended June 30,

	2006		2005		Y-O-Y Change
	RMB'Million	**%**	RMB'Million	%	%
USA	**1,536.7**	**75.2**	1,055.0	68.1	45.7
Europe	**108.5**	**5.3**	85.1	5.5	27.5
Australia	**51.3**	**2.5**	69.0	4.5	-25.8
PRC	**319.0**	**15.6**	338.0	21.8	-5.7
Others	**29.3**	**1.4**	2.2	0.1	N.M.
Total	**2,044.8**	**100.0**	1,549.3	100.0	32.0

N.M. – Not meaningful.

Despite the widely publicized slowing down in the US housing market, the Group's major customers in upholstered furniture have been increasing their outsourcing orders to leverage on the cost advantage. The Group has also been able to add new customers to its existing strong customer portfolio. Overall, the US market now accounts for 75.2% of the Group's total sales, an increase of 7.1 percentage points compared to the same period of last year. Progress in the European market is encouraging with a growth of 27.5%, while sales to Australia experienced a slow start.

Profitability

During the period under review, the Group's gross profit margin was adversely impacted by the unexpected increase in the prices of raw cowhides and wet-blues, which accounted for 45.8% of the Group's cost of sales. The average prices of raw cowhides and wet-blues purchased during the first six months were between 10-20% higher compared to the average level of 2005.

The Group's gross profit margin for the first six months of this year was also, to a lesser extent, adversely impacted by the appreciation of the RMB. Importing its principal raw material for production was not enough to offset this impact as more than 80% of the Group's sales were denominated in US dollars.

BUSINESS REVIEW AND PROSPECTS (cont'd)

RESULTS AND OPERATIONS (cont'd)

Profitability (cont'd)

During the period under review, the Group's sales of finished upholstered sofa increased by 59.6%, this has led to an increase of land transportation costs by 58.7%. In addition, the Group incurred an additional RMB8.0 million in credit insurance, commission and customer clearance charges. As a result, the Group's distribution costs for the period increased by 73.1% compared to last year.

The increase of 64.1% in administrative expenses was mainly due to: (1) a charge of RMB5.8 million on the Group's granting of share options to its executives and employees; (2) an exchange loss of RMB5.7 million on the Group's trade receivables arising from the RMB appreciation; (3) an increased provision of RMB5.1 million on trade receivables; (4) an increase of RMB4.2 million on professional fees; and (5) an increase of RMB3.1 million on the deprecation of the Group's office premises.

The Group's finance cost was reduced by 14.7% compared to the same period of last year. The main reason is that the Group has gradually reduced its interest-bearing debts level for the period ended June 30, 2006 as compared with the same period of last year.

FINANCIAL RESOURCES AND LIQUIDITY

The Group maintains a healthy financial position. As at June 30, 2006, the Group had cash and cash equivalent of RMB451.1 million (December 31, 2005: RMB372.3 million) and a total borrowings of RMB1,401.3 million (December 31, 2005: RMB1,291.7 million). This represents a gearing ratio of 62.7% (December 31, 2005: 56.2%) and a net debt-to-equity ratio of 42.5% (December 31, 2005: 40.0%). The gearing ratio is based on total borrowings to total equity and the net debt-to-equity ratio is based on total borrowings net of cash and cash equivalent to total equity.

As at June 30, 2006, the Group's inventory, comprising of mainly raw cowhides and wet blues, was RMB1,319.3 million, representing a reduction of RMB59.5 million or 4.3% compared to the previous year end. Average Days Inventory Outstanding as at June 30, 2006 has improved to 134 days as compared to 172 days as at December 31, 2005.

Despite significant sales growth, the Group's trade and other receivables have remained stable during the period, rising by only 4.8% from RMB795.7 million as at December 31, 2005 to RMB833.7 million as at June 30, 2006. Average Days Sales Outstanding has improved to 50 days from 54 days as at the previous year end. There has been no major change in trading terms or deterioration in collections.

FOREIGN EXCHANGE EXPOSURE

As the Group's businesses are principally export-related and transactions are primarily denominated in US dollars, the Board considers that the Group is exposed to foreign exchange fluctuation risks. However, as a substantial portion of procurements of the Group is denominated in US dollars, such risks can be reduced partly through natural hedges. Therefore, the Group neither used any financial instrument for hedging purposes during the year, nor had any hedging instruments outstanding as at June 30, 2006.

BUSINESS REVIEW AND PROSPECTS (cont'd)

PLEDGE OF ASSETS

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

EMPLOYEES AND EMOLUMENTS POLICIES

As at June 30, 2006, the Group employs a total of approximately 16,000 full time employees (June 30, 2005: approximately 15,000) which included management staff, technicians, salespersons and workers. For the six months ended June 30, 2006, the Group's total expenses on the remuneration of employees is RMB130.2 million (six months ended June 30, 2005: RMB102.7 million). The Group's emolument policies are formulated on the performance of individual employees, which will be reviewed regularly every year. Apart from provident fund scheme (in accordance with the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees) or state-managed retirement pension scheme (for the PRC employees) and medical insurance, discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance.

PROSPECTS

Latest market intelligence still shows a robust demand for Chinese-made upholstered furniture products in the USA and Europe, and after a 37.2% year-on-year growth in our upholstered furniture sales, the Group remains optimistic on its momentum of sales growth.

The raw cowhide prices have not shown signs of declining over the last two months and the current level is still over 10% higher than the average level for 2005. Therefore, mounting pressure from rising material costs is still expected. The Group will closely monitor the hide prices and continue to quest for improvement in production efficiency to mitigate the impact from rising production costs. The Group will also evaluate the available options in terms of its product pricing.

In the past, the Group has been manufacturing its products primarily based on the designs of its customers. This has been an inevitable step and also a learning experience as the Group is relatively a newcomer in this industry. Going forward, the Group aims to strengthen its design and prototyping capabilities in order to improve its profitability and competitiveness.

As most investments by the Group to increase production capacity completed in previous years up to 2004, and current facilities are adequate to accommodate customers' expansion plans, the Group has no immediate plan to expand its production bases. The Group believes that increased plant utilization will lead to higher operational efficiency.

DISCLOSURE OF INTERESTS

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

As at June 30, 2006, the interests of the Directors and chief executives of the Company in the shares of the Company (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as contained in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") are as follows:

(1) Long positions in shares of the Company

	Number of shares held, capacity and nature of interest			
Name of Director	**Directly beneficially owned**	**Through controlled corporation**	**Total number of shares interested**	**Percentage of the Company's issued share capital**
Zhu Zhangjin	–	328,867,019 *(Note)*	328,867,019	32.43%
Zhou Xiaosong	8,173,912	–	8,173,912	0.81%
Zhu Jianqi	7,478,260	–	7,478,260	0.74%

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

(2) Long positions in underlying shares of the Company

Long positions in underlying shares of the Company are separately disclosed in the section "Share Option Scheme" below.

Save as disclosed herein, none of the Directors nor the chief executives of the Company has any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as at June 30, 2006.

DISCLOSURE OF INTERESTS (cont'd)

SHARE OPTIONS

A share option scheme was adopted by the Company pursuant to a resolution passed on September 26, 2005 (the "Scheme") for the primary purpose of providing incentives to Directors and eligible employees. The Scheme became effective on October 20, 2005 and the options issued pursuant to the Scheme will expire no later than 10 years from the date of grant of the option. Under the Scheme, the Board may grant options to any employees of the Company or any of its subsidiaries to subscribe shares of the Company.

For any options granted to directors, chief executives or substantial shareholders of the Company, options to be granted shall be approved by the independent non-executive Directors of the Company (excluding any independent non- executive Director who is the proposed grantee of options).

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company on October 20, 2005 (representing 101,404,536 shares of the Company) without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the total shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

The amount payable on acceptance of an option is HK$1.00. In relation to any options granted under the Scheme, the exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

DISCLOSURE OF INTERESTS (cont'd)

SHARE OPTIONS (cont'd)

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

Name or category of participant	Exercise price HK$	Number of share options: Outstanding as at January 1, 2006	Granted from January 1, 2006 to June 30, 2006	Outstanding as at June 30, 2006	Percentage of total issued share capital	Exercisable period	Notes
Directors							
Zhu Zhangjin	2.38	–	1,000,000	1,000,000	0.10%	1/1/2007 to 8/3/2016	1,3,4
	2.38	–	1,000,000	1,000,000	0.10%	1/1/2008 to 8/3/2016	2,3,4
Zhou Xiaosong	2.38	–	1,000,000	1,000,000	0.10%	1/1/2007 to 8/3/2016	1,3,4
	2.38	–	1,000,000	1,000,000	0.10%	1/1/2008 to 8/3/2016	2,3,4
Zhu Jianqi	2.38	–	1,000,000	1,000,000	0.10%	1/1/2007 to 8/3/2016	1,3,4
	2.38	–	1,000,000	1,000,000	0.10%	1/1/2008 to 8/3/2016	2,3,4
Lu Yungang	2.38	–	200,000	200,000	0.02%	1/1/2007 to 8/3/2016	1,3,4
	2.38	–	200,000	200,000	0.02%	1/1/2008 to 8/3/2016	2,3,4
Chow Joseph	2.38	–	200,000	200,000	0.02%	1/1/2007 to 8/3/2016	1,3,4
	2.38	–	200,000	200,000	0.02%	1/1/2008 to 8/3/2016	2,3,4
Shi Zhengfu	2.38	–	200,000	200,000	0.02%	1/1/2007 to 8/3/2016	1,3,4
	2.38	–	200,000	200,000	0.02%	1/1/2008 to 8/3/2016	2,3,4
		–	7,200,000	7,200,000	0.72%		
Other employees in aggregate	2.38	–	11,500,000	11,500,000	1.13%	1/1/2007 to 8/3/2016	1,3,4
	2.38	–	11,500,000	11,500,000	1.13%	1/1/2008 to 8/3/2016	2,3,4
		–	30,200,000	30,200,000	2.98%		

DISCLOSURE OF INTERESTS (cont'd)

SHARE OPTIONS (cont'd)

Notes:

1. Pursuant to the Scheme adopted by a resolution of the Shareholders on September 24, 2005 and adopted by a resolution of the Board on September 26, 2005, these share options were granted on March 9, 2006 and are exercisable at HK$2.38 per Share from January 1, 2007 to March 8, 2016.

2. These share options were granted pursuant to the Scheme on March 9, 2006 and are exercisable at HK$2.38 per Share from January 1, 2008 to March 8, 2016.

3. These share options represent personal interest held by the relevant participants as beneficial owner.

4. Up to June 30, 2006, none of these share options were exercised, cancelled nor lapsed.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Other than the Scheme disclosed above, at no time during the period under review was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at June 30, 2006, the following persons (other than Directors or chief executives of the Company stated in "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures") had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Shareholder	Capacity	Short position	Long position	Number of issued shares held	Percentage of the Company's issued share capital
Joyview Enterprises Limited[2]	Beneficial owner	–	328,867,019	328,867,019	32.43%
Warburg Pincus & Co.[1]	Interest of controlled corporation	–	186,989,966	186,989,966	18.44%
Warburg Pincus Partners LLC[1]	Beneficial owner	–	186,989,966	186,989,966	18.44%
Warburg Pincus Private Equity VIII L. P.[1]	Beneficial owner	–	90,605,988	90,605,988	8.94%
Warburg Pincus International Partners L.P.[1]	Beneficial owner	–	89,616,811	89,616,811	8.84%
UBS AG	Beneficial owner	–	49,419,999	49,419,999	4.87%
Griffin John Anthony	Beneficial owner	–	46,483,000	46,483,000	4.58%

DISCLOSURE OF INTERESTS (cont'd)

SUBSTANTIAL SHAREHOLDERS (cont'd)

Notes:

1. Warburg Pincus International Partners, L.P., and Warburg Pincus Private Equity VIII L.P. are part of the Warburg Pincus Funds. The general partner of the Warburg Pincus Funds is Warburg Pincus Partners LLC, which is a subsidiary of Warburg Pincus & Co. Each of Warburg Pincus Partners LLC and Warburg Pincus & Co. is therefore deemed to be interested in the shares held by the Warburg Pincus Funds, which includes Warburg Pincus International Partners, L.P. and Warburg Pincus Private Equity VIII L.P. as well as four other funds consisted in the Warburg Pincus Funds.

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

Save as disclosed above, the Company has not been notified of any other person (other than a director or a chief executive of the Company) who had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at June 30, 2006.

CORPORATE GOVERNANCE

The Company has complied with the code provisions as set out in the "Code On Corporate Governance Practices" contained in Appendix 14 to the Listing Rules during the six months ended June 30, 2006, except for the following deviations:

Code Provision A.2.1 stipulates that the role of Chairman and Chief Executive Officer should be separated and should not be performed by the same individual. The Company does not at present separate the roles of Chairman and Chief Executive Officer. Mr. Zhu Zhangjin is the Chairman and Chief Executive Officer of the Company responsible for overseeing the operations of the Group. The Company is currently considering to appoint a new Chief Executive Officer to replace Mr. Zhu if candidate with suitable leadership, knowledge, skills and experience can be identified within or outside the Group. However, due to the nature and extent of the Group's operations, in particular in Mainland China and the in-depth knowledge and experience in the leather and upholstery furniture market required for the position of Chief Executive Officer, it is not possible to determine as to when the appointment of a new Chief Executive Officer of the Company can be effected. However, the Board believes that the appointment of Mr. Zhu as the Chairman and Chief Executive Officer of the Company will not impair the balance of power and authority between the Board and the management of the Company, and is most beneficial to the Company's interest at present.

Code Provision A.4.1 requires that non-executive directors should be appointed for a specific term, subject to re-election; and Code Provision A.4.2 requires every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. There is no service contract between the Company and the non-executive Director and independent non-executive Directors. They are subject to rotational retirement and re-election at annual general meetings pursuant to Article 87 of the Articles of Association of the Company every three years. 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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors of the Company. Having made specific enquiry of all directors of the Company, the Company confirms that all directors of the Company have complied with required standard set out in the Model Code for the period under review.

AUDIT COMMITTEE

The Audit Committee, comprises all the three independent non-executive directors of the Company, has reviewed with management and the external auditors the accounting principles and practices adopted by the Group. The Audit Committee has held meetings to discuss auditing, internal controls and financial reporting matters including the review of the unaudited interim financial statements for the six months ended June 30, 2006.

REMUNERATION COMMITTEE

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

OTHER INFORMATION

INTERIM DIVIDEND

The Board is pleased to declare an interim dividend of approximately RMB3.53 cents (equivalent to US0.44 cents or HK3.45 cents) per ordinary share for the six months ended June 30, 2006 to the shareholders whose names appear on the register of members of the Company (the "Register of Members") on Friday, October 20, 2006. The conversion of RMB into Hong Kong dollars is made at the official exchange rate of RMB against Hong Kong dollars as quoted by the People's Bank of China of HK$1.00=RMB1.0235 for the week prior to the date of declaration of dividends. The interim dividends will be paid on October 31, 2006.

CLOSURE OF THE REGISTER OF MEMBERS

The Register of Members will be closed from Wednesday, October 18, 2006 to Friday, October 20, 2006, both days inclusive, during which period no share transfer will be effected. In order to qualify for the interim dividends, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:00 p.m. on Tuesday, October 17, 2006.

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

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

PRE-EMPTIVE RIGHTS

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

DIRECTORS

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

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

Hong Kong, September 18, 2006

INDEPENDENT INTERIM REVIEW REPORT

Deloitte.
德勤

TO THE BOARD OF DIRECTORS OF
KASEN INTERNATIONAL HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

Introduction

We have been instructed by Kasen International Holdings Limited (the "Company") to review the interim financial report set out on pages 14 to 30.

Directors' responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standards Board and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with the Statement of Auditing Standards 700 ("SAS 700") "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended June 30, 2006.

Without modifying our review conclusion, we draw to your attention that the comparative condensed consolidated income statement, condensed consolidated cash flow statement and condensed consolidated statement of changes in equity for the six months ended June 30, 2005 disclosed in the interim financial report have not been reviewed in accordance with SAS 700.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
September 18, 2006

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED JUNE 30, 2006

	NOTES	**Six months ended June 30, 2006 RMB'000 (unaudited)**	Six months ended June 30, 2005 RMB'000 (unaudited)
Turnover	4	**2,044,773**	1,549,270
Cost of sales		**(1,799,707)**	(1,306,901)
Gross profit		**245,066**	242,369
Other income		**30,940**	30,987
Distribution costs		**(54,412)**	(31,428)
Administrative expenses		**(77,193)**	(47,040)
Other expenses		**(10,146)**	(10,543)
Shares of profit of associates		**490**	–
Gain (loss) on disposals of subsidiaries		**8,838**	(1,380)
Finance costs		**(47,696)**	(55,892)
Profit before taxation	5	**95,887**	127,073
Taxation	6	**(8,800)**	(9,391)
Profit for the period		**87,087**	117,682
Attributable to:			
Equity holders of the Company		**77,931**	126,404
Minority interests		**9,156**	(8,722)
		87,087	117,682
Dividend paid	7	**79,575**	–
Earnings per share	9		
Basic		**RMB8 cents**	RMB23 cents
Diluted		**RMB8 cents**	RMB18 cents

CONDENSED CONSOLIDATED BALANCE SHEET

AT JUNE 30, 2006

	NOTES	**June 30, 2006 RMB'000 (unaudited)**	December 31, 2005 RMB'000 (audited)
NON-CURRENT ASSETS			
Goodwill		**181,006**	181,006
Property, plant and equipment	10	**1,200,229**	1,281,230
Prepaid lease payment – non-current portion	10	**133,695**	142,812
Intangible assets		**834**	1,077
Interests in associates		**12,617**	9,127
Interest in a jointly controlled entity		**2,614**	811
Available-for-sale investments		**310**	310
		1,531,305	1,616,373
CURRENT ASSETS			
Inventories		**1,319,294**	1,378,842
Trade and other receivables	11	**833,694**	795,665
Prepaid lease payment – current portion	10	**3,379**	3,543
Amounts due from related companies		**40,534**	21,253
Taxes recoverable		**7,891**	13,624
Pledged bank deposits		**214,420**	240,112
Bank balances and cash		**451,100**	372,278
		2,870,312	2,825,317
TOTAL ASSETS		**4,401,617**	4,441,690
CURRENT LIABILITIES			
Trade, bills and other payables	12	**737,480**	783,992
Amounts due to related companies		**14,244**	60,287
Bank and other borrowings – due within one year	13	**1,313,668**	1,191,246
Taxes payable		**12,094**	7,807
		2,077,486	2,043,332
NET CURRENT ASSETS		**792,826**	781,985
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,324,131**	2,398,358
NON-CURRENT LIABILITIES			
Bank and other borrowings – due after one year	13	**87,605**	100,492
NET ASSETS		**2,236,526**	2,297,866

CONDENSED CONSOLIDATED BALANCE SHEET (cont'd)

AT JUNE 30, 2006

	June 30, 2006 RMB'000 (unaudited)	December 31, 2005 RMB'000 (audited)
CAPITAL AND RESERVES		
Share capital	**1,256**	1,256
Reserves	**2,171,286**	2,198,304
Equity attributable to equity holders of the Company	**2,172,542**	2,199,560
Minority interests	**63,984**	98,306
Total equity	**2,236,526**	2,297,866

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2006

	Attributable to equity holders of the Company										
	Share capital RMB'000	Share premium RMB'000	Equity reserve RMB'000	Exchange reserve RMB'000	Statutory reserve RMB'000	Special reserve RMB'000	Share option reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At January 1, 2005	689	308,191	1,291	(662)	141,831	168,659	–	475,500	1,095,499	110,272	1,205,771
Exchange differences arising on translation of foreign operations recognized directly in equity	–	–	–	90	–	–	–	–	90	–	90
Profit for the period	–	–	–	–	–	–	–	126,404	126,404	(8,722)	117,682
Total recognized income and expense for the period	–	–	–	90	–	–	–	126,404	126,494	(8,722)	117,772
Acquisition of additional interests in subsidiaries from minority shareholders *(Note 14)*	–	–	–	–	–	–	–	–	–	(6,621)	(6,621)
At June 30, 2005	689	308,191	1,291	(572)	141,831	168,659	–	601,904	1,221,993	94,929	1,316,922
Exchange differences arising on translation of foreign operations recognized directly in equity	–	–	–	(221)	–	–	–	–	(221)	–	(221)
Profit for the period	–	–	–	–	–	–	–	139,295	139,295	3,377	142,672
Total recognized income and expense for the period	–	–	–	(221)	–	–	–	139,295	139,074	3,377	142,451
Issue of new shares	246	539,000	–	–	–	–	–	–	539,246	–	539,246
Transaction costs attributable to issue of new shares	–	(38,511)	–	–	–	–	–	–	(38,511)	–	(38,511)
Conversion of convertible loan notes	321	337,437	–	–	–	–	–	–	337,758	–	337,758
Transfer to share premium on conversion of convertible loan notes	–	1,291	(1,291)	–	–	–	–	–	–	–	–
Appropriation of statutory reserve	–	–	–	–	27,431	–	–	(27,431)	–	–	–
At December 31, 2005	1,256	1,147,408	–	(793)	169,262	168,659	–	713,768	2,199,560	98,306	2,297,866
Exchange differences arising on translation of foreign operations recognized directly in equity	–	–	–	(206)	–	–	–	–	(206)	–	(206)
Profit for the period	–	–	–	–	–	–	–	77,931	77,931	9,156	87,087
Total recognized income and expense for the period	–	–	–	(206)	–	–	–	77,931	77,725	9,156	86,881
Capital contribution from minority shareholder	–	–	–	–	–	–	–	–	–	100	100
Share option granted to employees	–	–	–	–	–	–	5,800	–	5,800	–	5,800
Acquisition of additional interests in subsidiaries from minority shareholders *(Note 14)*	–	–	–	–	–	–	–	(30,968)	(30,968)	(29,188)	(60,156)
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	(13,730)	(13,730)
Dividend paid	–	–	–	–	–	–	–	(79,575)	(79,575)	(660)	(80,235)
At June 30, 2006	1,256	1,147,408	–	(999)	169,262	168,659	5,800	681,156	2,172,542	63,984	2,236,526

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED JUNE 30, 2006

	NOTES	Six months ended June 30, 2006 RMB'000 (unaudited)	Six months ended June 30, 2005 RMB'000 (unaudited)
NET CASH FROM OPERATING ACTIVITIES		**141,599**	196,759
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(81,889)**	(68,778)
Payment for acquisition of additional interests in subsidiaries	14	**(48,877)**	(1,321)
Other investing activities		**1,645**	11,462
NET CASH USED IN INVESTING ACTIVITIES		**(129,121)**	(58,637)
FINANCING ACTIVITIES			
Bank and other borrowings raised		**1,313,053**	1,472,986
Repayment of bank and other borrowings		**(1,117,718)**	(1,485,782)
Dividends paid to equity shareholders		**(79,575)**	–
Dividends paid to minority shareholders		**(660)**	–
Other financing activities		**(48,756)**	(72,599)
NET CASH FROM (USED IN) FINANCING ACTIVITIES		**66,344**	(85,395)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**78,822**	52,727
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		**372,278**	213,458
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by bank balances and cash		**451,100**	266,185

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2006

1. GROUP REORGANIZATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

Pursuant to a group reorganization (the "Group Reorganization") to rationalize the structure of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") in preparation for the listing of the Company's shares on The Stock Exchange for Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group on September 16, 2004. The shares of the Company have been listed on the Stock Exchange since October 20, 2005. Details of the Group Reorganization were set out in the prospectus issued by the Company dated October 10, 2005.

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

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost basis.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the annual financial statements of the Company and its subsidiaries (the "Group") for the year ended December 31, 2005 except as described below.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new IFRSs") issued by International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretation Committee of the IASB, which are either effective for accounting periods beginning on or after January 1, 2006. The adoption of the new IFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

Financial guarantee contracts

In the current period, the Group has applied IAS 39 and IFRS 4 (Amendments) *Financial guarantee contracts* which is effective for annual periods beginning on or after January 1, 2006.

A financial guarantee contract is defined by IAS 39 Financial Instruments: Recognition and Measurement as "a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument".

The Group acts as the issuer of the financial guarantee contracts

Prior to January 1, 2006, financial guarantee contracts were not accounted for in accordance with IAS 39 and those contracts were disclosed as contingent liabilities. A provision for financial guarantee was only recognised when it was probable that an outflow of resources would be required to settle the financial guarantee obligation and the amount can be estimated realisably.

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

FOR THE SIX MONTHS ENDED JUNE 30, 2006

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

The Group acts as the issuer of the financial guarantee contracts (cont'd)

Upon the application of these amendments, a financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with *IAS 37 Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with *IAS 18 Revenue*.

As mentioned in Note 17, the Group provided guarantees to banks in respect of banking facilities extended to an independent third party. However there was no material effect on the results for the current and prior accounting periods.

In addition, the Group has applied all the following accounting policy for share options granted during the current interim period:

Share-based payments

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of share options that will eventually vest and adjusted for the effect of non-market-based vesting conditions with a corresponding increase in share option reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will continue to be held in share option reserve.

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

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

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

FOR THE SIX MONTHS ENDED JUNE 30, 2006

4. SEGMENT INFORMATION

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

Consolidated income statement

	Upholstered furniture *RMB'000*	Furniture leather *RMB'000*	Automotive leather *RMB'000*	Others *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
Six months ended June 30, 2006						
Turnover						
External sales	1,661,302	310,164	53,710	19,597	–	2,044,773
Inter-segment sales	329,812	1,070,658	–	65,946	(1,466,416)	–
Six months ended June 30, 2005						
Turnover						
External sales	1,211,200	268,973	68,813	284	–	1,549,270
Inter-segment sales	253,339	720,514	–	42,651	(1,016,504)	–

	Six months ended June 30, 2006 ***RMB'000***	Six months ended June 30, 2005 *RMB'000*
Result		
Segment result		
– Upholstered furniture	**114,974**	150,020
– Furniture leather	**3,950**	9,809
– Automotive leather	**(4,478)**	4,150
– Others	**(985)**	(78)
	113,461	163,901
Unallocated corporate income	**30,940**	30,987
Unallocated corporate expenses	**(10,146)**	(10,543)
Gain (loss) on disposals of subsidiaries	**8,838**	(1,380)
Shares of profit of associates	**490**	–
Finance costs	**(47,696)**	(55,892)
Profit before taxation	**95,887**	127,073
Taxation	**(8,800)**	(9,391)
Profit for the period	**87,087**	117,682

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

FOR THE SIX MONTHS ENDED JUNE 30, 2006

5. PROFIT BEFORE TAXATION

	Six months ended June 30, 2006	Six months ended June 30, 2005
	RMB'000	*RMB'000*
Profit before taxation has been arrived at after charging (crediting):		
Amortization of intangible assets	**143**	105
Amortization of prepaid lease payment	**1,551**	1,717
Depreciation of property, plant and equipment	**48,534**	39,337
Total depreciation and amortization	**50,228**	41,159
Impairment loss recognized in respect of trade and other receivables	**7,603**	7,195
Loss on disposal of property, plant and equipment	**1,468**	660
Net foreign exchange losses	**7,175**	1,463
Staff costs (including directors' remuneration)	**130,201**	102,675
Discounts on acquisition of an additional interest of a subsidiary	**(10,279)**	(5,300)

6. TAXATION

	Six months ended June 30, 2006	Six months ended June 30, 2005
	RMB'000	RMB'000
Hong Kong Profits Tax		
– current period	**455**	411
PRC enterprise income tax		
– current period	**8,345**	8,980
	8,800	9,391

Hong Kong Profits Tax is calculated at 17.5% of estimated assessable profit for both periods.

PRC enterprise income tax is calculated at the applicable rates to the PRC subsidiaries. Certain subsidiaries of the Company operating in the PRC are eligible for certain tax holidays and concessions and were exempted from PRC income taxes for both periods.

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

FOR THE SIX MONTHS ENDED JUNE 30, 2006

7. DIVIDEND PAID

	Six months ended June 30, 2006 RMB'000	Six months ended June 30, 2005 RMB'000
Final, paid – HK7.58 cents for the year ended December 31, 2005 (2004: Nil) per ordinary share	**79,575**	–

The Board of Directors have determined that an interim dividend of RMB3.53 cents (equivalent to HK3.45 cents) (six months ended June 30, 2005: Nil) per share be payable to the shareholders of the Company whose names appear in the register of members on October 20, 2006.

8. SHARE OPTIONS

A share option scheme was adopted by the Company pursuant to a Board resolution passed on September 26, 2005 (the "Scheme") for the primary purpose of providing incentives to directors and eligible employees. The Scheme became effective on October 20, 2005 and the option issued pursuant to the scheme will expire no later than 10 years from the date of grant of the option. Under the Scheme, the Board may grant options to any employees of the Company or any of its subsidiaries to subscribe shares of the Company.

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

	Number of share options
Granted during the period and outstanding at the end of the period	30,200,000

The Company granted share options to eligible employees on March 9, 2006. The fair value of the options determined at the date of grant using the Binomial Model was RMB21,762,000. The exercise price of the options is fixed at HK$2.38. The share options could be exercised during the following periods:

Date	**Percentage of share options**
From January 1, 2007 to March 8, 2016	50%
From January 1, 2008 to March 8, 2016	100%

No share option has been exercised during the period.

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

FOR THE SIX MONTHS ENDED JUNE 30, 2006

9. EARNINGS PER SHARE

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

Earnings

	Six months ended June 30, 2006 RMB'000	Six months ended June 30, 2005 RMB'000
Earnings for the purposes of basic earnings per share, being profit attributable to equity holders of the Company	**77,931**	126,404
Effect of dilutive potential ordinary shares:		
Interest on convertible loan notes	**–**	7,623
Earnings for the purposes of diluted earnings per share	**77,931**	134,027

Number of shares

	Six months ended June 30, 2006	Six months ended June 30, 2005
Weighted average number of ordinary shares for the purposes of basic earnings per share	**1,014,045,369**	553,263,153
Effect of dilutive potential ordinary shares:		
Convertible loan notes	**–**	211,594,203
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**1,014,045,369**	764,857,356

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

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

FOR THE SIX MONTHS ENDED JUNE 30, 2006

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND PREPAID LEASE PAYMENT

During the period, the Group incurred expenditure of approximately RMB51,237,000 (six months ended June 30, 2005: RMB68,778,000) on property, plant and equipment and of approximately RMB1,197,000 (six months ended June 30, 2005: RMB1,631,000) on prepaid lease payments to expand and upgrade the Group's manufacturing facilities.

During the period, the Group wrote off certain property, plant and equipment with a carrying amount of approximately RMB1,468,000 (six months ended June 30, 2005: RMB5,905,000) resulting in loss on written off of RMB1,468,000 (six months ended June 30, 2005: Loss of RMB660,000). In addition, a carrying amount of approximately RMB82,236,000 of property, plant and equipment and RMB8,927,000 of prepaid lease payments were disposed of as a result of the disposal of certain subsidiaries by the Group during current period.

11. TRADE AND OTHER RECEIVABLES

	June 30, 2006 *RMB'000*	December 31, 2005 *RMB'000*
Trade receivables	**604,163**	549,341
Less: accumulated impairment loss	**(42,890)**	(34,908)
	561,273	514,433
Prepayments	**158,189**	154,247
Other receivables	**121,735**	136,490
Less: accumulated impairment loss	**(7,503)**	(9,505)
	833,694	795,665

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

	June 30, 2006 *RMB'000*	December 31, 2005 *RMB'000*
Aged:		
Within 60 days	**384,992**	355,407
61-90 days	**61,903**	51,342
91-180 days	**58,242**	63,429
181-365 days	**51,087**	43,139
1-2 years	**5,049**	1,116
Total trade receivables, net of impairment loss	**561,273**	514,433

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

FOR THE SIX MONTHS ENDED JUNE 30, 2006

12. TRADE, BILLS AND OTHER PAYABLES

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

	June 30, 2006	December 31, 2005
	RMB'000	*RMB'000*
Within 60 days	**363,014**	321,512
61-90 days	**72,890**	33,685
91-180 days	**13,074**	49,869
181-365 days	**16,849**	15,974
1-2 years	**2,768**	6,643
Over 2 years	**5,600**	3,206
Total trade payables	**474,195**	430,889
Bills payables *(note)*	**144,051**	183,403
Other payables and accrued liabilities	**119,234**	169,700
	737,480	783,992

Note: All bills payables were not yet due at the balance sheet dates.

13. BANK AND OTHER BORROWINGS

During the period, the Group obtained additional bank loans of approximately RMB1,313,053,000 (six months ended June 30, 2005: RMB1,472,986,000) and made repayments of approximately RMB1,117,718,000 (six months ended June 30, 2005: RMB1,485,782,000). The proceeds from the additional loans were used as working capital of the Group and acquisition of property, plant and equipment for the expansion of the Group's manufacturing facilities.

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

FOR THE SIX MONTHS ENDED JUNE 30, 2006

14. ACQUISITION OF ADDITIONAL INTERESTS IN SUBSIDIARIES

In June 2006, the Group acquired 44.55% and 49.5% interests in its subsidiaries, Haining Hainix Sofa Co., Ltd. ("Hainix Sofa") and Haining Hidea Furniture Co., Ltd. ("Hidea Furniture"), respectively, from their minority shareholders.

In April 2005, the Group acquired 4.416% interests in its subsidiary, Haining Kareno Furniture Co., Ltd. ("Kareno"), from its minority shareholder.

The acquisition prices were agreed through negotiation between the Group and the minority shareholders.

	June 30, 2006 carrying amount *RMB'000*	June 30, 2005 carrying amount *RMB'000*
Net assets acquired	**29,188**	6,621
Retained earnings *(Note)*	**30,968**	–
Discounts on acquisition of an additional interest in a subsidiary	**(10,279)**	(5,300)
	49,877	1,321
Satisfied by:		
Cash consideration	**48,877**	1,321
Payables	**1,000**	–
	49,877	1,321

Note: This difference represents the portion of the revaluation difference that arose since the original acquisition date that is attributable to the increase in the Group's interests.

15. LEASE ARRANGEMENTS

As lessee

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

	June 30, 2006 *RMB'000*	December 31, 2005 *RMB'000*
Within one year	**1,534**	1,543
In the second to fifth year inclusive	**702**	1,440
	2,236	2,983

The lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of three years and rentals are fixed for an average of three years.

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

FOR THE SIX MONTHS ENDED JUNE 30, 2006

16. CAPITAL COMMITMENTS

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

	June 30, 2006 *RMB'000*	December 31, 2005 *RMB'000*
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	**6,157**	6,656
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of construction of certain infrastructure and public facilities in the PRC on behalf of the government	**17,232**	20,991
	23,389	27,647

17. CONTINGENT LIABILITIES

At the balance sheet dates, the Group had the following contingent liabilities:

	June 30, 2006 *RMB'000*	December 31, 2005 *RMB'000*
Guarantees given to banks in respect of banking facilities extended to – Independent third parties	**52,145**	67,897

18. CONNECTED AND RELATED PARTY DISCLOSURES

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

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

Related parties	**Nature of transactions**	*Notes*	**Six months ended June 30, 2006** *RMB'000*	Six months ended June 30, 2005 *RMB'000*
伊犁霍爾果斯皮革有限公司 Yili Horgos Leather Co., Ltd. ("Yili Horgos")	Purchase by the Group	*(i)*	**19,866**	51,726
白銀白利斯皮革有限公司 Baiyin Palace Leather Co., Ltd. ("Baiyin Palace")	Sales by the Group	*(i)*	**–**	10,273
	Sales of production wastes by the Group		**–**	151

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

FOR THE SIX MONTHS ENDED JUNE 30, 2006

18. CONNECTED AND RELATED PARTY DISCLOSURES (cont'd)

Related parties	Nature of transactions	*Notes*	**Six months ended June 30, 2006** ***RMB'000***	Six months ended June 30, 2005 *RMB'000*
海寧宇潔物資回收有限公司 Haining Yujie Material Recycling Co., Ltd. ("Yujie")	Sales of production wastes by the Group	*(i)*	**3,988**	6,517
白銀卡森皮革有限公司 Baiyin Kasen Leather Co., Ltd. ("Baiyin Kasen")	Purchase by the Group	*(i)*	**44,938**	97,225
	Sales of production wastes by the Group		**–**	2,259
海寧萬盛絲綢噴織有限公司 Haining Wansheng Silk Weaving Co., Ltd. ("Wansheng Silk")	Purchase by the Group	*(ii)*	**7,749**	2,693
Starcorp Corporation Pty. Ltd ("Starcorp")	Sales by the Group	*(i)*	**21,341**	23,013
上海森橋皮業有限公司 Shanghai Sunbridge Leather Industry Co., Ltd.	Sales by the Group	*(i)*	**–**	2,531
海寧長虹皮件有限公司 Haining Changhong Leather Co., Ltd.	Sales by the Group	*(iii)*	**–**	269
浙江森橋實業集團有限公司 Zhejiang Sunbridge Industrial (Group) Co., Ltd. ("Sunbridge")	Disposal of property, plant and equipment	*(iv)*	**–**	4,255
克孜勒蘇新蓉皮革有限公司 Kezilesu Xinrong Leather Co., Ltd. ("Kezilesu Xinrong")	Purchase by the Group	*(i)*	**34,153**	16,224
海寧美景海綿有限公司 Future Foam Asia, Inc. ("Future Foam")	Purchase by the Group	*(vii)*	**33,903**	–
海寧市卡森－美如可思皮革有限公司 Haining Kasen-Melx Leather Co., Ltd. ("Kasen-Melx")	Sales by the Group	*(viii)*	**2,825**	–
浙江吉恩仕服裝集團進出口有限公司 Zhejiang Jeans Clothing Group Import & Export Co., Ltd.	Purchase by the Group	*(v)*	**–**	17,008
North Pole Limited	Sales by the Group	*(vi)*	**9,746**	–

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

FOR THE SIX MONTHS ENDED JUNE 30, 2006

18. CONNECTED AND RELATED PARTY DISCLOSURES (cont'd)

Notes:

(i) Mr. Zhu Zhangjin, the director of the Company, has influence and beneficial interests in these companies through Sunbridge.

(ii) A director of a non-wholly owned subsidiary has influence and beneficial interests in the company. This non-wholly owned subsidiary was disposed by the Group in June 2006.

(iii) A director of a non-wholly owned subsidiary has influence and beneficial interests in the company.

(iv) Mr. Zhu Zhangjin has influence and beneficial interests in the company.

(v) The company ceased to be a related party of the Group in July 2005.

(vi) The company is the subsidiary of one major shareholder of the Company.

(vii) Associate of the Company.

(viii) Jointly controlled entity of the Company.

(b) Share options granted to the directors

	Six months ended June 30, 2006	Six months ended June 30, 2005
Number of share options granted to the directors	**7,200,000**	–

(c) In April 2005, the Group acquired 4.416% interest in its subsidiary of Kareno from Ausen International Pty. Ltd. In June 2006, the Group acquired 44.55% and 49.5% interests in its subsidiaries of Hainix Sofa and Hidea Furniture, respectively, from following minority shareholders (see note 14):

– 海寧市志遠皮革輔料經營部 (Haining Zhiyuan Leather Supplemental Material Operation)

– 海寧市天可沙發配件經營部 (Haining Tianke Sofa Accessories Operation)

– 海寧浙吉物資經營部 (Haining Zheji Material Operation)

– 海寧市慧騰服裝面料經營部 (Haining Huiteng Garments Material Operation)

– 海寧市良達沙發配件經營部 (Haining Liangda Sofa Accessories Operation)

19. SUBSEQUENT EVENTS

Pursuant to the general mandate granted by the shareholders of the Company, the Board of Directors resolved on July 31, 2006 to repurchase the Company's shares of up to 10% of the issued shares of the Company as at the date of May 30, 2006. The repurchase will be made at the discretions of the Board.