IMPORTANT

If you are in any doubt about this prospectus, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional advisers.

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)

GLOBAL OFFERING

Number of Shares under the Global Offering :	**304,220,000 Shares comprising 202,809,074 New Shares and 101,410,926 Sale Shares (subject to adjustment and the Over-allotment Option)**
Number of Public Offer Shares :	**30,422,000 Shares (subject to adjustment)**
Number of International Placing Shares :	**273,798,000 Shares (subject to adjustment)**
Offer Price :	**Not more than HK$3.15 per Offer Share payable in full on application in Hong Kong dollars, plus brokerage of 1%, a SFC transaction levy of 0.005%, an investor compensation levy of 0.002% and a Stock Exchange trading fee of 0.005%, subject to refund**
Nominal value :	**US$0.00015 each**
Stock code :	**496**

Global Coordinator, Bookrunner, Sponsor and Lead Manager

UBS Investment Bank

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix VIII to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong).

The SFC and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement between the Global Coordinator (on behalf of the Underwriters), the Selling Shareholders and us, on the Price Determination Date. The Price Determination Date is expected to be on or around Saturday, October 15, 2005 and, in any event, not later than Sunday, October 16, 2005. The Offer Price will be announced in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) as soon as practicable after it is fixed.

The Offer Price will be not more than HK$3.15 and is currently expected to be not less than HK$2.55. Applicants for Public Offer Shares are required to pay, on application, the maximum offer price of HK$3.15 for each Share, together with brokerage of 1%, SFC transaction levy of 0.005%, investor compensation levy of 0.002% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price should be lower than HK$3.15.

The Global Coordinator (on behalf of the Underwriters) may, with our consent and the consent of the Selling Shareholders, reduce the indicative offer price range below that stated in this prospectus (which is HK$2.55 to HK$3.15 per Share) at any time on or prior to the morning of the last day for lodging applications under the Public Offer. In such a case, notices of the reduction in the indicative offer price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the day which is the last day for lodging applications under the Public Offer. If applications for Public Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Public Offer, then even if the indicative offer price range is so reduced, such applications cannot be subsequently withdrawn. Further details are set out in the sections headed "Structure and Conditions of the Global Offering" and "How to Apply for Public Offer Shares" in this prospectus.

If, for any reason, the Offer Price is not agreed by Sunday, October 16, 2005 between us, the Selling Shareholders and the Global Coordinator (on behalf of the Underwriters), the Global Offering (including the Public Offer) will not proceed and will lapse.

The Sale Shares offered for sale under the International Placing are offered for sale on behalf of the Selling Shareholders. No part of the proceeds from the sale of the Sale Shares under the International Placing is receivable by us.

The obligations of the Public Offer Underwriters under the Public Offer Underwriting Agreement to subscribe or purchase, and to procure applicants for the subscription or purchase of, the Public Offer Shares, are subject to termination by the Global Coordinator (on behalf of the Public Offer Underwriters) if certain grounds arise prior to 8:00 am on the day that trading in the Public Offer Shares commences on the Stock Exchange. Such grounds are set out in the section headed "Underwriting" in the prospectus. It is important that you refer to that section for further details.

October 10, 2005

Application lists open[2]	Friday, 11:45 a.m. on October 14, 2005
Latest time to lodge **white** and **yellow** Application Forms	Friday, 12:00 noon on October 14, 2005
Latest time to give **electronic application instructions** to HKSCC[3]	Friday, 12:00 noon on October 14, 2005
Application lists close	Friday, 12:00 noon on October 14, 2005
Expected Price Determination Date[4]	Saturday, October 15, 2005
Announcement of the Offer Price, the level of indication of interest in the International Placing, the results of applications and the basis of allotment of the Public Offer Shares under the Public Offer to be published in the South China Morning Post and the Hong Kong Economic Times on or before	Wednesday, October 19, 2005
Dispatch of Share certificates in respect of wholly or partially successful applications on or before[5]	Wednesday, October 19, 2005
Dispatch of refund cheques in respect of wholly or partially unsuccessful applications on or before	Wednesday, October 19, 2005
Dealings in Offer Shares on the Stock Exchange to commence on	Thursday, October 20, 2005

Notes:

(1) All times refer to Hong Kong local time, except as otherwise stated. Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure and Conditions of the Global Offering" in this prospectus.

(2) If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force at any time between 9:00 a.m. and 12 noon on Friday, October 14, 2005, the application lists will not open on that day. Further information is set out in the section headed "How to Apply for Public Offer Shares — Effect of Bad Weather on the Opening of the Application Lists" in this prospectus.

(3) Applicants who apply by giving **electronic application instructions** to HKSCC should refer to the section headed "How to Apply for Public Offer Shares — Applying by Giving Electronic Application Instructions to HKSCC" in this prospectus.

(4) Please note that the Price Determination Date, being the date on which the Offer Price is to be determined, is expected to be on or about Saturday, October 15, 2005. Notwithstanding that the Offer Price may be fixed at below the maximum offer price of HK$3.15 per Share payable by applicants for Shares under the Public Offer, applicants who apply for Shares must pay on application the maximum offer price of HK$3.15 per Share plus the brokerage of 1%, SFC transaction levy of 0.005%, investor compensation levy of 0.002% and Stock Exchange trading fee of 0.005% but will be refunded the surplus application monies as provided in the section headed "How to Apply for Public Offer Shares" in this prospectus.

(5) Applicants who apply for 1,000,000 or more Public Offer Shares and have indicated in their Application Forms their wish to collect refund cheques and, where applicable, share certificates in person may do so from our Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, from 9:00 a.m. to 1:00 p.m. on Wednesday, October 19, 2005 or any other date notified by us in the newspaper as the date of dispatch of share certificates and refund cheques. Applicants being individuals who opt for personal collection must not authorize any other person to make their collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorized representatives bearing letters of authorization from their corporation stamped with the corporation's chops. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited. Uncollected share certificates and refund cheques will be dispatched by ordinary post at the applicant's own risk to the addresses specified in the relevant Application Forms shortly thereafter. Further information is set out in the section headed "How to Apply for Public Offer Shares." Share certificates will only become valid certificates of title provided that the Public Offer has become unconditional and neither of the Underwriting Agreements has been terminated in accordance with its terms, which is expected to be at around 8:00 a.m. on Thursday, October 20, 2005.

CONTENTS

You should rely only on the information contained in this prospectus and the application forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorized by us, the Selling Shareholders, the Global Coordinator, any of the Underwriters, any of their respective directors, or any other person or party involved in the Global Offering.

Information contained in our websites, including http://www.kasen.com.cn, does not form part of this prospectus.

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This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read the whole prospectus before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk Factors" of this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are a leading upholstered furniture and leather products manufacturer based in China. In 2004, we were the largest leather products and the largest upholstered furniture manufacturer in China based on revenue, according to the China State Statistical Bureau and the China National Furniture Association, respectively. We purchase and process raw cowhides and wet blues into finished leather and fully assembled leather products. Our principal products are leather and fabric upholstered furniture and furniture covers, furniture leather and automotive leather. We increased our turnover and profit for the year from RMB1,386.8 million and RMB127.4 million in 2002, to RMB2,852.4 million and RMB234.5 million in 2004, respectively. For the four months ended April 30, 2005, our turnover was RMB983.1 million and our profit for the period was RMB75.8 million.

We primarily manufacture our upholstered furniture products in accordance with the designs of our customers, who market our products under their own brand names, in the US. Our upholstered furniture customers include leading US furniture companies, such as Furniture Brands International, Inc., which markets products through its subsidiaries: Lane Furniture Industries Inc., Thomasville Furniture Industries Inc., Broyhill Furniture Industries Inc., Founders Furniture (a division under Thomasville Furniture Industries Inc.) and Drexel Heritage Furniture Industries Inc.; Berkline/Benchcraft LLC, which markets products under the Berkline and Benchcraft brands; Pennsylvania House, a subsidiary of La-Z-Boy Incorporated; Bernhardt Furniture Company; American Signature Inc.; Rooms To Go, Inc.; and other leading international furniture companies. We have benefited from the global trend of furniture manufacturing outsourcing to companies in countries such as China, who benefit from lower labor costs, economies of scale, availability of a large variety and stable supply of products.

We believe the outsourcing trend in the global upholstered furniture industry will continue, which will allow us to maintain our position as one of the leading upholstered furniture and leather products manufacturers in China. Furthermore, by capitalizing on our competitive cost structure, vertical integration, large-scale operations and in-depth technology know-how, we aim to further expand in Australia and Japan and into Europe, so that we can become one of the world's leading manufacturers of upholstered furniture products, furniture leather and automotive leather.

We commenced commercial sales of automotive leather at the end of 2003, principally to automobile parts suppliers whose customers are leading international automobile manufacturers with operations or worldwide supply centers in China, such as General Motors, Volkswagen, Ford, Audi and Mazda, as well as to Distinctive Industries, Inc., a leading automobile after-market service provider in the US.

We believe we have the largest leather products manufacturing facilities in China. As at April 30, 2005, our manufacturing facilities for our principal products occupied approximately 1.3 million square meters of gross floor area, including 741,760 square meters located in our recently established Higher Point Sofa Industrial Park, Zhejiang Province of China. We developed Higher Point Sofa Industrial Park through eight subsidiaries (two of which are not yet in operation) which produce a wide variety of upholstered furniture products.

OUR KEY STRENGTHS

We believe the following key strengths have contributed significantly to our past success and will continue to drive our future growth:

- Our ability to identify and capitalize on new market opportunities;
- Our timely customer service and our effective cost and quality control resulting from our vertically integrated manufacturing capabilities;
- Our large-scale operations and production capacity;
- Our established relationships with leading international and domestic customers; and
- Our strong and experienced management team with a proven track record.

OUR STRATEGIES

Our goals are to solidify our leading position as the largest finished leather products manufacturer in China and to become the world's largest producer of upholstered furniture products and automotive leather. We aim to accomplish these goals and to increase shareholders' value by implementing the following strategies:

- Further enlarge our customer base by expanding our geographic coverage;
- Further expand our product range;
- Maintain our low cost base;
- Actively develop global strategic alliances and domestic business relationships;
- Offer our customers value-added services; and
- Improve our management information systems.

SUMMARY OF RISK FACTORS

There are certain risks involved in our operations. These risks can be categorized into: (i) risks relating to our business and our industry; (ii) risks relating to our operations in China; and (iii) risks relating to the Global Offering.

Risks relating to our business and our industry

- If prices of raw cowhides or wet blues increase, our costs could increase.

- We depend on the strong and continuous growth of outsourcing of upholstered furniture manufacturing.

- We depend on a small number of customers for a substantial portion of our sales.

- We depend on the success of our key customers' businesses, which we do not control.

- Intense competition in our markets may lead to price reductions and reduce our gross margin.

- If labor costs in China increase, our gross margin may decrease and our competitiveness may decline.

- Our sales of leather upholstered furniture products are currently concentrated in the US and any decrease in our sales of leather upholstered furniture in this market could reduce our revenues materially.

- We depend on Mr. Zhu and other key management employees.

- Our operating results may fluctuate due to seasonality.

- We may not be able to raise adequate capital in a timely manner to maintain sufficient levels of inventory or purchase fixed assets.

- We may have to seek other suppliers for wet blues if our current suppliers do not comply with environmental laws and regulations.

- If supplies of raw cowhides or wet blues decrease, we may incur additional costs.

- We currently rely on a long-term supply contract for part of our supply of wet blues.

- We may face fines for failing to pay some social insurance fees and housing fund fees for some of our employees.

- We may face unspecified legal consequences for our minor breach of the PRC Company Law.

- We may have to remedy our failure to obtain a valuation report in relation to Cardina's acquisition of Shanghai La Kassa.

- We may face penalties for not obtaining approvals for some of our environmental construction projects.

- We may have to remedy our failure to obtain asset valuations for certain equity transfers.

- Compliance with environmental laws and regulations may delay or interrupt our operations or adversely affect our financial results.

- We may not successfully achieve our objectives to expand into new markets, increase capacity, or broaden our product range.

- We may have difficulty managing future rapid growth.

- Our production capacity and inventory may not correspond precisely to our production demands.

- Our plans to improve our current management information system and improve our internal controls may not succeed.

- We have a concentration of ownership, which may limit the influence you may have over the business.

- Global or regional economic, political and social conditions could materially adversely affect our business and operating results.

- Our sales could decrease if the US were to impose anti-dumping duties against manufacturers of leather upholstered furniture located in China, if we were to become subject to trade quotas or if a trade war involving our products were to develop.

- We may be required to repay the debt of Haining Changhai, an unrelated third party, as a result of a cross-guarantee arrangement.

Risks relating to our operations in China

- Political and economic policies of the Chinese government could materially adversely affect our business and results of operations.

- Government control of currency conversion and future movements in exchange rates may adversely affect our financial condition, results of operations and our ability to remit dividends.

- Our business is subject to Chinese government regulation.

- Dividends paid to us from our operations in China may become subject to income tax, and tax preferences that we currently enjoy may be eliminated.

- Changes in the regulations relating to import and export duties may increase our cost of sales.

- China's legal system is not fully developed and has inherent uncertainties that could limit the legal protections available to our shareholders.

- It may be difficult to effect service of process upon our Directors or executive officers that live in China or to enforce against them in China any judgments obtained from non-China courts.

- Any future outbreak of Severe Acute Respiratory Syndrome (SARS) or other epidemic may have an adverse effect on our results of operations.

Risks relating to the Global Offering

- Future sales of our Shares may decrease the value of your investment.

- The liquidity and market price of our Shares following this Global Offering may be volatile.

- We will use a substantial part of the net proceeds from our Global Offering to repay some of our existing bank loans and amounts drawndown from bank facilities.

- Dividends declared in the past may not be indicative of our dividend policy in the future.

- There is no prior public market for our Shares.

- Investors should read the entire prospectus carefully and we strongly caution investors not to place any reliance on any information contained in press articles or other media, certain of which may not be consistent with information contained herein.

- The market price of our Shares could decline.

- Because the initial public offering price is higher than the book value of the net tangible asset per Share, you will experience immediate dilution.

SUMMARY HISTORICAL FINANCIAL INFORMATION

The following table presents our summary financial information for the years ended December 31, 2002, 2003, 2004 and the four months ended April 30, 2004 and 2005, which have been derived from, and should be read in conjunction with, our financial information included in the Accountants' Report set out in Appendix I to this prospectus. Our financial information has been prepared in accordance with IFRS.

Consolidated Income Statements

	Year ended December 31,			Four months ended April 30,	
	2002	2003	2004	2004	2005
	(RMB in thousands)				
				(unaudited)	
Turnover	1,386,805	2,135,498	2,852,391	817,787	983,121
Cost of sales	(1,192,649)	(1,758,091)	(2,408,719)	(681,453)	(822,660)
Gross profit	194,156	377,407	443,672	136,334	160,461
Other operating income	74,149	201,583	189,895	80,504	20,818
Distribution costs	(9,205)	(29,904)	(56,487)	(13,112)	(18,332)
Administrative expenses	(25,980)	(67,985)	(93,902)	(31,420)	(32,475)
Other operating expenses	(23,993)	(144,743)	(133,596)	(67,088)	(7,234)
Operating profit	209,127	336,358	349,582	105,218	123,238
(Loss) gain on disposals of subsidiaries	—	(519)	3,013	—	(1,380)
Finance costs	(30,459)	(53,905)	(95,419)	(27,785)	(36,696)
Profit before taxation	178,668	281,934	257,176	77,433	85,162
Taxation	(51,307)	(49,420)	(22,646)	(6,101)	(9,396)
Profit for the year/period	127,361	232,514	234,530	71,332	75,766
Attributable to:					
Equity holders of the Company	108,706	199,323	225,701	61,944	81,699
Minority interests	18,655	33,191	8,829	9,388	(5,933)
	127,361	232,514	234,530	71,332	75,766
Dividends	—	16,900	—	—	—
Earnings per share					
Basic(1)(3)	25 cents	46 cents	47 cents	14 cents	15 cents
Diluted(2)(3)	N/A	40 cents	35 cents	10 cents	11 cents

Notes:

(1) Basic earnings per share is calculated by dividing profit attributable to equity holders of the Company by the weighted average number of ordinary shares.

(2) Diluted earnings per share is calculated by dividing profit attributable to equity holders of the Company adjusted for interest on the Warburg Pincus Convertible Loans by the sum of the weighted average number of ordinary shares and the number of ordinary shares to be issued assuming full conversion of the Warburg Pincus Convertible Loans.

(3) The weighted average number of ordinary shares for the purpose of calculating basic and diluted earnings per share attributable to the equity holders of the Company for each period has been retrospectively adjusted for the effect of the share consolidation completed subsequent to April 30, 2005.

SUMMARY

Consolidated Balance Sheets

	At December 31,			At April 30,
	2002	2003	2004	2005
	(RMB in thousands)			
Current assets	974,364	1,807,449	2,560,696	2,605,097
Inventories	380,680	646,248	1,392,738	1,231,049
Trade and other receivables	372,733	624,099	529,466	609,604
Bank balances and cash	175,111	410,293	213,458	338,384
Non-current assets	370,514	826,836	1,476,248	1,499,404
Total assets	1,344,878	2,634,285	4,036,944	4,104,501
Current liabilities	831,192	1,773,686	2,733,076	2,726,698
Trade and other payables	192,064	517,396	873,382	721,250
Bank and other borrowings — due within one year	593,773	1,056,207	1,472,825	1,584,512
Convertible loan notes	—	180,435	304,934	304,934
Non-current liabilities	108,300	143,539	102,492	102,727
Bank and other borrowings — due after one year	108,300	102,039	102,492	102,727
Total liabilities	939,492	1,917,225	2,835,568	2,829,425
Equity attributable to equity holders of the Company	373,788	557,247	1,091,104	1,177,358
Minority interest	31,598	159,813	110,272	97,718
Total liabilities and total equity	1,344,878	2,634,285	4,036,944	4,104,501

Consolidated Cash Flow Statements

	Year ended December 31,			Four months ended April 30,	
	2002	2003	2004	2004	2005
	(RMB in thousands)				
				(unaudited)	
Net cash from operating activities	129,081	21,031	17,279	38,129	95,312
Net cash used in investing activities	(185,280)	(512,945)	(979,993)	(307,616)	(34,484)
Net cash from financing activities	205,817	727,096	765,879	400,602	64,098

FORECAST FOR THE YEAR ENDING DECEMBER 31, 2005

Forecast consolidated profit attributable to equity holders of the Company [(1)] .... not less than RMB260.0 million (HK$250.0 million)

Forecast earnings per Share

(a) pro forma fully diluted[(2)] .... RMB0.26 (HK$0.25)

(b) weighted average[(3)] .... RMB0.40 (HK$0.39)

Notes:

(1) The bases on which the above profit forecast has been prepared are set out in Appendix III.

(2) The calculation of the forecast earnings per Share on a pro forma fully diluted basis is based on the forecast profit attributable to equity holders of the Company for the year ending December 31, 2005, assuming that we had been listed since January 1, 2005 and a total of 1,014,045,369 Shares (giving effect to the share consolidation completed subsequent to April 30, 2005) were in issue during the entire year. This calculation assumes full conversion of the Warburg Pincus Convertible Loans on January 1, 2005 and that the Shares issued pursuant to the Global Offering were issued on January 1, 2005.

(3) The calculation of forecast earnings per Share on a weighted average basis is based on the forecast profit attributable to equity holders of the Company for the year ending December 31, 2005 and a weighted average number of 644,157,179 Shares (giving effect to the share consolidation completed subsequent to April 30, 2005) issued and outstanding during the year. This calculation assumes full conversion of the Warburg Pincus Convertible Loans on October 20, 2005 and that the Shares issued pursuant to the Global Offering will be issued on October 20, 2005.

OFFERING STATISTICS

	Based on Offer Price of HK$2.55	Based on Offer Price of HK$3.15
Market capitalization of the Shares[(1)]	HK$2,585.8 million	HK$3,194.2 million
Price/earnings multiple		
(a) pro forma fully diluted[(2)]	10.3 times	12.8 times
(b) weighted average[(3)]	6.6 times	8.1 times
Adjusted net tangible asset value per Share[(4)]	HK$1.90	HK$2.05

Notes:

(1) The calculation of market capitalization is based on 1,014,045,369 Shares (giving effect to the share consolidation completed subsequent to April 30, 2005) expected to be in issue following the Global Offering. This calculation assumes full conversion of the Warburg Pincus Convertible Loans on January 1, 2005.

(2) The calculation of the prospective price/earnings multiple on a pro forma fully diluted basis is based on the forecast earnings per Share for the year ending December 31, 2005 on a pro forma fully diluted basis at the respective Offer Prices of HK$2.55 and HK$3.15, and assumes full conversion of the Warburg Pincus Convertible Loans on January 1, 2005.

(3) The calculation of the prospective price/earnings multiple on a weighted average basis is based on the forecast earnings per Share on a weighted average basis at the respective Offer Prices of HK$2.55 and HK$3.15. This calculation assumes full conversion of the Warburg Pincus Convertible Loans on October 20, 2005.

(4) The adjusted net tangible asset value per Share is based on 756,072,227 Shares (giving effect to the share consolidation completed subsequent to April 30, 2005) expected to be in issue following the Global Offering, and assumes no conversion of the Warburg Pincus Convertible Loans.

SELLING SHAREHOLDERS

Pursuant to the International Underwriting Agreement, the Warburg Pincus Funds, Symbiospartners, Ocean Creator and Cao Haoqiang (collectively the Selling Shareholders) will offer 70,983,176, 6,666,666, 4,444,444 and 19,316,640 Shares, respectively for sale in the International Placing, while the Warburg Pincus Funds and Cao Haoqiang will offer 35,491,588 and 10,141,412 Shares, respectively, for sale in the Over-allotment Option.

The shareholdings of the Selling Shareholders immediately prior to and following the Global Offering, giving effect to the full conversion by the Warburg Pincus Funds of the First Warburg Pincus Convertible Loan and the Second Warburg Pincus Convertible Loan into the Series A Preferred Shares and Series B Preferred Shares, respectively, and then immediately into an aggregate of 257,973,142 Shares (the "Warburg Pincus Conversion"), and both before and after giving effect to the exercise of the Over-allotment Option in full, are set out in the table below.

	Immediately prior to the Global Offering		After the Global Offering, before exercise of the Over-allotment Option		After the Global Offering, after full exercise of the Over-allotment Option	
Selling Shareholders	(shares)	(%)	(shares)	(%)	(shares)	(%)
Warburg Pincus Funds	257,973,142	31.80	186,989,966	18.44	151,498,378	14.94
Cao Haoqiang	30,434,782	3.75	11,118,142	1.10	976,730	0.10
Symbiospartners	6,666,666	0.82	—	—	—	—
Ocean Creator	4,444,444	0.55	—	—	—	—

The Warburg Pincus Funds have undertaken to us (i) to complete the Warburg Pincus Conversion upon the conditions of the Public Offer having been fulfilled or waived, and in any event before commencement of dealings in the Shares on the Stock Exchange; and (ii) not to exercise any right to demand repayment under any agreement in respect of the First Warburg Pincus Convertible Loan, the Second Warburg Pincus Convertible Loan, any related promissory notes or other instruments issued by any member of our Group, on or before October 27, 2005.

USE OF PROCEEDS

We estimate that the aggregate net proceeds to us from the Global Offering (after deducting underwriting fees and estimated expenses payable by us in connection with the Global Offering) assuming an Offer Price of HK$2.85 per Share, being the mid-point of the proposed Offer Price range of HK$2.55 to HK$3.15 per Share, will be approximately HK$537.8 million. We currently intend to use our net proceeds in the following manner:

- repayment of short-term bank borrowings — approximately 50% or HK$268.9 million to repay the aggregate principal amounts and interest accrued on a portion of our short-term bank borrowings, which are predominantly denominated in RMB, bear an interest rate ranging from 4.7% to 7.9% per annum, mature within one year from November 1, 2005 and whose proceeds have been predominately used to fund our working capital and capital expenditure needs.

- capital expenditures — approximately 40% or HK$215.1 million to fund our capital expenditure plans. For further information on our capital expenditure plans, please see "Financial Information — Capital Expenditures;" and

- any remaining balance for working capital and other general corporate purposes.

We will use our net proceeds based on the fixed percentages above, regardless of whether our Shares are priced at the high end or low end of the proposed Offer Price range. To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by PRC law and regulations, we intend to deposit the net proceeds into short-term demand deposits with licensed banks and/or authorized financial institutions in Hong Kong.

We will not receive any of the proceeds from the sale of Sale Shares by the Selling Shareholders and the sale of Shares by the Warburg Pincus Funds and Cao Haoqiang pursuant to the exercise of the Over-allotment Option. Assuming the Over-allotment Option is not exercised and an Offer Price of HK$2.85 per Share (being the mid-point of the stated Offer Price range), the Selling Shareholders will receive approximately HK$268.9 million after deducting the underwriting fees and expenses relating to the Global Offering payable by the Selling Shareholders. Assuming the Over-allotment option is exercised in full and an Offer Price of HK$2.85 (being the mid-point of the stated Offer Price range), the Selling Shareholders will receive approximately HK$394.6 million after deducting the underwriting fees and expenses relating to the Global Offering payable by the Selling Shareholders.

For a description of the use of these net proceeds, please see "Use of Proceeds" in this prospectus for further information.

DIVIDEND POLICY

We will not declare or pay any dividends other than from profits and reserves lawfully available for distribution, including share premium. Our shareholders in a general meeting may approve the distribution of dividends, but the amount may not exceed the amount recommended by our Directors. Our Directors may from time to time also declare interim dividends as appear to our Directors to be justified by our profits and may also declare half yearly or at other intervals at a fixed rate if they are of the opinion that the profits available for distribution justify the payment of dividend.

Dividends declared will be paid in HK dollars. The amount of any dividends to be declared or paid in the future will depend on, among other things, our results of operations, cash flows and financial condition, operating and capital requirements, the amount of distributable profits based on our articles of association, the Cayman Islands Companies Law, applicable laws and regulations and other relevant factors.

Subject to the factors above, we plan to distribute regular dividends after listing on the Stock Exchange. We currently intend to distribute as dividends to our shareholders approximately 25% of our total distributable profits in respect of the year ending December 31, 2005, and approximately 30% of the total distributable profits for each of the following years. However, please see "Risk Factors — Government control of currency conversion and future movements in exchange rates may adversely affect our financial condition, results of operations and our ability to remit dividends."

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below. Certain other terms are explained in the section headed "Glossary of Technical Terms."

"21 Individual Shareholders"	Cao Haoqiang, Yu Guanlin, Mi Linfei, Yang Jianing, Yao Yueming, Zhu Xiaoxuan, Shi Caibin, Chen Shengqing, Song Linong, Xu Hongmei, Guo Xiaoyuan, Zhu Bihao, Zhu Jianxing, Xia Yin, Zhou Xiaohong, Zhou Xiaosong, Shen Xiaoping, Zhu Jianqi, Zhu Jianqiang, Song Hongbin and Zhang Mingfa
"Application Form(s)"	white application form(s) and yellow application form(s), or where the context so requires, any of them
"Articles of Association" or "Articles"	the articles of association of our Company conditionally adopted on September 24, 2005 and as amended from time to time
"associates"	has the meaning ascribed thereto under the Listing Rules
"Baiyin Kasen"	白銀卡森皮革有限公司 (Baiyin Kasen Leather Co., Ltd.*), a limited liability company incorporated on November 23, 2000 under the laws of China (and our connected person)
"Board of Directors" or "Board"	the board of directors of our Company
"Business Day"	a day that is not a Saturday, Sunday or public holiday in Hong Kong
"Cardina"	Cardina International Company Limited (凱迪納國際有限公司), a company incorporated on August 13, 2003 under the laws of the Cayman Islands (and our subsidiary)
"Cayman Islands Companies Law"	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Broker Participant"	a person admitted to participate in CCASS as a broker participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant
"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation

"CCASS Participant"	a CCASS Broker Participant or a CCASS Custodian Participant or a CCASS Investor Participant
"Company" or "our Company"	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 on December 19, 2002 under the Cayman Islands Companies Law and, except as the context indicates otherwise, (i) where the context refers to any time prior to our incorporation, those businesses and operations which our predecessors were engaged in and which were subsequently assumed by us pursuant to the Reorganization in contemplation of the Global Offering, and (ii) includes our subsidiaries
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"controlling shareholder"	Mr. Zhu
"Director(s)"	the directors of our Company, or any one of them, as the context requires
"First Warburg Pincus Convertible Loan"	a convertible loan of the amount US$21,739,130 granted to us by the Warburg Pincus Funds, as further described in "Background and Reorganization — The Terms of the First Warburg Pincus Convertible Loan and the Second Warburg Pincus Convertible Loan"
"Founding Shareholder Group"	Mr. Zhu, the Township Shareholders and the 21 Individual Shareholders
"General Mandate"	the general unconditional mandate granted to the Board of Directors by our Company's shareholders, further details of which are contained in the paragraph entitled "Further information about our Company — Written resolutions of the Company passed on September 24, 2005" in Appendix VII — Statutory and General Information
"Global Coordinator"	UBS, the global coordinator of the Global Offering
"Global Offering"	the Public Offer and the International Placing

"Group" or "we" or "us"	our Company and our subsidiaries at the relevant time or, where the context so requires, in respect of the period before our Company became the holding company of our present subsidiaries, the present subsidiaries of our Company or the businesses operated by our present subsidiaries or (as the case may be) the predecessor of our present subsidiaries
"Haining Hengsen"	海寧恒森傢俱有限公司 (Haining Hengsen Furniture Co., Ltd.*), a limited liability company incorporated on November 11, 2000 under the laws of China (and our subsidiary)
"Haining Home Impression"	海寧家美傢俱有限公司 (Haining Home Impression Furniture Co., Ltd.*), a limited liability company incorporated on October 17, 2003 under the laws of China (and our subsidiary)
"Haining Kareno"	海寧卡雷諾傢俬有限公司 (Haining Kareno Furniture Co., Ltd.*), a limited liability company incorporated on April 7, 2000 under the laws of China (and our subsidiary)
"Haining Kasen"	海寧卡森皮革有限公司 (Haining Kasen Leather Co., Ltd.*), a limited liability company incorporated on April 3, 1995 under the laws of China (and our subsidiary)
"Haining Schinder"	海寧森德皮革有限公司 (Haining Schinder Tanning Co., Ltd.*), a limited liability company incorporated on October 22, 2002 under the laws of China (and our subsidiary)
"Higher Point Investment"	海寧高點投資發展有限公司 (Haining Higher Point Investment Development Co., Ltd.*), a limited liability company incorporated on August 12, 2003 under the laws of China (and our subsidiary and an investment holding company for six of our other subsidiaries, including Haining Wansheng Furniture Co., Ltd., Haining Hainix Sofa Co., Ltd., Haining Libero Furniture Co., Ltd., Haining Hidea Furniture Co., Ltd., Haining Oyi May Sofa Co., Ltd. and Zhejiang Liema Furniture Co., Ltd.). Please see "Corporate Structure"
"Higher Point Sofa Industrial Park"	高點沙發工業園區 (Higher Point Sofa Industrial Park*), a manufacturing park we developed in Zhejiang Province of China, where operations of eight of our subsidiaries are located, including the six subsidiaries of Higher Point Investment plus Haining Home Point Furniture Co., Ltd. and Haining Home Craft Furniture Co., Ltd. Please see "Corporate Structure"
"HKSCC"	Hong Kong Securities Clearing Company Limited

"HKSCC Nominees"	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"IFRS"	International Financial Reporting Standards
"International Placing"	the conditional placing by the International Underwriters of the International Placing Shares with institutional and professional investors and other investors expected to have a sizeable demand for the Shares, as further described in the section headed "Structure and Conditions of the Global Offering"
"International Placing Shares"	the 273,798,000 Shares initially being offered by us and the Selling Shareholders for subscription or sale at the Offer Price under the International Placing, subject to adjustment as described in the section headed "Structure and Conditions of the Global Offering"
"International Underwriters"	the several underwriters of the International Placing, led by the Global Coordinator and expected to enter into the International Underwriting Agreement to underwrite the International Placing
"International Underwriting Agreement"	the international underwriting agreement relating to the International Placing to be entered into among the controlling shareholder, the Selling Shareholders, us, the International Underwriters and the Global Coordinator on or around Saturday, October 15, 2005
"Kasen International"	Kasen International Company Limited, an exempted company incorporated in the Cayman Islands with limited liability on December 20, 2002 under the Cayman Islands Companies Law (and our subsidiary and an immediate holding company of Zhejiang Kasen)
"Kezilesu Xinrong"	克孜勒蘇新蓉皮革有限公司 (Kezilesu Xinrong Leather Co., Ltd.*), a limited liability company incorporated on May 8, 2003 under the laws of China (and our connected person)
"Kasen-Melx"	海寧市卡森 - 美如可思皮革有限公司 (Haining City Kasen - Melx Leather Co., Ltd.*), a limited liability company incorporated on July 15, 2005 under the laws of China, in which Zhejiang Kasen has invested US$100,000 and owns a 50% equity interest (the other 50% equity interest is owned by Melx)

"Latest Practicable Date"	October 3, 2005, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained herein
"Listing Date"	the date, expected to be Thursday, October 20, 2005, on which dealings in the Shares first commence on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"Melx"	美如可思株式會社 (Melx Co., Ltd.*)
"Memorandum of Association"	the memorandum of association of our Company conditionally adopted on September 24, 2005 and as amended from time to time
"Mr. Zhu"	Zhu Zhangjin, our Chairman, Chief Executive Officer and founder
"New Shares"	the 202,809,074 Shares being offered by us for subscription at the Offer Price under the Global Offering
"Ocean Creator"	Ocean Creator Investments Limited, a company incorporated in British Virgin Islands on November 28, 2003
"Offer Price"	the final Hong Kong dollar price per Share (exclusive of brokerage, SFC transaction levy, investor compensation levy and Stock Exchange trading fee) at which the Offer Shares are to be sold, to be determined as further described in "Structure and Conditions of the Global Offering — Pricing and Allocation" in this prospectus
"Offer Shares"	the Public Offer Shares and the International Placing Shares together, where relevant, with any additional Shares sold pursuant to the exercise of the Over-allotment Option
"Over-allotment Option"	the option to be granted by the Warburg Pincus Funds and Cao Haoqiang to the Global Coordinator exercisable under the International Underwriting Agreement pursuant to which the Warburg Pincus Funds and Cao Haoqiang may sell up to an aggregate of 45,633,000 additional Shares, representing in aggregate 15% of the initial Offer Shares, at the Offer Price, to, among other things, cover over-allocations in the International Placing, if any

"PRC" or "China"	the People's Republic of China. Except where the context requires and only for the purpose of this prospectus, references in this prospectus to the PRC or China do not apply to Hong Kong, the Macau Special Administrative Regions or to Taiwan
"Price Determination Date"	the date, expected to be on or about Saturday, October 15, 2005 but no later than Sunday, October 16, 2005, on which the Offer Price will be fixed for the purposes of the Global Offering
"Public Offer"	the offer of Public Offer Shares for subscription by the public in Hong Kong at the Offer Price, on and subject to the terms and conditions described in this prospectus and the Application Forms
"Public Offer Shares"	the 30,422,000 Shares (subject to adjustment) being offered by us for subscription pursuant to the Public Offer
"Public Offer Underwriters"	the several underwriters of the Public Offer listed in "Underwriting — Public Offer Underwriters"
"Public Offer Underwriting Agreement"	the underwriting agreement dated Friday, October 7, 2005 relating to the Public Offer entered into among us, the Public Offer Underwriters and the Global Coordinator
"QIBs"	qualified institutional buyers within the meaning of Rule 144A
"Regulation S"	Regulation S under the US Securities Act
"Reorganization"	the reorganization of our Company undertaken in preparation for investments by the Warburg Pincus Funds in us and in preparation for our Global Offering and more particularly described in the section headed "Background and Reorganization — Corporate Reorganization"
"RMB" or "Renminbi"	Renminbi yuan, the lawful currency of the PRC
"Repurchase Mandate"	the repurchase mandate granted to the Board of Directors by our Company's shareholders, further details of which are contained in the paragraph headed "Repurchase of Our Shares" in Appendix VII — Statutory and General Information

"Rule 144A"	Rule 144A under the US Securities Act
"SAFE"	the State Administration of Foreign Exchange
"Sale Shares"	the 101,410,926 Shares (subject to adjustment) offered for sale by the Selling Shareholders under the International Placing
"Second Warburg Pincus Convertible Loan"	a convertible loan of the amount US$15,000,000 granted to us by the Warburg Pincus Funds, as further described in "Background and Reorganization — The Terms of the First Warburg Pincus Convertible Loan and the Second Warburg Pincus Convertible Loan"
"Selling Shareholders"	Warburg Pincus Funds, Symbiospartners, Ocean Creator and Cao Haoqiang
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"SFT"	SFT International Pty. Ltd., a company incorporated in Australia on August 12, 2003
"Shanghai La Kassa"	上海禾美傢俱有限公司 (Shanghai La Kassa Furniture Co., Ltd.*), a limited liability company incorporated on May 22, 2002 under the laws of China (and a subsidiary of our Company)
"Share(s)"	ordinary shares issued by our Company, with a nominal value of US$0.00015 each, traded in HK dollars and for which applications have been made for the granting of listing, and permission to deal, on the Stock Exchange
"Share Option Scheme"	our share option scheme conditionally adopted pursuant to a resolution passed by our shareholders at an extraordinary general meeting held on September 24, 2005, the principal terms of which are summarized in the section headed "Share Option Scheme" in Appendix VII — Statutory and General Information
"Sponsor"	UBS, the sponsor of the Global Offering

"Stock Borrowing Agreement"	a stock borrowing agreement expected to be entered into on or about Saturday, October 15, 2005 between UBS, the Warburg Pincus Funds and Cao Haoqiang, pursuant to which the Warburg Pincus Funds and Cao Haoqiang will agree to lend up to 45,633,000 Shares to UBS on the terms set out therein, further details of which are set out in the section headed "Information about this Prospectus and the Global Offering — Over-allotment and Stabilization" in this prospectus
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Symbiospartners"	Symbiospartners Private Equity Limited, a company incorporated in British Virgin Islands on January 2, 2004
"Township Shareholders"	Haining Qingyun Township Assets Management Company Limited and Haining Xieqiao Township Huafeng Village Economic Cooperative Society
"Track Record Period"	the period from January 1, 2002 to April 30, 2005
"UBS"	UBS AG acting through its business group UBS Investment Bank
"Underwriters"	the Public Offer Underwriters and the International Underwriters
"Underwriting Agreements"	the Public Offer Underwriting Agreement and the International Underwriting Agreement
"United States" or "US"	the United States of America, including its territories and possessions
"UK"	The United Kingdom of Great Britain and Northern Island
"US$" or "US dollars"	United States dollars, the lawful currency of the United States
"US Securities Act"	the US Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
"Warburg Pincus Convertible Loans"	the First Warburg Pincus Convertible Loan and the Second Warburg Pincus Convertible Loan

"Warburg Pincus Funds"	(i) Warburg Pincus International Partners, L.P. ("WPIP"), (ii) Warburg Pincus Netherlands Private Equity VIII I, C.V. ("WPNPE I"), (iii) Warburg Pincus Netherlands International Partners I, C.V. ("WPNIP I"), (iv) Warburg Pincus Germany Private Equity VIII K.G. ("WPGPE"), (v) Warburg Pincus Private Equity VIII L.P. ("WPPE"), and (vi) Warburg Pincus Germany International Partners, K.G. ("WPGIP") Prior to August 22, 2005, the Warburg Pincus Funds consisted of the following seven funds: (i) WPIP; (ii) WPNPE I; (iii) WPNIP I; (iv) WPGPE; (v) WPPE; (vi) Warburg Pincus Netherlands Private Equity VIII II, C.V. ("WPNPE II"); and (vii) Warburg Pincus Netherlands International Partners II, C.V. ("WPNIP II"). On August 22, 2005, WPNPE II and WPNIP II transferred and assigned their respective right, title and interest in the Warburg Pincus Convertible Loans to WPNPE I and WPNIP I, respectively, and WPIP transferred and assigned its right, title and interest in a portion of the Warburg Pincus Convertible Loans to WPGIP. These assignments resulted in the current Warburg Pincus Funds consisting of the six funds as listed in the preceding paragraph
"Yili Horgos"	伊犁霍爾果斯皮革有限公司 (Yili Horgos Leather Co., Ltd.*), a limited liability company incorporated on March 15, 2002 under the laws of China (and our connected person)
"Zhejiang Kasen"	浙江卡森實業有限公司 (Zhejiang Kasen Industrial Co., Ltd.*), formerly known as Zhejiang Kasen Industrial Group Company Limited, a wholly-foreign owned enterprise with limited liability, originally incorporated as a limited liability company on June 12, 1995 under the laws of China (and our subsidiary)

* *The English translations of names are for identification purposes only.*

This glossary contains certain definitions and other terms used in this prospectus in connection with our Company and our business. As such, these terms and definitions may not correspond to standard industry definitions or usage of these terms.

"automotive leather"	leather used in the production of automotive seats and other interiors
"chrome"	a metallic element, chromium, which is used in the chrome tanning process
"chrome free tanning"	the processing of cowhides into wet blues where no chrome tanning agent is used during the process
"chrome tanning"	the process by which cowhides are processed with chrome tanning agents to produce wet blues
"chrome tanning agent(s)"	chemicals containing chrome, such as chrome sulphate or chromium, which stabilize cowhides during the chrome tanning process
"cowhide(s)"	the skin of a cow
"deliming"	the process removal of lime from a cowhide after the liming process
"embossed"	the process of pressing a pattern into the surface of a finished leather
"ERP"	enterprise resource planning — a software system that helps a manufacturer or other business manage the important parts of its business, including product planning, parts purchasing, maintaining inventories, interacting with suppliers, providing customer service and tracking orders
"furniture cover(s)" or "upholstered furniture cover(s)"	either fabric or leather material that has been cut and sewn to serve as outer covering for upholstered furniture products
"furniture leather"	leather that has not been cut or sewn, but is intended to be used in the production of leather upholstered furniture
"ISO"	International Organization for Standardization
"lime"	alkaline solution used in the liming process to swell a cowhide under controlled conditions opening the fiber structure inside the cowhide and preparing the cowhide for future processing

"liming"	the chemical process that removes cementing material within the cowhide structure, generally in conjunction with the removal of hair on the cowhides
"motion furniture"	furniture that contains some reclinable parts
"outsourcing"	an arrangement where one company provides services to another company that it would otherwise have done in-house
"recliner"	a chair that is able to recline when the sitter lowers its back and raises its front
"shaving machine(s)"	a machine used in the processing of leather that cuts cowhides into even levels of thickness
"size sprayer(s)"	a sprayer that sprays with a calibrated nozzle in which the nozzle size is chosen according to the desired pray patterns and droplet size
"splitting"	the process by which cowhides are divided into top leather and split leather
"splitting machine(s)"	a machine used to split cowhides
"stationary furniture"	traditional, non-moving furniture without any reclinable parts
"toggling dryer(s)"	a machine used to dry leather across a perforated frame inside a dryer with controlled temperature and humidity
"upholstered furniture"	furniture such as a sofa or chair which is covered by leather, fabric, vinyl or other materials
"wet blue(s)"	cowhides or skins that have undergone the chrome tanning process and are wet and blue in color

You should carefully consider all of the information in this prospectus, including the risks and uncertainties described below, before making an investment in our Shares in the Global Offering. You should pay particular attention to the fact that our business is located almost exclusively in China and we are governed by a legal and regulatory environment that may differ in some respects from that which prevails in other countries. Our business, financial condition or results of operations could be materially adversely affected by any of the risks described below. The trading price of our Shares could decline due to any of these risks and you may lose all or part of your investment.

RISKS RELATED TO OUR BUSINESS AND OUR INDUSTRY

If prices of raw cowhides or wet blues increase, our costs could increase.

We are a vertically integrated leather products manufacturer and raw cowhides and wet blues are the primary raw materials we use in producing leather products. For the year ended December 31, 2004 and the four months ended April 30, 2005, raw cowhides and wet blues represented 51.4% and 45.8%, respectively, of our cost of sales. We expect our purchases of raw cowhides and wet blues to continue to increase in the future. We source our raw cowhides primarily through various agents in the international market and, to a lesser extent, in the domestic market in China. We have not entered into any long-term supply agreements for raw cowhides. In sourcing cowhides, we take into account the size, defect rate, place of origin, age and sex of the cows, as well as seasonal factors that might also affect quality. Based on our experience, prices can fluctuate over relatively short periods of time depending on market conditions. Market conditions may be affected by factors such as major outbreaks of illnesses or diseases related to cows. For a description of the risk we face in connection with maintaining sufficient inventory of raw cowhides and wet blues, please see "— We may not be able to raise adequate capital in a timely manner to maintain sufficient levels of inventory or purchase fixed assets."

We depend on the strong and continuous growth of outsourcing of upholstered furniture manufacturing.

Our business exists, in part, because customers choose to outsource certain aspects in the production process of upholstered furniture. We depend on the continuing trend of outsourcing by our customers. We believe a customer's decision to outsource is affected by its ability and capacity for internal manufacturing and the competitive advantages of outsourcing. The benefits to our customers of outsourcing may decline if we were to experience higher costs (such as increased costs in labor, freight or raw materials) and were forced to pass those increased costs onto our customers. As a result, growth in outsourcing could decline if we experience higher costs. Growth in outsourcing could also decline if our customers decide to perform some or all of their manufacturing process internally; if our customers use other providers of these services, either in China or in other countries that may become better places to outsource; or if our customers decide to establish their own facilities in China and reduce the amount of products outsourced to third parties. If our customers decide not to outsource, either to us or at all, our future growth could be adversely affected.

We depend on a small number of customers for a substantial portion of our sales.

For the year ended December 31, 2004 and the four months ended April 30, 2005, aggregate sales to our two largest customers, Furniture Brands International Inc. and Berkline/Benchcraft LLC, accounted for 33.0% and 32.9%, respectively, of our total turnover, and 46.3% and 42.7%, respectively, of our upholstered furniture turnover. We have entered into a long-term strategic alliance agreement with Furniture Brands International Inc, a major customer, but we do not have any long-term contracts with any other customers and we expect that we will continue to depend on a small number of customers for a significant portion of our turnover. Sales generated from these customers, individually or in the aggregate, may not reach or exceed our expectations or historical levels in any future period. We could experience a significant reduction in sales if any of our major customers experiences financial difficulty, cancels or reduces its orders, demands lower prices or chooses to replace us with a different supplier.

We depend on the success of our key customers' businesses, which we do not control.

We are a contract manufacturer for our customers and, as such, we do not have our own brand. Our customers operate in various markets, including the leather upholstered furniture and the automobile supply markets. Our sales volume depends on the success of the businesses of our customers, over which we have no control. We believe the business of our customers may decline for a variety of reasons, such as:

- their inability to manage their operations efficiently or effectively;
- adverse economic conditions;
- recession in our customers' markets;
- seasonal demand for their products; and
- a reduction in retail demand for leather upholstered furniture.

In the event that our customers experience a downturn in business, we could experience reduced demand and increased price pressure from them, which could reduce the overall volume of orders we receive and reduce our profits.

Intense competition in our markets may lead to price reductions and reduce our gross margin.

The leather industry is competitive. Some of our competitors may have greater financial, manufacturing or other resources than we have. Current and prospective customers evaluate leather products manufacturers based on manufacturing capabilities, speed, quality, flexibility and costs, among other things. The competitive nature of our industry has resulted in substantial price competition. Our competitors also manufacture in lower cost areas to decrease their costs of production. We may lose our customers to our competitors if we fail to maintain our prices at a competitive level. We cannot assure you that we will be able to continue to differentiate ourselves from other leather products manufacturers who operate in the same markets as us.

If labor costs in China increase, our gross margin may decrease and our competitiveness may decline.

There are few substantial technological barriers to entry into the production of leather and furniture covers and assembling of leather upholstered furniture markets. As a result, participants in this market primarily compete on, among other things, price. For a description of the risk we face in connection with market competition, please see "— Intense competition in our markets may lead to price reductions and reduce our gross margin." The production of finished leather furniture products, in particular cutting and sewing leather, is labor intensive. In China, where all of our manufacturing facilities are located, the cost of labor is relatively low. For the years ended December 31, 2002, 2003, 2004 and the four months ended April 30, 2005, our direct labor costs equaled RMB47.3 million, RMB83.1 million, RMB169.9 million, and RMB57.6 million, respectively. We depend on low labor costs to compete in the world market. If labor costs in China increase generally, our own costs could increase, decreasing our gross margin. Labor costs may increase for a variety of reasons, including, but not limited to a shortage of skilled labor and an overall improvement in living standards in China. In addition, labor costs may be lower in other countries, making those countries more attractive as places to manufacture furniture covers and leather upholstered furniture. Our ability to compete may be reduced if our gross margins prevent us from offering competitive pricing.

In addition, while we believe we have significant competitive advantages, the barriers to entry to the production of furniture covers and leather upholstered furniture are not high. We may face increased competition in one or more of our markets if more participants enter the market, which could result in price reductions that would reduce our gross margin.

Our sales of leather upholstered furniture products are currently concentrated in the US and any decrease in our sales of leather upholstered furniture in this market could reduce our revenues materially.

We entered the leather upholstered furniture market in 2001. Although we are currently in the process of diversifying into additional markets, specifically Europe, and further increasing our presence in Australia and Japan, sales of upholstered furniture products are currently concentrated in North America. In North America, our sales of upholstered furniture are currently concentrated in the US. For the year ended December 31, 2004 and the four months ended April 30, 2005, sales to our customers in the US accounted for 67.2% and 74.7% of our turnover, respectively.

Due in part to the lower labor costs available outside the US, US leather upholstered furniture companies have increasingly outsourced the production of upholstered furniture to companies, including us, outside of the US. If demand in the US for leather upholstered furniture products decreases or if US leather upholstered furniture companies decrease the amount of outsourced production in China, our sales of leather upholstered furniture products could decrease materially. For a discussion of the risk we face in connection with our dependence on the growth of outsourcing, please see "— We depend on the strong and continuous growth of outsourcing of upholstered furniture manufacturing." Demand in the US for leather upholstered furniture products is influenced by a number of factors which are beyond our control, including, among others, a general downturn of the economy in the US and a downturn in the property market in the US. Changes in preferences for leather upholstered furniture may also substantially reduce orders for our products. Any decision for our US customers to decrease the amount of production outsourced to China may be influenced by a number of additional particular factors that are beyond our control, including possible trade wars, increased tariffs and impositions of quotas. For a discussion of the risk we face in connection with possible trade wars, please see "— Our sales could decrease if the US were to impose anti-dumping duties against manufacturers of leather upholstered furniture located in China, if we were to become subject to trade quotas or if a trade war involving our products were to develop."

We depend on Mr. Zhu and other key management employees.

Most of our senior managers have been with us since our establishment. Together, they have extensive industry experience, including raw cowhide sourcing, manufacturing, product research and development, environmental control, sales and marketing, financial management and corporate governance. For a detailed discussion of the strength of our management team, please see "Business — Our strong and experienced management team with a proven track record." Our success depends, in part, on the continued service of our key management employees and, in particular, of Mr. Zhu, our chairman of the board, Chief Executive Officer, founder and controlling shareholder. Mr. Zhu has been crucial in helping us identify and respond to business opportunities and market trends. He continues to guide our strategic development and lead our raw cowhide sourcing efforts. As is typical in China, we do not maintain "key man" insurance on any of our personnel. The loss of the services of any key management employee or failure to recruit and integrate a suitable or comparable replacement could seriously harm our operations and the growth of our business and have a significant impact upon our ability to manage our business effectively.

Our operating results may fluctuate due to seasonality.

We experience seasonality primarily in our sales of upholstered furniture and furniture leather. We typically experience higher sales of upholstered furniture from September to March relative to sales between April and August because the peak sales season for our customers in the US is generally from September to March. As a result of the seasonality in our upholstered furniture and furniture leather sales, our operating results may fluctuate. Because of our rapid growth, however, the effects of seasonality may be difficult to identify. As of April 30, 2005, we have not identified any seasonality in our sales of automotive leather in China, as this product segment is relatively new.

We may not be able to raise adequate capital in a timely manner to maintain sufficient levels of inventory or purchase fixed assets.

Our operations require a significant level of working capital, primarily to maintain high levels of inventory, and our growth plans require increased investments in fixed assets. We maintain a sizeable inventory of raw cowhides and wet blues to meet the delivery cycles required by our finished leather and leather upholstered furniture products customers, which are typically six to eleven weeks from receipt of an order from our customer until delivery by us to our customers. The delivery cycle for raw cowhides generally is three months and may be as long as five months. In order to maintain high levels of inventory, we must have adequate working capital. As our business has grown, our demand for working capital has also increased.

Expenditures for property, plant and equipment increased from RMB164.6 million in the year ended December 31, 2002 to RMB738.8 million in the year ended December 31, 2004. We currently expect that our capital expenditures for the year ended December 31, 2005 and 2006 will be approximately RMB250 million and RMB140 million, respectively.

Historically we have funded our capital expenditures and working capital needs through our cash from operations, short-term loans and capital contributions from investors, including the Warburg Pincus Convertible Loans in the amount of RMB304.9 million as at April 30, 2005. We are currently in the process of seeking longer-term debt financing. We cannot assure you that we will be able to obtain long-term debt financing on terms acceptable to us, or at all. If we are unable to raise adequate levels of capital, we may not be able to maintain inventory sufficient to meet our customers' needs, which could cause us to lose customers.

We may have to seek other suppliers for wet blues if our current suppliers do not comply with environmental laws and regulations.

We purchase wet blues from four third party suppliers and from several of our connected persons. See "Business — Connected Transactions — Continuing Connected Transactions." Wet blues are a type of semi-finished leather, which have undergone a chrome tanning process. The tanning process can generate significant amounts of waste that may be harmful to the environment. There is a risk that our suppliers will not comply with environmental laws and regulations related to the tanning process, which might require us to seek other suppliers for wet blues and may harm our reputation. We may not be able to find alternative suppliers for wet blues on favorable terms or at all, which would affect our ability to deliver products to our customers in a timely manner. We could lose customers if we fail to deliver our products in a timely manner.

If supplies of raw cowhides or wet blues decrease, we may incur additional costs.

We generally maintain an inventory of key raw materials, including among others, raw cowhides and wet blues. Our levels of inventory may vary subject to price, projected customer order flow, availability of quality raw cowhides and other factors. We may not be able to obtain adequate supplies of key raw materials in a timely manner, at a reasonable cost or at all, and our inventory of key raw materials may not be able to meet our production requirements. As a result, our production schedules could be delayed, our costs could increase and our business may be materially adversely affected. If our supply of raw materials is substantially reduced or if there are significant increases in prices over a prolonged period of time, we may incur additional costs to acquire sufficient quantities of these materials to maintain our production schedules and commitments to customers.

We currently rely on a long-term supply contract for part of our supply of wet blues.

We purchase part of our requirements for wet blues from Haining Baiyang Leather Co., Ltd ("Baiyang"). Baiyang processed approximately 15% of our raw cowhides into wet blues for the four months ended April 30, 2005. The processing of raw cowhides into wet blues is a necessary procedure in the transformation of raw cowhides into finished leather. For more information, please see "Business — Production Process." The processing of raw cowhides into wet blues is a highly specialized business and there are a limited number of companies in China able to perform this process in the quantity and quality that we require. We have entered into a 20-year agreement, effective January 1, 2005, which provides for Baiyang to process raw cowhides into wet blues for us. Because this agreement does not contain any pricing arrangements or minimum requirements, we may have difficulty generating all our anticipated benefits from this agreement. Because Baiyang currently processes a significant amount of our raw cowhides, if we cannot continue this arrangement on a favorable basis, we may have to find an alternative processing company, which we may not be able to do in a timely manner or without incurring substantial costs or at all. As a result, we may not be able to meet customer orders, which could cause us to lose customers.

We may face fines for failing to pay some social insurance fees and housing fund fees for some of our employees.

Some of our subsidiaries have not paid social insurance fees and housing fund fees in full for our employees pursuant to statutory rates. Fines may be levied against enterprises that fail to comply with PRC social insurance laws and regulations and labor authorities may require that all outstanding social insurance premiums be paid. If any enforcement action related to these or other future minor failures to comply with the PRC social insurance laws and regulations commences against us, we may be subject to penalties and bad publicity. As a result, our business may be adversely affected. In addition, our PRC legal advisers have advised that the possibility that the relevant labor authorities may order, or the employees may request, these subsidiaries to pay off the social insurance premiums and housing fund payments under the PRC labor laws and regulations cannot be ruled out, and therefore, our subsidiaries may be obliged to make such payment accordingly. We have made full provisions and, should any of our subsidiaries be required by the local labor authority to pay any of the outstanding insurance premiums within a specific period, or should our subsidiaries be requested by any of our employees to pay the same, the relevant subsidiary will make such payment without delay. Our PRC legal advisers are of the view that, by doing so, these subsidiaries will be no longer exposed to penalties under applicable PRC social insurance laws and regulations. Mr. Zhu, our controlling shareholder, has agreed to indemnify us in respect of any penalties or liabilities incurred as a result of our failure to pay social insurance fees and housing fund fees in accordance with PRC laws and regulations.

We may face unspecified legal consequences for our minor breach of the PRC Company Law.

Higher Point Investment, our subsidiary, is a limited liability company but has not obtained approval as an investment company or a holding company. Pursuant to the PRC Company Law, the total amount of investment made by a limited liability company without such approvals may not exceed 50% of its net asset value (the "50% Restriction"), but the PRC Company Law does not provide any specific legal consequence for non-compliance with the 50% Restriction. Higher Point Investment has invested over 50% of its assets in subsidiaries in breach of the 50% Restriction. As the PRC Company Law does not provide any specific legal consequences for non-compliance of the 50% Restriction, our PRC legal advisors have advised us that it is unlikely that any specific material penalties will be imposed on us and they do not anticipate that our non-compliance with the 50% Restriction will materially adversely affect the business operation of Higher Point Investment. However, we cannot assure you that the relevant authorities will not impose legal consequences for our breach in the future. If any enforcement action related to this minor failure to comply with the PRC Company Law is commenced against us, we may be subject to penalties and bad publicity and may have to restructure our investments by Higher Point Investment. As a result, we may also incur restructuring costs, and our business may be adversely affected. Mr. Zhu, our controlling shareholder, has agreed to indemnify us in respect of any penalties or costs incurred as a result of our failure to comply with the 50% Restriction.

We may have to remedy our failure to obtain a valuation report in relation to Cardina's acquisition of Shanghai La Kassa.

Upon Cardina's acquisition of Shanghai La Kassa by subscription for additional capital in 2004, the assets of Shanghai La Kassa were not appraised as required under PRC law. Nevertheless, our PRC legal advisers have advised us that there are no specific legal consequences applicable to the absence of such valuation under the relevant regulation. In addition, our PRC legal advisors do not anticipate any specific material penalties to be imposed on Shanghai La Kassa by the competent authorities and do not anticipate that any legal consequences imposed on us would have a material adverse effect on our operations. We cannot assure you, however, that the relevant regulatory authorities will not require us to remedy our failure to obtain the necessary valuation report. If we were required to remedy our failure, our operations could be temporarily disrupted. Mr. Zhu, our controlling shareholder, has agreed to indemnify us in respect of any costs or liabilities incurred as a result of our failure to obtain the required valuation report.

We may face penalties for not obtaining approvals for some of our environmental construction projects.

Shanghai La Kassa has not obtained the relevant approvals from competent environmental protection authorities for some of its environmental construction projects, including the construction of waste water disposal facilities. Various PRC laws provide a broad range of legal consequences for companies operating without proper pollution disposal facilities. Non-compliant companies may be subject to a warning or fines or they may receive an order to suspend or cease operations. Our PRC legal advisers have advised us that, by obtaining all of the outstanding approvals from the relevant environmental protection authorities, Shanghai La Kassa will no longer be exposed to applicable on-going penalties. However, there is still a possibility that various penalties might be imposed on us for the period we operated without environmental approvals. We could also be required to close our operations at Shanghai La Kassa, compensate for all of the consequential damages, if any, arising from non-compliance or we could be fined. If any of these penalties were imposed against us, our business and operations could be adversely affected. Mr. Zhu, our controlling shareholder, has agreed to indemnify us in respect of any penalties or liabilities incurred as a result of our failure to obtain the relevant approvals for these environmental construction projects.

We may have to remedy our failure to obtain asset valuations for certain equity transfers.

We did not obtain required asset valuations for the following equity transfers in 2001 and 2004:

- An equity transfer under an equity transfer agreement dated March 20, 2001 among Haining Xieqiao Township Huafeng Village Economic Cooperative Society and Haining Qingyun Township Assets Management Company Limited, and certain individuals, including Cao Haoqiang, Zhu Jianqi, Zhou Xiaosong, Zhang Mingfa, Zhu Jianqiang, Song Hongbin and Shen Xiaoping.

- An equity transfer pursuant to an equity transfer agreement between Haining Qingyun Township Assets Management Company Limited and Mr. Zhu, which was executed on July 5, 2004.

- An equity transfer pursuant to an equity transfer agreement between Haining Xieqiao Township Huafeng Village Economic Cooperative Society and Mr. Zhu, which was executed on July 5, 2004.

The relevant regulations do not provide any specific legal consequences for failure to obtain required asset valuations, and our PRC legal advisors do not anticipate that we will face any specific material adverse effect due to our lack of these asset valuations. We cannot assure you, however, that the relevant regulatory authorities will not require us to remedy our failure to obtain each of the necessary valuation reports. If we were required to remedy our failure, our operations could be temporarily disrupted. Mr. Zhu, our controlling shareholder, has agreed to indemnify us in respect of any costs or liabilities incurred as a result of our failure to obtain required asset valuations for these equity transfers.

Compliance with environmental laws and regulations may delay or interrupt our operations or adversely affect our financial results.

We must comply with a variety of environmental protection laws and regulations in China relating to, among other things, the use, discharge and disposal of waste materials. These laws and regulations establish quotas for the discharge of waste products, permit the levy of fines and payment of damages for serious environmental offences, and permit the national or local authorities, at their discretion, to require companies to rectify non-compliance within a mandatory period, suspend operations or close any facility that fails to comply with orders by requiring it to correct or stop operations causing environmental damage. Waste products generated from leather processing include wastewater, solid waste such as trimmings and degraded hides, hair and sludge, and atmospheric emissions. These waste products are hazardous to the environment and must be properly disposed of under applicable environmental laws. For further information on our environmental compliance, please see "Business — Environmental Compliance" and "Industry Overview — Regulations affecting our business."

The environmental laws and regulations applicable to us are constantly evolving and becoming more stringent. We are not always able to quantify the cost of complying with environmental laws and regulations because some of these laws and regulations have not yet been promulgated or are undergoing revision. We cannot assure you that the national or local authorities will not enact additional laws or regulations or enforce current or new regulations in a more rigorous manner. Changes to the environmental laws and regulations could lead to substantially more costs for our business.

We may not successfully achieve our objectives to expand into new markets, increase capacity, or broaden our product range.

We currently plan to expand our business in terms of where we sell our products, in terms of capacity and in terms of product range. In terms of where we sell our products, we plan to further expand our sales of upholstered furniture into Europe. We have limited experience in Europe and the market is highly fragmented due to the number of different countries and trends. We plan to further develop our business in Europe by establishing relationships with key furniture distributors. We cannot assure you that our strategy to further develop our operations in Europe will be successful. We also plan to further expand our business to the markets in Australia and Japan, but we cannot assure you that this plan will be successful. Our sales to Australia and Japan are currently insignificant relative to our total turnover. For example, our sales to Australia were RMB12.1 million, RMB39.9 million, RMB70.4 million and RMB13.9 million for 2002, 2003, 2004 and the first four months of 2005, respectively, which represented only 0.9%, 1.9%, 2.5%

and 1.4% of our total turnover for those periods, respectively. We had sales to Japan in 2004 of only approximately RMB1 million, or 0.03% of our total turnover in 2004. If we are not successful in Australia or Japan, we may not meet our sales expansion objectives and we may not be able to recoup any investments made in the process of expanding our business.

In terms of capacity, we plan to expand our business by further investing in new facilities and equipment for our Higher Point Sofa Industrial Park. Our development of Higher Point Sofa Industrial Park includes eight subsidiaries, two of which are not yet in operation. There is a risk that these two subsidiaries will not become operational, which could limit our ability to expand our capacity. In addition, once these two subsidiaries become operational, there is a risk that we will have excess capacity due to low utilization especially in their start-up phase. Currently, our Higher Point Sofa Industrial Park subsidiaries as a whole are not yet profitable, since they were recently established and have been offering promotional prices to attract new customers. There is no guarantee that our Higher Point Sofa Industrial Park subsidiaries will become profitable. If Higher Point Sofa Industrial Park does not become profitable, we may not be able to capitalize on our capacity expansion objectives.

In terms of products, we are expanding our product range by producing finished leather for products other than furniture products, such as automotive leather. Automotive leather accounted for 4.5% and 4.8% of turnover for the year ended December 31, 2004 and the four months ended April 30, 2005, respectively. World leading automobile manufacturers require all suppliers to undergo a quality certification process that may take around two years before the automobile manufacturer will purchase goods, such as leather for automotive seats from a supplier. See "Business — Products — Customers" for additional information relating to the quality certification process. Although we plan to qualify to supply finished leather for automotive seats for more automobile models to more automobile manufacturers, we cannot assure you that we will be able to qualify to supply automotive leather to new automobile models or new automobile manufacturers or to even maintain our present qualifications. Because the qualification process is time consuming and costly, if we are unable to expand our qualifications so that we can increase our focus on our automotive leather segment, we may incur significant losses that we cannot recoup.

We may have difficulty managing future rapid growth.

Over the past three years, our business has grown rapidly through increased production capacity and an expanded product portfolio. Our turnover increased from RMB1,386.8 million for the year ended December 31, 2002 to RMB2,852.4 million for the year ended December 31, 2004. During this period our number of subsidiaries and joint ventures increased from four in 2001 to 22 in 2004. In addition, our Higher Point Sofa Industrial Park commenced its commercial operation in second half of 2004. For a discussion of the risk we face in connection with the expansion of our operations, please see "— We may not successfully achieve our objectives to expand into new markets, increased capacity, or broaden our product range." As at December 31, 2004, we had 14,827 employees and as at April 30, 2005, we had 15,147 employees. We expect our number of employees to continue to grow in the short-term. Our expansion, particularly in the leather upholstered furniture and automotive leather markets, and our need to integrate new operations arising from our expansion have presented and will continue to present a significant challenge for our management and administrative systems and resources. We will need to manage our growth effectively, which may result in increased costs. If we fail to develop and maintain management and administrative systems and resources sufficient to keep pace with our growth, to integrate any new operations with existing operations or to handle the additional responsibilities of becoming a public company, our ability to further grow may be limited.

Our production capacity and inventory may not correspond precisely to our production demands.

Our customers generally do not place purchase orders far in advance of their required shipping dates. Although some of our customers provide us with a volume estimate of their requirements one to two months before delivery, their volume estimates may not be reliable. As a result, we may experience difficulty in forecasting sales for future periods. Our current and anticipated customers may not place orders with us in accordance with our expectations or at all. There is a risk that we may increase our production capacity or inventory in anticipation of orders that may not materialize, which could result in excess capacity. If we incorrectly forecast customer demand, we may build up excess inventory. Our inventory days increased from 117 days in 2002 to 134 days in 2003 to 211 days in 2004. For the first four months of 2005, our inventory days were 180 days. There is also a risk that we might experience an unusually rapid increase in production orders beyond our existing production capacity. Because of the lead-time that might be required to ramp-up our capacity, we may not be able to support our customers' requirements and, as a result, we might lose our customers or orders. If we are unable to manage our inventory appropriately to meet our expected sales demands, our working capital may be adversely affected. Finally, in the event that a customer reduces or cancels orders unexpectedly after we have invested in increasing our capacity, our gross margin may decrease because we may not be able to recover our expenditures for inventory purchased in preparation for customer orders and we may not be able to realize optimal asset utilization of our manufacturing facilities.

Our plans to improve our current management information system and improve our internal controls may not succeed.

Our current management information system was largely developed for use by our individual factories and departments on a stand-alone basis and lacks a fully integrated system architecture. In addition, although we have adopted policies on internal controls for our main business cycles, including those relating to purchasing, sales treasury and accounting, we plan to take steps to further improve our internal controls. For further information on our plans to improve our internal controls, please see "Business — Internal Controls." If we encounter difficulties in improving our internal controls and management information systems, we may incur additional costs and management time in meeting our improvement goals.

We have a concentration of ownership, which may limit the influence you may have over the business.

Immediately following the Global Offering, Mr. Zhu and the Warburg Pincus Funds will control approximately 32.43% and 18.44%, respectively, of our issued share capital (assuming the Over-allotment Option is not exercised). Accordingly, while they do not act together as a group and function individually on the exercise of their respective voting rights, under and subject to our Articles of Association and Cayman Islands Companies Law, Mr. Zhu and the Warburg Pincus Funds, by virtue of their respective ownership interests in us following the Global Offering, will each be able to exercise substantial control or influence over our business by directly or indirectly voting at either shareholders meetings or board of directors meetings in matters of significance to us and our public shareholders, including, among others, matters relating to the following:

- election of directors;
- the amount and timing of dividends and other distributions; and
- acquisition of or merger with another company.

Mr. Zhu and the Warburg Pincus Funds may individually or collectively vote their Shares in a way that is inconsistent with your interests or the interests of other holders of our Shares.

Global or regional economic, political and social conditions could materially adversely affect our business and operating results.

External factors such as potential terrorist attacks, acts of war, financial crises or geopolitical and social turmoil in those parts of the world that serve as markets for our products could materially adversely affect our business and operating results in ways that presently cannot be predicted. These uncertainties could make it difficult for our customers and us to accurately plan future business activities. More generally, these geopolitical, social and economic conditions could result in increased volatility in worldwide financial markets and economies that could adversely impact our sales. We are not insured for losses or interruptions caused by terrorist acts or acts of war. Therefore, any of these events or circumstances could adversely affect our business and operating results.

Our sales could decrease if the US were to impose anti-dumping duties against manufacturers of leather upholstered furniture located in China, if we were to become subject to trade quotas or if a trade war involving our products were to develop.

China is designated a "non-market economy" and, under the terms of the agreement for China's entry in the World Trade Organization, China may be considered a non-market economy until 2015. The classification by a trading partner of China as a non-market economy allows the designating trading partner to compare the prices of Chinese products with the prices in a substitute country to determine whether Chinese goods are being sold abroad at unfairly low prices. In December 2004, the US imposed anti-dumping duties averaging 6.65% on exports of wooden bedroom furniture from China. As far as we know, no one has alleged that exports from China of finished leather or leather upholstered furniture products have been sold at unfair prices to the US market. If such allegations were made and anti-dumping duties were subsequently imposed by the US, our customers might seek alternative suppliers and we could have difficulties finding new customers from the US. As a result, our sales could decline. Furthermore, if we were to become subject to trade quotas or if a trade war involving our products were to develop, our sales could experience a significant decline as a result.

We may be required to repay the debt of Haining Changhai, an unrelated third party, as a result of a cross-guarantee arrangement.

We are a party to a cross-guarantee arrangement with Haining Changhai Packaging and Printing Co., Ltd. ("Haining Changhai"). We have given a guarantee agreement in favor of lenders for bank loans borrowed by Haining Changhai of varying amounts totaling approximately RMB69 million as of August 31, 2005. These loans will all expire from March 26, 2006 through December 15, 2006, and upon repayment of these loans, no further amounts will continue to be covered under our guarantee. In return for our guarantee, Haining Changhai provided a guarantee in favor of our lenders for certain of our loans of varying amounts totaling RMB70 million as of August 31, 2005. We had repaid these loans in full as at the Latest Practicable Date.

This cross-guarantee arrangement was entered into, consistent with a local banking practice, because it is our experience that local banks will normally only lend money to borrowers if the borrower pledges its assets or obtains a financial guarantee from a third party acceptable to the banks. As our borrowings have from time to time exceeded the amount of assets that could be pledged, we have obtained guarantees from third parties in favor of certain of our lenders. In return, we have also provided parallel guarantees for those third parties. In these circumstances, if we were no longer able to obtain such guarantees, we could encounter difficulties obtaining all the bank facilities we need and could have to seek alternative sources of funding.

In the event that Haining Changhai defaults on the obligations we have guaranteed, we may be liable for its debts to the extent of our guarantees, which could have an adverse effect on our financial position. We intend to terminate this cross-guarantee arrangement by not entering into any new guarantees for the benefit of Haining Changhai and by not requesting any guarantees from Haining Changhai be renewed as the current loans expire and are repaid. However, we will remain subject to this cross-guarantee arrangement until all of the underlying loans expire and are repaid.

RISKS RELATED TO OUR OPERATIONS IN CHINA

Substantially all of our business assets are located in China and substantially all of our revenue is derived from operations in China. Accordingly, our results of operations, financial position and prospects are subject, to a significant degree, to the economic, political and legal environments of China.

Political and economic policies of the Chinese government could materially adversely affect our business and results of operations.

The economy of China differs from the economies of most developed countries in a number of respects, including in its:

- level of government involvement;
- control of capital reinvestment;
- level of development; and
- control of foreign exchange.

Before its adoption of reforms and open door policies beginning 1978, China was primarily a planned economy. Since then, the Chinese government has been reforming China's economic system, and government structure. These reforms have resulted in significant economic growth and social progress. Although the Chinese government still owns a significant portion of the productive assets in China, economic reform policies have emphasized autonomous enterprises and the utilization of market mechanisms, especially in privately owned businesses such as ours. Although we believe these reforms will have a positive effect on our overall and long-term development, we cannot predict whether changes in China's political, economic and social conditions, laws, regulations and policies will have any materially adverse effect on our current or future business, results of operations or financial condition.

Our ability to continue to expand our business is dependent on a number of factors, including general economic and capital market conditions in China and credit availability from banks or other lenders in China. Recently, the Chinese government has implemented austerity measures to control the rate of economic growth and tighten its monetary policies, including increasing interest rates on bank loans and deposits and tightening the money supply to control growth in lending. Stricter lending policies may, among other things, affect our ability to obtain financing which may in turn adversely affect our growth and profitability over time. In addition, the economic and market conditions in China that existed over the past three years may not continue and therefore we may not be able to sustain the growth rate we have historically achieved. In particular, we may experience reduced demand for our products, such as automotive leather, if China's austerity measures were to adversely impact industries whose sales of products are frequently financed by consumer lending, such as the automobile industry. Such reduced demand could adversely affect the growth of our automotive leather business.

Government control of currency conversion and future movements in exchange rates may adversely affect our financial condition, results of operations and our ability to remit dividends.

We receive a significant proportion of our business in US dollars while RMB is our reporting currency. The value of the RMB is subject to changes in China's governmental policies and to international economic and political developments. As of July 21, 2005, the RMB is no longer pegged solely to the US dollar. Instead, it will be pegged against a basket of currencies, determined by the People's Bank of China, against which it can rise or fall by as much as 0.3% each day. For example, on July 21, 2005, the RMB was revalued against the US dollar to approximately RMB8.11 to the US dollar, representing an upward revaluation of 2.1% of the RMB against the US dollar, as compared to the exchange rate the previous day. The RMB may appreciate significantly in value against the US dollar in the long term, depending on the fluctuation of the basket of currencies against which is it currently valued or it may be permitted to enter into a full float, which may also result in an appreciation of the RMB against the US dollar. Fluctuations in exchange rates may adversely affect the value, translated or converted into US dollars or Hong Kong dollars (which are pegged to the US dollars), of our net assets, earnings or any declared dividends. Approximately 9.3% and 66.1% of our turnover and cost of sales, respectively, were denominated in RMB in 2004 and approximately 12.6% and 62.1% of our turnover and cost of sales, respectively were denominated in RMB in the first four months of 2005. Further appreciation in the RMB against these currencies may lead to an increase in our costs or a decline in our revenues, which could materially adversely affect our operating results. We have not entered into any agreements to hedge our exchange rate exposure.

In addition, conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. The RMB still cannot be freely converted into any other foreign currency. Pursuant to China's current foreign exchange control system, it cannot be guaranteed that under a certain exchange rate, there shall be sufficient foreign exchange to meet the foreign exchange requirement of an enterprise. Under China's current foreign exchange control system, foreign exchange transactions under the current account conducted by us, including the payment of dividends, do not require advance approval from SAFE, but we are required to present relevant documentary evidence of such transactions and we are required to conduct such transactions at designated foreign exchange banks within China that have the right to carry out foreign exchange business. Foreign exchange transactions under the capital account, however, must be approved in advance by SAFE. Any insufficiency of foreign exchange may restrict our ability to obtain sufficient foreign exchange for dividend payment to shareholders or satisfy any other foreign exchange requirement. If we fail to obtain the approval from SAFE to convert RMB into any foreign exchange for any of the above purposes, our capital expenditure plans, and even our business results and financial conditions, may be materially adversely affected.

Our business is subject to Chinese government regulation.

The Chinese government has broad discretion and authority to regulate the leather industry. The Chinese government can also regulate economic expansion in China and, as a result, plays a significant role in regulating industrial development. New regulations or adjustments of previously implemented regulations could require us to change our business plan, increase our costs or limit our ability to sell products and conduct activities in China, which could adversely affect our business and operating results.

Dividends paid to us from our operations in China may become subject to income tax, and tax preferences that we currently enjoy may be eliminated.

Under current Chinese tax laws, regulations and rulings, dividends from our operations in China paid to us are not currently subject to income tax in China because we are considered a foreign legal person. We cannot assure you, however, that those dividends will not be subject to tax in the future. In such event, we could become subject to a 20% income tax on dividends, unless reduced or eliminated by an applicable taxation treaty between China and the country in which we are located (in this case, the Cayman Islands). Such income tax, if implemented, may adversely affect the value of our Shares.

In addition, there is a risk that the various tax preferences that we currently enjoy may be eliminated. Each of our PRC subsidiaries is taxed individually, at actual rates ranging from 0% to 33%, depending on applicable corporate income tax rates and any applicable tax preferences or holidays. Our three major subsidiaries are foreign investment enterprises that are exempt from PRC income tax for the first two years that they are profitable and enjoy a 50% reduction for the next three years. In addition, when our subsidiaries which are foreign investment enterprises have total exports of more than 70%, they enjoy a reduction of their tax rate to 12%. For more details on the tax preferences we enjoy, please see "Financial Information — Taxation" in this prospectus. If tax preferences that we enjoy were to be eliminated or if we were no longer able to qualify for tax preferences as expected, our effective tax rate could increase, which could materially reduce our after tax profit.

Changes in the regulations relating to import and export duties may increase our cost of sales.

We import a substantial portion of the raw cowhides and chemicals used in our production of finished leather and leather upholstered furniture. The Chinese government assesses import duties of 5% and 6% to 10% on raw cowhides and chemicals, respectively. For the portion of raw cowhides and chemicals used for exported leather furniture covers and leather upholstered furniture, we receive either an exemption from import duties or a refund, if we have already paid the import duty. We are currently not required to pay export duties on our exported products.

Our cost of sales may increase and our gross margin may decrease if the import and export duty regulations change and, as a result, we are required to pay, or are no longer eligible to receive a refund on, import and export duties on all our imported raw cowhides and chemicals or exported goods, irrespective of whether the imported raw cowhides and chemicals are used for products that are exported.

China's legal system is not fully developed and has inherent uncertainties that could limit the legal protections available to our shareholders.

China's legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, the Chinese government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, because these laws and regulations are relatively new, and because of the limited number of published cases and their non-binding nature, interpretation and enforcement of these laws and regulations involve uncertainties.

As an investor holding our Shares, you hold an indirect interest in our operations in China through our Company. Our operations in China are subject to Chinese regulations governing companies in China. These regulations contain provisions that are required to be included in the articles of association of China companies and are intended to regulate the internal affairs of these companies. China Company Law and these regulations, in general, and the provisions for the protection of shareholders' rights and access to information, in particular, are less developed than those applicable to companies incorporated in Hong Kong, the US and other developed countries or regions. Therefore, you do not enjoy those shareholder protections that are available in more developed jurisdictions.

It may be difficult to effect service of process upon our Directors or executive officers that live in China or to enforce against them in China any judgments obtained from non-China courts.

Almost all of our Directors and executive officers reside within China, and substantially all of their assets and substantially all of our assets are located within China. Therefore, it may not be possible for investors to effect service of process upon us or our Directors and executive officers inside China or to enforce against them in China any judgments obtained from non-China courts.

China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the US, the UK, Japan, the Cayman Islands and most other Western countries. Therefore, recognition and enforcement in China of judgments of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or impossible.

Any future outbreak of Severe Acute Respiratory Syndrome (SARS) or other epidemic may have an adverse effect on our results of operations.

In the first half of 2003, certain Asian countries, including the PRC, encountered an outbreak of SARS, a highly contagious form of atypical pneumonia. If an outbreak of SARS occurs in the future and any of our employees in any of our facilities are suspected of having contracted SARS or any of our facilities are identified as a possible source of spreading SARS, we may be required to quarantine the employees that have been suspected of becoming infected, as well as others that had come into contact with those employees. We may also be required to disinfect the affected facility and therefore suffer a temporary suspension of production, which would affect our results of operations. Furthermore, any such outbreaks would likely have an adverse affect on the level of economic activity in affected areas, which would also adversely affect our business and results of operations.

RISKS RELATED TO THE GLOBAL OFFERING

Future sales of our Shares may decrease the value of your investment.

Immediately upon completion of the Global Offering, we will have 1,014,045,369 Shares outstanding, of which 304,220,000 Shares, or approximately 30.0% (assuming the Over-allotment Option is not exercised) will be held by investors who subscribe for or purchase Shares in the Global Offering and, respectively 328,867,019 and 186,989,966 Shares, or approximately 32.43% and 18.44% (assuming the Over-allotment Option is not exercised) will be held by Mr. Zhu and the Warburg Pincus Funds, respectively. Shares that are held by Mr. Zhu, the Warburg Pincus Funds and our other existing shareholders may also be sold in the public market in the future pursuant to, and subject to the restrictions of the Listing Rules, the securities laws of certain jurisdictions and contractual lock up restrictions. If we or any of our substantial shareholders sells, or if any of them is perceived to sell, a large amount of its Shares, the prevailing market price for our Shares could be adversely affected. See the section entitled "Underwriting" in this prospectus for more information.

The liquidity and market price of our Shares following this Global Offering may be volatile.

We cannot assure you that the Global Offering will result in the development of an active, liquid public trading market for our Shares. Furthermore, the price and trading volumes of our Shares may be volatile. Factors such as variations in our revenues, earnings and cashflows, announcements of new investments, strategic alliances and acquisitions, fluctuations in market prices for our products, or any other developments may affect the volume and price at which our Shares will be traded. We can give no assurance that one or more of these developments will not occur in the future. In addition, shares of other companies listed on the Stock Exchange have experienced substantial price volatility in the past, and it is possible that our Shares will be similarly subject to substantial changes in price and these changes in price may not even be related to our financial or business performance.

We will use a substantial part of the net proceeds from our Global Offering to repay some of our existing bank loans and amounts drawndown from bank facilities.

We will use approximately HK$268.9 million 50% of the net proceeds from the Global Offering (after deducting underwriting fees and estimated expenses payable by us in connection with the Global Offering) assuming an Offer Price of HK$2.85 per Share, being the mid-point of the proposed Offer Price range of HK$2.55 to HK$3.15 per Share to repay the principal amount and interest accrued on a portion of our outstanding bank loans and amounts drawndown from bank facilities and these proceeds will not be available for any other purposes. As a result, only approximately HK$268.9 million 50% of the net proceeds from this offering will be available to meet our ongoing operating needs and expansion plans.

Dividends declared in the past may not be indicative of our dividend policy in the future.

We declared a final dividend of RMB16.9 million with respect to 2003. We did not declare any dividends with respect to 2002 and 2004. The declaration of dividends is proposed by our Board of Directors, and may be influenced by various factors, including, without limitation, our trading performance, working capital requirements, capital expenditure requirements, and general business conditions. For further details on our dividend policy, please refer to the section headed "Financial Information — Dividend Policy" in this prospectus. We cannot guarantee when and if dividends will be declared in the future. Dividends paid in prior periods may not be indicative of future dividend payments. In addition, our distributable earnings will be equal to our net profit determined in accordance with PRC GAAP or IFRS, whichever is lower, less allocations to the statutory and discretionary funds. As a result, we may not have sufficient or any profits to enable us to make dividend distributions to our shareholders in the future, even if our PRC GAAP or IFRS financial statements indicate that our operations have been profitable.

There is no prior public market for our Shares.

Prior to the Global Offering, there has been no public market for our Shares. The initial issue price range to the public for our Shares was the result of negotiations between us, the Selling Shareholders and the Global Coordinator on behalf of the Underwriters, and the Offer Price may differ significantly from the market price for our Shares following the Global Offering. We will apply to list and deal in the Shares on the Stock Exchange. A listing on the Stock Exchange, however, does not guarantee that an active trading market for the Shares will develop, or if it does develop, will be sustained following the Global Offering, or that the market price of the Shares will not decline following the Global Offering. For additional discussions on the risks associated in connection with our Shares, please see "— The liquidity and market price of our Shares following this Global Offering may be volatile" and "— The market price of our Shares could decline."

Investors should read the entire prospectus carefully and we strongly caution investors not to place any reliance on any information contained in press articles or other media, certain of which may not be consistent with information contained herein.

Press coverage regarding us and the Global Offering in the Hong Kong Economic Times, a news publication in Hong Kong, on September 26, 2005, included certain financial information, financial projections and other information about us (the "Information") that does not appear in this prospectus. We wish to emphasize to potential investors that we do not accept any responsibility for the accuracy or completeness of the Information and that the Information was not sourced from or authorised by us. We make no representation as to appropriateness, accuracy, completeness or reliability of any of the Information. To the extent that any of the Information is inconsistent or conflicts with the information contained in this prospectus, we disclaim it. Accordingly, prospective investors should not rely on any of the Information.

The market price of our Shares could decline.

It is possible that our future operating results may be below the expectations of stock market analysts and investors. Any shortfall could cause a decline in the price of our Shares. In addition, the price of our Shares may be adversely affected by other factors, including:

- acquisitions;
- new products or services introduced by us or our competitors;
- government regulations; and
- general market and economic conditions.

We cannot assure you that the price of our Shares will not decline.

Because the initial public offering price is higher than the book value of the net tangible asset per Share, you will experience immediate dilution.

The initial public offering price of our Shares is higher than the book value of the net tangible asset per Share issued to existing shareholders. Therefore, purchasers of our Shares in the Global Offering will experience an immediate dilution in the pro forma adjusted net tangible assets per Share of HK$1.98 (assuming an Offer Price of HK$2.85, being the mid-point of our offer price range of HK$2.55 to HK$3.15 per Share), and existing shareholders will experience an immediate increase in the book value of the net tangible asset per Share. If we issue additional Shares in the future, purchasers of our Shares may experience further dilution.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus includes particulars given in compliance with the Cayman Islands Companies Law, the Companies Ordinance, the Securities and Futures (Stock Exchange Listing) Rules and the Listing Rules for the purpose of giving information to the public with regard to our Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus. The Directors confirm, having made all reasonable inquiries that, to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in this prospectus misleading.

UNDERWRITING

This prospectus is published solely in connection with the Public Offer, which forms part of the Global Offering. For applicants under the Public Offer, this prospectus and the Application Forms set out the terms and conditions of the Public Offer.

The listing of our Shares on the Stock Exchange is sponsored by the Sponsor. The Public Offer is fully underwritten by the Public Offer Underwriters under the terms of the Public Offer Underwriting Agreement, subject to agreement on the Offer Price between the Global Coordinator (on behalf of the Underwriters), the Selling Shareholders and us on the Price Determination Date. The Global Offering is managed by the Global Coordinator. For further information about the Underwriters and the underwriting arrangements, see "Underwriting."

INFORMATION ON THE GLOBAL OFFERING

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by our Company, the Selling Shareholders, the Sponsor, the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering.

SELLING RESTRICTIONS

Each person acquiring the Offer Shares will be required to confirm, or by his acquisition of the Offer Shares be deemed to confirm, that he is aware of the restrictions on the offer of the Offer Shares described in this prospectus.

No action has been taken to permit a public offering of the Offer Shares or the general distribution of this prospectus and/or the related Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purposes of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation.

United States

The Offer Shares have not been and will not be registered under the US Securities Act and, subject to certain exceptions, may not be offered, sold, pledged or transferred within the US, except to qualified institutional buyers in accordance with Rule 144A or other applicable exemptions from the registration requirements of the US Securities Act, or outside the United States to non-US persons in offshore transactions in accordance with Rule 903 or Rule 904 of Regulation S, as applicable.

In addition, until 40 days after the commencement of the Global Offering, an offer or sale of Offer Shares within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

The Offer Shares have not been approved or disapproved by the US Securities and Exchange Commission, any state securities commission in the US or any other US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the Global Offering or the accuracy or adequacy of this prospectus relating to the Global Offering. Any representation to the contrary is a criminal offence in the US.

United Kingdom

All applicable provisions of the Financial Services and Markets Act 2000 (the "FSMA") have been complied with in respect of anything done in relation to our Shares in, from or otherwise involving the United Kingdom. No person may communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by such person in connection with the issue or sale of our Shares except in circumstances in which section 21(1) of the FSMA does not apply to us.

Singapore

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Shares may not be circulated or distributed, nor may the Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor specified in Section 274 of the SFA, (ii) to a sophisticated investor, and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to and in accordance with the conditions of any other applicable provision of the SFA.

Canada

The Offer Shares may only be offered in those jurisdictions in Canada and to those persons where and to whom they may be lawfully offered for sale, and therein only by persons permitted to sell the Offer Shares. This prospectus is not, and under no circumstances is to be construed as, an advertisement or public offering of the Offer Shares in Canada. No securities commission in Canada has reviewed or in any way passed upon this prospectus or the merit of the offering and any representations to the contrary is an offense.

Japan

The Offer Shares have not been and will not be registered under the Securities and Exchange Law of Japan (Law No. 235 of 1948 as amended) (the "Securities Exchange Law") and disclosure under the Securities Exchange Law has not been and will not be made with respect to the Offer Shares. Accordingly, the Offer Shares may not be, directly or indirectly, offered or sold in Japan or to, or for the benefit of, any resident of Japan or to others for re-offering or re-sale, directly or indirectly in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities Exchange Law and other relevant laws and regulations of Japan. As used in this paragraph, "resident of Japan" means any person residing in Japan, including any corporation or other entity organized under the laws of Japan.

PRC

This prospectus may not be circulated or distributed in the PRC and the Offer Shares may not be offered or sold directly or indirectly to any resident of the PRC, or offered or sold to any person for re-offering or resale directly or indirectly to any resident of the PRC except pursuant to applicable laws and regulations of the PRC.

APPLICATION FOR LISTING OF THE SHARES ON THE STOCK EXCHANGE

We have applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, our Shares in issue, the Offer Shares and any Shares which may be issued pursuant to the exercise of any options that may be granted under the Share Option Scheme. Dealings in our Shares on the Stock Exchange are expected to commence on Thursday, October 20, 2005. Save as disclosed in this prospectus, no part of our share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

PROFESSIONAL TAX ADVICE RECOMMENDED

We recommend that potential investors in the Global Offering consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding, disposing or dealing in our Shares. None of us, the Selling Shareholders, the Sponsor, the Underwriters, any of their respective directors or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding, disposal of, dealing in, or the exercise of any rights in relation to, our Shares.

OVER-ALLOCATION AND STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, securities in the secondary market, during a specified period of time, to retard, and if possible, prevent any decline in the market price of the securities below the offer price. In Hong Kong and certain other jurisdictions, the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Global Coordinator, as stabilizing manager, or any person acting for it, may over-allocate or effect any other transactions with a view to stabilizing or maintaining the market price of our Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the last day for the lodging of applications under the Public Offer. Any market purchases of Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Global Coordinator or any person acting for it to conduct any such stabilizing activity, which if commenced, will be done at the absolute discretion of the Global Coordinator and may be discontinued at any time. Any such stabilizing activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Public Offer. The number of Shares that may be over-allocated will not exceed the number of Shares that may be sold under the Over-allotment Option, namely 45,633,000 Shares, which is 15% of our Shares initially available under the Global Offering.

Stabilizing action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules includes (i) over-allocation for the purpose of preventing or minimizing any reduction in the market price of the Shares, (ii) selling or agreeing to sell Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Shares, (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, the Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above, (iv) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimizing any reduction in the market price of the Shares, (v) selling or agreeing to sell any Shares in order to liquidate a long position held as a result of those purchases and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v).

As a result of effecting transactions to stabilize or maintain the market price of our Shares, the Global Coordinator, or any person acting for it, may maintain a long position in our Shares. The size of the long position, and the period for which the Global Coordinator, or any person acting for it, will maintain the long position is at the discretion of the Global Coordinator and is uncertain. In the event that the Global Coordinator liquidates this long position by making sales in the open market, this may lead to a decline in the market price of our Shares.

Stabilizing action by the Global Coordinator, or any person acting for it, is not permitted to support the price of the Shares for longer than the stabilizing period, which begins on the day on which trading of our Shares commences on the Stock Exchange and ends on the 30th day after the last day for the lodging of applications under the Public Offer. The stabilizing period is expected to end on Sunday, November 13, 2005, being the 30th day after the date expected to be the latest date for lodging applications under the Public Offer. As a result, demand for our Shares, and their market price, may fall after the end of the stabilizing period.

Any stabilizing action taken by the Global Coordinator, or any person acting for it, may not necessarily result in the market price of the Shares staying at or above the Offer Price either during or after the stabilizing period. Bids for or market purchases of the Shares by the Global Coordinator, or any person acting for it, may be made at a price at or below the Offer Price and therefore at or below the price paid for our Shares by subscribers and purchasers.

In connection with the Global Offering, the Global Coordinator may over-allocate up to and not more than an aggregate of 45,633,000 additional Shares and cover such over-allocations by exercising the Over-allotment Option or by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or a combination of these means. In particular, for the purpose of covering such over-allocations, the Global Coordinator may borrow up to 45,633,000 Shares from the Warburg Pincus Funds and Cao Haoqiang, equivalent to the maximum number of Shares to be sold on a full exercise of the Over-allotment Option, under the Stock Borrowing Agreement.

PROCEDURE FOR APPLICATION FOR PUBLIC OFFER SHARES

The procedure for applying for Public Offer Shares is set out in "How to Apply for Public Offer Shares" and on the relevant Applications Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in "Structure and Conditions of the Global Offering."

ROUNDING

Any discrepancies in any table in this prospectus between totals and sums of amounts listed therein are due to rounding.

HONG KONG BRANCH REGISTER OF MEMBERS AND STAMP DUTY

Our principal register of members will be maintained by its principal registrar in the Cayman Islands, Butterfield Fund Services (Cayman) Limited, Butterfield House, 68 Fort Street, P.O. Box 705, George Town, Grand Cayman, Cayman Islands, and our Company's branch register of members will be maintained by our branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

Dealings in our Shares registered on our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty.

CURRENCY TRANSLATIONS AND LANGUAGE

Unless otherwise specified, amounts denominated in RMB and US dollars have been translated, for the purpose of illustration only, into Hong Kong dollars in this prospectus at the following rates:

HK$1.00 : RMB1.04

HK$7.80 : US$1.00

No representation is made that any amounts in RMB, US$ or HK$ can be or could have been at the relevant dates converted at the above rates or any other rates or at all.

If there is any inconsistency between the Chinese names of our Chinese entities mentioned in this prospectus and their English translations, the Chinese names shall prevail.

DIRECTORS

Name	Address	Nationality
Executive Directors		
ZHU Zhangjin	433-9-104, Fangbian Road Xiashi Town Haining City Zhejiang Province China	Chinese
ZHOU Xiaosong	No. 5 of Qinjian Group Huafeng Village Xieqiao Town Haining City Zhejiang Province China	Chinese
ZHU Jianqi	Qinyun Village Xieqiao Town Haining City Zhejiang Province China	Chinese
Non-executive Directors		
SUN Qiang Chang	38B The Valverde 11 May Road Hong Kong	Chinese
Independent non-executive Directors		
LU Yungang	9B Hamilton Court 8 Po Shan Road Hong Kong	Chinese
CHOW Joseph	B805, North Tower Blue Castle International Apt. #3 Xidawanglu, Chaoyang District Beijing China	USA
SHI Zhengfu	Room 2006 No. 256 Pudong South Road Shanghai China	Chinese

PARTIES INVOLVED IN THE GLOBAL OFFERING

Global Coordinator, Sole Bookrunner, Sponsor and Sole Lead Manager	UBS AG 52nd Floor, Two International Finance Center 8 Finance Street Central Hong Kong
Public Offer Underwriters	UBS AG 52nd Floor, Two International Finance Centre 8 Finance Street Central Hong Kong
	BNP Paribas Peregrine Capital Limited 63rd Floor, Two International Finance Centre 8 Finance Street Central Hong Kong
	CITIC Capital Markets Limited 26th Floor, CITIC Tower 1 Tim Mei Avenue Central Hong Kong
	China Merchants Securities (HK) Co., Ltd. 48th Floor, One Exchange Square Central Hong Kong
	First Shanghai Securities Limited 19th Floor, Wing On House 71 Des Voeux Road Central Hong Kong
	South China Securities Limited 28th Floor, Bank of China Tower 1 Garden Road Central Hong Kong

	Sun Hung Kai International Limited Level 12, One Pacific Place 88 Queensway Hong Kong
Auditors and Reporting Accountant	Deloitte Touche Tohmatsu *Certified Public Accountants* 26/F., Wing On Centre 111 Connaught Road Central Hong Kong
Our Legal Advisers	*as to Hong Kong law and United States law:* O'Melveny & Myers Suite 1905, Tower Two 89 Lippo Center, Queensway Central Hong Kong
	as to PRC law: Jun He Law Offices 20th Floor, China Resources Building 8 Jianguomenbei Avenue Beijing PRC
	as to Cayman Islands law: Conyers Dill & Pearman Century Yard Cricket Square Hutchins Drive P.O. Box 2681 GT George Town Grand Cayman British West Indies
Legal Advisers to the Underwriters	*as to Hong Kong law and United States law:* Freshfields Bruckhaus Deringer 11th Floor Two Exchange Square 8 Connaught Place Central Hong Kong

	as to PRC law: Haiwen & Partners Room 1711, Beijing Silver Tower No.2 Dong San Huan North Road Chao Yang District Beijing PRC
Property Valuer	Sallmanns (Far East) Limited 22/F Siu On Centre 188 Lockhart Road Hong Kong
Receiving Banker	Bank of China (Hong Kong) Limited 1 Garden Road Central Hong Kong
Valuer	American Appraisal China Limited Room 1506-1510, Dah Sing Financial Centre 108 Gloucester Road Wanchai Hong Kong

CORPORATE INFORMATION

Registered Office	Century Yard Cricket Square Hutchins Drive P.O. Box 2681GT George Town Grand Cayman British West Indies
Head Office	259 Qianjiang West Road Haining City Zhejiang Province 314400 China
Place of Business in Hong Kong	Room 1605, Tai Tung Building 8 Fleming Road Wanchai Hong Kong
Company Secretary	YIU Hoi Yan (member of the Association of Chartered Certified Accountants and member of the Hong Kong Institute of Certified Public Accountants)
Qualified Accountant	LEE Lawrence (associate member of the Association of Chartered Certified Accountants)
Audit Committee	CHOW Joseph (Chairperson) LU Yungang SHI Zhengfu
Remuneration Committee	SUN Qiang Chang (Chairperson) LU Yungang SHI Zhengfu
Authorized Representatives	YIU Hoi Yan Room 1605, Tai Tung Building 8 Fleming Road Wanchai Hong Kong ZHU Jianqi Qinyun Village Xieqiao Town Haining City Zhejiang Province China

Compliance Adviser	ICEA Capital Limited
Principal Bankers	Bank of China, Haining Branch 118 Haichang Road Haining City 314400 China Agricultural Bank of China, Haining Branch 110 Haichang Road Haining City 314400 China China Construction Bank, Haining Branch 116 Haichang Road Haining City 314400 China Industrial and Commercial Bank of China, Haining Branch 106 Haichang Road Haining City 314400 China Bank of Communications, Shanghai Lujiazui Branch Floor 16, 518 Shangcheng Road Shanghai 200120 China Hongkong and Shanghai Banking Corporation Limited HSBC Main Building 1 Queen's Road Central Hong Kong
Principal Share Registrar and Transfer Office	Butterfield Fund Services (Cayman) Limited Butterfield House 68 Fort Street P.O. Box 705 George Town Grand Cayman Cayman Islands British West Indies
Hong Kong Branch Share Registrar and Transfer Office	Computershare Hong Kong Investor Services Limited Shops 1712-16, 17th Floor Hopewell Centre 183 Queen's Road East Wanchai Hong Kong

Our products primarily include leather and fabric upholstered furniture and furniture covers, furniture leather and automotive leather.

THE UPHOLSTERED FURNITURE INDUSTRY

Overview

Upholstered furniture is generally categorized into fabric covered furniture (including micro-fibers) and leather covered furniture. In 2004, total global consumption of upholstered furniture was US$37,400 million, with US$14,366 million from Western Europe, US$13,279 million from the US and US$9,755 million from the rest of the world, according to CSIL Milano — Furniture Industry Research Institute ("CSIL"). CSIL defines consumption as domestic production plus imports minus exports, all at factory prices. The following table is a breakdown, by category, of total global consumption of upholstered furniture for the years indicated, as well as a forecast of total global consumption of upholstered furniture for 2005 and 2006, according to CSIL.

Global consumption of upholstered furniture	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**Compound Annual Growth Rate 2004-06**
	(US dollars in millions)						(%)
					(forecast)	(forecast)	
Fabric (including micro-fibers)	23,268	24,543	26,575	28,873	29,941	30,316	2.5
Leather	6,693	7,472	8,176	8,527	9,059	9,684	6.6
Total	29,961	32,015	34,751	37,400	39,000	40,000	3.4

Source: CSIL, World Upholstery Figures 2000-2008 (Forecast), May 2005.

The US, our primary market, accounts for over one-third of the total global consumption of upholstered furniture. Between 2001 and 2004, the upholstered furniture industry in the US experienced a compound annual growth rate of 5.3%, compared to a compound annual growth rate of 4.3% in Western

Europe and a compound annual growth rate of 7.7% globally. The following is a breakdown, by category, of US consumption of upholstered furniture for the years indicated, as well as a forecast of US consumption of upholstered furniture for 2005 and 2006, according to CSIL.

US consumption of upholstered furniture	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**Compound Annual Growth Rate 2004-06**
	(US dollars in millions)						(%)
					(forecast)	(forecast)	
Fabric (including micro-fibers)	8,919	9,662	9,655	10,225	10,519	10,868	3.1
Leather	2,443	2,780	3,049	3,054	3,231	3,432	6.0
Total	11,362	12,442	12,704	13,279	13,750	14,300	3.8

Source: CSIL, World Upholstery Figures 2000-2008 (Forecast), May 2005.

Leather upholstered furniture

Total global consumption of leather upholstered furniture equaled US$8,527 million in 2004, representing 22.8% of total global consumption of all types of upholstered furniture. Consumption of leather upholstered furniture in Western Europe and the US constituted 43.4% and 35.8%, respectively, of the total global consumption of leather upholstered furniture in 2004, according to CSIL.

In recent years, there has been increased growth in the US of consumption of leather upholstered furniture. Consumption of leather upholstered furniture in the US grew from US$2,443 million in 2001 to US$3,054 million in 2004. CSIL estimates that consumption of leather upholstered furniture in the US will be US$3,432 million in 2006, reflecting a compound annual growth rate of 6.0% between 2004 and 2006. The table below shows the global consumption of leather upholstered furniture for the years indicated, as well as a forecast of global consumption of leather upholstered furniture for 2005 and 2006, according to CSIL.

Global consumption of leather upholstered furniture	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**Compound Annual Growth Rate 2004-06**
	(US dollars in millions)						(%)
					(forecast)	(forecast)	
US	2,443	2,780	3,049	3,054	3,231	3,432	6.0
Europe (Western)	3,457	3,701	3,560	3,700	3,856	4,037	4.5
Others	793	991	1,567	1,773	1,972	2,215	11.8
Total	6,693	7,472	8,176	8,527	9,059	9,684	6.6

Source: CSIL, World Upholstery Figures 2000-2008 (Forecast), May 2005.

Brand name upholstered furniture customers

In 2004, approximately 900 to 1,000 companies were in the business of producing upholstered furniture in the US. The five largest of these companies accounted for 36.2% of the US market in terms of sales. Typically, the larger brand name upholstered furniture companies in the US are vertically integrated, containing manufacturing, distribution and retail operations. The table below lists the top ten upholstered furniture companies in the US by sales in 2004.

Top ten upholstered furniture companies in the US by sales in 2004	Sales in 2004 (US dollars in millions)	Market share in 2004 (%)
La-Z-Boy Incorporated	1,612	12.1
Furniture Brands International, Inc.	1,182	8.9
Klaussner Furniture Industries	793	6.0
Ashley Furniture Industries, Inc	740	5.6
Berkline/Benchcraft LLC	485	3.6
Natuzzi S.P.A.	290	2.2
Flexsteel Industries, Inc.	227	1.7
Ethan Allen Interiors Inc.	214	1.6
Rowe Furniture, Inc.	207	1.6
Best Chairs Inc.	180	1.4
Subtotal	5,930	44.7
Total US upholstered furniture sales	13,279	100.0

Source: CSIL, World Upholstery Figures 2000-2008 (Forecast), May 2005. Some of the figures are only estimates by CSIL.

Major growth drivers

The main drivers to current and future growth in the upholstered furniture industry in the US include:

- **The construction and real estate market**: demand for upholstered furniture is greatest when home-buying and home-renovating trends are strong.
- **Income distribution**: affordable furniture, sold typically through large-scale distribution, is in demand by middle and lower-middle income consumers.
- **Population demographics**: the "baby-boom generation," composed of people aged between 45 and 54, has reached an age group where disposable income is greatest and where the propensity to stay at home is the highest.
- **Immigration trends**: increased levels of immigration impact the number of houses built and sold, which in turns influences the demand for upholstered furniture.

According to CSIL, leather upholstered furniture is considered a premium product over fabric upholstered furniture and generally sells at a higher price than fabric upholstered furniture. The rising demand for leather upholstered furniture is driven, in part, by the growing acceptance of leather, as the price differential between the two products has narrowed. The decline in price differential between leather and fabric is attributable in part to increasing imports of leather upholstered furniture from low cost production countries, which allows for lower selling prices for leather upholstered furniture. As price competition has intensified, the upholstered furniture industry has moved increasingly towards outsourced manufacturing.

Outsourcing trend

The noticeable trend in the upholstered furniture industry has been the steep rise of outsourcing, principally by brand name furniture companies in the US, as a means of realizing significant cost savings. The growth in outsourcing is evidenced primarily by the strong growth in imports to the US from low cost production countries such as China. Historically, the US has imported primarily from Italy and Canada. For example, imports from Italy and Canada accounted for 33.3% and 22.5%, respectively, of the total global imports of upholstered furniture by the US in 2001. Between 2001 and 2004, imports to the US from China experienced a compound annual growth rate of 57.1%, which significantly outpaced growth in imports from other countries. As a result, China is currently the largest supplier of upholstered furniture imports to the US, with China's market share of imports to the US increasing to 39.9% in 2004 from 17.4% in 2001. As imports to the US accounted for only 22.4% of total consumption in the US for 2004, there is still potential for further increases in imports. The table below shows US furniture imports from China, Italy and Canada for the years indicated, as well as a forecast of US furniture imports for 2005 and 2006, according to CSIL. Based on forecasts from CSIL, China will be the largest supplier of upholstered furniture imports to the US in 2006, with an estimated compound annual growth rate of 29.9% between 2004 and 2006.

Upholstered furniture imports into the US	2001	2002	2003	2004	2005	2006	Compound Annual Growth Rate 2004-06
	(US dollars in millions)						(%)
					(forecast)	(forecast)	
China	306	543	804	1,186	1,540	2,000	29.9
Italy	586	590	611	509	550	600	8.6
Canada	396	389	410	397	400	410	1.6
Others	474	588	712	883	991	1,062	9.7
Total upholstered furniture imports in the US	1,762	2,110	2,537	2,975	3,481	4,072	17.0

Source: CSIL, World Upholstery Figures 2000-2008 (Forecast), May 2005.

Europe has also increased outsourcing from China. In particular, as the following chart shows, upholstered furniture imports to the UK from China doubled from €121 million in 2003 to €243 million in 2004.

Upholstered furniture imports into the UK	2001	2002	2003	2004
	(Euro in millions, except %)			
China	38	84	121	243
China market share	6.7%	12.9%	15.1%	23.3%
Total upholstered furniture imports in the UK	568	653	799	1,041

Source: CSIL, World Upholstery Figures 2000-2008 (Forecast), May 2005.

Reasons for outsourcing

Brand name furniture companies in the US are increasing their level of outsourcing because outsourcing allows them to:

- **Lower production costs**: outsourcing benefits from reduced labor costs, raw material costs, land costs and warehousing costs; economies of scale and local tax benefits.

- **Focus on core competencies**: by outsourcing manufacturing, US brand name furniture companies can focus on enhancing brand equity, product design and development, sales and marketing, and distribution channel management.

- **Reduce capital investment requirements and enhance return on capital**: outsourcing allows US brand name furniture companies to lower their investments in facilities and manage their working capital more effectively.

CHINA'S AUTOMOBILE AND AUTOMOTIVE PARTS INDUSTRIES

China's Automobile Industry

Between 2001 and 2004, Chinese automobile sales expanded at a compounded annual growth rate of 28.1% or by approximately 2.7 million units, according to J.D. Power-LMC Automotive Forecasting Services. In China, automobiles are classified into three segments: cars, light trucks and light commercial vehicles and heavy commercial vehicles. China produced 1.2 million, 2.3 million and 2.6 million cars in 2002, 2003 and 2004, respectively. J.D. Power-LMC Automotive Forecasting Services estimates that China will produce 3.7 million cars in 2006, reflecting an estimated compound annual growth rate of 18.8% between 2004 to 2006. Leather automobile seats manufactured in China are most commonly used in high-end cars. Leading international automobile manufacturers who produce and sell high-end cars in China include General Motors, Volkswagen, Audi, Mazda and Ford.

We believe strong growth in the Chinese automotive industry is due to the following factors:

- **High GDP growth**: China's GDP was RMB10.5 trillion, RMB11.7 trillion and RMB13.7 trillion in 2002, 2003 and 2004, respectively, according to the National Bureau of Statistics of China. Correspondingly, China's per capita income, as well as personal disposable income, has grown significantly, making automobiles, especially cars, more affordable.

- **The steady development of China's road and highway infrastructure system**: Between 2000 and 2003, the national road and highway system increased by a 8.9% compound annual growth rate in terms of total length.

- **Increased affordability**: Price reductions in cars, as a result of competition and a decline in import tariffs on automobiles and automobile parts, have increased affordability of cars.

- **Greater product diversity**: Introduction of newer models gives consumers greater selection and new choices.

Although we have not yet been materially impacted by any recent changes to Chinese government economic policies, for a discussion on how Chinese governmental economic policies may affect the growth of China's automobile industry, please see "Risk Factor — Risks Related to our Operations in China — Political and economic policies of the Chinese government could materially adversely affect our business and results of operations."

China's Automotive Parts Industry

Leather automobile seats are typically sold to either automobile manufacturers directly or to automotive parts suppliers, including seat manufacturers. Some of the leading automotive parts suppliers in China include Intier Automotive Inc. and Shanghai Yanfeng Johnson Controls Seating Co., Ltd.

We expect China's automotive parts industry to grow steadily due to two important trends. First, China's domestic automobile market has been experiencing strong growth. Increased demand for automobiles naturally results in increased demand for automotive parts. Historically, most automotive parts for global brand automobiles sold in China were sourced overseas. But as the quality of domestically manufactured automotive parts further improves and as their pricing becomes more favorable and better controlled, we believe the domestic market for China's automotive parts manufacturers will grow steadily.

Second, developed automobile markets increasingly source auto parts from parts manufacturers in China due to lower production costs in China. Top US automobile manufacturers are facing growing pricing pressure in the US automobile market. These automobile manufacturers are asking suppliers to cut parts prices and to increase parts purchases from outside the US. As a result, many of the world's largest automotive parts suppliers have set up manufacturing facilities in China. The increase in outsourced manufacturing in China for automotive parts is evidenced by the increase in exports from China, which grew from US$2,959 million in 2002 to US$3,250 million in 2003 to US$5,630 million in 2004 according to the China Association of Automobile Manufactures.

REGULATION AFFECTING OUR BUSINESS

There are no specific regulations governing the industries discussed in this section. However, environmental regulations are particularly relevant to leather products manufacturers. The following are summaries of certain PRC environmental laws that affect us.

The Law of the People's Republic of China on Environmental Protection (中華人民共和國環境保護法) ("Environmental Protection Law" issued in 1989) establishes the legal framework of environmental protection in China. The administration department of environmental protection of the State Council implements unified supervision and management on the national environmental protection work, and also establishes the national standards for pollutant discharge, while the Environmental Protection Bureaus at or above the county level are responsible for the environmental protection work within their respective jurisdictions.

Enterprises that cause environmental pollution and other public hazards must incorporate environmental protection work into their plans and establish a responsibility system for environmental protection. Any entity operating a facility that discharges pollutants must submit a pollutant discharge declaration statement and apply for a pollutant discharge license for an amount of discharge determined by the government subject to the payment of discharge fees. If an entity discharges more than what is permitted by the pollutant discharge license, the government may, according to the circumstances, impose administrative penalties which include: warnings, fines, orders to make treatments within a specific period, orders to suspend production, orders to reinstall and put to use pollution treatment facilities that have been dismantled or left idle without prior approval, administrative sanctions on relevant responsible personnel and orders to close the business. The government may also impose fines together with any of the above-mentioned administrative penalties. The enterprise or individuals that have caused environmental pollution hazard would be responsible to compensate the victim. If a violation of the Environmental Protection Law causes a serious environmental pollution accident, the personnel directly responsible for such an accident will be investigated for criminal liability.

The Law of the People's Republic of China on Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法) (the "Atmospheric Pollution Preventive Law" issued on September 5, 1987, revised on August 29, 1995 and further revised on April 29, 2000) establishes the provisions of the prevention, treatment and management of atmospheric pollution. New construction projects, expansion or reconstruction projects that discharge pollutants into air shall comply with the State regulations on environmental protection for such projects. Enterprises that discharge pollutants into the atmosphere must report to the local administrative department of environmental protection its existing discharge and treatment facilities for pollutants and the categories, quantities and concentrations of pollutants discharged under normal operation conditions and submit to the same department relevant technical data concerning the prevention and control of atmospheric pollution. An enterprise that discharges pollutants into the atmosphere shall pay a discharge fee according to the type and amount of pollutants discharged. The concentration of the discharged pollutants shall not surpass the national and local standards. Where the Atmospheric Pollution Preventive Law is violated, the administration departments of environmental protection may, according to the circumstances, impose the following penalties on the violators: orders to stop the illegal activities, orders to rectify within a specified period, warnings, fines, order to make treatments within a specified period, order to suspend or close the business. The enterprise that has caused the atmospheric pollution shall be responsible for removing the hazard and indemnifying the entities or individuals that have suffered direct losses.

The Law of People's Republic of China on Prevention and Control of Water Pollution (中華人民共和國水污染防治法) (the "Water Pollution Preventive Law" issued on the May 11, 1984 and revised on May 15, 1996), establishes legal standards for prevention and control of pollution of rivers, lakes, canals, irrigation channels, reservoirs and other surface water bodies and of underground water bodies within the Chinese territory. New construction projects and expansion or reconstruction projects and other installations on water that directly or indirectly discharge pollutants to water bodies shall be subject to relevant State regulations on environmental protection for such projects. Enterprises that discharge pollutants directly or indirectly into a body of water must report to and register with the local environmental protection department their existing facilities for discharging and treating pollutants, and the categories, quantities and concentrations of pollutants discharged under their normal operating conditions, and also submit to the same department technical data concerning prevention and control of water pollution. Enterprises that have discharged pollutants into water must pay a pollutant discharge fee pursuant to the regulations. If the discharge of pollutants exceeds the prescribed standards, the enterprises must pay an excess fee for pollutants discharge. Where the Water Pollution Preventive Law is violated, the administration departments of environmental protection may, according to the circumstances, impose warnings, fines, orders to suspend production or even orders to close the business on the violators. An enterprise that has caused the environmental water pollution hazard is responsible for removing such hazard and indemnifying the entities or individuals that have suffered direct losses.

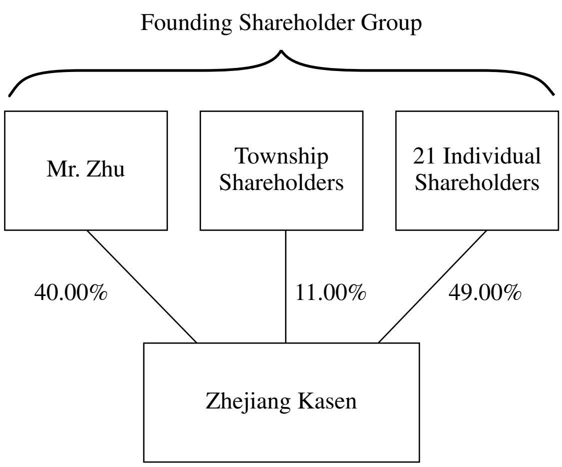
GENERAL

Our principal operating subsidiary, Zhejiang Kasen, was incorporated in 1995 and our Company was incorporated in 2002. As a result of our corporate reorganization, we became the ultimate holding company of Zhejiang Kasen through our shareholding in Kasen International. Through two rounds of convertible loan funding, the Warburg Pincus Funds have invested approximately US$36,739,000 in us.

BACKGROUND

Zhejiang Kasen

Our principal operating subsidiary, Zhejiang Kasen, was incorporated as a limited liability company in China on June 12, 1995. On August 24, 2001, Zhejiang Kasen was converted into a joint stock limited liability company. The shareholders at that time included Mr. Zhu, the Township Shareholders and the 21 Individual Shareholders, which we call the "Founding Shareholder Group." The following diagram sets out the shareholdings of our Founding Shareholder Group as at August 24, 2001.



On August 27, 2001, all the shareholders of Zhejiang Kasen, except Mr. Zhu, executed a power of attorney granting Mr. Zhu full power to vote on their behalf all of their respective equity interests in Zhejiang Kasen.

CORPORATE REORGANIZATION

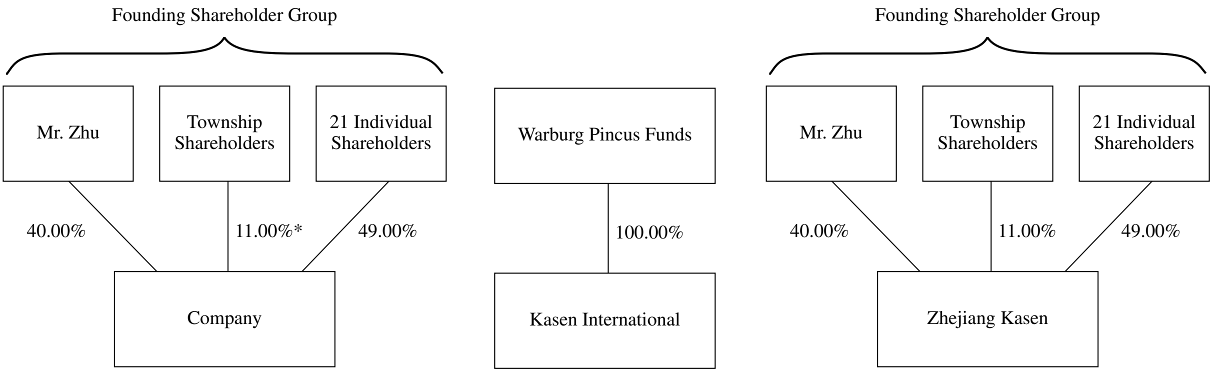
We undertook a reorganization of our corporate structure in preparation for investments by the Warburg Pincus Funds in us and our Global Offering. The discussion below describes how the shareholdings of Zhejiang Kasen, our Company and Kasen International have changed during the course of our reorganization.

Our Company

Our Company was incorporated as an exempted company in the Cayman Islands on December 19, 2002. On January 14, 2003, Mr. Zhu, on his own behalf and on behalf of the Township Shareholders, acquired 51.00% of our Company and the 21 Individual Shareholders acquired the remaining 49.00% of our Company. On February 26, 2003, Mr. Zhu signed a declaration of trust (the "Township Trust") which declared that 11.00% of the equity interest held by Mr. Zhu in our Company was held on trust for the Township Shareholders and which gave Mr. Zhu, as trustee, the full power to vote in his sole discretion on behalf of the Township Shareholders. By virtue of the Township Trust and a voting agreement dated February 26, 2003 entered into among Mr. Zhu and the 21 Individual Shareholders, we have regarded the Founding Shareholder Group as a single entity controlling our Group until October 9, 2005, the date immediately prior to the date of this prospectus, when such voting agreement was terminated.

Kasen International

Kasen International, incorporated on December 20, 2002 as an exempted company in the Cayman Islands, was acquired by Warburg Pincus International Partners, L.P., one of the Warburg Pincus Funds, on January 6, 2003. The following diagrams set out the shareholding structures of our Company, Kasen International and Zhejiang Kasen as at February 26, 2003.



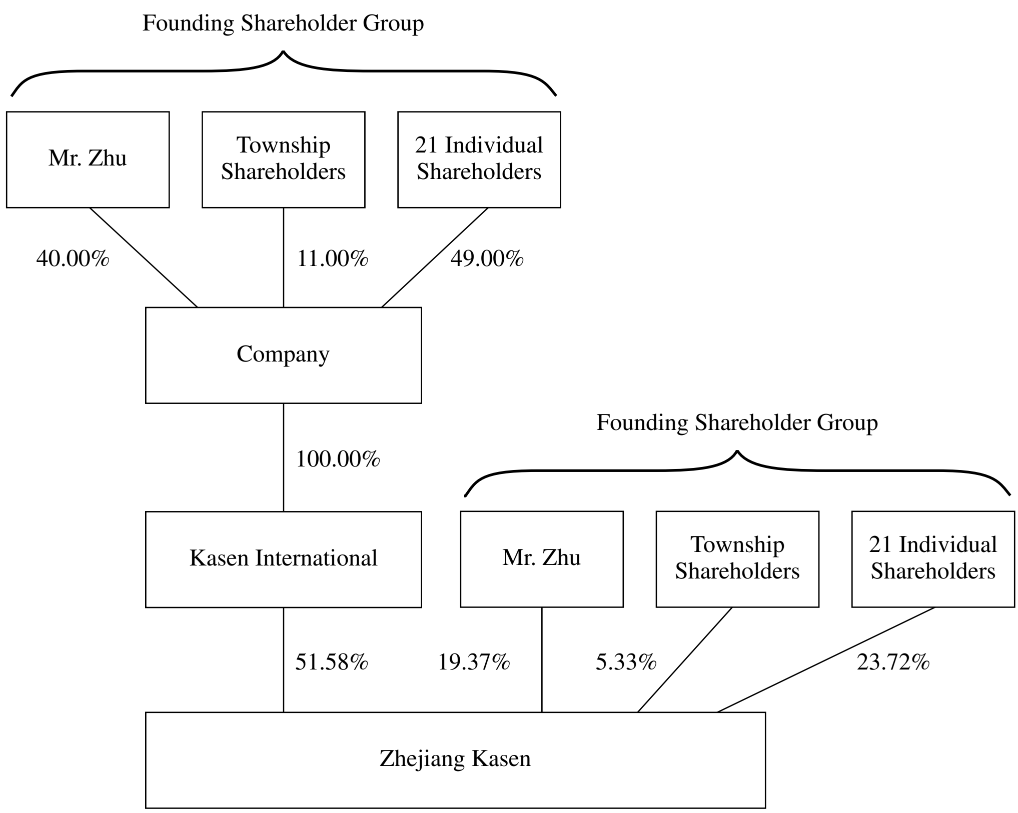
* *This equity interest was held in trust by Mr. Zhu for the benefit of the Township Shareholders.*

The First Round Investment

On February 26, 2003, the Warburg Pincus Funds agreed to loan us US$21,739,130 (the "First Warburg Pincus Convertible Loan"). The First Warburg Pincus Convertible Loan was convertible, at the option of the Warburg Pincus Funds, into 217,391,304 of our preferred shares (the "Series A Preferred Shares"). The conversion terms were further amended by an Eighth Amendment to Restructuring and Loan Agreement dated August 5, 2005, such that the Series A Preferred Shares, once issued, would be convertible into 176,693,933 Shares at any time at the sole option of the Warburg Pincus Funds. Also on February 26, 2003, the Founding Shareholder Group entered into an agreement (the "Supplemental Agreement") which provided that upon completion of transfer of all their interests in Zhejiang Kasen to Kasen International, the Founding Shareholder Group would subscribe for 421,078,856 shares, or 280,719,237 Shares, giving effect to the consolidation of our shares, of which 168,431,542 shares, or 112,287,695 Shares, giving effect to the consolidation of our shares, were to be subscribed for by Mr. Zhu. The Supplemental Agreement was amended on September 16, 2004 to allow Mr. Zhu to subscribe for a total of 214,750,215 shares, or 143,166,811 Shares, giving effect to the consolidation of our shares.

On June 26, 2003, the sole ordinary share in Kasen International, then held by Warburg Pincus International Partners, L.P., was redesignated as a non-voting deferred share, and our Company subscribed for one ordinary share of Kasen International for US$1, which constituted 100% of the then issued voting shares of Kasen International. On the same day, we further subscribed for 9,998 new ordinary shares in Kasen International at the total subscription price of US$21,739,129. As a result of these subscriptions, our Company became the holder of 100% of the voting share capital of Kasen International.

On July 2, 2003, we drew down the First Warburg Pincus Convertible Loan and used the proceeds to pay the subscription price for 9,998 new ordinary shares in Kasen International. Kasen International used the proceeds of the subscription to subscribe for 180,000,000 new shares in Zhejiang Kasen (representing 51.58% of the shares in Zhejiang Kasen) for a total consideration of RMB180,000,000, which was completed on July 14, 2003. As a result, Zhejiang Kasen became a Sino-foreign joint stock limited liability company. The following diagram sets out the shareholding structure of our Group following our subscription in Kasen International and the subscription by Kasen International in Zhejiang Kasen.



The Second Round Investment

On January 19, 2004, the Warburg Pincus Funds agreed to further loan us US$15,000,000 (the "Second Warburg Pincus Convertible Loan") to assist us with our additional capital needs. The Second Warburg Pincus Convertible Loan was convertible, at the option of the Warburg Pincus Funds, into 100,000,000 of a second series of our preferred shares (the "Series B Preferred Shares") after the consummation of certain transactions. The terms of the Series B Preferred Shares were otherwise identical to those of the Series A Preferred Shares, except that the conversion price of the Series B Preferred Shares was US$0.15 per share while the conversion price of the Series A Preferred Shares was US$0.10 per share. The conversion terms were further amended by an Eighth Amendment to Restructuring and Loan Agreement dated August 5, 2005, such that the Series B Preferred Shares, once issued, were convertible into 81,279,209 Shares at any time at the sole option of the Warburg Pincus Funds.

On January 21, 2004, we drew down the Second Warburg Pincus Convertible Loan and used the funds as follows:

- US$9,500,000 was loaned to Kasen International for a term of one and a half years pursuant to a loan agreement dated February 25, 2004. Kasen International in turn loaned such fund to Zhejiang Kasen and later converted the loan into registered capital of Zhejiang Kasen upon the approval by the PRC Ministry of Commerce on December 14, 2004;

- US$1,000,000 was used as our working capital; and

- US$4,500,000 was used to subscribe for one ordinary share in Kasen International, which in turn used this amount to subscribe for one ordinary share in Cardina. Cardina then used US$4,500,000 to finance its equity investments in the following PRC subsidiaries: (i) Haining Hidea Furniture Co., Ltd., (ii) Haining Hainix Sofa Co., Ltd., (iii) Haining Wansheng Furniture Co., Ltd., (iv) Haining Oyi May Sofa Co., Ltd., (v) Haining Home Craft Furniture Co., Ltd., (vi) Haining Home Point Furniture Co., Ltd., and (vii) Haining Libero Furniture Co., Ltd.

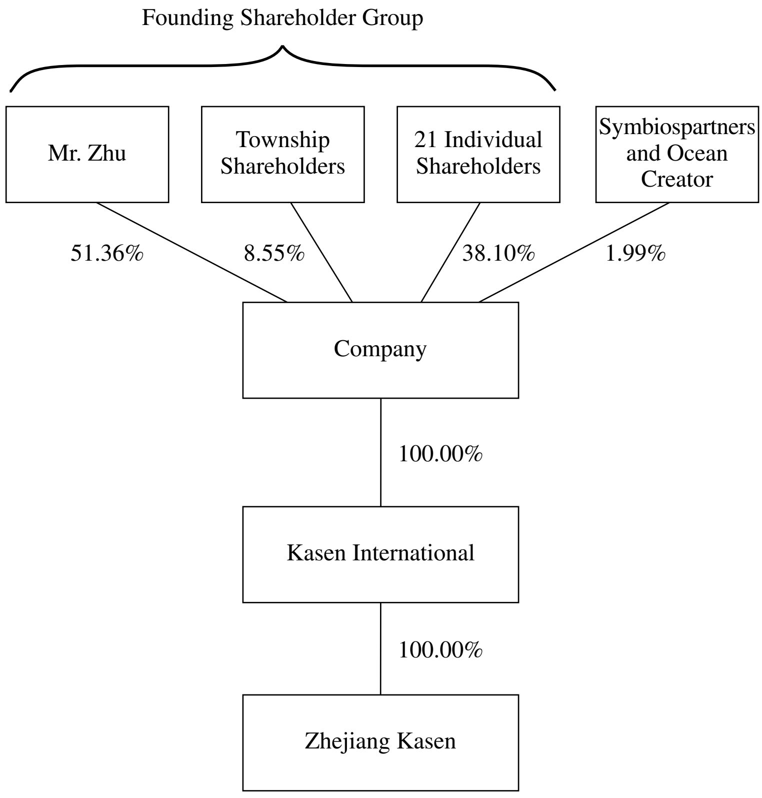
Placing to Symbiospartners and Ocean Creator

On January 21, 2004, Symbiospartners and Ocean Creator subscribed for an aggregate of 16,666,666 shares, or 11,111,111 Shares, giving effect to the consolidation of our shares, for a total consideration of US$2,500,000. Symbiospartners and Ocean Creator are owned by Mr. Hui Ching Lau and Ms. Li Lei, respectively, both of whom are independent third parties. The cost of investment of both Symbiospartners and Ocean Creator was approximately HK$1.17 per share, or HK$1.76 per Share, giving effect to the consolidation of our shares, which represents a 38.4% discount as compared to the mid-point of the Offer Price range.

Change of corporate form of Zhejiang Kasen

On July 1, 2004, Zhejiang Kasen was converted from a Sino-foreign joint stock limited liability company into a Sino-foreign joint venture enterprise. The shareholding structure of Zhejiang Kasen remained unchanged.

In accordance with share transfer agreements dated July 5, 2004, the Township Shareholders transferred all their interests in Zhejiang Kasen to Mr. Zhu, and Mr. Zhu and the 21 Individual Shareholders transferred all their direct interests (including the interests acquired by Mr. Zhu from the Township Shareholders) in Zhejiang Kasen to Kasen International. The transfers were approved by Zhejiang Provincial Commission of Foreign Trade and Economy on July 29, 2004. The consideration for such transfer was US$20,485,000, which was determined on the basis of the then registered capital of Zhejiang Kasen and was funded with a loan in the amount of US$20,485,160 made by us to Kasen International. The loan was later converted into one ordinary share of Kasen International on September 16, 2004. As a result, Zhejiang Kasen became a wholly-owned subsidiary of Kasen International and a wholly foreign owned enterprise. The following diagram sets out our shareholding structure following the transfer of these interests.



Other share transfers and subscriptions

On September 16, 2004, the following additional transactions took place:

- The Township Shareholders entered into a termination agreement with Mr. Zhu, pursuant to which the Township Trust was terminated and the Township Shareholders transferred all of their beneficial interests in 25,420,456 shares, or 16,946,971 Shares, giving effect to the consolidation of our shares, to Mr. Zhu. When the Township Shareholders originally acquired an interest in us, the approved value of their investments was an aggregate of RMB28,130,700. A portion of these investments was subsequently sold to 10 of the 21 individual Shareholders for RMB18,017,080 on March 20, 2001 and the remainder was sold to Mr. Zhu on July 5, 2004 for RMB33,067,000. The Township Shareholders disposed of their interest in us so that the proceeds of the disposal could be used for other purposes and activities that would benefit their respective localities, including financing their public utility projects.

- Mr. Zhu and the 21 Individual Shareholders subscribed for 421,078,856 shares, or 280,719,237 Shares, giving effect to the consolidation of our shares, at an aggregate consideration of US$20,485,160.

- Mr. Zhu subscribed for 144,025,170 shares, or 96,016,780 Shares, giving effect to the consolidation of our shares, in exchange for his procuring the transfer of all issued and outstanding shares in SFT, which was then 100% owned by Lily Song for the benefit of Mr. Zhu under a nominee agreement, to us, the consideration for which was calculated based on a per share price of US$0.15 and a pre-agreed valuation of US$21,603,775 for the assets of SFT, which consisted of certain minority interests in four PRC companies as follows: (a) 25% equity interest in Haining Kasen, (b) 25% equity interest in Haining Home Direct Furniture Co., Ltd., (c) 25% equity interest in Haining Schinder, and (d) 22.804% equity interest in Haining Kareno. The valuation of these minority interests was initially provided in the Second Amendment to Restructuring and Loan Agreement dated January 19, 2004, which was subsequently adjusted due to changes in circumstances.

- Mr. Zhu subscribed for 16,666,667 shares, or 11,111,111 Shares, giving effect to the consolidation of our shares, in exchange for his procuring SFT to forgive a loan in the amount of US$2,500,000 made by SFT to Kasen International.

- Ms. Wang Runyi, our then chief financial officer, subscribed for 362,319 shares, or 241,546 Shares, giving effect to the consolidation of our shares, for a consideration of US$36,232.

- We used funds that Mr. Zhu and the 21 Individual Shareholders borrowed from a company incorporated in Russia (which is an independent third party and has no other relationship with us) to subscribe for one ordinary share of Kasen International for a consideration of US$20,485,160, so as to fund Kasen International's acquisition of interests in Zhejiang Kasen from the Founding Shareholder Group.

On September 20, 2005, the non-voting deferred share held by Warburg Pincus International Partners, L.P. in Kasen International was repurchased by Kasen International at a par value of US$0.001 and then cancelled.

Pursuant to an agreement dated September 29, 2005, the maturity date of the Warburg Pincus Convertible Loans was extended to October 31, 2005.

The Terms of the Warburg Pincus Convertible Loans

The principal terms of the Warburg Pincus Convertible Loans are summarized as follows:

- The maturity date of the two loans is October 31, 2005.

- Both loans bear interest at a per annum rate equal to the prime lending rate charged by The Hong Kong and Shanghai Banking Corporation Limited to its corporate borrowers as at the funding date until full repayment or the conversion (and in the case of conversion, no accrued interest will be payable by us).

- Default interest at 15% per annum is chargeable upon the occurrence of an event of default.

- The First Warburg Pincus Convertible Loan is convertible into Series A Preferred Shares at US$0.10 per share and the Second Warburg Pincus Convertible Loan is convertible into Series B Preferred Shares at US$0.15 per share.

- Our Company, Kasen International and Zhejiang Kasen have undertaken to the Warburg Pincus Funds that before any member of our Group carries out certain corporate actions, including those listed below, they shall first obtain the Warburg Pincus Funds' consent:

  (a) change the business of Zhejiang Kasen in a material way;

  (b) issue any equity shares of any class, options, warrants, or other rights to purchase any equity shares or any securities convertible or exchangeable for equity shares;

  (c) declare or pay any dividends or make any other distribution to its shareholders;

  (d) acquire, merge with, enter into a joint venture, dispose all or substantially all of its assets, or conduct any other similar transaction;

  (e) assume, guarantee, endorse, contingently agree to purchase or otherwise become liable to any other person (subject to certain exceptions); and

  (f) incur any liability in excess of RMB10 million in aggregate unless such liability is incurred pursuant to the then effective business plan.

According to their terms, the Warburg Pincus Convertible Loans are convertible, either at the option of the Warburg Pincus Funds or mandatorily at such maturity date as has been extended to October 31, 2005 upon the satisfaction of certain conditions, into our Preferred Shares, which then in turn are convertible into our Shares. The conditions (which may be waived by the Warburg Pincus Funds) prior to the conversion of the Warburg Pincus Convertible Loans include:

(a) all covenants and obligations shall have been duly performed and all applicable representations and warranties shall remain true and accurate;

(b) the execution of transaction documents, including a registration rights agreement, shall have been completed;

(c) the consummation or performance of any transactions provided therein will not contravene any applicable law; and

(d) we shall have conducted our business in the ordinary course of business and will have not suffered any material adverse effect.

Under the Eighth Amendment to Restructuring and Loan Agreement dated August 5, 2005 by and among us, Kasen International, Cardina, Zhejiang Kasen, all of our shareholders, and the Warburg Pincus Funds, the Warburg Pincus Funds agreed with us to amend the terms of the loans in light of our general financial performance such that Series A Preferred Shares and Series B Preferred Shares shall be convertible into 176,693,933 Shares and 81,279,209 Shares, giving effect to the consolidation of our shares, respectively. The Warburg Pincus Funds have undertaken to us (i) to complete the Warburg Pincus Conversion upon the conditions of the Public Offer having been fulfilled or waived, and in any event before commencement of dealings in the Shares on the Stock Exchange; and (ii) not to exercise any right to demand repayment under any agreement in respect of the Warburg Pincus Convertible Loans, any related promissory notes or other instruments issued by any member of our Group, on or before October 27, 2005.

The Warburg Pincus Funds' average cost of investment was approximately HK$0.74 per share, or HK$1.11 per Share, giving effect to the consolidation of our shares, which represents a 61.0% discount as compared to the mid-point of the Offer Price range.

Disposal of SFT

As described in detail under "— Other share transfers and subscriptions," SFT was acquired by us from Mr. Zhu on September 16, 2004, and as a result we acquired certain minority interests in the following entities owned by SFT: Haining Home Direct Furniture Co., Ltd., Haining Schinder, Haining Kasen and Haining Kareno. SFT became our wholly-owned subsidiary following such acquisition. The interests in these entities, which represented SFT's entire assets, were disposed of by SFT on April 26, 2005 to our subsidiary Cardina. Following such disposal, which was undertaken to streamline our group structure, as SFT no longer held any assets for our group, SFT was subsequently disposed of on April 29, 2005 to Lily Song, an independent third party, and ceased to be our subsidiary. The consideration for the transfer was AUS$100, on the basis that SFT no longer held any assets after its interests described above were transferred to Cardina. Given that SFT did not engage in any direct business activities but only acted as a holding company of these minority interests, the disposal of SFT did not affect our business.

Acquisition of Subsidiaries

During the Track Record Period, we did not acquire any subsidiaries, other than SFT which we acquired on September 16, 2004 as discussed above and the two subsidiaries as set out below:

- *Shanghai La Kassa*

  On September 3, 2003, two PRC individuals, Li Shilun and Chen Jianhai sold the 100% equity interest in Shanghai La Kassa to Haining Kasen and Haining Kareno for an aggregate consideration of RMB6,202,500, which was equal to the then registered capital of Shanghai La Kassa.

- *Haining Hengsen*

  On December 28, 2002, two PRC individuals, Cheng Weida and Zhu Jianzhong sold the 100% equity interest in Haining Hengsen to Zhejiang Kasen and Haining Kareno for an aggregate consideration of RMB1,569,600, which was equal to the then registered capital of Haining Hengsen.

Disposal of Subsidiaries

Kezilesu Xinrong, Yili Horgos and Baiyin Kasen

These subsidiaries were principally engaged in the businesses of sourcing raw cowhides from central Asian countries and the Northwest region of the PRC and processing these raw cowhides into wet blues. We disposed of these subsidiaries in December, 2004 for an aggregate consideration of RMB195,546,821 (RMB17,615,106 for Kezilesu Xinrong, RMB42,434,520 for Yili Horgos and RMB135,497,195 for Baiyin Kasen) to Zhejiang Sunbridge Industrial (Group) Co., Ltd. (浙江森橋實業(集團)有限公司) ("Sunbridge") and Haining Yujie Material Recycling Co., Ltd. (海寧宇潔物資回收有限公司), both of which are our connected persons, which consideration was determined on the basis of the net asset value of the subsidiaries. These subsidiaries were disposed because:

- In 2004, we decided to focus more of our resources on the later stages of leather manufacturing and our other downstream businesses, including manufacturing upholstered furniture and automotive leather. We retained our full tanning operations under Zhejiang Kasen in order to supply us with chrome free tanning. In addition, due to its close proximity to our production base, Zhejiang Kasen is strategically located to supply our finished leather requirements efficiently whereas the disposed businesses were located too far away.

- Alternative suppliers (including those from overseas) were readily available in the market.

- The business required large amounts of capital as prepayments to sourcing agents in the Northwest China for procurement of raw cowhides, and we were of the view that this capital could be better utilized in our core business.

Zhejiang Kasen Group Import & Export Company Limited ("ZIE")

In December 2003, we disposed of our entire 90% interest in ZIE to Sunbridge, our connected person, and Li Shilun, an individual who is an independent third party, as to 50.67% and 39.33%, respectively. ZIE was principally operating as our import/export arm until Zhejiang Kasen, our principal subsidiary, became a Sino-foreign joint stock limited liability company in July 2003, and was licensed to conduct import and export business on its own, and ZIE's principal function therefore became redundant.

Baiyin Palace Leather Co., Ltd. ("Baiyin Palace")

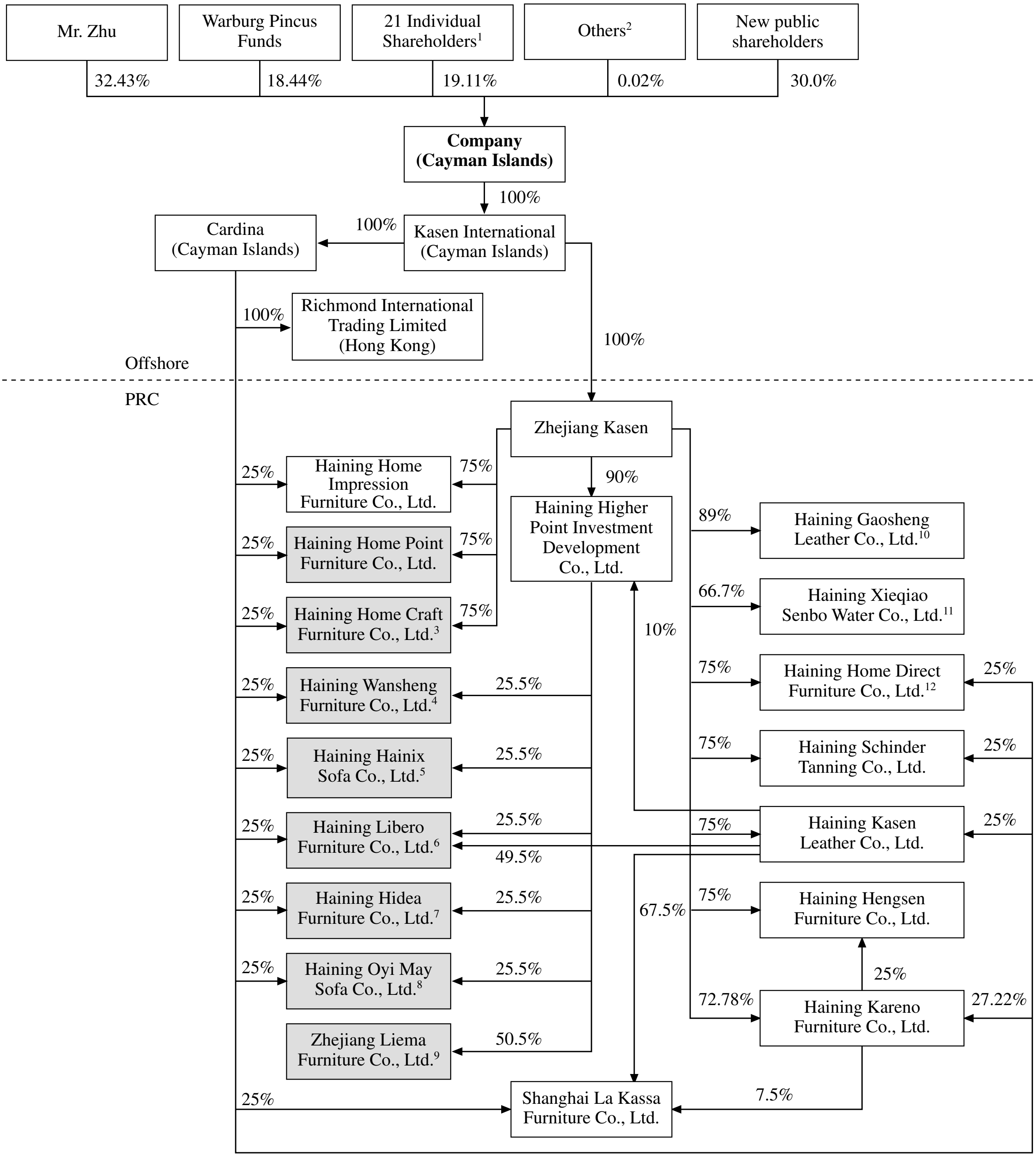
We held our interests in Baiyin Palace through Baiyin Kasen. We set up Baiyin Palace in 2003, with plans to manufacture upholstered furniture for domestic sales. The business was unsuccessful and did not generate sufficient sales to sustain our strategy. We decided to discontinue this business and sold Baiyin Palace to Sunbridge, a connected person, as part of our disposal of Baiyin Kasen described above.

Further particulars regarding our subsidiaries

For further information on particulars of our subsidiaries, please refer to the section headed "(1) Further information about our Company — (B) Our Subsidiaries" in Appendix VII — Statutory and General Information.

Corporate Structure

The following chart sets out our corporate structure immediately after the Global Offering (assuming the Over-allotment Option is not exercised).



Operations of our subsidiaries which are or will be located in the Higher Point Sofa Industrial Park. Please refer to the “Notes” below for further details.

Notes:

(1) Including Cao Haoqiang (1.10%), who is one of the Selling Shareholders.

(2) "Others" represent Wang Runyi and Yiu Hoi Yan, the Company Secretary, who was given five Shares for free comprising of fractional shares resulting from our share consolidation.

(3) Haining Home Craft Furniture Co., Ltd. has not yet commenced operations. We have not yet started establishing its manufacturing facilities.

(4) Haining Wansheng Furniture Co., Ltd. mainly produces upholstered furniture (specializing in fabric). Its other shareholder is Haining Tongsheng Textile Products Operation (49.5%).

(5) Haining Hainix Sofa Co., Ltd. mainly produces upholstered furniture. Its other shareholders are Haining Zhiyuan Leather Supplementary Material Operation (11.6%), Haining Tianke Sofa Accessories Operation (4.95%), Haining Yushi Commercial & Trading Operation (4.95%) and Haining Zheji Material Operation (28%).

(6) Haining Libero Furniture Co., Ltd. has not yet commenced operations. Its manufacturing facilities have not been completely built. Haining Libero Furniture Co., Ltd. is expected to commence operations in the second half of 2006 and it will mainly produce office upholstered furniture.

(7) Haining Hidea Furniture Co., Ltd. mainly produces upholstered furniture and it is likely that Haining Hidea Furniture Co., Ltd. will also produce wooden accessories in the future. Its other shareholders are Haining Huiteng Garments Material Operation (27%) and Haining Liangda Sofa Accessories Operation (22.5%).

(8) Haining Oyi May Sofa Co., Ltd. mainly produces upholstered furniture. Its other shareholder is Haining Oyi Leather Supplementary Material Operation (49.5%).

(9) Zhejiang Liema Furniture Co., Ltd. mainly produces upholstered furniture (specializing in dinning chairs). Its other shareholders are Yuena Co., Ltd. (25%), Haining Qiangye Textile Trading Operation (15.15%) and Haining Liema Leather Garments Co., Ltd. (9.35%).

(10) Haining Gaosheng Leather Co., Ltd. has not yet commenced operations. Its other shareholders are Haining Qingyun Township Assets Management Company Limited (5%) and Haining Xieqiao Township Huafeng Village Economic Cooperative Society (6%).

(11) The other shareholder of Haining Xieqiao Senbo Water Co., Ltd. is Haining Xieqiao Industrial Economic Development Co., Ltd (33.3%).

(12) Haining Home Direct Furniture Co., Ltd. has not yet commenced operations.

Information regarding Warburg Pincus Funds

The general partner of the Warburg Pincus Funds is Warburg Pincus Partners LLC, a subsidiary of Warburg Pincus & Co. The Warburg Pincus Funds focus on private equity investments globally. The limited partner investors in the Warburg Pincus Funds are principally large institutional investors, including public and private pension plans, financial institutions, foundations and endowments. The Warburg Pincus Funds are managed by Warburg Pincus Partners LLC, a New York limited liability company. Warburg Pincus & Co. and Warburg Pincus Partners LLC are comprised of the individual partners and members who own and operate the Warburg Pincus private equity business.

The information in the section below has been derived, in part, from official government publications unless otherwise indicated. Such information has not been prepared or independently verified by us, the Global Coordinator, the Underwriters or any of our and their respective affiliates or advisors. Such information may not be consistent with other information compiled within or outside the PRC. We and the Sponsor have taken reasonable care in the compilation and reproduction of such information.

OVERVIEW

We are a leading upholstered furniture and leather products manufacturer based in China. In 2004, we were the largest leather products and the largest upholstered furniture manufacturer in China based on revenue, according to the China State Statistical Bureau and the China National Furniture Association, respectively. We purchase and process raw cowhides and wet blues into finished leather and fully assembled leather products. Our principal products are leather and fabric upholstered furniture and furniture covers, furniture leather and automotive leather. We increased our turnover and profit for the year from RMB1,386.8 million and RMB127.4 million in 2002, to RMB2,852.4 million and RMB234.5 million in 2004, respectively. For the four months ended April 30, 2005, our turnover was RMB983.1 million and our profit for the period was RMB75.8 million.

We primarily manufacture our upholstered furniture products in accordance with the designs of our customers, who market our products under their own brand names, in the US. Our upholstered furniture customers include leading US furniture companies, such as Furniture Brands International, Inc., which markets products through its subsidiaries: Lane Furniture Industries Inc., Thomasville Furniture Industries Inc., Broyhill Furniture Industries Inc., Founders Furniture (a division under Thomasville Furniture Industries Inc.) and Drexel Heritage Furniture Industries Inc.; Berkline/Benchcraft LLC, which markets products under the Berkline and Benchcraft brands; Pennsylvania House, a subsidiary of La-Z-Boy Incorporated; Bernhardt Furniture Company; American Signature Inc.; Rooms To Go, Inc.; and other leading international furniture companies. We have benefited from the global trend of furniture manufacturing outsourcing to companies in countries such as China, who benefit from lower labor costs, economies of scale, availability of a large variety and stable supply of products.

We believe the outsourcing trend in the global upholstered furniture industry will continue, which will allow us to maintain our position as one of the leading upholstered furniture and leather products manufacturers in China. Furthermore, by capitalizing on our competitive cost structure, vertical integration, large-scale operations and in-depth technology know-how, we aim to further expand in Australia and Japan and into Europe, so that we can become one of the world's leading manufacturers of upholstered furniture products, furniture leather and automotive leather.

We commenced commercial sales of automotive leather at the end of 2003, principally to automobile parts suppliers whose customers are leading international automobile manufacturers with operations or worldwide supply centers in China, such as General Motors, Volkswagen, Ford, Audi and Mazda, as well as to Distinctive Industries, Inc., a leading automobile after-market service provider in the US.

We believe we have the largest leather products manufacturing facilities in China. As at April 30, 2005, our manufacturing facilities for our principal products occupied approximately 1.3 million square meters of gross floor area, including 741,760 square meters located in our recently established Higher Point Sofa Industrial Park, Zhejiang Province of China. We developed Higher Point Sofa Industrial Park through eight subsidiaries (two of which are not yet in operation) which produce a wide variety of upholstered furniture products.

OUR KEY STRENGTHS

We believe the following key strengths have contributed significantly to our past success and will continue to drive our future growth:

- Our ability to identify and capitalize on new market opportunities;
- Our timely customer service and our effective cost and quality control resulting from our vertically integrated manufacturing capabilities;
- Our large-scale operations and production capacity;
- Our established relationships with leading international and domestic customers; and
- Our strong and experienced management team with a proven track record.

Our ability to identify and capitalize on new market opportunities

We believe that our growth, profitability and position as a local market leader are due, in part, to our ability to identify early outsourcing, localization and other industry trends and our ability to transform our production capabilities to meet those trends. We have invested substantial resources to keep abreast of the latest international market developments and consumer preferences and to identify business opportunities. Since 1997, we have actively adjusted our business model to meet changing market needs.

- In 1998, we were among the first manufacturers in China to move from using hog skins to cowhides for the leather garments and furniture leather we produced.
- In 2000, we commenced full-scale production of furniture covers.
- In 2001, we commenced full-scale production of leather upholstered furniture products after we identified the increasing opportunities in the upholstered furniture market as the US increased outsourcing of upholstered furniture products manufacturing to lower-cost countries such as China.
- In 2003, we commenced full-scale production of automotive leather after we identified the growing importance of localized sourcing of automobile components in China, and the global trend of leading international automobile manufacturers outsourcing to China.

- In 2004, we commenced full-scale production of fabric upholstered furniture and fabric furniture covers to further diversify our business model while leveraging on our existing upholstered furniture products manufacturing facilities and techniques.

Our timely customer service and our effective cost and quality control resulting from our vertically integrated manufacturing facilities

Our operations are vertically integrated. We complete the full manufacturing process of our products from the purchase of raw cowhides and other raw materials to the assembly and delivery of the final product to our customers. Because of our vertical integration, we believe we can typically complete customer orders for upholstered furniture products faster than our competitors, who must source wet blues or finished leather from overseas or from other suppliers in China. Faster delivery helps our customers meet changing market preferences. Our vertical integration has been key to our ability to gain our customers' confidence, as we are better able to control the cost and quality of our products. Further, we can time our purchases of raw cowhides more flexibly, to take advantage of seasonal and other price declines. Our processing capacity has helped to avoid the risk of inventory obsolescence: we maintain our inventory mainly in wet blues, which can be stored longer than raw cowhides. Wet blues can also be readily converted into a full range of finished prints, patterns and colors at the time we receive a specific order, reducing our need to maintain inventory of finished prints, patterns and colors and therefore reducing our risk of inventory obsolescence.

Our large-scale operations and production capacity

We believe we have the largest leather products manufacturing facilities in China. As at April 30, 2005, our manufacturing facilities for our principal products occupied approximately 1.3 million square meters of gross floor area, including 741,760 square meters located in our recently established Higher Point Sofa Industrial Park in Zhejiang Province of China. Our facilities in Higher Point Sofa Industrial Park produce a wide variety of upholstered furniture products. Large production capacity requires a high capital investment and we believe it minimizes competition by serving as a barrier to entry. Our large-scale operations and production capacity enable us to enjoy the following additional advantages:

- Ability to fill large orders — Our manufacturing facilities have more than sufficient processing capacity to handle all the orders of our existing customers. We believe our ability to consistently deliver large orders of high quality products on a timely basis is a key factor in attracting and retaining customers.

- Centralized purchasing system — We can efficiently purchase raw cowhides and chemical supplies through a centralized purchasing system, reducing administrative overhead and allowing us to enjoy volume discounts on bulk purchases of raw materials.

- Broad product range — We are able to produce a broad range of specific product types in response to market opportunities. Because many of our different product types, such as leather upholstered furniture, furniture leather and automobile leather, share common initial processing procedures, we are also able to reduce costs.

Our established relationships with leading international and domestic customers

We believe our solid relationships with our upholstered furniture customers and leading international automobile manufacturers are a key factor in our past growth and our future growth prospects. We have built up these relationships over time by ensuring timely delivery of high quality products and by satisfying our customers' product development needs. Our upholstered furniture customers include leading international furniture companies such as Furniture Brands International, Inc., Berkline/Benchcraft LLC, Pennsylvania House, a subsidiary of La-Z-Boy Incorporated; Bernhardt Furniture Company; American Signature Inc. and Rooms To Go, Inc.; Primo International and the Brick Warehouse LP in Canada; Janda Furniture Pty Ltd. in Australia; and Argos Limited in the UK. We have entered into a long-term strategic alliance agreement with Furniture Brands International Inc. Although this agreement is merely a framework agreement setting out the customer's estimated annual purchases, payment terms and other terms, the agreement helps us maintain a closer relationship with this major customer.

In the automotive leather segment, our customers are suppliers to leading international automobile manufacturers, such as General Motors, Volkswagen, Audi, Mazda and Ford. We also supply automotive leather to Distinctive Industries, Inc., a leading automobile after-market service provider in the US.

In the furniture leather segment, our principal customer is Haining Nice-Link Leather Company Limited ("Haining Nice-Link"). We have enjoyed a solid relationship with Haining Nice-Link since 1998.

Our strong and experienced management team with a proven track record

Most of our senior managers have been with us since our establishment. They all have extensive industry experience, including raw cowhide sourcing, manufacturing, product research and development, environmental control, sales and marketing, financial management and corporate governance. Mr. Zhu, our founder, Chief Executive Officer and controlling shareholder, has over 17 years of experience in the leather industry and has been crucial in helping us identify and respond to business opportunities and market trends. For a discussion of our ability to identity and respond to market opportunities, please see "— Our ability to identify and capitalize on new market opportunities." Mr. Zhu continues to guide our strategic development and lead our raw cowhide sourcing efforts. We have recently added to our management team several individuals with experience in large international enterprises, including our Chief Financial Officer and vice president for operations. We believe the depth and breadth of the experience of our senior management enhance our ability to satisfy the needs of our customers.

OUR STRATEGIES

Our goals are to solidify our leading position as the largest leather products manufacturer in China and to become the world's largest producer of upholstered furniture products and automotive leather. We aim to accomplish these goals and to increase shareholders' value by implementing the following strategies:

- Further enlarge our customer base by expanding our geographic coverage;
- Further expand our product range;
- Maintain our low cost base;
- Actively develop global strategic alliances and domestic business relationships;
- Offer our customers value-added services; and
- Improve our management information systems.

Further enlarge our customer base by expanding our geographic coverage

We are working to expand our sales of upholstered furniture in Australia and into Europe. Although we will continue to build on our relationships with our existing customers in the US, we have begun targeting export opportunities in other countries where there has been an increasing outsourcing trend. In particular, we are focusing on the UK upholstered furniture market, as we see substantial growth in the UK market's level of outsourcing of upholstered furniture manufacturing. Imports of upholstered furniture to the UK from China increased at a compound annual growth rate of 85.1% between 2001 and 2004, according to CSIL. We are also targeting the Chinese domestic market to further diversify our upholstered furniture customer base. Similarly, for our automotive leather segment, in addition to becoming a supplier to leading automobile manufacturers globally, we expect to enter the Japan market through our joint venture Kasen-Melx, and to increase our focus on the Chinese domestic market.

Further expand our product range

In the past, we have broadened our product range in response to changes in market demands and customer requirements, primarily by modifying our existing manufacturing facilities and thereby further maximizing the utilization of our plant and equipment. To enhance our competitiveness, we plan to continue to develop new products, and new product styles and patterns, using the following measures:

- Upholstered furniture — We will develop new fabric upholstered furniture products, as the demand for fabric upholstered furniture has increased rapidly since 2004.
- Furniture leather — We will offer a broader range of modern furniture leather with improved textures, appearances and styles.

- Automotive leather — We will qualify our leather for use in a greater number of automobile models produced by Volkswagen and General Motors in China and by Ford for their worldwide supply centers. We are considering setting up additional factories outside China, which would cut and sew automotive leather supplied from our factories in China, in order to be closer to customers.

- Footwear leather — We will upgrade our footwear leather manufacturing technology and increase production.

Maintain our low cost base

We will continue to explore opportunities to maintain and improve our low cost base, which we believe enhances our competitiveness. Our major initiatives in this area include the following:

- continuing our research on how to minimize leather wastage, save cost and improve furniture frame design;

- developing our own quality supply of foam, which is a major raw material used in our upholstered furniture products, through our 25% interest in our recently established joint venture, Future Foam Asia, Inc. (海寧美景海綿有限公司), which was established with Future Foam, Inc., one of the largest foam manufacturers in the US;

- further improving our raw material sourcing by continuously monitoring raw cowhide prices, gradually increasing direct sourcing and continuing to take advantage of our centralized purchasing system; and

- continuing to increase our utilization of Higher Point Sofa Industrial Park to further improve our cost and production efficiency.

Actively develop global strategic alliances and domestic business relationships

By developing global strategic alliances and strengthening our domestic business partnership network with major upholstered furniture companies and automotive parts suppliers, we believe we can offer a broader product range to satisfy our customers' needs, further shorten delivery time and enhance our competitiveness. For example, we established on July 15, 2005 a joint venture, Kasen-Melx, with Melx of Japan, of which we own 50%, to market automotive leather to Japanese automobile companies and to develop our footwear leather segment. We aim to develop other similar global strategic alliances with companies in the US and Europe. Also, we have developed domestic business relationships through our recently developed Higher Point Sofa Industrial Park, which includes eight subsidiaries, five of which are joint ventures with local entrepreneurs. We will actively seek to establish more domestic partnerships with companies that we believe can help share technical skills, as well as customer relationships, with us.

Offer our customers value-added services

In order to further enhance our existing relationships with our customers and to increase our market share in overseas markets, we will offer more value-added services to our customers, such as enhanced product design and supply chain management. We aim to attain these objectives by taking the following measures:

- expanding, through careful market analysis, our design capability to provide new product design alternatives to our customers;

- helping our customers improve logistics, by offering warehousing in China and direct shipping from China to our customers' overseas retail outlets; and

- providing customers with access to our supply chain management system based on an ERP system that we plan to implement.

Improve our management information systems

Our continuing business expansion places increasing demands on our management, business operations and financial resources. To a large extent, our ability to effectively manage our rapid growth depends on whether we will be able to improve our operational, financial and management information systems in a timely and sustainable manner. Our major initiatives in this area include the following:

- improving our existing information system by replacing it with an ERP system, which we believe will help us not only achieve real-time management but also help link us more closely with our customers and suppliers; and

- enhancing financial controls with particular focus on management of accounts receivables, accounts payables and inventory.

PRODUCTS

We divide our products into the following categories:

- upholstered furniture, comprising leather and fabric upholstered furniture and furniture covers;

- furniture leather;

- automotive leather; and

- others, comprising footwear leather and leather garments.

The table below sets out the turnover in our major product segments and the respective percentages of turnover for the periods indicated.

Turnover	Year ended December 31,						Four months ended April 30,			
	2002		2003		2004		2004		2005	
	(RMB in millions)	(% of turnover)	(RMB in millions)	(% of turnover)	(RMB in millions)	(% of turnover)	(RMB in millions)	(% of turnover)	(RMB in millions)	(% of turnover)
							(unaudited)			
Upholstered furniture ..	567.3	40.9	1,128.4	52.9	2,033.2	71.3	622.1	76.1	756.7	77.0
Leather upholstered furniture	182.1	13.1	548.4	25.7	1,194.0	41.9	376.1	46.0	460.2	46.8
Fabric upholstered furniture	—	—	18.6	0.9	117.2	4.1	11.0	1.3	82.7	8.4
Leather furniture covers	385.2	27.8	561.4	26.3	529.5	18.6	183.8	22.5	118.5	12.1
Fabric furniture covers	—	—	—	—	192.5	6.7	51.2	6.3	95.3	9.7
Furniture leather	351.4	25.4	427.8	20.0	491.8	17.2	146.5	17.9	178.8	18.2
Automotive leather	0.6	0.0	47.4	2.2	127.5	4.5	37.0	4.5	47.3	4.8
Leather garments..........	439.6	31.7	445.5	20.9	130.8	4.6	8.0	1.0	—	—
Others..........................	27.9	2.0	86.4	4.0	69.1	2.4	4.2	0.5	0.3	0.0
Total............................	1,386.8	100.0	2,135.5	100.0	2,852.4	100.0	817.8	100.0	983.1	100.0

Upholstered Furniture

Upholstered furniture is our largest product line and includes leather and fabric upholstered furniture, and leather and fabric furniture covers. We primarily manufacture our upholstered furniture products in accordance with the designs of our customers. We produce various types of upholstered furniture, including stationary furniture and motion furniture. Stationary furniture includes sofas, loveseats, chairs, ottoman, wedge, chaise, dining chairs, and bedheads. Motion furniture includes recliners, love motions and sofa motions. Our customers market our upholstered furniture products under their own brands, mainly in the US.

Our upholstered furniture segment accounted for 71.3% and 77.0% of our total turnover in 2004 and the four months ended April 30, 2005, respectively. Our leather upholstered furniture, fabric upholstered furniture, leather furniture covers and fabric furniture covers accounted for 41.9%, 4.1%, 18.6% and 6.7%, respectively, of our turnover in 2004 and 46.8%, 8.4%, 12.1% and 9.7%, respectively, of our turnover in the four months ended April 30, 2005. Our turnover from sales of upholstered furniture has grown at a compound annual growth rate of 89.3% from 2002 to 2004, principally as a result of the increased sales of fabric upholstered furniture and fabric covers.

We produce environmentally friendly upholstered furniture by adhering to the environmental standards of our customers. Our "Kasen" brand leather is one of the first leather brands in China honored as "Genuine Leather Mark Eco-leather" by the China Leather Association. Zhejiang Kasen is a lead enterprise in the China Leather Association's Leather Manufacturing Committee. In addition, we have made substantial investments in environmental control systems and waste treatment equipment and facilities. For a detailed discussion of our environmental protection policies and infrastructure, please see "— Environmental Compliance."

Furniture leather

Furniture leather is finished leather that has not been cut or sewn but is intended to be used in the production of leather upholstered furniture. We are the largest furniture leather manufacturer in China based on revenue according to the China National Furniture Association. In 2004 and the four months ended April 30, 2005, turnover for our furniture leather segment was RMB491.8 million and RMB178.8 million, respectively, accounting for 17.2% and 18.2%, respectively, of our total turnover. Turnover from furniture leather increased by 15.0% in 2004 over 2003.

We manufacture various types of furniture leather:

- **Top leather** is a high quality leather made from the outer layer of a cowhide, which can be classified into the following grades:

  — Full grain leather — leather that has not been buffed with buffing machines. Natural characteristics, such as growth marks and natural grain, are preserved.

  — Slightly corrected leather — leather that has been lightly buffed with buffing machines. A small amount of coating pigments are used to cover imperfections on the surface. Natural characteristics are largely preserved.

  — Corrected leather — leather that has been extensively buffed with buffing machines. Coating pigments are used to cover imperfections on the surface and printed patterns are embossed into the leather. The natural grain and most growth marks are no longer visible.

- **Split leather** is a lower layer of a cowhide, which is processed and used to produce leather products. It is often used for the back and the sides of finished upholstered furniture.

For each type of leather, we are able to provide a full range of print patterns and colors as required by our customers.

Automotive leather

We recently began sales of automotive leather, both in cut and uncut pieces, in accordance with the specifications of our customers. In 2004 and the four months ended April 30, 2005, our automotive leather turnover was RMB127.5 million and RMB47.3 million, respectively, accounting for 4.5% and 4.8%, respectively, of our total turnover.

At the request of our customers, we offer automotive leather produced using chrome free tanning techniques and we believe we are the first manufacturer in China currently producing chrome free leather. For a detailed discussion of our chrome free automotive leather, please see "— Research, Design and Product Development."

Other products

We also sell leather garments and other products. Our turnover for leather garments decreased from RMB130.8 million in 2004 to nil in the first four months of 2005, as we shifted focus to other product areas that we believed had better opportunities for growth. Accordingly, we have established a joint venture, Kasen-Melx, with Melx of Japan, to sell footwear leather and automotive leather. We own 50% of Kasen-Melx, which will be financed by our internal resources.

SALES AND MARKETING

As at April 30, 2005, we had 148 employees, primarily based in China, in our sales and marketing departments. We expect to increase the number of our sales and marketing employees to cope with the expansion of our business.

Our central marketing department is in charge of nationwide and overseas marketing activities. Some of our subsidiaries also have their own sales and marketing department to promote their products, although each must follow sales and marketing guidelines set by our central marketing department. We use direct sales as the principal way of selling our products. We have set up showrooms in Haining City, Zhejiang Province, to promote our products. Our sales and marketing departments are responsible for promoting our products to, and liaising with, our existing and potential customers. They are also responsible for gathering market information and carrying out analysis, so that we can devise marketing strategies more rapidly and flexibly to deal with changes in market demands.

The table below sets out our turnover according to the location of our customers for the periods indicated.

	Year ended December 31,						Four months ended April 30,	
	2002		2003		2004		2005	
Turnover	(RMB in millions)	(% of turnover)	(RMB in millions)	(% of turnover)	(RMB in millions)	(% of turnover)	(RMB in millions)	(% of turnover)
Locations								
US	528.1	38.1	1,046.2	49.0	1,915.7	67.1	734.4	74.7
China, including Hong Kong	421.7	30.4	594.2	27.8	637.8	22.4	214.6	21.8
Russia	411.3	29.7	395.7	18.5	131.7	4.6	0.6	0.1
Others	25.7	1.8	99.4	4.7	167.2	5.9	33.5	3.4
Total	1,386.8	100.0	2,135.5	100.0	2,852.4	100.0	983.1	100.0

Upholstered furniture

While we will continue to develop the US market, we are also focusing our sales and marketing on our expansion in Australia and into Europe (especially into UK). We promote our newly developed products through furniture fairs or direct contact with customers. We typically sell our upholstered furniture products directly to retailers and wholesalers.

As a marketing strategy, we involve our customers early on in the development of products. Upon receipt of the basic requirements or the required style of an upholstered furniture product from a customer, we provide feedback to our customers, including our views on the style, the appropriate materials to be used, the design and the development of covering materials.

Furniture leather

Our major furniture leather customers, including Haining Nice-Link, are based in Haining, Zhejiang Province, China, and we typically sell our furniture leather directly to our customers.

Automotive leather

Our customers are suppliers to international automobile manufacturers. For the domestic market in China, we sell our automotive leather products directly to our customers. For overseas markets, we promote our products through a network of overseas sales agents.

We stress the importance of a customer-oriented approach and provide technical support, including testing, product design, quality improvement etc. We design and produce tailor-made automotive leather products based on the requirements of our customers in terms of style, texture and quality and we provide our customers with high quality after-market services. We actively carry out promotional activities for newly developed products and provide technical consultation services to our customers. As part of our sales and marketing strategy, we also station our marketing representatives in the factories of some of our domestic customers to help them resolve any product issues that might arise and to generally help us establish closer relationships with those customers.

Other products

Footwear leather

We have recently invested US$100,000 for a 50% equity interest in a sales and marking joint venture, Kasen-Melx, to market our footwear leather products by developing direct relationships with footwear manufacturers. Kasen-Melx has obtained all government approvals to engage in wholesale and import and export of footwear leather and automotive leather. Through Zhejiang Kasen, we provide manufacturing support, management personnel and sales force to Kasen-Melx.

Leather garments

Prior to 2004, leather garments represented a larger part of our business, and Russia was a major market for these products. However, subsequently we shifted our focus away from leather garments to the more profitable upholstered furniture products.

CUSTOMERS

We aim to position our upholstered furniture products at the middle and high-end of the market. Our upholstered furniture customers include leading US furniture companies such as Furniture Brands International, Inc., which markets products through its subsidiaries: Lane Furniture Industries Inc., Thomasville Furniture Industries Inc., Broyhill Furniture Industries Inc., Founders Furniture (a division under Thomasville Furniture Industries Inc.) and Drexel Heritage Furniture Industries Inc.; Berkline/Benchcraft LLC, which markets products under the Berkline and Benchcraft brands; Pennsylvania House, a subsidiary of La-Z-Boy Incorporated; Bernhardt Furniture Company; American Signature Inc. and Rooms To Go, Inc.; and leading international furniture companies, such as Primo International and the Brick Warehouse LP in Canada; Janda Furniture Pty. Ltd. in Australia; and Argos Limited in the UK. We have entered into a long-term strategic alliance agreement with Furniture Brands International Inc. Although this agreement is merely a framework agreement setting out the customer's estimated annual purchases, payment terms and other terms, the agreement helps us maintain a closer relationship with this major customer. We have built our customer relationships over time and have a history with these customers of providing timely delivery of high quality products, high quality service and a large variety of products. We also believe that our ability to complement our upholstered furniture customers' product development needs with our own design capabilities has been a key factor in the development of these relationships. These relationships have led to a steady and increasing order flow for upholstered furniture products.

Our principal automotive leather customers are suppliers to leading international automobile manufacturers with operations or worldwide supply centers in China, including General Motors, Volkswagen, Ford, Audi and Mazda. In 2003, we entered the US automobile after-market industry by becoming a supplier to Distinctive Industries, Inc., the largest automobile after-market service provider in the US. In the automotive leather segment, we have already qualified as a supplier of automotive leather for a number of automobile models produced by leading international automobile manufacturers. We currently supply automotive leather for use in the Volkswagen Passat, Volkswagen Golf, Audi C6 and certain models of Mazda in China and Ford in the US through our customers in China, which include Shanghai Guoli Automotive Leather Decoration Company Ltd. and Hainan Weichang Auto Accessories Company Ltd. We believe that we are currently the only manufacturer in China capable of large-scale manufacturing of automotive leather that meets the stringent quality requirements of these leading international automobile manufacturers.

Automobile manufacturers require that the leather used in their automobiles meet stringent specifications, using tests for odor, fumes and other harmful emissions, flame resistance, abrasion resistance and tear and tensile strength. It normally takes one to two years for a potential supplier to go through the entire qualification process and the quality management systems imposed by customers. In addition, it takes another four months to one year for a successful candidate to carry out sample testing and trial productions of leather designated for specific automobile models. Sometimes, a potential automotive leather supplier has to go through qualification and testing procedures required by both the overseas head office and the local manufacturing branch of an automobile manufacturer. These processes entail a substantial investment in time and capital. We believe that we are currently the only manufacturer in China capable of large-scale manufacturing of automotive leather that meets the stringent quality requirements of leading international automobile manufacturers.

Although we are not dependent on any single customer, a significant portion of our upholstered furniture sales is attributable to a relatively small number of customers. For the years ended December 31, 2002, 2003, 2004 and the four months ended April 30, 2005, our five largest customers for each of these periods together accounted for 84.5%, 68.0%, 53.3%, and 56.4% of our turnover, respectively. For the years ended December 31, 2002, 2003, 2004 and the four months ended April 30, 2005, our largest customer for each of these periods accounted for 29.7%, 20.1%, 18.4%, and 16.7%, respectively, of our turnover for the same periods. We have maintained strong business relationships with our five largest customers in 2004 for over three years. None of our Directors or their associates (as defined in the Listing Rules) or our existing shareholders who, to the knowledge of our Directors, owns more than 5% of our issued share capital, has any interest in any of our five largest customers during the Track Record Period.

Pricing strategy

We set general pricing policies for all members of our Group. In order to maximize growth and profitability, we encourage some of our subsidiaries under Higher Point Investment to set their own pricing.

With respect to our upholstered furniture customers, we normally prepare a prototype for them upon receipt of a proposal for a new model. Building a prototype allows us to evaluate the time required to produce the final product. We determine the cost of producing each model based on the time and materials used to construct each component of the prototype, taking into account any variance between production of a prototype and actual production.

In determining whether a price offered by our customer for an upholstered furniture product is acceptable or in offering a price ourselves, we would normally take into account the following factors:

- materials, pattern, style and potential order volumes;
- delivery time;
- our estimate of production costs and expenses; and
- our targeted gross profit margin.

We price our furniture leather based on our targeted gross profit margin. We normally price our automotive leather with reference to production cost, our targeted profit margin and the cost our customers would have to pay if they were to import the same product from overseas.

We generally invoice our customers at the time of product delivery and give our customers 30 to 60 days' credit, although credit terms may vary, depending, in part, on our relationship with the customer, the size of the order and the product type.

For our subsidiaries under the Higher Point Investment, while we set general pricing guidelines, the day-to-day activities of their sales teams are not controlled centrally by us, but are instead only guided by our general pricing guidelines. The purpose of this structure is to encourage each subsidiary under Higher Point Investment to develop its customer base and help us widen our overall customer coverage.

Transportation and warehousing

We typically deliver our finished upholstered furniture in shipping containers to the Shanghai port, based on free on board contracts. In 2004 and the four months ended April 30, 2005, we shipped approximately 14,530 and 6,400 twenty-foot equivalent units, respectively, of upholstered furniture. We deliver our furniture leather and automotive leather to customers in China mainly by truck, based on cost, insurance, freight contracts. We own a fleet of 28 trucks, which we use to deliver small quantities of our products and pick up some of the raw materials we purchase.

We use our warehouses to store our own inventories and lease space to our customers to help them improve their logistics. We have 69 warehouses with a gross floor area of approximately 160,000 square meters, located mainly in Haining City, Zhejiang Province, China, where we store our finished upholstered furniture products, wet blues and raw materials.

COMPETITION

We compete with our competitors principally in the following areas:

- stable supply and timely delivery of high quality leather and related products;
- manufacturing capabilities, operation scale, expertise and track record;
- pricing; and
- technology and know-how (especially for the automotive leather segment).

Our competitors

We compete with both domestic and overseas upholstered furniture manufacturing companies. We consider our major upholstered furniture competitors to be companies with major manufacturing operations based in China who manufacture upholstered furniture for leading international brand name furniture companies. We believe, however, that our competition with these companies is minimized since our customer base is different and we do not market our products under our own brand names.

We also compete with other furniture leather manufacturers in China, where the furniture leather market is fragmented. Most of these competitors are small in size.

We consider our major automotive leather competitors to be international automotive leather manufacturers in countries such as the US, Germany, Japan and Mexico. Some manufacturers have been in the automotive leather market for a long time and have competitive advantages due to their well-established brand names and customer relationships. However, we believe that our low production costs give us a competitive advantage.

Competitive strengths

We believe that our principal competitive strengths are our ability to identify and capitalize on new market opportunities faster than our competitors, our vertically integrated and large-scale operations, our extensive experience and the expertise of our key management and technical personnel in the tannery and leather products manufacturing industries, particularly in the sourcing of high quality raw cowhides. These strengths, together with our manufacturing, research and development and environmental control know-how, enable us to rapidly develop products to the specifications of our customers. We can deliver products to customers quickly because of our vertical integration and our large-scale operations, which we believe give us a significant competitive advantage over our competitors.

Barriers to entry

We believe the significant capital investment required to establish a high quality leather production facility prevents small and medium sized local enterprises from entering our industry. Their lack of adequate financial and labor resources and technology, we believe, inhibits many other domestic leather processing factories from meeting the stringent quality standards and high volume demand of our major overseas customers. Significant time and commitment is required to develop well-established relationships with these major overseas customers. As a result, we believe that other Chinese leather producers do not offer us significant competition.

The automotive leather manufacturing business has strict qualification and other technical requirements. See "— Customers" for a discussion of the qualification process. Meeting these requirements requires a substantial initial capital investment, which, we believe, acts as significant barrier to entry for small and medium sized manufacturers.

PRODUCTION PROCESS

We formulate our production plans based on a rolling forecast of order levels given to us by our customers semi-annually. In addition, our customers normally require us to meet delivery cycles of typically six to eleven weeks from receipt of order to delivery of furniture leather and upholstered furniture products. These advance notices help us to assess our raw material and capacity requirements for the relevant periods.

The processing of raw cowhides into finished leather requires constant and close monitoring. In addition, quality control for chrome tanning and dyeing is particularly demanding because it involves a complicated process. The following section describes basic phases in our leather production process, steps unique to automotive leather and the upholstered furniture manufacturing process.

Basic phases in the leather production process

- Preparatory phase — The raw cowhides are sterilized, soaked, softened, limed, delimed and then tumbled in large elevated drums to release grease and degraded proteins and remove residual flesh and hair.

- Tanning phase — The cowhides are again tumbled in tanning drums with chemicals and water to complete the tanning process. At the completion of the process, depending on whether chrome tanning salts have been used, the cowhides are called "wet blues" because of the color of this semi-finished leather. Wet blues can be kept for a longer period of time than raw cowhides.

- Splitting and coloring phase — The wet blues are dried, split into top leather and split leather with uniform thickness and then colored with dyes.

- Setting and finishing phase — the semi-processed leather is then dried, softened and further processed into specific colors, appearances and textures.

Processing steps unique to automotive leather

- Preparation phase — Once the raw cowhides are soaked, limed and delimed, the larger and better quality cowhides are selected for processing into automotive leather.

- Tanning phase — Special stainless steel vessels and different tanning agents are used to produce automotive leather and the process requires particularly closer monitoring of temperature, water volume and chemical levels. Vegetable tanning agents, instead of chrome sulphate, are used when producing chrome free automotive leather.

The upholstered furniture manufacturing process

- Wooden frame preparation — Raw lumber is cut into boards and then dried and processed. The boards are then glued and nailed into frames, which are further trimmed and finished.

- Sofa cover preparation — Finished leather is selected and cut into pieces in accordance with customer designs. Lining is cut and fixed to the leather. The leather pieces are then sewn together to form a finished cover.

- Assembly — Springs are fixed and foam stuffing is glued onto the wooden frame. The furniture cover is then nailed onto the frame and cushions are added to form a finished upholstered furniture product.

Outsourcing

To allow ourselves the flexibility of utilizing third party processing facilities to accommodate our wet blues needs while controlling the sourcing of raw materials, we have engaged Haining Baiyang Leather Co., Ltd. ("Haining Baiyang"), an independent third party that has signed a long term supply contract with us, to process some of the raw cowhides we purchased into wet blues. The outsourcing fees paid to Haining Baiyang during the Track Record Period were RMB3.3 million, RMB4.0 million, RMB12.2 million and RMB3.9 million for 2002, 2003, 2004 and the first four months of 2005. These fees were determined as a result of arm's length negotiations based on prevailing market prices. We account for these outsourcing fees as a cost of sales.

PRODUCTION FACILITIES

We believe we have the largest vertically integrated finished leather production facilities in China. Our Higher Point Sofa Industrial Park includes 741,760 square meters of production space. We developed Higher Point Sofa Industrial Park through eight subsidiaries, two of which are not yet in operation.

Our approximate manufacturing capacity for our principal operating subsidiaries and their respective gross floor area and other details as at July 31, 2005 are set out below.

Subsidiary	Major Products	Approximate Annual Capacity	Gross Floor Area of Production Facilities (square meters)	Commencement of Operations
Higher Point Sofa Industrial Park				
Zhejiang Liema Furniture Co., Ltd.	Upholstered furniture	900,000 seats	144,434	April 2004
Haining Hainix Sofa Co., Ltd.	Upholstered furniture	900,000 seats	108,727	November 2003
Haining Oyi May Sofa Co., Ltd.	Upholstered furniture	700,000 seats	112,030	April 2004
Haining Hidea Furniture Co., Ltd.	Upholstered furniture	600,000 seats	112,030	December 2004
Haining Wansheng Furniture Co., Ltd.	Upholstered furniture	600,000 seats	108,942	July 2004
Haining Home Point Furniture Co., Ltd.	Sofa covers	500,000 seats	93,559	June 2005
Haining Libero Furniture Co., Ltd.	Upholstered furniture	Not applicable	62,038	Expected second half of 2006
Haining Home Craft Furniture Co., Ltd.	To be decided	Not applicable(2)	Not applicable(2)	Expected early 2007
	Higher Point Sofa Industrial Park Total	**4.2 million seats(1)**	**741,760(2)**	

Subsidiary	Major Products	Approximate Annual Capacity	Gross Floor Area of Production Facilities (square meters)	Commencement of Operations
Zhejiang Kasen	Furniture leather and wet blues	240 million square feet	258,483	June 1995
Haining Schinder	Automotive leather	30 million square feet	22,507	May 2003
Haining Kareno	Upholstered furniture	900,000 seats	106,838	December 2000
Haining Kasen	Furniture covers	3 million seats	24,585	June 1995
Shanghai La Kassa	Upholstered furniture and furniture covers	500,000 seats	49,536	December 2003
Haining Home Impression	Upholstered furniture	900,000 seats	34,896	March 2004
Haining Hengsen	Wooden parts used for upholstered furniture production	Not applicable(3)	40,909	March 2003
	Total gross floor area of our production facilities (including Higher Point Sofa Industrial Park)		**1,279,514**	

Notes:

(1) For the purpose of calculating the annual capacity of Higher Point Sofa Industrial Park, we treat the annual capacity for producing every three dinner chairs as equivalent to the production of one furniture seat.

(2) The total gross floor area of the Higher Point Sofa Industrial Park excludes the 100,000 square meters of expected floor area of one of the subsidiaries, Haining Home Craft Furniture Co., Ltd., which is not yet in operation.

(3) Haining Hengsen produces wooden accessories used for internal consumption by our upholstered furniture subsidiaries, including: wooden chairs, to be further processed into dinning chairs; wooden frames for sofas; and wooden legs for sofas. It is not practicable to provide a combined annual capacity.

We also have access to stable, high quality supplies of raw cowhides because of our scale, which helps us offer more competitive prices to our customers. In addition, we also tan in-house, at our Zhejiang facility, some of the raw cowhides we use in producing leather products. We can deliver large orders on a consistent and stable basis to our customers because of our large capacity and our high quality standards, which we believe are key factors in securing new orders from customers. In addition, because of our scale, our suppliers offer us volume discounts and provide us with on-going technical assistance. This assistance helps us improve the quality of our products.

Our production facilities are equipped with modern leather processing machinery and equipment, the majority of which are manufactured in Italy, including shaving machines, embossing machines, size sprayers, splitting machines and toggling dryers. Italy has a long history of producing sophisticated leather processing machinery and equipment that is reliable, easy to maintain, efficient and built to the highest technical precision.

We established Higher Point Sofa Industrial Park primarily for future expansion of our business. The production capabilities and business strategies of our subsidiaries located in the Higher Point Sofa Industrial Park are at an early stage, and we do not yet need to fully utilize the capacities of all eight subsidiaries located in the Higher Point Sofa Industrial Park. As at the Latest Practicable Date, two out of eight of the subsidiaries, Haining Libero Furniture Co., Ltd and Haining Home Craft Furniture Co., Ltd., have not yet become operational and we plan to add facilities for these two subsidiaries when our business volume grows. All necessary licences and approvals have been obtained in respect of our eight subsidiaries located in the Higher Point Sofa Industrial Park.

We set up these eight different subsidiaries in our Higher Point Sofa Industrial Park in response to our customers' preferences to work with separate companies who do not manufacture for their major competitors. We encourage each subsidiary to develop their own customer base by allowing flexibility in manufacturing, pricing and promoting their own products, with the expectation that we, as a whole, will produce a wider variety of products and sell to a larger range of customers.

As the subsidiaries typically produce different products, the products of each subsidiary appeal to different customers and each subsidiary typically has different pricing and promotional strategies to attract different customers. These subsidiaries are managed differently from our other subsidiaries in that the local partner shareholders of each of these subsidiaries typically play an important role in managing their respective subsidiaries, to benefit from the local partners' manufacturing experiences and their skills in managing large labor forces. We, however, maintain control of each of these subsidiaries through control of their board of directors and of their finances.

RAW MATERIALS

The main raw materials we use in manufacturing our products are raw cowhides and chemicals such as tanning agents and dyes. Other raw materials include wet blues, foam, lining, cloth and lumber. To ensure that we can source an uninterrupted supply of quality raw materials at competitive prices, we normally maintain more than one supplier for each of our main raw materials and, in particular, we have entered into long-term supply agreements to secure the supply of wet blues. We source our raw cowhides mainly through agents who have established relationships with the ultimate suppliers in North America, Australia, Europe and China. In addition to producing wet blues at our tanning facility in Haining for our own use, we source wet blues from companies mostly located in China. We source most of our processing chemicals through trading companies in Hong Kong and source the remainder of our raw materials from within China.

Our aggregate purchases of key raw materials for the years ended December 31, 2002, 2003, 2004 and the four months ended April 30, 2005 were RMB868.9 million, RMB1,246.8 million, RMB1,567.9 million and RMB496.8 million, respectively.

The following table sets forth the cost of our primary raw materials as a percentage of cost of sales for the periods indicated.

	Year ended December 31,						Four months ended April 30,			
	2002		2003		2004		2004		2005	
Raw Materials	(RMB in millions)	(% of cost of sales)	(RMB in millions)	(% of cost of sales)	(RMB in millions)	(% of cost of sales)	(RMB in millions)	(% of cost of sales)	(RMB in millions)	(% of cost of sales)
							(unaudited)			
Raw cowhides	343.9	28.8	455.3	25.9	453.2	18.8	163.3	24.0	111.2	13.5
Wet blues(1)	372.1	31.2	557.9	31.7	786.1	32.6	208.4	30.6	265.9	32.3
Chemicals	153.0	12.8	233.7	13.3	328.6	13.6	102.8	15.1	119.7	14.6
Other raw materials(2)	200.5	16.9	312.3	17.8	471.0	19.6	100.8	14.7	196.5	23.9
Total raw materials	1,069.5	89.7	1,559.2	88.7	2,038.9	84.6	575.3	84.4	693.3	84.3
Total cost of sales	1,192.6	100.0	1,758.1	100.0	2,408.7	100.0	681.5	100.0	822.7	100.0

Notes:

(1) Cost of wet blues represents wet blues we purchased from four third party suppliers and from several of our connected persons, including former subsidiaries.

(2) Primarily includes fabric, lumber, foam and goods purchased for trading.

We maintain a sizeable inventory of raw cowhides and wet blues to meet the delivery cycles required by our customers, typically six to eleven weeks from our receipt of an order until delivery in the case of finished leather and leather upholstered furniture products to our customers. The delivery cycle for raw cowhides generally is three months and may be as long as five months. The tanning and finishing process requires up to 45 days to produce finished leather usable for leather upholstered furniture products or automotive leather.

Purchasing

We have established close relationships with a number of leading suppliers to ensure a steady supply of raw materials and chemicals. We have not experienced any significant difficulties in sourcing raw materials nor have we ever experienced any interruption in our supply of raw materials. In view of the large number of suppliers in the market for our key raw materials, we do not anticipate any difficulties in locating alternative suppliers if necessary.

We source our raw materials through dedicated sourcing teams. Because high quality raw cowhides are crucial to our business, our founder, Mr. Zhu, personally travels around the world to help purchase high quality cowhides at reasonable prices. We select suppliers who can quickly meet changes in demand for materials and who can meet our quality requirements. Our sourcing teams conduct systematic studies and analysis on the operations of our major suppliers. The teams maintain a comprehensive database of all our sourcing information to monitor, control and verify purchase prices, terms of purchase contracts and the service quality of suppliers, in order to help us optimize our raw material sourcing and minimize costs. Sales agents provide us with raw cowhide pricing and other information. We centralize our purchasing of raw cowhides, chemicals and certain other raw materials. Our central sourcing department, which monitors this process to further minimize our cost of sales, is responsible for assessing and approving our raw cowhides and chemicals suppliers. When any of our subsidiaries needs raw cowhides and chemicals, they can only purchase from suppliers approved by our central sourcing department. For other raw materials, such as lumber, our subsidiaries purchase the raw material from suppliers directly.

The most important raw material we use is raw cowhides. Based on our experience, prices of raw cowhides can fluctuate over relatively short periods of time depending on market conditions. Our sourcing teams carefully monitor market movements and make major purchases at times when prices are low, subject to projected customer order flow and other factors. In sourcing cowhides, we also take into account the size, defect rate, place of origin, age and sex of the cows, as well as seasonal factors that might also affect quality.

The prices for the chemicals we use are generally stable. Some of our suppliers have frequently sent their experts to work with us in order to exchange their technical knowledge with us.

We purchase wet blues from Baiyin Kasen, Kezilesu Xinrong and Yili Horgos, our connected persons. For a discussion of our purchase of wet blues from our connected persons, please see "— Connected Transactions — Continuing Connected Transactions — Category 3 — Purchases from connected persons." We have long-term purchase agreements with three of these connected parties.

The tables below provide a breakdown of our purchases of raw cowhides and wet blues by types of supplier for the periods indicated.

	Year ended December 31,			**Four months ended April 30,**
	2002	**2003**	**2004**	**2005**
Raw Cowhides	(RMB in millions)			
Purchases from connected parties	136.0	107.4	85.1	—
Purchases from independent third parties	220.7	391.1	819.5	80.7
Total	356.7	498.5	904.6	80.7

	Year ended December 31,			**Four months ended April 30,**
	2002	**2003**	**2004**	**2005**
Wet Blues	(RMB in millions)			
Purchases from connected parties	82.5	426.5	451.5	99.2
Purchases from independent third parties	181.7	135.5	261.3	21.8
Total	264.2	562.0	712.8	121.0

Our five largest suppliers (including agents of our ultimate suppliers) together accounted for approximately 41.1%, 30.6%, 24.5% and 29.3%, respectively, of our purchases of raw materials for the years ended December 31, 2002, 2003, 2004 and the four months ended April 30, 2005. For the years ended December 31, 2002, 2003, 2004 and the four months ended April 30, 2005, our largest supplier for each of these periods accounted for 12.1%, 8.1%, 8.2%, and 7.9%, respectively. We have purchased raw materials from each of our five largest suppliers in 2004 consistently since 2003, with our longest relationship dating back to 1997. We believe that none of these suppliers has any intention of terminating its business relationship with us. None of our Directors or their associates (as defined in the Listing Rules) or our existing shareholders who, to the knowledge of our Directors, owns more than 5% of our issued share capital, has any interest in any of our five largest suppliers during the Track Record Period.

QUALITY ASSURANCE AND QUALITY CONTROL SYSTEMS

Our dedication to strict quality standards helps us meet the high quality demands of our customers. We have established a quality assurance system to achieve a consistent level of quality in our products.

Upholstered furniture and furniture leather

We have an upholstered furniture and furniture leather quality control team comprising about 264 staff members. We also have contracted two tanning experts from Germany who specifically assist us with quality control for the tanning operations. We adopted strict quality control procedures at each principal stage of the production process designed to ensure that our products meet our customers' standards, which include the following components:

- We thoroughly examine raw cowhides to screen out defective ones before processing.
- We check all wet blues and classify them according to their quality and size before further processing them into furniture leather, and randomly check our furniture leather to ensure that it has been cut into prescribed shapes and that it has the heat resistance, tensile strength and tear resistance necessary to meet international standards.
- We inspect our upholstered furniture products prior to completion and prior to delivery, with our quality control staff at each of our upholstered furniture plants carefully monitoring the entire manufacturing process.
- Finally, a quality control team inspects a sample of the finished upholstered furniture before shipping.

Our quality control system is further enhanced by the quality control teams that our international customers seconded to us to ensure our products meet their standards and to suggest improvements. Each major customer has a team of two to ten representatives on site with us for each secondment period.

Automotive leather

We have an experienced automotive leather quality control team comprising about 16 staff members, including experts from New Zealand and Australia. We received ISO 9001:2000 certification in 2002. In 2004, we were the first company in China to receive ISO/TS 16949:2002 certification from DQS GmbH, an internationally recognized quality standard specifically for the automotive industry. The ISO/TS 16949:2002 certification imposes strict quality standards in addition to the stringent individual requirements of our customers. It requires us to be able to test our own products, so in March 2005, we obtained a certificate from the United Kingdom Accreditation Service accrediting us to carry out various kinds of tests on leather based on industry standard specifications, including tests on chrome content, water content and shrinkage. Our quality control team carefully inspects our products at each principal stage of the production process, conducts various physical and chemical tests on our products and constantly monitors the process against our customers' designated quality standards. Our direct customers and the automobile manufacturers they supply also routinely inspect our operations to ensure that our quality control standards continue to meet their requirements.

INTERNAL CONTROLS SYSTEMS

In 2002, we set up an internal audit department. We have also established procedures, systems and controls (including accounting and management systems) which we believe are adequate to assist us and our Directors in our obligations to comply with the Listing Rules and other regulatory requirements, and which we believe are sufficient to enable our Directors to make a proper assessment of our financial position and prospects. We have adopted policies on internal controls for our main business cycles, including those relating to purchasing, sales, treasury and accounting. Some of our procedures, systems and controls currently include:

- Ethical values and employment policies communicated to employees. Purchasing guidelines developed as part of an overall conflict of interest policy;
- Assignment of responsibilities defined and communicated to staff by the management;
- System developed for the approval, monitoring and disclosure of related party transactions;
- Review of financial, operational and budgeting reports by designated senior personnel;
- Budgeting and management reporting functions established;
- Centralized finance, treasury and operating support systems to ensure effective control of subsidiaries; and
- Staff recruitment and selection criteria, as well as structured orientation programs and training policies.

We plan to take steps to further improve our internal controls. For example, we plan to:

- Continue to integrate management information system among all of our subsidiaries;
- Further emphasize integrity and ethical values by developing a formal code of conduct;
- Establish a formal anti-fraud program or whistleblower mechanism to mitigate any irregularities;

- Improve financial closing and reporting process by formalizing approvals, reviews and documentation of accounting transactions and adjustments; and

- Strengthen controls of treasury operations by proper segregation of duties.

Our information technology system is based on a domain including more than 300 computers. We have established a file server within the domain where all key data is stored. Access to our information technology system requires authorization and application system owners review access privileges regularly. In addition, physical access to our information technology system is limited by a security system. We have installed anti-virus software to protect our computers from virus infection and we regularly update our anti-virus protection. We are in the process of establishing a formal data backup policy for our information systems, which would include regular back-ups of data in our servers and of financial spreadsheets kept in personal computers.

RESEARCH, DESIGN AND PRODUCT DEVELOPMENT

We have a strong research and development team, which is capable of meeting the rapid pace of product development required by our customers. From time to time, we undertake design and product development activities in collaboration with our customers. We engage in our own design and product development based on our strategy and market forecasts. We believe that our research and development capabilities enable us to respond to our customers' needs quickly and to ensure that our designs conform to customer specifications.

Our leather technical center is led by Mr. Zhou Xiaosong, one of our executive Directors, who has about 20 years experience in the leather manufacturing industry. The center is staffed by about 30 personnel of whom nine are experts recruited in China and two are overseas experts contracted from New Zealand and Australia. These experts specialize in the development of furniture leather, automotive leather and footwear leather. They help to train our technical teams and ensure that our products meet relevant product requirements. Because we have been recognized as a core enterprise in the leather industry in China, in September 2004 we were invited by the State Commission for Leather Industry Standardization and Technology to help draft automotive leather standards for general industry use.

Our research and development team developed the chrome free processing technique we use to process our automotive leather. While chrome tanning is a technique widely used in the leather industry because it produces relatively stable products, the process produces wastewater that contaminates the environment if it is released. In 2002, driven by our concerns for environmental protection as well as by our observation of the increasing worldwide demand for environmentally friendly products, we started researching using vegetable tanning agents to produce chrome free automotive leather. Chrome free tanning reduces harm to the environment and it produces leather that is fully biodegradable. It also produces leather that has a high level of heat resistance, which makes it ideal for use as automotive leather. We commenced production of chrome free automotive leather in 2004 and we believe we are currently the first manufacturer in China capable of manufacturing chrome free automotive leather.

In addition, we have approximately 300 technicians involved in the product development of our upholstered furniture segment. Our research, design and production development goals in relation to each of our product segment are further set out below:

Upholstered furniture and furniture leather

- Enhance the utilization ratio of raw materials and increase split yields;
- Further improve the quality of our upholstered furniture and meet international standards;
- Improve the softness of leather splits for upholstered furniture; and
- Improve the style and appearance of furniture leather;

Automotive leather

- Develop more fashionable automotive leather and improve the appearance of automobile seats; and
- Further strengthen our chrome free automatic leather manufacturing technique; and

Footwear leather

- Conduct further research to develop modern, fashionable middle and high-end footwear leather.

Apart from the research and development of products based on our customers' specific requirements, our design and product development team also helps create our own upholstered furniture designs.

Our expenditures on research, design and product development for the years ended December 31, 2002, 2003, 2004 and the four months ended April 30, 2005, was approximately RMB127,000, RMB352,000, RMB10.6 million and RMB7.6 million, respectively, and accounted for approximately 0.1%, 0.1%, 0.4% and 0.8% of our turnover, respectively.

ENVIRONMENTAL COMPLIANCE

We believe that going forward our environmental protection systems and facilities are adequate for us to comply with currently applicable national and local environmental protection regulations in China.

All of our production operations are located in China and we are subject to the environmental laws and regulations of China. We generate a substantial quantity of wastewater and solid waste materials during the tanning stage, which we treat before discharge. To discharge wastewater, we must obtain a valid waste discharge permit from the relevant environmental protection bureau in each of the locations where we operate and we must also pay discharge fees to the bureau in accordance with relevant environmental laws and regulations. The valid term of a waste discharge permit is usually no more than five years, and may be renewed only after the relevant bureau has confirmed that we have complied with all relevant waste discharge laws and regulations.

We have implemented a pollution control system to control our discharge and to oversee our compliance with Chinese environmental regulations. Our central environmental development department directly administers the operation and management of our environmental protection programs at our various leather processing, manufacturing and water treatment facilities, as well as provides general guidance. Our environmental development department has established a comprehensive set of operational rules, which we require our various subsidiaries to implement.

Zhejiang Kasen was issued a pollutant discharge permit on November 30, 2002 with a term of five years from the date of issuance. In a document dated July 4, 2005 the Haining Environment Protection Bureau is satisfied that Zhejiang Kasen and its subsidiaries in Haining are in compliance with PRC environmental laws and regulations applicable to pollutant discharge. Our PRC legal advisers have advised that the subsidiaries of Zhejiang Kasen have obtained waivers from the obligation to obtain a pollutant discharge permit for their current operation within the business scope indicated in their respective business licenses. Based on the foregoing, our PRC legal advisers have confirmed that Zhejiang Kasen and its subsidiaries are in compliance with PRC environmental laws and regulations regarding waste discharge.

Some of our subsidiaries have not yet obtained all of the environmental approvals required by relevant Chinese authorities. Please refer to "Risk Factor — We may face penalties for not obtaining approvals for some of our environmental construction projects."

For the years ended December 31, 2002, 2003, 2004 and the four months ended April 30, 2005, we invested approximately RMB9.0 million, RMB21.3 million, RMB29.3 million and RMB0.7 million, respectively, on our wastewater treatment facilities.

EMPLOYEES

Our total numbers of employees as at December 31, 2002, 2003, 2004 and as at April 30, 2005, were 4,579, 9,353, 14,827 and 15,147, respectively. The table below sets out the breakdown of our employees by business areas as at April 30, 2005.

Employees by business area	**As at April 30, 2005**
Production	12,833
Management	732
Research and development	334
Sales and marketing	148
Others	1,100
	15,147

All of our employees are located at our facilities in Haining City, Zhejiang Province or Shanghai, China, except for our Company Secretary and Ms. Fu Sim Fung, who are resident in Hong Kong.

We adjust employees salaries based on industry standards, inflation and individual performance. We also pay a number of bonuses, including year-end and discretionary performance bonuses. In addition, we award annual prizes to outstanding employees during the year, and we have also implemented a remuneration program, which includes additional discretionary bonuses and housing benefits for selected employees in China based on years of service and work performance.

In accordance with Chinese regulations on social insurance, we have carried out the social insurance registration for all of our subsidiaries and paid social insurance contributions, for our Chinese employees. We participate in a social welfare plan, a pension contribution plan, a medical insurance plan and a workman compensation plan for our Chinese employees. The local government authorities of Haining City, Zhejiang Province and Shanghai have issued the required social insurance registration certificates to us.

We have historically experienced a low turnover rate for our management and key staff. As is typical in China, however, we have experienced a higher turnover of temporary factory production workers.

Retirement Scheme

We participate in a provident fund scheme (the "Scheme") registered under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) ("MPF Ordinance") for all our employees in Hong Kong. The Scheme is a defined contribution scheme and is funded by contributions from employers and employees according to the provisions of the MPF Ordinance.

Under the Scheme, we and the relevant employees of our Group have to contribute an amount equal to 5% of the relevant income of such employee to the Scheme, subject to a maximum level of the monthly relevant income of HK$20,000. If an employee's monthly income is less than HK$5,000, he is not required to contribute but may elect to do so, but we must still contribute 5% of the employee's monthly relevant income. Contributions from us are 100% vested in such employee immediately but, subject to limited exceptions, all benefits derived from the mandatory contributions must be preserved until the employee reaches the retirement age of 65. Our contributions to the Scheme can be used to offset any long service payments or severance payments payable and are deductible for income tax purposes.

Our employees in the PRC participate in a state-managed retirement pension scheme operated by the respective local municipal government. The local government is responsible for the planning, management and supervision of the scheme, including collecting and investing the contributions, and paying out the pensions to the retired employees. Our only obligation in respect of the retirement pension scheme is to contribute to the scheme at a certain rate of overall payroll expenses. Such rate is prescribed by the government of each of the provinces, autonomous regions or municipalities directly under central government and may vary in different cities. For instance, the prescribed rate in Haining, Zhejiang Province of China is within the range of 14% to 20%.

The total amount of contributions we made for such employee pension schemes for the years ended December 31, 2002, 2003, 2004 and the four months ended April 30, 2005 was approximately RMB2.1 million, RMB1.4 million, RMB2.5 million and RMB1.8 million, respectively.

Training

We place considerable emphasis on the retention, training and recruitment of qualified and experienced engineers to oversee and manage our manufacturing operations. All of our employees, including senior management, are required to undertake a minimum number of hours of training every year. This training generally takes the form of lectures in group classes and practical demonstrations, covering subjects such as language, communication, technology, finance, accounting and management. Employees are required to take tests on each subject.

We also financially sponsor selected employees to attend external vocational and other college and university programs to supplement their in-house training. During 2004, we financially sponsored approximately 30 of our employees so that they could attend programs ranging from junior college programs to master's degree programs.

INTELLECTUAL PROPERTY

We have registered the "Kasen" name and a number of logos as our trademarks under various classes in China. Details of our registered trademarks and trademark applications are set out in the paragraph entitled "Intellectual Property Rights of our Company" set out in "Appendix VII — Statutory and General Information" to this prospectus.

We have registered eleven domain names on the World Wide Web: kasen.com.cn, kasenltd.com, kaseninternational.com, kareno.com.cn, higherpoint.com.cn, lakassa.com, homeclassic.com.cn, hidea.net.cn, oyimay.net, home-point.com.cn and kasenholdings.com.

INSURANCE

We maintain property insurance to cover us against damage to our buildings, machinery and equipment. We provide injury insurance for our employees as required by law in China. We believe that our insurance coverage is adequate to cover any material property damage. Consistent with what we believe to be the customary practice in China, we do not carry business interruption insurance or key man insurance.

We also maintain export credit insurance to protect us against the risk that our overseas customers may refuse to accept or pay for our goods. Our export credit insurance also covers certain commercial risks and political risks, including the insolvency of our overseas customers, sudden outbreak of war or any unexpected event that may prevent our customers from performing their obligations.

As at the Latest Practicable Date, we had not made any insurance claims in relation to property insurance or export credit insurance.

LEGAL PROCEEDINGS

We may be involved in legal proceedings in the ordinary course of business. However, as at the Latest Practicable Date, we were not involved in any litigation, arbitration or administrative proceedings that could have a material adverse effect on our financial condition or results of operations and so far as we are aware, no such material litigation, arbitration or administrative proceedings have been threatened against us.

CONNECTED TRANSACTIONS

Overview

Following the completion of the Global Offering, we will continue to have certain transactions that constitute connected transactions within the meaning of the Listing Rules. Set out below is a summary of these transactions, as well as the waivers from strict compliance with the relevant requirements of the Listing Rules that we have received from the Stock Exchange. The Directors confirm that all the connected transactions described below are carried out in the ordinary and usual course of business and on an arm's length basis.

Category	Nature of Transaction	Applicable Listing Rule	Waiver Sought
	Discloseable continuing connected transaction		
1.	Purchases of materials from connected persons 1.1 Purchase of sofa fabrics	Rule 14A.34	Waiver from announcement requirements
	Non-exempt continuing connected transactions		
2.	Sales of products or by-products to connected persons 2.1 Sale of production waste 2.2 Sale of upholstered furniture	Rule 14A.35	Waiver from announcement and independent shareholders' approval requirements
3.	Purchases of materials from connected persons 3.1 Purchase of wet blues	Rule 14A.35	Waiver from announcement and independent shareholders' approval requirements

Continuing Connected Transactions

1. Category 1 — Purchases from connected persons

1.1 *Agreement for purchase of sofa fabrics from Wansheng Silk*

Transaction Nature and Background

Our subsidiaries, Haining Wansheng Furniture Co., Ltd. ("Wansheng Furniture") and Haining Kasen, purchase sofa fabrics for use in making upholstered furniture from Haining Wansheng Silk Weaving Co., Ltd. (海寧市萬盛絲綢噴織有限公司) ("Wansheng Silk"), which is a manufacturer of silk and other fabrics.

Connected Person

Mr. Sun Jianxin and his spouse own 90% of Wansheng Silk. Mr. Sun Jianxin is also a controlling shareholder and director of Wansheng Furniture, our subsidiary. Wansheng Silk is thus an associate of Mr. Sun Jianxin and accordingly will be our connected person upon our listing.

Connected Transaction

Any purchases of materials between (i) us and (ii) our connected persons following the completion of the Global Offering will be connected transactions under Rule 14A.13 of the Listing Rules, and any continuing purchases of materials will constitute continuing connected transactions under Rule 14A.14.

Reasons for Entering into such Transaction

We produce both leather and fabric upholstered furniture and purchase sofa fabrics for use in our production. For the three years ended December 31, 2004 and the four months ended April 30, 2005, our total cost spent on sofa fabrics amounted to approximately RMB23,343,000, RMB51,268,000, RMB159,380,000 and RMB78,974,000, respectively. Wansheng Silk is a manufacturer of silk and other fabrics, suitable for use in sofas. We began to purchase some of the sofa fabrics from Wansheng Silk in 2004, and in that year the purchase amounted to approximately RMB267,000, while the purchases for the four months ended April 30, 2005 amounted to approximately RMB211,000.

Pricing Basis

The pricing for these purchases was agreed upon negotiation between Wansheng Silk and us, on each occasion with regard to the prevailing market price. Our Directors have confirmed that the prices were determined on an arm's length basis, and were in line with normal commercial terms and no less favorable to us than what we paid to independent third party suppliers.

Future Transactions

Wansheng Silk has entered into an agreement with Wansheng Furniture and Haining Kasen which will expire on December 31, 2007 and, subject to compliance with Listing Rules requirements regarding connected transactions, automatically renewable for 3 year terms thereafter. Pursuant to this agreement, Wansheng Furniture and Haining Kasen will purchase sofa fabrics from Wansheng Silk. Pricing will be determined based on arm's length negotiation between us and Wansheng Silk with reference to the prevailing market price from time to time and shall be no less favorable to us than what we pay to independent third party suppliers.

We estimate that our total purchase of sofa fabrics from Wansheng Silk will be below RMB10,000,000 for each of the three years ending December 31, 2007 in any event. Sofa fabric requirements for our products tend to vary depending on customer tastes and we have experienced recent surge in demand from customers for silk and other fabrics which are produced by Wansheng Silk. After the successful trial period in 2004, we found the sofa fabrics we purchased from Wansheng Silk acceptable based on their price and quality and this increased our purchases for the first seven months ended July 31, 2005 from Wansheng Silk to approximately RMB5,000,000. We expect the increase in purchases from Wansheng Silk for 2005 to continue. In addition, based on our 186% increase in sales of fabric upholstered furniture products in the first four months of 2005 compared to 2004, we believe that such demand will continue, and our estimated purchases of not more than RMB10,000,000 on an annual basis would be reasonable, especially considering that this amount represents approximately 43%, 20%, 6% and 4% of our total cost spent on sofa fabrics during the Track Record Period.

2. **Category 2 — Sales to connected persons**

2.1 ***Agreement for sale of production wastes to Yujie***

Transaction Nature and Background

We generate wastes of all kinds from our production each year (including materials such as residue leather, used tubs, hair and fat), among which some can be sold for value. Haining Yujie Material Recycling Co., Ltd. (海寧宇潔物資回收有限公司) ("Yujie") is a recycling company in Haining which is engaged in dealing with such wastes. Yujie's business involves purchasing different kinds of wastes, and after certain processing and cleaning, sells its products to manufacturers of shoes, toys, chemicals and other products.

Our subsidiaries, Zhejiang Kasen, Haining Kasen, Haining Home Impression, Haining Schinder, Haining Gaosheng Leather Co., Ltd. ("Haining Gaosheng") and Haining Kareno sell different kinds of production wastes to Yujie.

Connected Person

Yujie is 80% owned by Sunbridge, a company in which Mr. Zhu indirectly controls more than 30% of the voting power at general meetings. Sunbridge is owned as to 66% by Li Shilun, 33% of which is held on trust for Mr. Zhu, and the remaining 34% is held by Yu Jintang. It is principally engaged, through its various subsidiaries, in hardwood furniture manufacturing in China and furniture retailing in Australia. Hence Sunbridge is an associate of Mr. Zhu, and therefore our connected person. As Yujie is a subsidiary of Sunbridge, it will also be our connected person upon our listing.

Connected Transaction

Any product sales between (i) us and (ii) our connected persons following the completion of the Global Offering will be connected transactions under Rule 14A.13 of the Listing Rules, and any continuing product sales will constitute continuing connected transactions under Rule 14A.14.

Reasons for Entering into Such Transaction

Yujie is one of the largest recycling companies in Haining and is located near many of our Group's production facilities (all within approximately 10 km). We believe that by selling our wastes to Yujie, we are able to achieve an efficient management of our disposal logistics, and an effective supervision of our employees in the sale of wastes.

Pricing Basis

The pricing for these sales has been typically determined by reference to the prevailing market price at any given time, and varies depending on the kinds of wastes. We usually agree with Yujie on a bulk price for each sale by reference to the particular composition of wastes. Our Directors have confirmed that the prices were determined on an arm's length basis, and were in line with normal commercial terms and no less favorable to us than what we charged independent third party purchasers.

We began selling wastes to Yujie in 2004 and in that year and the four months ended April 30, 2005, such sales amounted to approximately RMB8,739,000 and RMB5,199,000, or approximately 49% and 90%, respectively of our total sales of wastes. We have also sold wastes to other recycling companies which are independent third parties. The prices paid by the other companies were comparable.

Future Transactions

Yujie has entered into an agreement with Zhejiang Kasen which will expire on December 31, 2007 and, subject to compliance with Listing Rules requirements regarding connected transactions, automatically renewable for 3 year terms thereafter. Pursuant to this agreement, Yujie will purchase wastes (including residue leather, used tubs, hair and fat) from our subsidiaries (including Zhejiang Kasen, Haining Kasen, Haining Home Impression, Haining Schinder, Haining Gaosheng and Haining Kareno). Pricing will be determined based on arm's length negotiation between Yujie and us with reference to the prevailing market price in Zhejiang Province/Haining from time to time, and shall be no less favorable to us than what we charge independent third party purchasers.

We estimate that our total sales to Yujie will be approximately RMB16,000,000, RMB18,000,000 and RMB21,000,000 for each of the three years ending December 31, 2007 and which accounts for approximately 76%, 75% and 78%, respectively of our total planned sales of wastes during these periods. We have calculated these estimates based on our expected growth in the sale of wastes at the rate of approximately 15% per annum, which is in line with our estimated growth in production volume. The sale of wastes in 2004 to Yujie has been cost effective for us, and in our estimation we plan to increase sales of wastes to Yujie as a percentage of our total sale of wastes from 49% in 2004. Our sales to Yujie in the first four months of 2005 increased to 90% of our total purchases of waste, and this represents an increase of 9% over the corresponding period in 2004. Based on the sales for the first four months of 2005, the projected yearly sales will be approximately RMB16,000,000.

2.2 *Agreement for sale of upholstered furniture to Starcorp*

Transaction Nature and Background

Our subsidiaries, Haining Kareno and Haining Home Impression, began selling upholstered furniture to Starcorp Corporation Pty. Ltd. ("Starcorp") in 2004. Starcorp resells these products in the Australian market.

Connected Person

As described in 2.1 above, Sunbridge is a connected person. As Starcorp is a 70% owned subsidiary of Sunbridge, it will also be our connected person upon our listing.

Connected Transaction

Any product sales between (i) us and (ii) our connected persons following the completion of the Global Offering will be connected transactions under Rule 14A.13 of the Listing Rules, and any continuing product sales will constitute continuing connected transactions under Rule 14A.14.

Reasons for Entering into Such Transaction

Starcorp's core business is retail sales of wooden and other upholstered furniture in Australia. Whilst we also sell products to other retailers (which are independent third parties) in Australia, we began selling to Starcorp in 2004. As Starcorp sells a variety of upholstered furniture mainly imported from China, we consider that this provides a good opportunity for us to increase sales of our upholstered furniture in the Australian market and we therefore plan to increase our sales of upholstered furniture to Starcorp. Since our sales to Starcorp in 2004 were only on a trial basis and amounted to only approximately RMB3,256,000 representing approximately 5% of our sales of upholstered furniture to the Australian market, we expect our sales volume to Starcorp to rise in the future. For the four months ended April 30, 2005 and the eight months ended August 31, 2005, our sales to Starcorp amounted to approximately RMB8,101,000 and RMB37,583,000, respectively, representing approximately 58% and 36%, respectively, of our total sales of upholstered furniture for the Australian market for the relevant period.

Pricing Basis

The pricing for these sales has been determined by reference to the prevailing market price at any given time. The prices paid by Starcorp to us were negotiated in each sale and were comparable to transactions with other customers who were independent third parties for similar products. Our Directors have confirmed that the prices were determined on an arm's length basis, and were in line with normal commercial terms and no less favorable to us than what we charged independent third party purchasers.

Future Transactions

Starcorp has entered into an agreement with Zhejiang Kasen which will expire on December 31, 2007 and, subject to compliance with Listing Rules requirements regarding connected transactions, automatically renewable for 3 year terms thereafter. Pursuant to this agreement, Zhejiang Kasen will through its subsidiaries (including Haining Home Impression, Haining Kareno, and Haining Home Point Furniture Co., Ltd.) sell upholstered furniture to Starcorp. Pricing will be determined based on arm's length negotiation between Starcorp and us with reference to the prevailing market price from time to time, and shall be no less favorable to us than what we charge independent third party purchasers.

We estimate that our total sales to Starcorp will be approximately RMB50,000,000, RMB96,000,000 and RMB128,000,000 for each of the three years ending December 31, 2007, and which accounts for approximately 31%, 40% and 40%, respectively of our total sales attributable to the Australian market during these periods. The proposed cap represents a significant increase over the sales to Starcorp during the Track Record Period. As shown by the significant increase in sales in the four months ended April 30, 2005 and the eight months ended August 31, 2005 from that in 2004 when we started selling to Starcorp on a trial basis, we are increasing our sales to the Australian market, which is principally done through Starcorp. This is in line with our similar experience in launching products with new customers in other markets. Once our products are shown to be acceptable to the customer during the trial stage, our sales pick up significantly in the next few years. We have calculated these estimates based on the sales to Starcorp achieved in the eight months ended August 31, 2005, our plan to increase our sales to Starcorp as mentioned above and the expected growth of the Australian upholstered furniture market in the coming 3 years.

3. **Category 3 — Purchases from connected persons**

3.1 ***Agreement for purchase of wet blues from Kezilesu Xinrong, Yili Horgos and Baiyin Kasen***

Transaction Nature and Background

Our subsidiary, Zhejiang Kasen, purchases wet blues from certain subsidiaries of Sunbridge, namely Kezilesu Xinrong, Yili Horgos and Baiyin Kasen (together, the "Northwestern Companies"). Wet blues are semi-finished leather after raw cowhides have gone through the tanning process. They are then further processed to produce different kinds of leather. For details of our production process, please see the "Business" section of this prospectus.

Connected Person

Kezilesu Xinrong is 90% owned by Sunbridge. As described in 2.1 above, Sunbridge is a connected person. As Kezilesu Xinrong is a subsidiary of Sunbridge, it will also be our connected person upon our listing.

Yili Horgos is 45% owned by Sunbridge, and 54.67% owned by Baiyin Kasen (which is in turn 90% owned by Sunbridge). Yili Horgos is thus accounted for as a subsidiary of Sunbridge. As described in 2.1 above, Sunbridge is a connected person. Therefore Yili Horgos will also be our connected person upon our listing.

Baiyin Kasen is 90% owned by Sunbridge. As described above, Sunbridge is a connected person. As Baiyin Kasen is a subsidiary of Sunbridge, it will also be our connected person upon our listing.

Connected Transaction

Any raw materials purchases between (i) us and (ii) our connected persons following the completion of the Global Offering will be connected transactions under Rule 14A.13 of the Listing Rules, and any continuing raw materials purchases will constitute continuing connected transactions under Rule 14A.14.

Reasons for Entering into Such Transaction

Kezilesu Xinrong, Yili Horgos and Baiyin Kasen are the largest importer in Southern Xinjiang, Northern Xinjiang and Gansu Provinces respectively which import raw cowhides purchased from Xinjiang, Gansu and Qinghai of Northwest China or neighboring countries, such as Kazakhstan, Tajikistan, Uzbekistan and Kyrgyzstan, and process such raw cowhides into wet blues. Although we have wet blues processing capacity, our tannery facility in Haining did not produce sufficient wet blues for our production needs and we had to source wet blues externally from time to time. There would also be an advantage in saving transportation and handling costs for us if the processing and enhancement of raw cowhides into wet blues were performed near the place of origin of the raw cowhides.

We have purchased wet blues from the Northwestern Companies since they were set up from 2000 as our subsidiaries, and for the years ended December 31, 2002, 2003 and 2004, and the four months ended April 30, 2005, our total purchases amounted to approximately RMB82,460,000, RMB426,546,000, RMB451,488,000 and RMB99,197,000, accounting for approximately 12%, 42%, 36% and 27% respectively, of our total costs spent on raw cowhides and wet blues (inclusive of purchase and self-production) during these periods. Our purchases from the Northwestern Companies have been steady except for increases from 2002 to 2003 principally because we purchased from both Baiyin Kasen and Yili Horgos in 2003 while we purchased only from Baiyin Kasen in 2002. In addition, the prices were relatively lower for products in northwestern region in 2003 and we took advantage of such lower price to purchase more wet blues from these two companies. We have continued to purchase wet blues from Kezilesu Xinrong for reasons stated above notwithstanding it ceased to be our subsidiary in 2004.

Pricing Basis

Each of the Northwestern Companies has charged us for the wet blues at a price which incorporated an agreed margin above the cost of raw materials, production cost and other expenses, as well as the costs of splitting and coloring (if applicable, in the case of Baiyin Kasen). The margin was agreed upon as a result of arm's length negotiation on each occasion with regard to the prevailing market in China to facilitate us in purchasing wet blues from each Northwestern Company at a price which is within the same price range as other independent third party suppliers. Our Directors have confirmed that the prices were determined on an arm's length basis, and were in line with normal commercial terms and no less favorable to us than what we could obtain from comparable independent third party suppliers.

Future Transactions

Each of the Northwestern Companies has entered into an agreement with Zhejiang Kasen which will expire on December 31, 2007 and, subject to compliance with Listing Rules requirements regarding connected transactions, automatically renewable for 3 year terms thereafter. Pursuant to this agreement, we will pay the relevant Northwestern Company for the purchase of wet blues. Pricing will be determined based on arm's length negotiation between us and the relevant Northwestern Company with reference to and at a margin above the prevailing costs from time to time. The margin is to be agreed by the parties on each occasion with regard to the prevailing market in China to facilitate us in purchasing wet blues from the Northwestern Companies at a price which is no less favorable to us than what we can obtain from comparable independent third party suppliers.

We estimate that our total purchases from the Northwestern Companies will in aggregate be approximately RMB460,000,000, RMB510,000,000 and RMB560,000,000 for each of the three years ending December 31, 2007 and which account for approximately 32%, 31% and 30%, respectively, of our total costs spent on wet blues (inclusive of purchase and self-production) during these periods. We have calculated these estimates based on our existing purchase volume and our projected production volume at a growth rate of approximately 15% per annum in the coming three years. The purchases of wet blues are subject to seasonality factors. The Northwestern Companies generally sell fewer products during winter months such as those at the start of each year. We buy more inventory from the Northwestern Companies in the later part of the year which can be used for production in the following year. Therefore even though our purchases from the Northwestern Companies for the four months ended April 30, 2005 amounted only to approximately RMB99,197,000, we are still expecting to purchase near our proposed annual cap of approximately RMB460,000,000 for 2005.

Our costs spent on raw cowhides and wet blues grew at a rate of 42% in 2003 and 22% in 2004, which supports the reasonableness of our estimate on production growth. As production grows, there will be an increase in demand for wet blues, and our estimated purchases of wet blues has taken into account such demand. The total estimated purchases were also determined with reference to the maximum production capacity of Baiyin Kasen.

Waivers from compliance with announcement and independent shareholders' approval requirements

Under the Listing Rules, the continuing connected transactions described in:

(1) Category 1 above (the "discloseable continuing connected transactions") would require compliance with the reporting and announcement requirements as set out in Rules 14A.45 to 14A.47 of the Listing Rules; and

(2) Categories 2 and 3 above (the "non-exempt continuing connected transactions") would require compliance with the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules and the prior independent shareholders' approval requirement set out in Rule 14A.48 of the Listing Rules,

on each occasion on which they arise following the completion of the Global Offering.

In relation to the discloseable continuing connected transactions described in (1) above, each of the percentage ratios (other than the profit ratios) based on the relevant annual cap as set out below, where applicable, in relation to each of these categories is, on an annual basis, expected to be less than 2.5% under Rule 14A.34 of the Listing Rules. Accordingly, such transactions are exempt from the independent shareholders' approval requirement but are subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules.

As the discloseable continuing connected transactions and the non-exempt continuing connected transactions described in (1) and (2) above (together, the "continuing connected transactions") are expected to continue on a recurring basis after the listing of our Shares on the Stock Exchange, and have been entered into prior to the Listing Date, have been fully disclosed in the prospectus and potential investors will participate in the Global Offering on the basis of such disclosure, our Directors consider that compliance with the reporting and announcement and/or the independent shareholders' approval requirements would add unnecessary administrative costs for us. Accordingly, we have requested the Stock Exchange, and the Stock Exchange has granted us, a waiver pursuant to Rule 14A.42(3) of the Listing Rules to exempt the continuing connected transactions from compliance with the announcement and/or independent shareholders' approval requirements under the Listing Rules. In addition, we confirm that we will comply with Rules 14A.35(1), 14A.35(2), 14A.36, 14A.37, 14A.38, 14A.39 and 14A.40 of the Listing Rules in relation to the continuing connected transactions.

In respect of Rules 14A.35(2) and 14A.36(1) of the Listing Rules, the maximum aggregate annual value, if any, for the discloseable connected transactions and the non-exempt continuing connected transactions shall not exceed the applicable limit set out below.

		Annual Cap For the year ending December 31,		
		2005	2006	2007
Category	Nature of Transaction	(RMB in millions)		
1	**Purchase of materials from connected persons**			
1.1	Purchases of sofa fabrics	10	10	10
2	**Sales of products or by-products to connected persons**			
2.1	Sale of production wastes	16	18	21
2.2	Sale of upholstered furniture	50	96	128
3	**Purchase of materials from connected persons**			
3.1	Purchase of wet blues	460	510	560

Confirmation from the Directors

Our Directors (including the independent non-executive Directors) are of the opinion that the continuing connected transactions have been entered into, and will be carried out following the completion of the Global Offering, in the ordinary and usual course of our business and on normal or better than normal commercial terms, as the case may be, from the perspective of our Company, and that the terms of the continuing connected transactions and the annual caps above are fair and reasonable and in the interests of our shareholders as a whole.

Confirmation from the Sponsor

The Sponsor is of the view that our continuing connected transactions are in the usual and ordinary course of our business and on normal commercial terms and that the terms of the continuing connected transactions and the annual caps set out above are fair and reasonable and in the interests of our shareholders as a whole.

Related Party Transactions

During the Track Record Period, we had balances with related parties and entered into a number of related party transactions as set out in Notes 23, 35 and 36, respectively, to the Accountants' Report set out in Appendix I to this prospectus. The Directors confirm that these related party transactions were conducted during the ordinary course of business and the terms were determined on an arm's length basis and were based on normal commercial terms.

DIRECTORS

Our Board currently consists of seven Directors, comprising three executive Directors, one non-executive Director and three independent non-executive Directors.

According to Rule 8.12 of the Listing Rules, an issuer must have sufficient management presence in Hong Kong including that normally at least two of the issuer's executive Directors must be ordinarily resident in Hong Kong. Since our operations are located outside Hong Kong, we do not and, for the foreseeable future, will not have a management presence in Hong Kong. Currently, all of our executive Directors reside in China. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has agreed to grant, a waiver from strict compliance with requirements under Rule 8.12 of the Listing Rules. We have made internal arrangements to maintain effective communication between us and the Stock Exchange. We have appointed Ms. Yiu Hoi Yan, our company secretary, who is resident in Hong Kong, as one of the two authorized representatives under Rule 3.05 of the Listing Rules who will act at all times as our principal channel of communication with the Stock Exchange. The two authorized representatives will be readily contactable by phone and fax to deal with inquiries from the Stock Exchange, and Ms. Yiu will promptly channel all communication with the Stock Exchange to one of our executive directors or our Chief Financial Officer, as appropriate. We have also appointed ICEA Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules to advise us on various matters as required under the Listing Rules and to enhance communication with the Stock Exchange.

The following table sets forth certain information concerning our directors and senior management.

Name	Age	Position
ZHU Zhangjin (朱張金)	39	Executive Director, Chairman, Chief Executive Officer
ZHOU Xiaosong (周小松)	49	Executive Director, Vice President, General Manager
ZHU Jianqi (祝建其)	44	Executive Director, Vice President, General Manager
SUN Qiang Chang (孫強)	49	Non-Executive Director
LU Yungang (陸運剛)	42	Independent Non-Executive Director
CHOW Joseph (周凡)	42	Independent Non-Executive Director
SHI Zhengfu (史正富)	51	Independent Non-Executive Director
LEE Lawrence (李磊)	40	Vice President, Chief Financial Officer, Qualified Accountant
JIANG Jianzhong (江建中)	56	Executive Vice President
XU Huaihai (徐懷海)	36	Vice President
BAO Xugen (包叙根)	52	Vice President
ZHANG Mingfa (張明發)	44	Vice President
YIU Hoi Yan (姚凱欣)	33	Company Secretary, Finance and Administrative Manager

EXECUTIVE DIRECTORS

ZHU Zhangjin (朱張金), aged 39, joined our Company on June 12, 1995 and is our founding Chairman and Chief Executive Officer. Before founding our Company, Mr. Zhu was involved in several business ventures in the areas of textile, leather processing, garment, trading, etc. With over 17 years of experience in the leather manufacturing industry, Mr. Zhu has extensive knowledge in the upholstered furniture industry in the PRC and has been a successful entrepreneur in the leather manufacturing related businesses. Mr. Zhu is also the vice chairman of the China Leather Association and the deputy director of the Science and Technology Commission. In recognition of his contribution to promote the development of the leather manufacturing industry, Mr. Zhu was awarded the "Top Ten Outstanding Youths in Zhejiang Province" in 2003. In 2004, Mr. Zhu was awarded the "Top Ten Businessmen in Zhejiang."

ZHOU Xiaosong (周小松), aged 49, joined our Company on June 12, 1995 and is an executive Director, vice president, and general manager of our Leather Manufacturing Division. Mr. Zhou has spent more than 15 years in the leather manufacturing industry. He is now the director of our research and development center. Mr. Zhou obtained a diploma in Economics and Management from the Adult College of Hangzhou University in 1999.

ZHU Jianqi (祝建其), aged 44, joined our Company on May 1, 1996 and is an executive Director, vice president, and general manager of our Treasury. Prior to joining our Company, he served as the deputy director and deputy manager of the Qingyun Town Industrial Office. He has about 20 years of experience in the accounting and financial fields. Mr. Zhu also graduated from the business management Master program of the Zhejiang University of Technology in 2002. In 2003, he received a diploma in Economics from the China University of Geosciences.

NON-EXECUTIVE DIRECTORS

SUN Qiang Chang (孫強), aged 49, joined our Company as a non-executive Director on October 1, 2004. Mr. Sun is currently the managing director of Warburg Pincus Asia LLC, a leading private equity and venture capital firm. Mr. Sun has been with Warburg Pincus since 1995. Mr. Sun has spent about 19 years in the investment banking industry and private equity markets. Before joining Warburg Pincus, Mr. Sun served as an executive director of the investment banking division of Goldman Sachs (Asia) LLC. Mr. Sun is also the founding chairman of the China Venture Capital Association and a director of AsiaEC.com Limited, AsiaInfo Holdings, Inc., Hong Leong Asia Limited, North Pole Limited, Shanghai Emecox Lane Co., Ltd., Enerchina Holdings Limited, Harbour Networks Holdings Limited and Datang Microelectronics Technology. Mr. Sun obtained his Bachelor of Arts degree from the Beijing Foreign Languages Institute in 1983 and his Master of Arts degree from the Joseph Lauder Institute of International Management of the University of Pennsylvania and a MBA from the Wharton School of Business of the University of Pennsylvania in 1989.

INDEPENDENT NON-EXECUTIVE DIRECTORS

LU Yungang (陸運剛), aged 42, joined our Company as an independent non-executive Director on June 17, 2005. Mr. Lu is currently founder and managing director of APAC Capital Advisors Limited ("APAC"), a Hong Kong based investment management company that specializes in Greater China equities, as well as a director of AsiaInfo Holdings, Inc. Prior to setting up APAC, Mr. Lu has worked with institutions including Credit Suisse First Boston, JP Morgan Securities Asia Inc. and Schroders Asia Limited, holding various posts including Head of China Research when he was with Credit Suisse First Boston. Mr. Lu obtained his Bachelor of Science degree from the Beijing University in July 1985 and his Master of Science degree from the Brigham Young University, Provo, Utah in 1991. He obtained a Ph.D. in Management from the University of California in September 1998.

CHOW Joseph (周凡), aged 42, joined our Company as an independent non-executive Director on July 11, 2005. Mr. Chow is currently the Chief Financial Officer of Harbour Networks Limited and has been in this role since March 9, 2005, and has held senior managerial positions in various companies, including as Chief Financial Officer with China Netcom (Holdings) Company Limited for three years from October 2001, director of strategic planning with Bombardier Capital Inc., and vice president of international operations with Citigroup. Mr. Chow had experience in internal controls and in preparing comparable financial statements in his current and previous capacity as chief financial officer as mentioned above. Mr. Chow obtained a Bachelor of Arts degree in political science from Nanjing Institute of International Relations in 1984, and a Master of Business Administration from the University of Maryland at College Park in 1993. The Directors are satisfied that Mr. Chow has the appropriate professional qualifications or accounting or related financial management expertise for the purpose of Rule 3.10(2) of the Listing Rules and are of the opinion that Mr. Chow is suitable to serve as an independent non-executive Director.

SHI Zhengfu (史正富), Ph.D. aged 51, joined our Company as an independent non-executive Director on June 17, 2005. Mr. Shi is the Director of the Center of New Political Economy of Fudan University, which he obtained a Master in Economics in 1985 and taught for a year before leaving to continue his studies in the US where he obtained his Doctor's degree in Economics. From 1995 to 1999, he was the Chief Executive of Sinoway Investment Ltd. Mr. Shi as an Economist is also an author of numerous books, academic journals and publications and has received numerous awards.

SENIOR MANAGEMENT AND QUALIFIED ACCOUNTANT

LEE Lawrence (李磊), aged 40, joined our Company as a member of our senior management on a full time basis, holding the positions of vice president, qualified accountant and Chief Financial Officer on August 1, 2004. Mr. Lee has over 13 years of experience in corporate finance, financial advisory and management, accounting, and auditing. He is also an associate member of the Association of Chartered Certified Accountants ("ACCA"). Before joining our Company, Mr. Lee served from July 2001 to April 2004 as Chief Financial Officer at Eagle Brand Holdings Limited, a company listed on the Singapore Stock Exchange. He also worked as a financial controller at the Korean division of Exel Plc in the UK between January 1999 to July 2001 and the senior auditor of the London international business headquarter of Waste Management Inc. in the US from January 1995 to November 1996. In 1987, Mr. Lee participated in a research program relating to the economic policies of the PRC at the Chinese Economic System Reform Research Institute and the London School of Economics. Mr. Lee received a Bachelor degree in Management and Engineering from the Beijing Institute of Technology in 1984. Mr. Lee also obtained a Master degree in Economics from the Renmin University in 1987 and a Master degree in Accounting and Finance from the London School of Economics in 1992.

JIANG Jianzhong (江建中), aged 56, joined our Company as executive vice president on March 27, 2004. Before joining our Company, in 1990 Mr. Jiang joined AB SKF, a listed company in Stockholm, and was primarily responsible for the management of the manufacturing of roller bearings and seals in China. Apart from AB SKF, Mr. Jiang also worked at Shanghai Foreign Trade General Co., Ltd., the Shanghai China Bearing Factory and the Pujiang Bearing Factory in the PRC. Mr. Jiang received a diploma in Mechanical Engineering from the Shanghai Mechanical College in 1969.

XU Huaihai (徐懷海), aged 36, joined our Company as vice president and general manager of our Automotive Leather Division on May 1, 2002. Since 2001, Mr. Xu has been one of the leaders to promote the automotive leather industry in the PRC. Before joining our Company, Mr. Xu worked as a technician specializing in leather manufacturing at the People's Liberation Army. He had also served as a technical and sales supervisor of Ciba-Geigy Shanghai Co., Ltd. and a manager of the Shanghai Representative Office of TFL Gmbh. Mr. Xu graduated from Shanghai Applied Technology Institute in 1989, majoring in leather studies. In 1994, he obtained a Bachelor degree in Applied Chemistry from the East China University of Science and Technology. In 2001, he received a MBA from a joint program organized by the Shanghai University of Finance and Economics and the Webster University of the US.

BAO Xugen (包叙根), aged 52, joined our Company as vice president of our Public Relations Division on November 28, 2001. Before joining our Company, Mr. Bao was the director of the Zhejiang branch of the Commission for Economic Restructuring and the deputy bureau chief of the Village and Town Enterprises Bureau of the Haining Municipality. He was also the secretary of the Party Committee of Shenshi Town, the Haining Municipality from 1989 to 1997 and the township head of the Xinjiang Town from 1979 to 1988. Mr. Bao obtained a diploma in Management and Administration from the Zhejiang Radio and Television University in July 1991.

ZHANG Mingfa (張明發), aged 44, joined our Company on October 1, 1997 as vice president of our Import and Export Division. With more than 24 years of experience in the leather manufacturing industry, Mr. Zhang is currently in charge of our import and export business. Mr. Zhang qualifies as an international business engineer based on a qualification certificate approved by the Ministry of Commerce of the PRC in 1995. In 1984, Mr. Zhang obtained a diploma from Chengdu University of Technology. In 1989, Mr. Zhang obtained a diploma in Business Administration from Zhejiang University of Technology.

COMPANY SECRETARY

YIU Hoi Yan (姚凱欣), aged 33, joined our Company as an accountant on April 29, 2004 and was later promoted to be our company secretary and finance and administrative manager. Before joining our Company, Ms. Yiu was a senior auditor in Horwath Hong Kong CPA Limited. She is a member of the ACCA and the Hong Kong Institute of Certified Public Accountants. Ms. Yiu obtained a Bachelor of Arts (Honors) in Accountancy from the City University of Hong Kong in 1995.

COMPLIANCE ADVISER

We have appointed ICEA Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules to advise us on various matters as required under the Listing Rules and to enhance communications with the Stock Exchange.

The appointment is exclusive and shall commence on the Listing Date and end on the date on which we send our financial results as required under Rule 13.46 of the Listing Rules for the first full financial year commencing after the Listing Date.

AUDIT COMMITTEE

We established an audit committee on September 26, 2005 with written terms of reference as suggested under the Code of Best Practice set out in Appendix 14 to the Listing Rules.

The audit committee has three members, comprising Mr. Joseph Chow, Mr. Lu Yungang and Mr. Shi Zhengfu, all of whom are our independent non-executive Directors. The chairperson of the audit committee is Mr. Joseph Chow. As chief financial officer of Harbour Networks Limited and formerly China-Netcom (Holdings) Company Limited, Mr. Chow has experience with internal controls and in preparing and auditing financial statements or experience reviewing or analyzing audited financial statements. The Directors are of the view that given Mr. Chow's experience, he is suitable for the position.

The primary duties of the audit committee are to review and supervise our financial reporting process and internal controls system, nominate and monitor external auditors and provide advice and comments to our Directors.

REMUNERATION COMMITTEE

We established a remuneration committee on September 26, 2005 with written terms of reference.

The remuneration committee consists of three members, comprising Mr. Sun Qiang Chang, Mr. Lu Yungang and Mr. Shi Zhengfu, two of whom are our independent non-executive Directors and the other is our non-executive Director. The chairman of the remuneration committee is Mr. Sun Qiang Chang.

The majority of the members of the remuneration committee are independent non-executive Directors. The primary functions of the remuneration committee are to evaluate the performance and make recommendations on the remuneration package of our Directors and senior management and evaluate and make recommendations on our Share Option Scheme.

SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme, pursuant to which we may grant options to our employees, management, Directors and substantial shareholders and those of our subsidiaries, entitling them to subscribe for Shares which, when aggregated with options granted under any other option schemes we may adopt entitling them to subscribe for Shares, amount to a maximum of 10% of our entire issued share capital as at the date of approval of the Share Option Scheme by our shareholders (initially 10% of our issued share capital as at the Listing Date). This 10% limit may be "refreshed" from time to time at a general meeting of our shareholders. At any time, the number of Shares which may be issued upon exercise of all outstanding options granted under any option scheme we may adopt shall not exceed 30% of our issued share capital from time to time. As at the date of this prospectus, we have no share option schemes other than the Share Option Scheme. The terms of the Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules.

Details of the principal terms of the Share Option Scheme are summarized in the paragraph entitled "Share Option Scheme" set out in "Appendix VII — Statutory and General Information" to this prospectus.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

The aggregate amount of compensation (including fees, salaries, housing allowances, other allowances and benefits in kind) paid by us to our Directors for the years ended December 31, 2002, 2003, 2004 and the four months ended April 30, 2005 was approximately RMB282,000, RMB282,000, RMB382,000 and RMB416,000, respectively.

During the three years ended December 31, 2004, no remuneration was paid by us to or receivable by Directors for each of those three years as an inducement to join or upon joining us. No compensation was paid by us to or receivable by Directors or past Directors for each of the three years ended December 31, 2004 for the loss of office as our Director or of any other office in connection with the management of the affairs of us. None of our Directors had waived any emoluments for each of the last three years.

The remuneration of members of our senior management team is determined by the Board of Directors and is reviewed on an annual basis by our remuneration committee taking into consideration performance criteria such as divisional sales, profitability, etc.

As of April 30, 2005, the five highest paid individuals of our Company include three Directors whose aggregate compensation has been included in the aggregate compensation of our Directors above. Excluding the compensation of such Directors, the aggregate amount of fees, salaries, housing allowances, contribution to retirement benefits plan, bonuses paid or receivable, amounts paid or receivable as an inducement to join or upon joining us or any of our subsidiaries, compensation paid or receivable for the loss of any office in connection with the management of our affairs or any of our subsidiaries, and other allowances and benefits in cash or in kind paid by us to the five highest paid individuals of our Company for the years ended December 31, 2002, 2003, 2004 and the four months ended April 30, 2005 was approximately RMB137,000, RMB179,000, RMB177,000 and RMB247,000, respectively.

Save as disclosed above, no other payments have been paid or are payable, in respect of the years ended December 31, 2002, 2003 and 2004, by us or any of our subsidiaries to our Directors. We estimate that we will pay an aggregate amount of approximately RMB2.5 million, including benefits and contributions but excluding discretionary bonus, to our Directors as remuneration in respect of the year ending December 31, 2005, according to our present arrangements.

The following is a description of the authorized and issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately before and after completion of the Global Offering.

Authorized share capital:		
266,666,666,666⅔	Shares of US$0.00015 each	US$40,000,000
Issued shares:		
553,263,153	Shares in issue as of the date of this prospectus	US$82,990
Shares to be issued:		
257,973,142	Shares to be issued assuming conversion of the Warburg Pincus Loans	US$38,696
202,809,074	Shares to be issued pursuant to the Global Offering	US$30,421
Total issued share capital:		
1,014,045,369	Shares	US$152,107

Assumption

The above table assumes that the Global Offering becomes unconditional and does not take into account the Shares which may be issued pursuant to any exercise of any options granted or to be granted under the Share Option Scheme referred to below or which may be issued or repurchased pursuant to the General Mandate to issue Shares referred to below or the Repurchase Mandate referred to below, as the case may be.

Ranking

The Shares are ordinary shares in our share capital and rank equally with all Shares currently in issue or to be issued, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus.

Share Option Scheme

We have conditionally adopted the Share Option Scheme, whereby our staff and directors, among others, may be granted options entitling them to subscribe for Shares which amount to a maximum of 10% of the aggregate of the Shares in issue on the date the Shares commence trading on the Stock Exchange.

The principal terms of the Share Option Scheme are summarized in the paragraph entitled "Share Option Scheme" set out in "Appendix VII — Statutory and General Information" to this prospectus.

General Mandate to issue Shares

Conditional on conditions as stated in the section entitled "Structure and Conditions of the Global Offering — Conditions of the Public Offer," our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares (otherwise than pursuant to, or in consequence of, the Global Offering, a rights issue or the exercise of any subscription rights under the Share Option Scheme or scrip dividend scheme or similar arrangements, any adjustment of rights to subscribe for Shares under options and warrants or a special authority granted by our shareholders) with an aggregate nominal value of not more than the sum of:

(a) 20% of the aggregate nominal value of the share capital of the Company in issue immediately following the completion of the Global Offering; and

(b) the aggregate nominal value of the share capital of the Company repurchased by the Company (if any).

This General Mandate to issue Shares will remain in effect until the earliest of:

(i) the conclusion of the Company's next annual general meeting;

(ii) the expiration of the period within which the Company's next annual general meeting is required by any applicable law or the Articles of Association to be held; or

(iii) it is varied or revoked by an ordinary resolution of the Company's shareholders in general meeting.

For further details of this general mandate, please refer to the paragraph entitled "Further information about our Company — Written resolutions of the Company passed on September 24, 2005" in "Appendix VII — Statutory and General Information" to this prospectus.

Repurchase Mandate

Conditional on conditions as stated in the section entitled "Structure and Conditions of the Global Offering — Conditions of the Public Offer," the Directors have been granted a general unconditional mandate to exercise all our powers to repurchase Shares (Shares which may be listed on the Stock Exchange or on any other stock exchange and Shares which are recognized by the SFC and the Stock Exchange for this purpose) with a total nominal value of not more than 10% of the aggregate nominal value of the Company's share capital in issue immediately following the completion of the Global Offering.

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognized by the SFC and the Stock Exchange for this purpose), and made in accordance with all applicable laws and the requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in the section entitled "Repurchase of our Shares" set out in "Appendix VII — Statutory and General Information" to this prospectus.

The General Mandate to repurchase Shares will remain in effect until the earliest of:

(i) the conclusion of our next annual general meeting;

(ii) the expiration of the period within which our next annual general meeting is required by any applicable law or the Articles of Association to be held; and

(iii) it is varied or revoked by an ordinary resolution of our shareholders in general meeting.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware and taking no account of any Shares which may be taken up under the Global Offering and Shares to be issued pursuant to options which may be granted under the Share Option Scheme, the following persons will, immediately following the completion of the Global Offering (assuming all of the Sale Shares are sold under the Global Offering and taking no account of the exercise of the Over-allotment Option), have interests or short positions in Shares or underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

Name	Shares prior to the Global Offering	Percentage of issued Shares prior to the Global Offering	Shares following the Global Offering	Percentage of issued Shares following the Global Offering
		(%)		(%)
Mr. Zhu	328,867,019	40.54	328,867,019	32.43
Warburg Pincus International Partners, L.P.	123,636,208	15.24	89,616,811	8.84(2)
Warburg Pincus Private Equity VIII L.P.	125,000,886	15.41	90,605,988	8.94(2)
Warburg Pincus Partners LLC(1)	257,973,142	31.80	186,989,966	18.44(2)
Warburg Pincus & Co.(1)	257,973,142	31.80	186,989,966	18.44(2)

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 (see "Definitions" section).

(2) If the Over-allotment Option is exercised in full, (i) Warburg Pincus International Partners, L.P. will be interested in an aggregate of 72,607,113 Shares representing approximately 7.16% of our issued share capital; (ii) Warburg Pincus Private Equity VIII L.P. will be interested in an aggregate of 73,408,539 Shares representing approximately 7.24% of our issued share capital; and (iii) the Warburg Pincus Funds will be interested in an aggregate of 151,498,378 Shares, representing approximately 14.94% of our issued share capital.

Save as disclosed herein, but taking no account of any Shares which may be taken up under the Global Offering and Shares to be issued pursuant to options which may be granted under the Share Option Scheme, our Directors are not aware of any person who will, immediately following the completion of the Global Offering (assuming all of the Sale Shares are sold under the Global Offering and taking no account of any exercise of the Over-allotment Option), have interests or short positions in Shares or underlying Shares which would fail to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company. Our Directors are satisfied that we are capable of carrying out our business independently of our controlling shareholder.

SELLING SHAREHOLDERS

Pursuant to the International Underwriting Agreement, the Warburg Pincus Funds, Symbiospartners, Ocean Creator and Cao Haoqiang (collectively the Selling Shareholders) will offer 70,983,176, 6,666,666, 4,444,444 and 19,316,640 Shares, respectively for sale in the International Placing, while the Warburg Pincus Funds and Cao Haoqiang will offer 35,491,588 and 10,141,412 Shares, respectively, for sale pursuant to the Over-allotment Option.

The shareholdings of the Selling Shareholders immediately prior to and following the Global Offering, giving effect to the full conversion by the Warburg Pincus Funds of the First Warburg Pincus Convertible Loan and the Second Warburg Pincus Convertible Loan into the Series A Preferred Shares and Series B Preferred Shares, respectively, and then immediately into an aggregate of 257,973,142 Shares (the "Warburg Pincus Conversion"), and both before and after giving effect to the exercise of the Over-allotment Option in full, are set out in the table below.

	Immediately prior to the Global Offering		**After the Global Offering, before exercise of the Over-allotment Option**		**After the Global Offering, after full exercise of the Over-allotment Option**	
Selling Shareholders	(shares)	(%)	(shares)	(%)	(shares)	(%)
Warburg Pincus Funds	257,973,142	31.80	186,989,966	18.44	151,498,378	14.94
Cao Haoqiang	30,434,782	3.75	11,118,142	1.10	976,730	0.10
Symbiospartners	6,666,666	0.82	—	—	—	—
Ocean Creator	4,444,444	0.55	—	—	—	—

The Warburg Pincus Funds have undertaken to us (i) to complete the Warburg Pincus Conversion upon the conditions of the Public Offer having been fulfilled or waived, and in any event before commencement of dealings in the Shares on the Stock Exchange; and (ii) not to exercise any right to demand repayment under any agreement in respect of the First Warburg Pincus Convertible Loan, the Second Warburg Pincus Convertible Loan, any related promissory notes or other instruments issued by any member of our Group, on or before October 27, 2005.

RELATIONSHIP WITH CONTROLLING SHAREHOLDER

Mr. Zhu, our controlling shareholder, does not have an interest in any business which competes, or is likely to compete, either directly or indirectly, with our business.

Mr. Zhu holds interests in various companies operating in a variety of businesses including Sunbridge, whose subsidiaries carry out transactions with us which constitute connected transactions as disclosed in the section headed "Business — Connected Transactions." Such companies do not share resources (such as staff, customers and suppliers) and are not engaged in any businesses which may potentially be in competition with us. Mr. Zhu has executed a deed of non-competition undertaking in our favor on September 26, 2005, pursuant to which he has undertaken to us that from the time of listing and during the period when he and/or his associates (as the case may be) remain our controlling shareholder, he will not engage, and he will procure that his associates (as the case may be) not to engage, in any business which competes or may compete with any business from time to time carried out by us; and that during such period, he will procure that any other company controlled by him and/or his associates, including those companies in which he and/or his associates is entitled to exercise or control more than 50% of the voting power at the general meetings or is in a position to control the board of directors, shall not engage in any such business. Mr. Zhu will provide an annual confirmation to the independent non-executive Directors or the Company in respect of the compliance with the terms of the non-competition undertaking and disclose such confirmation in the annual report of the Company.

RESULTS OF OPERATIONS

The following tables set forth, for the periods indicated, selected financial data from our consolidated income statements, consolidated balance sheets and consolidated cash flow statements. For more detailed information, please see the Accountants' Report set out in Appendix I to this prospectus.

Consolidated Income Statements

	Year ended December 31,			Four months ended April 30,	
	2002	2003	2004	2004	2005
	(RMB in thousands)				
				(unaudited)	
Turnover	1,386,805	2,135,498	2,852,391	817,787	983,121
Cost of sales	(1,192,649)	(1,758,091)	(2,408,719)	(681,453)	(822,660)
Gross profit	194,156	377,407	443,672	136,334	160,461
Other operating income	74,149	201,583	189,895	80,504	20,818
Distribution costs	(9,205)	(29,904)	(56,487)	(13,112)	(18,332)
Administrative expenses	(25,980)	(67,985)	(93,902)	(31,420)	(32,475)
Other operating expenses	(23,993)	(144,743)	(133,596)	(67,088)	(7,234)
Operating profit	209,127	336,358	349,582	105,218	123,238
(Loss) gain on disposals of subsidiaries	—	(519)	3,013	—	(1,380)
Finance costs	(30,459)	(53,905)	(95,419)	(27,785)	(36,696)
Profit before taxation	178,668	281,934	257,176	77,433	85,162
Taxation	(51,307)	(49,420)	(22,646)	(6,101)	(9,396)
Profit for the year/period	127,361	232,514	234,530	71,332	75,766
Attributable to:					
Equity holders of the Company	108,706	199,323	225,701	61,944	81,699
Minority interests	18,655	33,191	8,829	9,388	(5,933)
	127,361	232,514	234,530	71,332	75,766
Dividends	—	16,900	—	—	—
Earnings per share					
Basic(1)(3)	25 cents	46 cents	47 cents	14 cents	15 cents
Diluted(2)(3)	N/A	40 cents	35 cents	10 cents	11 cents

Notes:

(1) Basic earnings per share is calculated by dividing profit attributable to equity holders of the Company by the weighted average number of ordinary shares.

(2) Diluted earnings per share is calculated by dividing profit attributable to equity holders of the Company adjusted for interest on the Warburg Pincus Convertible Loans divided by the sum of the weighted average number of ordinary shares and the number of ordinary shares to be issued assuming full conversion of the Warburg Pincus Convertible Loans.

(3) The weighted average number of ordinary shares for the purpose of calculating basic and diluted earnings per share attributable to the equity holders of the Company for each period has been retrospectively adjusted for the effect of the share consolidation completed subsequent to April 30, 2005.

Consolidated Balance Sheets

	At December 31,			At April 30,
	2002	2003	2004	2005
	(RMB in thousands)			
Current assets	974,364	1,807,449	2,560,696	2,605,097
Inventories	380,680	646,248	1,392,738	1,231,049
Trade and other receivables	372,733	624,099	529,466	609,604
Bank balances and cash	175,111	410,293	213,458	338,384
Non-current assets	370,514	826,836	1,476,248	1,499,404
Total assets	1,344,878	2,634,285	4,036,944	4,104,501
Current liabilities	831,192	1,773,686	2,733,076	2,726,698
Trade and other payables	192,064	517,396	873,382	721,250
Bank and other borrowings — due within one year	593,773	1,056,207	1,472,825	1,584,512
Convertible Loans	—	180,435	304,934	304,934
Non-current liabilities	108,300	143,539	102,492	102,727
Bank and other borrowings — due after one year	108,300	102,039	102,492	102,727
Total liabilities	939,492	1,917,225	2,835,568	2,829,425
Equity attributable to equity holders of the Company	373,788	557,247	1,091,104	1,177,358
Minority interest	31,598	159,813	110,272	97,718
Total liabilities and total equity	1,344,878	2,634,285	4,036,944	4,104,501

Consolidated Cash Flow Statements

	Year ended December 31,			Four months ended April 30,	
	2002	2003	2004	2004	2005
	(RMB in thousands)				
				(unaudited)	
Net cash from operating activities	129,081	21,031	17,279	38,129	95,312
Net cash used in investing activities	(185,280)	(512,945)	(979,993)	(307,616)	(34,484)
Net cash from financing activities	205,817	727,096	765,879	400,602	64,098

You should read the following discussion and analysis of our financial condition and results of operations together with our audited financial statements as at and for the years ended December 31, 2002, 2003 and 2004 and as at and for the four months ended April 30, 2005, as well as our unaudited financial information for the four months ended April 30, 2004, and the accompanying notes included in the Accountants' Report set out in Appendix I to this prospectus. The Accountants' Report has been prepared in accordance with IFRS.

OVERVIEW

We are a leading upholstered furniture and leather products manufacturer based in China. In 2004, we were the largest leather products and the largest upholstered furniture manufacturer in China based on revenue, according to the China State Statistical Bureau and the China National Furniture Association, respectively. We purchase and process raw cowhides and wet blues into finished leather or fully assembled leather products. Our products mainly include leather and fabric upholstered furniture and furniture covers, furniture leather and automotive leather. We increased our turnover and profit for the year from RMB1,386.8 million and RMB127.4 million in 2002, to RMB2,852.4 million and RMB234.5 million in 2004, respectively. For the four months ended April 30, 2005, our turnover was RMB983.1 million and our profit for the period was RMB75.8 million.

BASIS OF PRESENTATION

Prior to the Global Offering, we underwent our Reorganization, in which we became the ultimate holding company of Zhejiang Kasen, our principal operating subsidiary, through our direct shareholding in Kasen International. For further information, please see "Background and Reorganization." The financial information included in this prospectus presents our consolidated results and financial position as if the current group structure had existed since January 1, 2002, except for acquisition and disposal of subsidiaries which were accounted for using the purchase method of accounting. The financial information included in this prospectus may not necessarily reflect our results of operations, financial position and cash flows in the future or what they would have been had we not completed our Reorganization.

In addition, the financial information included in this prospectus relating to business combination has been prepared in accordance with new International Financial Reporting Standard rules, which are effective for accounting periods beginning on or after January 1, 2005. For a discussion of the effect on our financial statements of the application of these new rules, particularly with respect to the treatment of goodwill and negative goodwill incurred in acquisitions, please see "— New Accounting Standards."

FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following factors affect our results of operations and financial condition and the period-to-period comparability of our results of operations.

Changes in Product Mix

We continually adjust our product mix as we identify new products that we believe can increase our profitability, maintain our revenue growth and gross margin and enhance our long-term competitiveness. We also take into consideration the long-term growth potential for each product and our evaluation of barriers to entry and the overall competitive environment for each product. Our average price per unit fluctuates principally due to changes in our product mix and variations in prices between models and product types within our different product segments. As a result, we do not consider average price per unit to be a meaningful measurement or guide to how we select our product mix.

The table below sets forth our turnover from operations for each of our product segments for the periods indicated.

	Year ended December 31,						Four months ended April 30,			
	2002		2003		2004		2004		2005	
Turnover	(RMB in millions)	(% of turnover)	(RMB in millions)	(% of turnover)	(RMB in millions)	(% of turnover)	(RMB in millions)	(% of turnover)	(RMB in millions)	(% of turnover)
							(unaudited)			
Upholstered furniture ..	567.3	40.9	1,128.4	52.9	2,033.2	71.3	622.1	76.1	756.7	77.0
Leather upholstered furniture	182.1	13.1	548.4	25.7	1,194.0	41.9	376.1	46.0	460.2	46.8
Fabric upholstered furniture	—	—	18.6	0.9	117.2	4.1	11.0	1.3	82.7	8.4
Leather furniture covers.................	385.2	27.8	561.4	26.3	529.5	18.6	183.8	22.5	118.5	12.1
Fabric furniture covers.................	—	—	—	—	192.5	6.7	51.2	6.3	95.3	9.7
Furniture leather	351.4	25.4	427.8	20.0	491.8	17.2	146.5	17.9	178.8	18.2
Automotive leather	0.6	0.0	47.4	2.2	127.5	4.5	37.0	4.5	47.3	4.8
Leather garments..........	439.6	31.7	445.5	20.9	130.8	4.6	8.0	1.0	—	—
Others..........................	27.9	2.0	86.4	4.0	69.1	2.4	4.2	0.5	0.3	0.0
Total............................	1,386.8	100.0	2,135.5	100.0	2,852.4	100.0	817.8	100.0	983.1	100.0

Since 2001, our product mix has changed considerably, with sales of upholstered furniture increasing significantly as a percentage of turnover, and sales of leather garments declining as a percentage of turnover. In 2002, the year after we commenced commercial sales of upholstered furniture, our revenues from this segment were 40.9% of turnover, and by 2004 and the first four months of 2005 our revenues from this segment had increased to 71.3% and 77.0% of turnover, respectively. At the same time, our sales of leather garments declined from 31.7% of turnover in 2002 to 4.6% of turnover in 2004 and further to nil in the first four months of 2005, as we shifted focus to other product areas that we believed had better opportunities for growth, such as upholstered furniture. In 2001, we identified automotive leather as a new growth opportunity and began the qualification process for our automotive leather in 2001 and commenced commercial sales of automotive leather at the end of 2003. Our revenue from automotive leather sales rose from 2.2% of turnover in 2003 to 4.5% of turnover in 2004 to 4.8% of turnover in the first four months of 2005. We expect that sales of upholstered furniture products to continue to be our largest revenue segment and we intend to commence commercial production of footwear leather to further diversify our product mix.

Raw Materials

Raw materials represented 89.7%, 88.7%, 84.6% and 84.3% of our cost of sales for the years ended December 31, 2002, 2003, 2004 and the first four months of 2005, respectively. The amount of each raw material used is a direct result of our product mix. For example, the more leather products we produce, the more raw cowhides and wet blues we use; the more fabric upholstered furniture and fabric furniture covers we produce, the more fabric we use. The following table sets forth our primary raw materials as a percentage of cost of sales for the periods indicated.

	Year ended December 31,						**Four months ended April 30,**			
	2002		**2003**		**2004**		**2004**		**2005**	
Raw Materials	(RMB in millions)	(% of cost of sales)	(RMB in millions)	(% of cost of sales)	(RMB in millions)	(% of cost of sales)	(RMB in millions)	(% of cost of sales)	(RMB in millions)	(% of cost of sales)
							(unaudited)			
Raw cowhides	343.9	28.8	455.3	25.9	453.2	18.8	163.3	24.0	111.2	13.5
Wet blues[1]	372.1	31.2	557.9	31.7	786.1	32.6	208.4	30.6	265.9	32.3
Chemicals	153.0	12.8	233.7	13.3	328.6	13.6	102.8	15.1	119.7	14.6
Other raw materials[2]	200.5	16.9	312.3	17.8	471.0	19.6	100.8	14.7	196.5	23.9
Total raw materials	1,069.5	89.7	1,559.2	88.7	2,038.9	84.6	575.3	84.4	693.3	84.3

Notes:

(1) Cost of wet blues represents wet blues we purchased from four third party suppliers and from several of our connected persons, including former subsidiaries.

(2) Primarily includes fabric, lumber, foam and goods purchased for trading.

The principal raw materials we use in our operations are raw cowhides and wet blues, which together represented 51.4% of our costs of sales in 2004 and 45.8% in the first four months of 2005. We source our raw cowhides principally in the international market through various agents and, to a lesser extent, in the domestic China market. In sourcing cowhides, we take into account the size, defect rate, place of origin, age and sex of the cows, as well as seasonal factors that might also affect quality. Based on our experience, prices can fluctuate over relatively short periods of time depending on market conditions. As we have begun producing a greater percentage of fabric upholstered furniture and fabric furniture covers, raw cowhides and wet blues, as a percentage of cost of sales, has decreased from 60.0% in 2002 to 51.4% in 2004 and 45.8% in the first four months of 2005, while fabric, as a percentage of cost of sales, has increased from 2.0% in 2002 to 6.6% in 2004 and 9.6% in the first four months of 2005. Currently, we produce the majority of wet blues we use, by volume, in-house and purchase certain wet blues from four third party suppliers and from several of our connected persons, including former subsidiaries. See “Business — Connected Transactions — Continuing Connected Transactions.” We also outsource some of the production of our wet blues, by purchasing our own raw cowhides and then providing them to third parties to process. We plan to increase outsourcing further as our business expands, by asking third party providers to process cowhides directly obtained from our designated suppliers. This arrangement will help ensure the quality of raw cowhides produced and help us to better manage our inventory and working capital.

Our consumption of raw cowhides and wet blues will continue to increase as our business expands, although, as a percentage of cost of sales, it may decrease further as we produce more fabric upholstered furniture and other fabric furniture products. The amount of raw cowhides and wet blues we consumed in our production increased from 113.7 million square feet in 2002 to 189.3 million square feet in 2004, representing a compounded annual growth rate of 29.1%. The average unit price per square foot of raw cowhides and wet blues we used in our production of upholstered furniture, automotive leather and finished leather, which we calculate by dividing the square footage of raw cowhides and wet blues processed during the period by our cost of sales of raw cowhides and wet blues for the period, was RMB6.3, RMB6.5 and RMB6.5 for the years ended December 31, 2002, 2003 and 2004, respectively. We believe that our ability to maintain a relatively stable average unit price for our raw cowhides and wet blues reflects our strong focus on raw cowhide procurement.

In addition to raw cowhides and wet blues, we also use significant quantities of chemicals for our leather tanning process. Chemicals represented 13.6% and 14.6% of our costs of sales in 2004 and the first four months of 2005, respectively. The volume of chemicals we purchase is generally directly related to our leather production volume. We generally have long-term supply relationships with our chemical suppliers but make purchases on a short-term basis in accordance with our production needs.

Our other raw materials include fabric, lumber, foam and goods purchased for trading. Other raw materials represented 19.6% and 23.9% of our cost of sales in 2004 and the first four months of 2005, respectively. Fabric represented 6.6% and 9.6% of our cost of sales in 2004 and the first four months of 2005, respectively.

Sales volume

Our sales volume has increased significantly over the Track Record Period due to orders from new customers and increased sales to existing customers. New customers during this period included Universal in the US and Argos in the UK. Existing customers who increased sales during this period included Thomasville and Berkline/Benchcraft LLC in the US, the Brick Warehouse LP in Canada and Janda Furniture Pty. Ltd. in Australia. As at April 30, 2005, our manufacturing facilities for our principal products occupied approximately 1.3 million square meters of floor space, including 741,760 square meters located in our recently established Higher Point Sofa Industrial Park, Zhejiang Province, China. We have developed Higher Point Sofa Industrial Park through eight subsidiaries, in anticipation of increasing orders, and we expect that the subsidiaries at the Higher Point Sofa Industrial Park will further increase its contribution to our sales volume in the future.

The following table sets forth the approximate sales volumes of our principal products for the years ended December 31, 2002, 2003, 2004 and for the four months ended April 30, 2004 and April 30, 2005.

	For the year ended December 31,			For the four months ended April 30,	
	2002	2003	2004	2004	2005
Sales Volume by Products	(in thousands)				
Upholstered furniture (seats)	917	1,631	3,325	915	1,328
Leather upholstered furniture (seats)	195	594	1,224	343	498
Fabric upholstered furniture (seats)	—	—	189	31	149
Leather furniture covers (seats)	722	1,037	1,086	356	254
Fabric furniture covers (seats)	—	—	826	185	427
Furniture leather (square feet)	35,382	40,892	54,229	14,873	19,345
Automotive leather (square feet)	49	3,303	9,292	2,868	2,856

Increasing utilization

We have expanded, and will continue to expand, the scale of our operations, especially through the growth of our Higher Point Sofa Industrial Park facilities. Our capital expenditures for plant, machinery, buildings and construction in progress for the years ended December 31, 2002, 2003, 2004 and the four months ended April 30, 2005 totaled RMB159.0 million, RMB357.9 million, RMB717.6 million and RMB55.2 million, respectively. As a large portion of our recently established Higher Point Sofa Industrial Park operations is still in a start-up stage, we have idle capacity associated with these operations, which affects our profitability on a per unit basis, because of depreciation, labor and other fixed costs of these operations. As a result, the production cost per unit for our products is higher than it would be if our utilization was higher. Going forward, we expect that our utilization will improve, which we believe will have a positive impact on our results of operations. For a discussion of the risks associated with our expansion of capacity, please see "Risk Factors — Risks Related to our Business and our Industry — We may not successfully achieve our objectives to expand into new markets, increase capacity or broaden our product range."

Seasonality

We experience seasonality primarily in our sales of upholstered furniture and furniture leather. We typically experience higher sales of upholstered furniture from September to March relative to sales between April and August because the peak sales season for our customers in the US is generally from September to March. As a result of the seasonality in our upholstered furniture and furniture leather sales, our operating results may fluctuate. Because of our rapid growth, however, the effects of seasonality may be difficult to identify. As of April 30, 2005, we have not identified any seasonality in our sales of automotive leather in China, as this product segment is relatively new.

Income Tax

Each of our PRC subsidiaries is taxed individually, at actual rates ranging from 0% to 33%, depending on applicable corporate income tax rates and any applicable tax preferences or holidays. Our three major subsidiaries are foreign investment enterprises exempt from PRC income tax for the first two years that they are profitable and enjoy a 50% reduction for the next three years. In addition, when our subsidiaries which are foreign investment enterprises have total exports of more than 70%, they enjoy a reduction of their tax rate to 12%.

For the period prior to August 2003, Zhejiang Kasen, our principal operating subsidiary, was subject to a base tax rate of 33%. In July 2003, Zhejiang Kasen was re-registered as a Sino-foreign joint stock limited liability company, which is a form of foreign investment enterprise, and, as a result, the tax rate applicable to Zhejiang Kasen changed to a base tax rate of 26.4%, the rate applicable to foreign investment enterprises in Zhejiang Province. As a foreign investment enterprise, Zhejiang Kasen also qualifies for an exemption from PRC income tax for its first two profit-making years, and following the two-year exemption, for a 50% reduction from the base rate for the next three years. Zhejiang Kasen commenced its tax exemption period in 2004.

Our subsidiary Haining Kasen has been a foreign investment enterprise for over five years and no longer benefits from the first two year exemption and following three year tax reduction applicable to foreign investment enterprises. Our financial information for the four months ended April 30, 2005 assumes that Haining Kasen will export less than 70% and be subject to the normal 26.4% tax rate. However, if Haining Kasen exports over 70% in 2005, an adjustment will be made at year-end so that tax for the year will reflect the lower tax rate of 12%.

Our subsidiary Haining Kareno is a foreign investment enterprise that enjoyed an exemption from PRC income tax from January 2001 to December 2002, its first two profit-making years. Currently, Haining Kareno enjoys a 50% reduction in its applicable tax rate through December 2005, which is the three year reduction period. Because Haining Kareno exports its entire production, it is also eligible for the tax holiday for companies with total exports of more than 70%. As a result, Haining Kareno is currently taxed at 12%.

For the years ended December 31, 2002, 2003, 2004 and the first four months of 2005, our effective tax rate was 28.7%, 17.5%, 8.8% and 11.0%, respectively. Fluctuations in our effective tax rates and deviations from the standard rate are primarily due to the combination of tax exemptions and tax holidays enjoyed by our subsidiaries as described above.

No provision for Hong Kong profits tax has been made as we had no significant assessable profits arising in or derived from Hong Kong during the Track Record Period.

For the years ended December 31, 2002, 2003, 2004 and the first four months of 2005, no deferred tax assets were recognized. This was due to (i) uncertainties as to whether the tax authorities would allow the allowances for bad and doubtful debts to be claimed for tax purposes and the probable insignificant amounts involved; and (ii) most of the reversal of the temporary differences, which has a deferred tax effect, will fall within the tax exemption period.

For further information on how we are affected by taxation, please see "Appendix VI — Taxation" in this prospectus.

CRITICAL ACCOUNTING POLICIES

Accounting estimates are an integral part of the financial statements prepared by our management and are based upon management's then current judgment. Critical accounting policies are those that are both most important to the portrayal of our financial conditions and results of operations and require management's most difficult, subjective, or complex judgment, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting the estimate may differ significantly from management's current judgments. For a discussion of our critical accounting policies, please refer to Note 4 in the Accountants' Report in Appendix I of this prospectus.

NEW ACCOUNTING STANDARDS

The International Accounting Standards Board has issued a number of new International Financial Reporting Standards ("IFRS"), which are effective for accounting periods beginning on January 1, 2005. Details of the new IFRS applicable to us are summarized below.

IFRS 2

The International Accounting Standards Board has issued IFRS 2 Share-based Payment, which will require share-based payments to be recognized as an expense under IFRS. This expense will be measured at the fair value of the equity instruments issued, or the goods or services received determined at the date of grant, or receipt of goods or services. Examples of items included in the scope of IFRS 2 are share appreciation rights, employee share purchase plans, employee share ownership plans, share option plans, and plans where the issuance of shares (or rights to shares) may depend on a market or non-market related variable. IFRS 2 also expands the disclosure requirements previously included in International Accounting Standard 19 Employee Benefits. IFRS 2 is effective for annual periods beginning on or after January 1, 2005.

The share-based compensation granted by us prior to the date of this prospectus has no material effect to us. We will grant options under our Share Option Scheme. For further information on our Share Option Scheme, please see the section entitled "Directors, Senior Management and Staff — Share Option Scheme" in this prospectus. It is not currently possible to quantify the impact on our employee costs since the fair value of the Shares is not available.

IFRS 3

IFRS 3 affects business combination and how we account for goodwill and negative goodwill. Goodwill arises on the acquisition of a subsidiary and represents the excess of the cost of acquisition over our interest in the net fair value of the assets, liabilities and contingent liabilities of the subsidiary recognized at the date of acquisition. Under IFRS 3, goodwill is recognized as an asset at cost less any accumulated impairment losses. Negative goodwill represents the excess of our interest of the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition. Prior to IFRS 3, we released negative goodwill to income over a number of accounting periods, based on an analysis of the circumstances from which the balance resulted. Negative goodwill was reported as a deduction from assets in the balance sheet. IFRS 3 prohibits the recognition of negative goodwill on our balance sheet.

In accordance with the transitional rules of IFRS 3, we have applied the revised accounting policy prospectively from January 1, 2005. The carrying amount of negative goodwill as at January 1, 2005 has been derecognized and an adjustment of RMB4.4 million has been made to opening retained earnings and negative goodwill at January 1, 2005. Under the previous accounting policy, approximately RMB0.2 million of negative goodwill would have been released to income during the four months ended April 30, 2005, leaving a balance of negative goodwill of RMB4.2 million as at April 30, 2005. Therefore, the impact of the change in accounting policy for the period from January l, 2005 to April 30, 2005 is a reduction in other operating income of RMB0.2 million and an increase in net assets at December 31, 2005 of RMB4.4 million.

During the four months ended April 30, 2005, the discounts on acquisition (previously known as negative goodwill) arising on acquisition of an additional interest in a subsidiary have been fully released to income statement, amounted to RMB5.3 million.

PRINCIPAL INCOME STATEMENT COMPONENTS

Turnover

Turnover represents the invoiced value of goods sold, net of sales tax (including value added tax). We derive our turnover from sales of goods, including sales of upholstered furniture, furniture leather, automotive leather, leather garments and others. Sales of others primarily include sales of footwear leather and wet blues.

Cost of Sales

Our cost of sales consists principally of the cost of raw materials, including raw cowhides, wet blues, chemicals and other raw materials, such as fabric, lumber, foam and goods purchased for trading. Our cost of sales also includes labor costs, depreciation related to our manufacturing facilities and equipment and other manufacturing costs.

Other Operating Income

Other operating income includes revenue from sales of raw materials, including unprocessed raw hides sold by Baiyin Kasen, a subsidiary that we disposed of in December 2004, and excess chemicals not used by us. Other operating income also includes interest income, government grants and duty refunded with respect to our operations in Northwest China.

We received government grants during the Track Record Period for financial assistance, development of business in Zhejiang Province, China, technology assistance, export sales and other purposes, including subsidies related to new products and electricity. Government policies on grants are not consistent. They are based on the particular local or provincial government's economic policy and its financial resources, and its evaluation of a company's contribution to the local economy. We cannot assure you that we will receive any government grants in the future.

Distribution Costs

Distribution costs consist primarily of transportation expenses, which have increased over time as we increased sales volume and sold a greater number of bulkier items, such as upholstered furniture, and a smaller number of lighter items, such as leather garments. Distribution costs also include promotion expenses and advertising expenses.

Administrative Expenses

Administrative costs consist primarily of wages and bonuses for our personnel, including sales and marketing personnel and management, travel expenses, consulting and agency fees, allowances for bad and doubtful debts, depreciation, amortization and banking fees.

Other Operating Expenses

Other operating expenses primarily include costs principally associated with our sales of raw materials by Baiyin Kasen.

Finance Costs

Our finance costs represent interest accrued, primarily related to interest charges for bank loans and other borrowings and deemed interest on the debt portion of the Warburg Pincus Convertible Loans. If the Warburg Pincus Convertible Loans are converted before their maturity dates, the interest accrued but unpaid prior to conversion will be waived by Warburg Pincus according to the agreements and will be credited to the shareholders' equity. For further information on the Warburg Pincus Convertible Loans, please see "— Indebtedness — Borrowings and banking facilities" and "Appendix I — Accountants' Report — Note 26."

Taxation

Taxation represents amounts of corporate income tax we paid. For further information, see "— Factors Affecting Our Results of Operations and Financial Condition — Income Tax" and "Appendix VI — Taxation" in this prospectus.

Profit for the Period

Our profit for the period is our net profit for the period, including minority interests.

Minority Interests

Minority interests represents the profit or loss after tax attributable to the minority shareholders of our subsidiaries including Haining Kasen, Baiyin Kasen and Haining Kareno in 2002 and 2003; in Haining Kasen, Haining Schinder and Haining Kareno and five of our Higher Point Sofa Industrial Park subsidiaries in 2004; and in five of our Higher Point Sofa Industrial Park subsidiaries in the first four months of 2005.

Profit Attributable to our Equity Holders

Profit attributable to our equity holders is the portion of profit that belongs to us. Accounting policies require that we disclose, on the face of our income statement, our profit or loss for each period and the allocation of amounts between profit or loss attributable to minority interest and profit or loss attributable to equity holders.

The table below sets forth the major components of our profit and loss as a percentage of turnover for the periods indicated.

	For the year ended December 31,			For the four months ended April 30,	
	2002	2003	2004	2004	2005
	(% of turnover)				
				(unaudited)	
Turnover	100.0	100.0	100.0	100.0	100.0
Upholstered furniture	40.9	52.9	71.3	76.1	77.0
Furniture leather	25.4	20.0	17.2	17.9	18.2
Automotive leather	0.0	2.2	4.5	4.5	4.8
Leather garments	31.7	20.9	4.6	1.0	—
Others	2.0	4.0	2.4	0.5	0.0
Cost of sales	(86.0)	(82.3)	(84.4)	(83.3)	(83.7)
Gross profit	14.0	17.7	15.6	16.7	16.3
Other operating income	5.3	9.4	6.7	9.8	2.1
Distribution costs	(0.7)	(1.4)	(2.0)	(1.6)	(1.9)
Administrative expenses	(1.8)	(3.2)	(3.3)	(3.8)	(3.3)
Other operating expenses	(1.7)	(6.8)	(4.7)	(8.2)	(0.7)
Operating profit	15.1	15.7	12.3	12.9	12.5
(Loss) gain on disposals of subsidiaries	—	(0.0)	0.1	—	(0.1)
Finance costs	(2.2)	(2.5)	(3.4)	(3.4)	(3.7)
Profit before taxation	12.9	13.2	9.0	9.5	8.7
Taxation	(3.7)	(2.3)	(0.8)	(0.8)	(1.0)
Profit for the year/period	9.2	10.9	8.2	8.7	7.7
Attributable to:					
Equity holders of the Company	7.8	9.3	7.9	7.6	8.3
Minority interests	1.4	1.6	0.3	1.1	(0.6)

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Four months ended April 30, 2005 compared to four months ended April 30, 2004

Turnover

Turnover increased by RMB165.3 million, or 20.2%, from RMB817.8 million in the four months ended April 30, 2004 to RMB983.1 million in the four months ended April 30, 2005, primarily as a result of increased sales in upholstered furniture and furniture leather.

Revenue from sales of upholstered furniture increased by RMB134.6 million, or 21.6%, from RMB622.1 million in the four months ended April 30, 2004 to RMB756.7 million in the four months ended April 30, 2005, primarily as a result of increased sales volume due to increased orders from existing customers and, to a lesser extent, orders from new customers related to our Higher Point Sofa Industrial Park operations. Our sales volume for upholstered furniture increased from approximately 915,000 seats in the four months ended April 30, 2004 to approximately 1,328,000 seats in the four months ended April 30, 2005. Revenue from sales of upholstered furniture represented 76.1% and 77.0% of our total turnover for the four months ended April 30, 2004 and 2005, respectively.

Revenue from sales of furniture leather increased by RMB32.3 million, or 22.0%, from RMB146.5 million in the four months ended April 30, 2004 to RMB178.8 million in the four months ended April 30, 2005, primarily as a result of increased sales volume. Our sales volume for furniture leather increased from approximately 14,873,000 square feet in the four months ended April 30, 2004 to approximately 19,345,000 square feet in the four months ended April 30, 2005. Revenue from furniture leather represented 17.9% and 18.2% of our total turnover for the four months ended April 30, 2004 and 2005, respectively.

Cost of Sales

Cost of sales increased by RMB141.2 million, or 20.7%, from RMB681.5 million in the four months ended April 30, 2004 to RMB822.7 million in the four months ended April 30, 2005, primarily as a result of increased production. Raw materials, as a percentage of cost of sales, decreased from 84.4% to 84.3% in the four months ended April 30, 2004 compared to the four months ended April 30, 2005, respectively.

Cost of raw cowhides and wet blues increased by RMB5.4 million, or 1.5%, from RMB371.7 million in the four months ended April 30, 2004 to RMB377.1 million in the four months ended April 30, 2005. The cost of raw cowhides and wet blues as a percentage of cost of sales decreased from 54.5% to 45.8% in the four months ended April 30, 2004 compared to the four months ended April 30, 2005, primarily because sales of fabric upholstered furniture and fabric furniture covers increased as a percentage of total turnover. Cost of chemicals increased by RMB16.9 million, or 16.4%, from RMB102.8 million in the four months ended April 30, 2004 to RMB119.7 million in the four months ended April 30, 2005. Cost of other raw materials increased by RMB95.7 million, or 95.0%, from RMB100.8 million in the four months ended April 30, 2004 to RMB196.5 million in the four months ended April 30, 2005, primarily due to increased purchases of fabric as we increased our production of fabric upholstered furniture and fabric furniture covers. Labor costs increased by RMB7.7 million, or 15.4%, from RMB49.9 million in the four months ended April 30, 2004 to RMB57.6 million in the four months ended April 30, 2005.

Gross Profit and Gross Profit Margin

Gross profit increased by RMB24.2 million, or 17.8% from RMB136.3 million in the four months ended April 30, 2004 to RMB160.5 million in the four months ended April 30, 2005. Our gross profit margin decreased slightly from 16.7% in the four months ended April 30, 2004 to 16.3% in the four months ended April 30, 2005, due to slightly proportionally larger increases in cost of sales related to our Higher Point Sofa Industrial Park subsidiaries in relation to increases in total turnover as a result of the start-up nature of their operations.

Other Operating Income

Other operating income decreased by RMB59.7 million, or 74.2%, from RMB80.5 million in the four months ended April 30, 2004 to RMB20.8 million in the four months ended April 30, 2005, primarily as a result of our disposal in December 2004 of our subsidiary Baiyin Kasen, from whom we had previously derived revenue from sales of raw cowhides, and offset by a discount on the acquisition of an additional interest in a subsidiary amounted to RMB5.3 million. Revenue from sales of raw cowhides decreased by RMB61.5 million, or 88.2%, from RMB69.7 million in the four months ended April 30, 2004 to RMB8.2 million in the four months ended April 30, 2005.

Distribution Costs

Distribution costs increased by RMB5.2 million, or 39.7%, from RMB13.1 million in the four months ended April 30, 2004 to RMB18.3 million in the four months ended April 30, 2005, primarily as a result of increases in transportation costs and we increased our sales volume and sold a greater number of bulkier items, such as upholstered furniture, and decreased our sales volume of lighter items, such as leather garments.

Administrative Expenses

Administrative expenses increased by RMB1.1 million, or 3.5%, from RMB31.4 million in the four months ended April 30, 2004 to RMB32.5 million in the four months ended April 30, 2005, primarily as a result of increased expenses from increases in personnel, offset by decreases in consulting and agency fees, banking fees and traveling expenses. As at April 30, 2004, we had 650 management personnel and 56 sales personnel, compared to 711 management personnel and 133 sales personnel as at April 30, 2005. Wages increased from RMB9.0 million in the four months ended April 30, 2004 to RMB11.6 million in the four months ended April 30, 2005.

Other Operating Expenses

Other operating expenses decreased by RMB59.9 million, or 89.3%, from RMB67.1 million in the four months ended April 30, 2004 to RMB7.2 million in the four months ended April 30, 2005, primarily as a result of our December 2004 disposal of our subsidiary Baiyin Kasen, which previously had contributed to other operating expenses through costs associated with its sale of raw cowhides.

Operating Profit and Operating Profit Margin

Operating profit increased RMB18.0 million, or 17.1% from RMB105.2 million in the four months ended April 30, 2004 to RMB123.2 million in the four months ended April 30, 2005. Our operating profit margin decreased slightly from 12.9% in the four months ended April 30, 2004 to 12.5% in the four months ended April 30, 2005.

Finance Costs

Finance costs increased by RMB8.9 million, or 32.0%, from RMB27.8 million in the four months ended April 30, 2004 to RMB36.7 million in the four months ended April 30, 2005, primarily as a result of an increase in short-term debts.

Profit before Taxation and Taxation

For the four months ended April 30, 2004 and 2005, profit before taxation was RMB77.4 million and RMB85.2 million, respectively, and our effective tax rate was 7.9% and 11.0%, respectively. Tax expenses increased by RMB3.3 million, or 54.1%, from RMB6.1 million in the four months ended April 30, 2004 to RMB9.4 million in the four months ended April 30, 2005, primarily because we pay corporate tax monthly, but certain tax refunds can only be obtained after year end adjustments. Tax expenses for the four months ended April 30, 2004 reflects tax refunds after year end adjustments, whereas tax expenses for the four months ended April 30, 2005 do not. For further information on our taxes, please see "— Factors Affecting our Results of Operation and Financial Condition — Income Tax."

Profit for the Period

Our net profit increased by RMB4.5 million, or 6.3%, from RMB71.3 million in the four months ended April 30, 2004 to RMB75.8 million in the four months ended April 30, 2005. Our net profit margin decreased from 8.7% in the four months ended April 30, 2004 to 7.7% in the four months ended April 30, 2005.

Minority Interests

Minority interests were RMB9.4 million in the four months ended April 30, 2004 compared to a negative of RMB5.9 million in the four months ended April 30, 2005. The negative minority interests in the four months ended April 30, 2005 were primarily because our Higher Point Sofa Industrial Park subsidiaries were not profitable during the period due to the start-up nature of their operations.

Profit Attributable to our Equity Holders

Our net profit attributable to our equity holders increased RMB19.8 million, or 32.0%, from RMB61.9 million for the four months ended April 30, 2004 to RMB81.7 million for the four months ended April 30, 2005. Our net profit margin attributable to our equity holders increased from 7.6% for the four months ended April 30, 2004 to 8.3% for the four months ended April 30, 2005.

2004 compared to 2003

Turnover

Turnover increased by RMB716.9 million, or 33.6%, from RMB2,135.5 million in 2003 to RMB2,852.4 million in 2004, primarily as a result of increased sales in upholstered furniture. Revenue from sales of upholstered furniture increased by RMB904.8 million, or 80.2%, from RMB1,128.4 million in 2003 to RMB2,033.2 million in 2004, primarily as a result of increased sales volume. Our sales volume for upholstered furniture increased from approximately 1,631,000 seats in 2003 to approximately 3,325,000 seats in 2004. Revenue from sales of upholstered furniture by subsidiaries located in our Higher Point Sofa Industrial Park equaled RMB4.1 million and RMB265.7 million in 2003 and 2004, respectively, representing 0.2% and 9.3% of our turnover in 2003 and 2004, respectively. In 2004, we discontinued significant sales of leather garments and our revenue from sales of leather garments decreased from RMB445.5 million in 2003 to RMB130.8 million in 2004.

Cost of Sales

Cost of sales increased by RMB650.6 million, or 37.0%, from RMB1,758.1 million in 2003 to RMB2,408.7 million in 2004, primarily as a result of increased sales and increased allowances for inventories in 2004. Raw materials, as a percentage of cost of sales, decreased from 88.7% in 2003 to 84.6% in 2004.

Cost of raw cowhides and wet blues increased by RMB226.1 million, or 22.3%, from RMB1,013.2 million in 2003 to RMB1,239.3 million in 2004. The cost of raw cowhides and wet blues as a percentage of cost of sales decreased from 57.6% in 2003 to 51.4% in 2004. Cost of chemicals increased by RMB94.9 million, or 40.6%, from RMB233.7 million in 2003 to RMB328.6 million in 2004. Cost of other raw materials increased by RMB158.7 million, or 50.8%, from RMB312.3 million in 2003 to RMB471.0 million in 2004. Labor costs increased by RMB86.8 million, or 104.5%, from RMB83.1 million in 2003 to RMB169.9 million in 2004. Allowance for inventories increased by RMB28.6 million from RMB3.7 million in 2003 to RMB32.3 million in 2004 due to our increased purchases of raw cowhides in 2004 in anticipation of increased orders for leather products, which were subsequently sold or anticipated to be sold at a lower price than the cost of manufacturing such products. The inventories as at December 31, 2004 were thus stated at their net realizable value, leading to large allowances for inventories in 2004.

Gross Profit and Gross Profit Margin

Gross profit increased by RMB66.3 million, or 17.6% from RMB377.4 million in 2003 to RMB443.7 million in 2004. Our gross profit margin decreased slightly from 17.7% in 2003 to 15.6% in 2004, primarily because of the proportionally larger increases in cost of sales related to our Higher Point Sofa Industrial Park subsidiaries in relation to increases in total turnover due to the start-up nature of their operations, the increased allowances for inventories, and the cancellation of the preferential value added tax rebate in March 2004.

Other Operating Income

Other operating income decreased by RMB11.7 million, or 5.8%, from RMB201.6 million in 2003 to RMB189.9 million in 2004, primarily because we benefited from a larger refund of duty in 2003 compared to 2004 and sales of raw cowhides by Baiyin Kasen decreased in 2004.

Distribution Costs

Distribution costs increased by RMB26.6 million, or 89.0%, from RMB29.9 million in 2003 to RMB56.5 million in 2004, primarily as a result of increased transportation costs as we sold more upholstered furniture in 2004 than in 2003.

Administrative Expenses

Administrative expenses increased by RMB25.9 million, or 38.1%, from RMB68.0 million in 2003 to RMB93.9 million in 2004, primarily as a result of increased expenses from increases in personnel. We had 498 management personnel and 78 sales personnel in 2003, compared to 731 management personnel and 82 sales personnel in 2004. Our large increase in personnel during 2004 was primarily due to our recent establishment of Higher Point Sofa Industrial Park. In addition, administrative expenses increased due to higher depreciation expenses in 2004 relative to 2003.

Other Operating Expenses

Other operating expenses decreased by RMB11.1 million, or 7.7%, from RMB144.7 million in 2003 to RMB133.6 million in 2004, primarily as a result of higher costs in 2003 compared to 2004 associated with sales of raw cowhides, as well as higher expenses related to donations and sponsorship fees in 2003 compared to 2004.

Operating Profit and Operating Profit Margin

Operating profit increased RMB13.2 million, or 3.9%, from RMB336.4 million in 2003 to RMB349.6 million in 2004. Our operating profit margin decreased from 15.8% in 2003 to 12.3% in 2004.

Finance Costs

Finance costs increased by RMB41.5 million, or 77.0%, from RMB53.9 million in 2003 to RMB95.4 million in 2004, primarily because increased short-term bank borrowings associated with our expansion of our Higher Point Sofa Industrial Park and our financing of purchases of raw materials in 2004. As at December 31, 2004, our bank borrowings and other borrowings repayable within one year equaled RMB1,472.8 million, compared to RMB1,056.2 million as at December 31, 2003.

Profit before Taxation and Taxation

For the years ended December 31, 2003 and 2004, profit before taxation was RMB281.9 million and RMB257.2 million, respectively, and our effective tax rate was 17.5% and 8.8%, respectively. Tax expenses decreased by RMB26.8 million, or 54.3%, from RMB49.4 million in 2003 to RMB22.6 million in 2004, primarily because our principal operating subsidiary, Zhejiang Kasen, became a wholly-owned foreign enterprise in August 2003, allowing us to enjoy certain tax holidays starting in 2004.

Profit for the Year

Our net profit increased by RMB2.0 million, or 0.9%, from RMB232.5 million in 2003 to RMB234.5 million in 2004 and our net profit margin decreased from 10.9% in 2003 to 8.2% in 2004.

Minority Interests

Minority interests decreased by RMB24.4 million, or 73.5%, from RMB33.2 million in 2003 to RMB8.8 million in 2004, primarily because we acquired the minority interests of several of our subsidiaries in September 2004, including Haining Kareno, Haining Kasen and Haining Schinder.

Profit Attributable to Our Equity Holders

Net profit attributable to our equity holders increased by RMB26.4 million, or 13.2%, from RMB199.3 million in 2003 to RMB225.7 million in 2004. Our net profit margin attributable to our equity holders decreased from 9.3% in 2003 to 7.9% in 2004.

2003 compared to 2002

Turnover

Turnover increased by RMB748.7 million, or 54.0%, from RMB1,386.8 million in 2002 to RMB2,135.5 million in 2003, primarily as a result of increased sales volume for our upholstered furniture. Revenue from sales of upholstered furniture increased by RMB561.1 million, or 98.9%, from RMB567.3 million in 2002 to RMB1,128.4 million in 2003, primarily as a result of an increased sales volumes of both leather upholstered furniture and leather furniture covers. In terms of number of seats, sales of leather sofas increased 204.6% from approximately 195,000 seats in 2002 to approximately 594,000 seats in 2003 and sales of leather furniture covers increased 43.6% from approximately 722,000 in 2002 to approximately 1,037,000 in 2003.

Cost of Sales

Cost of sales increased by RMB565.5 million, or 47.4%, from RMB1,192.6 million in 2002 to RMB1,758.1 million in 2003, primarily as a result of increased sales. Raw materials, as a percentage of cost of sales, decreased from 89.7% in 2002 to 88.7% in 2003.

Cost of raw cowhides and wet blues increased by RMB297.2 million, or 41.5%, from RMB716.0 million in 2002 to RMB1,013.2 million in 2003. The cost of raw cowhides and wet blues as a percentage of cost of sales decreased from 60.0% in 2002 to 57.6% in 2003. Cost of chemicals increased by RMB80.7 million, or 52.7%, from RMB153.0 million in 2002 to RMB233.7 million in 2003. Cost of other raw materials increased by RMB111.8 million, or 55.8%, from RMB200.5 million in 2002 to RMB312.3 million in 2003. Labor costs increased by RMB35.8 million, or 75.7%, from RMB47.3 million in 2002 to RMB83.1 million in 2003, primarily because the number of manufacturing employees increased from 4,280 to 8,777.

Gross Profit and Gross Profit Margin

Gross profit increased by RMB183.2 million, or 94.3% from RMB194.2 million in 2002 to RMB377.4 million in 2003 and our gross profit margin improved from 14.0% in 2002 to 17.7% in 2003, largely because of better utilization of furniture production capacity and enjoyment of preferential value added tax rebates.

Other Operating Income

Other operating income increased by RMB127.5 million, or 172.1%, from RMB74.1 million in 2002 to RMB201.6 million in 2003, primarily as a result of increased sales of raw cowhides by Baiyin Kasen in 2003.

Distribution Costs

Distribution costs increased by RMB20.7 million, or 225.0%, from RMB9.2 million in 2002 to RMB29.9 million in 2003, primarily as a result of increased transportation costs as sales volume increased and we sold a greater number of bulkier items, such as upholstered furniture, in 2003.

Administrative Expenses

Administrative expenses increased by RMB42.0 million, or 161.5%, from RMB26.0 million in 2002 to RMB68.0 million in 2003, primarily as a result of specific bad debt provisions made with regard to certain long outstanding receivables and expenses from increases in personnel. We had 498 management personnel and 78 sales personnel, compared to 272 management personnel and 27 sales personnel in 2002. For more information on our bad debt provisions, please see "— Trade Receivables."

Other Operating Expenses

Other operating expenses increased by RMB120.7 million, or 502.9%, from RMB24.0 million in 2002 to RMB144.7 million in 2003, primarily as a result of costs related to our sales of raw cowhides in 2003.

Operating Profit and Operating Profit Margin

Operating profit increased RMB127.3 million, or 60.9% from RMB209.1 million in 2002 to RMB336.4 million in 2003. Our operating profit margin increased from 15.1% in 2002 to 15.7% in 2003.

Finance Costs

Finance costs increased by RMB23.4 million, or 76.7%, from RMB30.5 million in 2002 to RMB53.9 million in 2003, primarily as a result of increased interest expense due to an increase in short-term debts to meet capital expenditure requirements. As at December 31, 2003, our bank and other borrowings repayable within one year equaled RMB1,056.2 million, compared to RMB593.8 million as at December 31, 2002.

Profit before Taxation and Taxation

For the years ended December 31, 2002 and 2003, profit before taxation was RMB178.7 million and RMB281.9 million, respectively, and our effective tax rate was 28.7% and 17.5%, respectively. Tax expenses decreased by RMB1.9 million, or 3.7%, from RMB51.3 million in 2002 to RMB49.4 million in 2003. Our effective tax rate, calculated by dividing tax expenses by profit before taxation, declined from 28.7% in 2002 to 17.5% in 2003 primarily because Zhejiang Kasen began to enjoy tax holdings after it became a wholly-owned foreign enterprise in July 2003.

Profit for the Year

Our net profit increased by RMB105.1 million, or 82.5%, from RMB127.4 million in 2002 to RMB232.5 million in 2003, and our net profit margin increased from 9.2% in 2002 to 10.9% in 2003.

Minority Interests

Minority interests increased by RMB14.5 million, or 77.5%, from RMB18.7 million in 2002 to RMB33.2 million in 2003, primarily because our non wholly-owned subsidiaries Haining Kasen and Haining Kareno had significant profit increases in 2003.

Profit Attributable to our Equity Holders

Net profit attributable to our equity holders increased by RMB90.6 million, or 83.3%, from RMB108.7 million in 2002 to RMB199.3 in 2003. Our net profit margin attributable to our equity holders increased from 7.8% in 2002 to 9.3% in 2003.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

We currently fund our operations primarily from operating cash flow and bank borrowings. In the three years ended December 31, 2004, the Warburg Pincus Convertible Loans and capital contributions from shareholders and minority investors in subsidiaries also helped finance our operations. Our cash requirements are primarily for inventory management, working capital and capital expenditures relating to the expansion of our operations. In the past, prepayments related to purchases of raw cowhides from domestic suppliers also impacted our cash requirements.

The following table sets forth a condensed summary of our consolidated cash flow statements for the periods indicated.

	For the year ended December 31,			For the four months ended April 30,	
	2002	2003	2004	2004	2005
	(RMB in millions)				
				(unaudited)	
Net cash from operating activities	129.1	21.0	17.3	38.1	95.3
Net cash used in investing activities	(185.3)	(512.9)	(980.0)	(307.6)	(34.5)
Net cash from financing activities	205.8	727.1	765.9	400.6	64.1
Net increase (decrease) in cash and cash equivalents	149.6	235.2	(196.8)	131.1	124.9
Cash and cash equivalents at year/period end	175.1	410.3	213.5	541.4	338.4

Operating Activities

Our principal sources of operating cash flow are from the sales of our products and changes in working capital. We analyze our operating cash flow by comparing net cash generated from operating activities to operating cash flow before movements in working capital, which represents profit before taxation adjusted by non-cash income and expense items in our income statements.

Net cash generated from our operating activities in the four months ended April 30, 2005 was RMB95.3 million, while our operating cash flows before movements in working capital for the same period was RMB147.3 million. The difference of RMB52.0 million was primarily due to a RMB157.1 million decrease in trade and other payables and a RMB85.3 million increase in trade and other receivables, which were partially offset by a RMB161.7 million decrease in inventories and RMB51.9 million increase in amounts due to related companies.

Net cash generated from our operating activities in 2004 was RMB17.3 million, while our operating cash flows before movements in working capital for the same period was RMB452.8 million. The difference of RMB435.5 million was primarily due to a RMB877.1 million increase in inventories and a RMB129.6 million increase in trade and other receivables, which were partially offset by a RMB507.7 million increase in trade and other payables. We increased our inventory of raw cowhides in 2004 in anticipation of increased orders for leather upholstered furniture products, leather furniture covers and automotive leather.

Net cash generated from our operating activities in 2003 was RMB21.0 million, while our operating cash flows before movements in working capital for the same period was RMB397.5 million. The difference of RMB376.5 million was primarily due to a RMB344.0 million increase in trade and other receivables, a RMB261.0 increase in inventories and a RMB34.7 million increase in amounts due from related companies, which were partially offset by a RMB334.0 million increase in trade and other payables.

Net cash generated from our operating activities in 2002 was RMB129.1 million, while our operating cash flows before movements in working capital for the same period was RMB228.3 million. The difference of RMB99.2 million was primarily due to a RMB84.7 million increase in trade and other receivables and a RMB16.9 million increase in inventories which were partially offset by a RMB29.2 million increase in trade and other payables.

Investing Activities

Our expenditures for investing activities primarily relate to our expansion of production facilities and related purchases of property, plant and equipment and increases in construction in progress.

Net cash used in our investing activities was RMB34.5 million for the four months ended April 30, 2005, which was primarily attributable to RMB58.8 million used for purchase of property, plant and equipment related to maintenance and repair of Zhejiang Kasen and projects for our Higher Point Sofa Industrial Park.

Net cash used in our investing activities was RMB980.0 million for 2004, which was primarily attributable to RMB738.8 million used for purchase of property, plant and equipment related to projects for our subsidiaries and our Higher Point Sofa Industrial Park, RMB161.1 million increase in pledged bank deposits and a RMB71.6 million increase in receivables from disposal of subsidiaries, namely Baiyin Kasen, Yili Horgos, Kezilesu Xinrong and Baiyin Palace.

Net cash used in our investing activities was RMB512.9 million in 2003, which was primarily attributable to RMB375.9 million used for purchase of property, plant and equipment related to projects for our subsidiaries, RMB89.4 million used for purchase of land use rights, a RMB42.8 million increase in pledged bank deposits and RMB20.0 million used for purchase of subsidiaries.

Net cash used in our investing activities was RMB185.3 million in 2002, which was primarily attributable to RMB164.6 million used for purchase of property, plant and equipment related to projects for our subsidiaries and a RMB21.3 million increase in pledged bank deposits.

Financing Activities

Our primary sources of cash from financing activities include bank borrowings and convertible loans from the Warburg Pincus Funds.

Net cash generated from financing activities was RMB64.1 million for the four months ended April 30, 2005, which was primarily attributable to the RMB1,097.4 million in bank and other borrowings raised, which was partially offset by the RMB985.5 million in repayment of bank and other borrowings.

Net cash generated from financing activities was RMB765.9 million for 2004, which was primarily attributable to the RMB2,366.0 million in bank and other borrowings raised, which was partially offset by the RMB1,716.0 million in repayment of bank and other borrowings and the RMB80.4 million in interest paid.

Net cash generated from financing activities was RMB727.1 million for 2003, which was primarily attributable to the RMB1,548.3 million in bank and other borrowings raised and the RMB180.4 million in loan contribution from the Warburg Pincus Funds, which was partially offset by the RMB1,071.2 million in repayment of bank and other borrowings and the RMB48.2 million in interest paid.

Net cash generated from financing activities was RMB205.8 million for 2002, which was primarily attributable to the RMB1,288.9 million in bank and other borrowings raised, which was partially offset by the RMB1,052.7 million in repayment of bank and other borrowings and the RMB30.5 million in interest paid.

INVENTORY ANALYSIS

The following table sets forth a summary of our inventory levels for the periods indicated.

	At December 31,			At April 30,
	2002	2003	2004	2005
	(RMB in thousands)			
Raw materials	81,594	234,050	377,089	290,114
Work in progress	211,444	327,192	866,750	818,348
Finished goods	87,642	85,006	148,899	122,587
	380,680	646,248	1,392,738	1,231,049

The following table sets forth the turnover of our inventory for the periods indicated.

	For the year ended December 31,			For the four months ended April 30,
	2002(1)	2003(1)	2004(1)	2005(2)
	(in days)			
Turnover of inventory	117	134	211	180

Notes:

(1) Calculated as the balance of inventory for the year-end, divided by cost of sales for the year, multiplied by 365 days.

(2) Calculated as the balance of inventory as at April 30, 2005, divided by cost of sales for the four months ended April 30, 2005, multiplied by 120 days.

We maintain a sizeable inventory of raw cowhides and wet blues to meet the delivery cycles required by our customers, typically six to eleven weeks from order by our customer until delivery by us of finished leather or leather upholstered furniture products to our customers. The delivery cycle for raw cowhides generally is three months and may be as long as five months. Once the raw cowhides have been delivered, the tanning process may require up to 45 days before the raw cowhide has become processed into finished leather usable for leather upholstered furniture products or automotive leather.

There was a substantial increase in work in progress in 2004, which is due to an increase in production capacity in anticipation of increased sales volume in 2004, and a change in product mix. In anticipation of increased sales volume for leather products, we increased our furniture leather and wet blues production capacity of from 96 million square feet in 2003 to 240 million square feet in 2004, and for upholstered furniture from 3.5 million seats in 2003 to 8.4 million seats in 2004. We placed larger orders for raw cowhides beginning in the second half of 2004 due to the increase in production capacity and the anticipated sales volume. As is normal practice, once the raw cowhides were received, we processed them into wet blues, which can be stored for a much longer period, but which were still accounted for as work in progress. The placing of large orders for raw cowhides beginning in the second half of 2004 contributed to the inventory days increase in 2004. Our inventory days decreased in the first four months of 2005 as we drew down on the inventory of raw cowhides and wet blues from sale of our leather products.

The increase in work in progress was also due to a change in product mix. Our product mix changed substantially with the proportion of upholstered furniture sales increasing from 52.9% in 2003 to 71.3% in 2004. The manufacturing process for upholstered furniture involves more steps compared to that for leather garments, which also added to the substantial increase in the level of work in progress.

TRADE RECEIVABLES

Our trade receivable days have increased slightly as our business expanded, but have remained in line with our credit terms. The following tables sets forth the turnover of our trade receivables for the periods indicated.

	For the year ended December 31,			For the four months ended April 30,
	2002(1)	**2003(1)**	**2004(1)**	**2005(2)**
	(in days)			
Turnover of trade receivables	27	38	35	44

Notes:

(1) Calculated as the balance of trade receivable for the year-end, divided by turnover for the year, multiplied by 365 days.

(2) Calculated as the balance of trade receivable as at April 30, 2005, divided by turnover for the four months ended April 30, 2005, multiplied by 120 days.

The following table sets forth the age of our trade receivables for the period indicated.

Age of Trade Receivables	For the year ended December 31, 2002	2003	2004	For the four months ended April 30, 2005
	(RMB in millions)			
Within 60 days	61.5	134.5	226.7	277.4
61-90 days	16.4	49.5	12.9	6.3
91-180 days	17.9	16.1	18.2	62.6
181-365 days	6.1	22.8	11.3	9.6
1-2 years	1.1	0.2	1.5	1.7
Total trade receivables, net of allowances	103.0	223.1	270.6	357.6

We generally grant a credit period to our customers of between 30 to 60 days based on the nature of their business, their trading record with us, their financial position and their annual sales volume. A majority of our customers generally pay within the credit period. For more significant or larger customers, we sometimes extend credit periods up to 90 days.

Sales personnel are responsible for monitoring the settlement from customers. Meetings are held between management and sales personnel on a weekly basis in order to monitor the settlement progress. One of the control measures that we have adopted is that if a customer has overdue payments for more than one month, delivery of finished products for orders on hand will temporarily be suspended until confirmation of settlement instructions have been received from the customer.

We maintain an export credit insurance policy, which further protects us from credit risk. In addition, we have a general provisioning policy for bad and doubtful debts. Our general provisioning policy for bad and doubtful debt is based on the evaluation of collectability and aging analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realization of these receivables, including the current creditworthiness and the past collection history of each customer. In any case, we review individually any accounts receivable that are aged over 90 days. The following table shows our accounts receivable general provisioning rates.

Aging	Accounts receivable — provisioning rate
Within 1 year.	5%
1-2 years	50%
Over 2 years	100%

If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. As at December 31, 2002, 2003, 2004 and April 30, 2005, our general and specific allowances for doubtful accounts were RMB2.6 million, RMB21.5 million, RMB10.0 million and RMB3.8 million, respectively. Our allowances in 2003 were particularly high due to specific provisions made with regard to a number of long outstanding receivables.

TRADE AND BILLS PAYABLES

Our trade and bills payables primarily relate to the purchase of raw materials from our suppliers, with credit terms of 60 to 90 days for trade payables and up to 180 days for bills payable. For the year ended December 31, 2004, our turnover days of trade and bills payable increased significantly, primarily because our imports of raw cowhides and chemicals increased substantially in the second half of 2004 and these imports were paid by letters of credit which typically carried terms between 60 to 180 days. Our trade and bills payable days are generally in line with our payment terms. The table below sets forth the turnover of our trade and bills payables for the periods indicated.

	For the year ended December 31,			For the four months ended April 30,
	2002(1)	2003(1)	2004(1)	2005(2)
	(in days)			
Turnover of trade and bills payables	41	64	102	78

Notes:

(1) Calculated as the sum of the balance of trade and bills payable for the year-end, divided by cost of sales for the year, multiplied by 365 days.

(2) Calculated as the sum of the balance of trade and bills payable as at April 30, 2005, divided by cost of sales for the four months ended April 30, 2005, multiplied by 120 days.

The following table sets forth the average age of our trade and bills payables for the period indicated.

	For the year ended December 31,			For the four months ended April 30,
	2002	2003	2004	2005
Age of Trade and Bills Payables	(RMB in millions)			
Within 60 days	75.7	167.6	339.7	202.9
61-90 days	0.8	15.4	61.3	28.8
91-180 days	1.0	0.7	40.1	43.8
181-365 days	0.2	3.4	12.0	5.0
1-2 years	0.5	0.8	6.2	7.2
Over 2 years	—	0.4	0.6	1.5
Total trade payables	78.2	188.3	459.9	289.2
Total bills payable	54.7	118.0	214.8	247.2
Total	132.9	306.3	674.7	536.4

WORKING CAPITAL

We expect to fund our short-term working capital requirements primarily through cash flow from operations, and to a limited extent, through working capital facilities and short-term borrowings. Our Directors are of the opinion that our existing credit lines, together with cash generated from our operations and the proceeds of the Global Offering, will be sufficient to finance our working capital needs for our present requirements, that is for at least the next twelve months from the date of this prospectus.

INDEBTEDNESS

Borrowings and Banking Facilities

As at December 31, 2002, 2003, 2004 and April, 2005 we had RMB702.1 million, RMB1,158.2 million, RMB1,575.3 million and RMB1,687.2 million, respectively, in outstanding interest bearing bank and other loans, of which RMB1,372.8 million and RMB1,523.7 million was unsecured as at December 31, 2004 and April 30, 2005, respectively. The following table sets out our bank and other borrowings for the periods indicated.

	As at December 31,			As at April 30,
	2002	2003	2004	2005
Bank and other borrowings	(RMB in millions)			
Bank loans	699.1	1,147.8	1,564.9	1,676.8
Other loans	3.0	10.4	10.4	10.4
Total	702.1	1,158.2	1,575.3	1,687.2
Analyzed as:				
Secured	98.3	116.1	202.5	163.5
Unsecured	603.8	1,042.1	1,372.8	1,523.7
	702.1	1,158.2	1,575.3	1,687.2

Our outstanding bank loans are predominantly arranged at interest rates ranging from 4.7% to 7.9%. As at April 30, 2005, our bank and other borrowings included RMB92.3 million repayable in more than one year but not exceeding two years. Our bank borrowings are predominantly denominated in RMB.

Our bank and other borrowings exclude the Warburg Pincus Convertible Loans. In July 2003, we borrowed US$21,739,130 from the Warburg Pincus Funds (the "First Warburg Pincus Convertible Loan"). The First Warburg Pincus Convertible Loan is repayable on the repayment date if not converted into 217,391,304 of our preferred shares (the "Series A Preferred Shares") which are further convertible into 176,693,933 Shares. In January 2004, we borrowed an additional US$15,000,000 from the Warburg Pincus Funds (the "Second Warburg Pincus Convertible Loan"). The Second Warburg Pincus Convertible Loan is convertible, at the option of Warburg Pincus Funds, into 100,000,000 of our preferred shares ("Series B Preferred Shares"), which are identical to the Series A Preferred Shares except that the initial conversion price for the Series A Preferred Shares is US$0.10 per share while the initial conversion price for the Series B Preferred Shares is US$0.15 per share. The Second Warburg Pincus Convertible Loan is convertible into Series B Preferred Shares if not repaid before the repayment date and are further convertible into

81,279,209 Shares. For additional information relating to the loans from the Warburg Pincus Funds, please see "Background and Reorganization — Corporate Reorganization" in this prospectus. The Warburg Pincus Funds have given us an undertaking to the effect that they intend to convert the Warburg Pincus Convertible Loans into 257,973,142 Shares prior to commencement of listing on the Stock Exchange.

The following table shows our gearing ratios as at December 31, 2002, 2003, 2004 and April 30, 2005.

As at	Total Debt(1)/ Total Assets	Total Debt(1)/ Total equity attributable to equity holders of the Company
December 31, 2002	0.52x	1.89x
December 31, 2003	0.46x	2.15x
December 31, 2004	0.41x	1.51x
April 30, 2005	0.44x	1.53x

Note:

(1) Includes bank and other borrowings and amounts due to related companies but excludes the Warburg Pincus Convertible Loans.

Our total debt/total assets and total debt/total shareholders' equity ratios decreased from 0.52x and 1.89x, respectively, as at December 31, 2002 to 0.41x and 1.51x respectively as at December 31, 2004, as a result of significant increases in property, plant and equipment and inventories and increases in shareholders' equity in 2004, respectively. We increased our total debt/total assets ratio from 0.41x as at December 31, 2004 to 0.44 as at April 30, 2005 and our total debt/total shareholders' equity increased from 1.51x as at December 31, 2004 to 1.53x as at April 30, 2005 (excluding the Warburg Pincus Convertible Loans), primarily as a result of additional funding for our working capital and capital expenditures as our business continues to grow.

As at August 31, 2005, being the latest practicable date for the purpose of ascertaining information contained in the indebtedness statement prior to the printing of this prospectus, we had outstanding borrowings of approximately RMB2,005 million comprising (a) secured bank loans of RMB259 million, which were secured by (i) our bank deposits; (ii) our land use rights owned; (iii) our property, plant and equipment; and (iv) guarantees given by members of the Group, related parties and independent third parties; (b) unsecured bank loans of RMB1,424 million; (c) unsecured other loans of RMB10 million; (d) unsecured loans advanced by related parties of RMB7 million; and (e) convertible loan notes of RMB305 million. As at the Latest Practicable Date, the unsecured loans advanced by related parties of RMB7 million have been fully repaid and guarantees given by related parties granted to the Group have also been fully released.

The Warburg Pincus Funds have given an undertaking to us on August 5, 2005 that, upon the conditions of the Public Offer having been fulfilled or waived, and in any event before commencement of dealings in the Shares on the Stock Exchange, the Warburg Pincus Convertible Loans will convert into our Shares. Based on the undertaking, the Directors believe that the convertible loan notes of RMB305 million will convert on October 20, 2005.

Of the RMB2,005 million outstanding borrowings as at August 31, 2005, RMB1,902 million is repayable within one year, RMB93 million is repayable beyond one year but within two years and RMB10 million is repayable after five years.

Contingent Liabilities

At the respective balance sheet dates, we had the following contingent liabilities.

	As at December 31,			As at April 30,
Guarantees Given to Banks in Respect of Banking Facilities Extended to:	**2002**	**2003**	**2004**	**2005**
	(RMB in millions)			
Sunbridge I & E	—	—	33.0	58.2
Yili Horgos	—	—	80.0	65.0
Haining Liema Import and Export Co., Ltd.	—	—	—	10.0
Haining Liema Leather Garments Co., Ltd.	—	—	—	8.6
Independent third parties	17.3	157.5	261.7	287.0
Total	17.3	157.5	374.7	428.8

As at August 31, 2005, we had contingent liabilities of RMB69 million, all of which are under a cross-guarantee arrangement given in favor of lenders for bank loans borrowed by Haining Changhai, an unrelated third party. These loans will all expire from March 26, 2006 to December 15, 2006 and upon repayment of these loans, no further amounts will continue to be covered under our guarantee.

In return for our guarantee, Haining Changhai provided a guarantee in favor of our lenders for certain of our loans of varying amounts totaling RMB70 million as of August 31, 2005. We had repaid these loans in full as at the Latest Practicable Date. For further information on the risks associated with the cross-guarantee arrangement, please see "Risk Factors — We may be required to repay the debt of Haining Changhai, an unrelated third party, as a result of a cross-guarantee arrangement."

No other Outstanding Indebtedness

Save as aforesaid and apart from trade payables, bills payable and intra-group liabilities, we did not have outstanding indebtedness at the close of business on August 31, 2005 or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchases commitments, guarantees or other contingent liabilities. We confirm that we are not in breach of any covenants given in respect of any of the aforesaid bank borrowings as at August 31, 2005, and there has not been any material change in our indebtedness and contingent liabilities since August 31, 2005.

NET CURRENT LIABILITIES

As at August 31 2005, we had net current liabilities of approximately RMB135 million, as broken down in more detail in the table below.

	RMB in millions
Current assets	
Inventories	1,388
Trade and other receivables	630
Investments in securities	1
Amounts due from related companies	35
Bank balances and cash (including pledged bank deposit)	634
	2,688
Current liabilities	
Trade and other payables	839
Amounts due to related companies	79
Bank and other borrowings - due within one year	1,590
Convertible loan notes	305
Tax payable	10
	2,823
Net current liabilities	(135)

CAPITAL COMMITMENTS AND COMMITMENTS IN AN ASSOCIATE

We had the following capital commitments in respect of the purchase and construction of plant and machinery and leasehold properties not provided for in the consolidated financial statements as at the dates indicated. We did not have any authorized, but not contracted for, capital commitments as at December 31, 2002, 2003, 2004 and as at April 30, 2005.

	As at December 31,			**As at April 30,**
	2002	**2003**	**2004**	**2005**
Capital Commitments	(RMB in millions)			
Contracted, but not provided for in respect of acquisition of property, plant and equipment	27.8	212.4	108.4	87.5
Contracted, but not provided for in respect of construction of certain infrastructure and public facilities in the PRC on behalf of the government	—	54.7	33.2	29.1
Total	27.8	267.1	141.6	116.6

Our interest in an associate represents a 25% interest in an equity joint venture incorporated in the PRC in 2004, with the cost of investment equaling approximately RMB5.2 million. As at April 30, 2005, we had approximately RMB5.2 million in capital committed but not yet contributed to the associate.

CAPITAL EXPENDITURES

During the three years ended December 31, 2004 and the first four months of 2005, we consistently increased our annual total capital expenditures. The following table sets forth our capital expenditures for the periods indicated.

	For the year ended December 31,			For the four months ended April 30,
	2002	2003	2004	2005
Capital Expenditures	(RMB in millions)			
Buildings.	15.5	8.3	37.0	7.3
Plant and machinery.	62.9	70.4	174.1	9.1
Motor vehicles	2.0	6.0	9.5	1.0
Furniture and office equipment	3.6	11.9	11.7	2.6
Construction in progress	80.6	279.3	506.5	38.8
Total property, plant and equipment	164.6	375.9	738.8	58.8
Land use rights	2.0	89.4	24.7	1.6
Intangible assets	—	0.3	0.8	0.1
Total capital expenditures	166.6	465.6	764.3	60.5

We financed our capital expenditure requirements primarily through bank and other borrowings, convertible loans from Warburg Pincus Funds and related party loans. We expect that our capital expenditures will amount to approximately RMB250 million for 2005 and RMB140 million for 2006. The capital expenditures for 2005 are currently planned to be primarily for purchases of plant and machinery and land and buildings for Haining Gaosheng Leather Co., Ltd, Haining Libero Furniture Co., Ltd. and Haining Home Direct Furniture Co., Ltd. (which is currently not in operation) and Zhejiang Kasen. These purchases will be used to increase production capacity for both upholstered furniture and leather manufacturing. In addition, a small proportion of the RMB250 million will be used for the maintenance of our property, plant and equipment. We currently expect the capital expenditure planned in 2006 to be primarily used for the building of an upholstered furniture warehouse for Haining Kareno Furniture Co., Ltd, construction of Haining Home Direct Furniture Co. Ltd.'s upholstered furniture manufacturing facility and the maintenance of our property, plant and equipment.

ACQUISITION OF SUBSIDIARIES AND GOODWILL

During the Track Record Period, we acquired three subsidiaries. One of the subsidiaries, SFT, was acquired in 2004 and generated a goodwill of RMB181.0 million.

For further information on our acquisitions, please see the section entitled "Background and Reorganization" in this prospectus. Prior to the acquisition of SFT, we owned a 75% equity interest in each of Haining Kasen, Haining Schinder Tanning Co., Ltd and Haining Home Direct Furniture Co. Ltd. and a 72.78% equity interest in Haining Kareno. For accounting purposes, Haining Kasen, Haining Kareno, Haining Schinder Tanning Co., Ltd and Haining Home Direct Furniture Co., Ltd were accounted for as subsidiaries and the equity interests owned by SFT were presented as minority interests.

We issued shares as consideration for the acquisition. The value of the consideration was determined between us and Mr. Zhu on an arm's length basis, with independent valuation of the shares conducted by an independent valuer. The difference between the consideration paid and the net assets of the acquired subsidiaries, which amounted to RMB181.0 million, was recorded as goodwill. Such goodwill represented our anticipation of the cash to be generated from each of the acquired subsidiaries in the future. According to IFRS 3, goodwill acquired is allocated to the cash generating units that are expected to benefit from the business combination. For further information on IFRS 3, please see "— New Accounting Standards — IFRS 3."

OFF-BALANCE SHEET TRANSACTIONS

We have not entered into any off-balance sheet transactions.

QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISK

Interest Rate Risk

Our exposure to interest rate risks relates primarily to our short-term debt obligations, which we generally use to fund capital expenditures and working capital requirements. We have not entered into any interest rate hedging contracts or any other derivative financial instrument. As of April 30, 2005, the majority of our debt was denominated in RMB with interest rates ranging from 4.7% to 7.9% and mature within one year.

Foreign Exchange Rate Fluctuation Risk

We receive a significant proportion of our business in US dollars while RMB is our reporting currency. The value of the RMB is subject to changes in China's governmental policies and to international economic and political developments. As of July 21, 2005, the RMB is no longer pegged solely to the US dollar. Instead, it will be pegged against a basket of currencies, determined by the People's Bank of China, against which it can rise or fall by as much as 0.3% each day. For example, on July 21, 2005, the RMB was revalued against the US dollar to approximately RMB8.11 to the US dollar, representing an upward revaluation of 2.1% of the RMB against the US dollar, as compared to the exchange rate the previous day. The RMB may appreciate significantly in value against the US dollar in the long term, depending on the fluctuation of the basket of currencies against which is it currently valued or it may be permitted to enter into a full float, which may also result in an appreciation of the RMB against the US dollar. Fluctuations in exchange rates may adversely affect the value, translated or converted into US dollars or Hong Kong dollars (which are pegged to the US dollars), of our net assets, earnings or any declared dividends. Approximately 9.3% and 66.1% of our turnover and cost of sales, respectively, were denominated in RMB in 2004 and approximately 12.6% and 62.1% of our turnover and cost of sales, respectively were denominated in RMB in the first four months of 2005. Further appreciation in the RMB against these currencies may lead to an increase in our costs or a decline in our revenues, which could materially adversely affect our operating results. We have not entered into any agreements to hedge our exchange rate exposure. For more information on our currency related risks, please see "Risk Factors — Government control of currency conversion and future movements in exchange rates may adversely affect our financial condition, results of operations and our ability to remit dividends."

Effects of Inflation

China has not experienced significant inflation in recent years. Although there can be no assurance as to the impact in future periods, inflation has not had a significant effect on our business during the past three years. According to the State Statistical Bureau, China Statistical Yearbook, China's overall national inflation rate, as represented by the general consumer price index, was approximately (0.8)%, 1.2% and 3.9% in 2002, 2003 and 2004, respectively.

DISTRIBUTABLE RESERVES

As at April 30, 2005, the Company's reserves available for distribution to the equity holders of the Company amounted to approximately RMB191,622,000.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative statement of our unaudited pro forma adjusted net tangible assets of the Group attributable to the equity holders of the Company, which has been prepared for the purpose of illustrating the effect of the Global Offering as if it had been taken place on April 30, 2005 and which is based on our audited consolidated net tangible assets as at April 30, 2005, as derived from in the Accountants' Report set out in Appendix I to this prospectus and is adjusted as follows.

	Audited consolidated net tangible assets of the Group attributable to the equity holders of the Company as at April 30, 2005(1)	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted net tangible assets(2)(3)	Unaudited pro forma adjusted net tangible assets per Share(2)(4)	
	RMB'000	RMB'000	RMB'000	RMB	HK$
Based on an Offer Price of HK$2.55 per Share (after share consolidation)	995,442	498,136	1,493,578	1.98	1.90
Based on an Offer Price of HK$3.15 per Share (after share consolidation)	995,442	620,434	1,615,876	2.14	2.05

Notes:

(1) As at April 30, 2005, our audited consolidated net tangible assets attributable to equity holders of the Company equals total equity attributable to equity holders of the Company less goodwill and intangible assets. Under IFRS, land use rights is accounted for as operating lease and cost of land use rights is treated as prepaid lease payment. Accordingly, land use rights of RMB144,774,000 as at April 30, 2005 does not meet the definition of an intangible asset and is included as net tangible assets above.

(2) The calculation of unaudited pro forma adjusted net tangible assets has not taken into account the conversion of the Warburg Pincus Convertible Loans.

(3) By comparing the valuation of our property interests as set out in Appendix IV to this prospectus and the unaudited net book value of these properties as at August 31, 2005, the net valuation surplus is approximately RMB273.7 million (represented by a gross surplus of RMB274.3 million and a gross deficit of RMB0.6 million on individual property interest basis), which has not been included in the above net tangible assets. The revaluation of our property interests will not be incorporated in our financial statements for the year ending December 31, 2005. If the revaluation surplus is to be included in our financial statements for the year ending December 31, 2005, an additional depreciation charge of approximately RMB14.0 million per annum would be incurred.

(4) The unaudited pro forma adjusted net tangible assets value per Share is arrived at after making the adjustment set forth in this section and on the basis of a total of 756,072,227 Shares (including 553,263,153 Shares (after share consolidation) in issue prior to the Global Offering and 202,809,074 Shares expected to be issued in the Global Offering) but does not take into account any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares.

PROFIT FORECAST

We believe that, in the absence of unforeseen circumstances and on the base and assumption as set out in “Appendix III — Profit Forecast,” our consolidated profit attributable to equity holders of the Company for the year ending December 31, 2005 is unlikely to be less than RMB260.0 million (HK$250.0 million) under IFRS. On the basis of the prospective financial information and the weighted average number of Shares expected to be issued and outstanding during the current financial year of 644,157,179 Shares, the forecast earning per Share on a weighted average basis for the year ending December 31, 2005 is unlikely to be less than HK$0.39.

On a pro forma fully diluted basis and on the assumption that we had been listed and full conversion of the Warburg Pincus Convertible Loans since January 1, 2005, and a total of 1,014,045,369 Shares were issued and outstanding during the entire year, the forecast earnings per Share for the year ending December 31, 2005 is unlikely to be less than HK$0.25 representing a price/earnings multiple of 10.3 times and 12.8 times if the Offer Price is HK$2.55 per Share and HK$3.15 per Share, respectively.

The texts of letters from the reporting accountant, Deloitte Touche Tohmatsu, and from the Sponsor in respect of the profit forecast are set out in “Appendix III — Profit Forecast.”

DIVIDEND POLICY

We will not declare or pay any dividends other than from profits and reserves lawfully available for distribution, including share premium. Our shareholders in a general meeting may approve the distribution of dividends, but the amount may not exceed the amount recommended by our Directors. Our Directors may from time to time also declare interim dividends as appear to our Directors to be justified by our profits and may also declare half yearly or at other intervals at a fixed rate if they are of the opinion that the profits available for distribution justify the payment of dividend.

Dividends declared will be paid in HK dollars. The amount of any dividends to be declared or paid in the future will depend on, among other things, our results of operations, cash flows and financial condition, operating and capital requirements, the amount of distributable profits based on our articles of association, the Cayman Islands Companies Law, applicable laws and regulations and other relevant factors.

Subject to the factors above, we plan to distribute regular dividends after listing on the Stock Exchange. We currently intend to distribute as dividends to our shareholders approximately 25% of the total distributable profits in respect of the year ending December 31, 2005, and approximately 30% of our total distributable profits for each of the following years. However, please see "Risk Factors — Government control of currency conversion and future movements in exchange rates may adversely affect our financial condition, results of operations and our ability to remit dividends."

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES REGARDING CERTAIN ADVANCES AND OTHER MATTERS

Our Directors have confirmed that as at the Latest Practicable Date, there are no advances to entities, or financial assistance, or guarantees to our affiliated companies or any circumstances which would give rise to disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO SIGNIFICANT INTERRUPTIONS

There have been no interruptions in our business that may have a significant effect on our financial position in the last 12 months.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that they have performed sufficient due diligence on our Company to ensure that, up to the date of this prospectus, there has been no material adverse change in our financial position or prospects since April 30, 2005 (being the date of our most recent audited consolidated financial statements) and there is no event since April 30, 2005 which would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus.

PROPERTY INTERESTS

Details relating to our property interests in the PRC are set out in Appendix IV to this prospectus. Sallmanns (Far East) Limited, an independent property valuer, has valued our properties in the PRC. Sallmanns (Far East) Limited are of the opinion that as at August 31, 2005, (i) the properties we held and occupied in the PRC as production facilities had an aggregate attributable commercial value of RMB682,548,000; (ii) the property we held in the PRC under development had an aggregate attributable commercial value of RMB136,711,000; (iii) the property we held in the PRC for future development had no commercial value; and (iv) the properties we rented and occupied in the PRC as offices had no commercial value.

The table below shows the reconciliation of our property interests from our audited consolidated financial information as at April 30, 2005 to the unaudited net asset value of our property interests as at August 31, 2005.

	RMB in thousands
Net book value as at April 30, 2005	
Land use rights	123,950
Buildings	577,222
Construction in progress	56,836
	758,008
Movement for the period from May 1, 2005 to August 31, 2005	
Addition	63,762
Disposal	(41,125)
Depreciation	(10,882)
Net book value as at August 31, 2005	769,763
Net valuation surplus	273,717
Valuation as at August 31, 2005	1,043,480

We currently own 17 properties in the PRC, categorized into held and occupied, held for future development and held under development. For further information on our properties, please see the Property Valuation set out in Appendix IV to this prospectus. As at the Latest Practicable Date, among the eleven properties held and occupied, we had obtained both the Land Use Rights Certificates and Building Ownership Certificates for nine properties, a Real Estate Certificate for one property which is in the process of applying for Building Ownership Rights, but only an Interim Certificate for State-owned Land Use Right for one property. For the one property held for future development, we had only obtained an Interim Certificate for State-owned Land Use Right. Among the five properties held under development, we had obtained the Land Use Rights Certificates for four properties but only Interim Certificates for State-owned Land Use Right for two properties.

As to the properties for which we had only obtained Interim Certificates for State-owned Land Use Right, none of these properties are material to our operations. According to our PRC legal advisers, because we have paid the relevant land use right granting fees in full, under the relevant PRC laws and regulations, we are entitled to apply for the registration of land use right and obtain the State-owned Land Use Certificate accordingly. However, it is a general local practice in Haining City that Haining Administration of Land and Resources will issue only an Interim Certificate for State-owned Land Use Right before the land user completes construction of buildings and structures on the land, in order to strengthen its supervision and management of the land user's actual utilization of the land. We are further advised by our PRC legal advisers that provided we comply with the terms and conditions in the respective land use right granting contracts and any other applicable legal requirements in the construction of the buildings and structures, we will not encounter material obstacles to eventually obtain the relevant official State-owned Land Use Certificates and Building Ownership Certificates. Our Directors confirm, having made all reasonable inquiries that, to the best of their knowledge and belief, as at the Latest Practicable Date we are in compliance with the terms and conditions in the respective land use right granting contracts and all other applicable legal requirements in the construction of the buildings and structures.

We estimate that the aggregate net proceeds to us from the Global Offering (after deducting underwriting fees and estimated expenses payable by us in connection with the Global Offering), assuming an Offer Price of HK$2.85 per Share, being the mid-point of the proposed Offer Price range of HK$2.55 to HK$3.15 per Share) will be approximately HK$537.8 million. We currently intend to apply our net proceeds in the following manner:

- repayment of short-term bank borrowings — approximately 50% or HK$268.9 million to repay the aggregate principal amounts and interest accrued on a portion of our short-term bank borrowings, which are predominantly denominated in RMB, bear an interest rate ranging from 4.7% to 7.9% per annum, mature within one year from November 1, 2005 and whose proceeds have been predominately used to fund our working capital and capital expenditure needs.

- capital expenditures — approximately 40% or HK$215.1 million to fund our capital expenditure plans. For further information on our capital expenditure plans, please see "Financial Information — Capital Expenditures;" and

- any remaining balance for working capital and other general corporate purposes.

We will use net proceeds based on the fixed percentages above, regardless of whether our Shares are priced at the high end or low end of the proposed Offer Price range. To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by PRC law and regulations, we intend to deposit the net proceeds into short-term demand deposits with licensed banks and/or authorized financial institutions in Hong Kong.

We currently do not have any concrete plans to apply the net proceeds towards the acquisition of any specific property or company to which paragraph 12 of the Third Schedule of the Companies Ordinance applies.

To the extent that the net proceeds are not sufficient to fund the uses set forth above, we intend to fund the balance through a variety of means including cash generated from our operations and bank financing. We currently believe that the net proceeds from the Global Offering, when combined with such alternate sources of financing, are sufficient for the uses set forth above.

We will not receive any of the proceeds from the sale of Sale Shares by the Selling Shareholders and the sale of Shares by the Warburg Pincus Funds and Cao Haoqiang pursuant to the exercise of the Over-allotment Option. Assuming the Over-allotment Option is not exercised and an Offer Price of HK$2.85 per Share (being the mid-point of the stated Offer Price range), the Selling Shareholders will receive approximately HK$268.9 million after deducting the underwriting fees and expenses relating to the Global Offering payable by the Selling Shareholders. Assuming the Over-allotment option is exercised in full and an Offer Price of HK$2.85 (being the mid-point of the stated Offer Price range), the Selling Shareholders will receive approximately HK$394.6 million after deducting the underwriting fees and expenses relating to the Global Offering payable by the Selling Shareholders.

PUBLIC OFFER UNDERWRITERS

UBS AG
BNP Paribas Peregrine Capital Limited
CITIC Capital Markets Limited
China Merchants Securities (HK) Co., Ltd.
First Shanghai Securities Limited
South China Securities Limited
Sun Hung Kai International Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Public Offer

Public Offer Underwriting Agreement

We are offering the Public Offer Shares for subscription on, and subject to, the terms and conditions of this prospectus and the Application Forms. Subject to the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares to be offered pursuant to the Global Offering as mentioned herein and to certain other conditions set out in the Public Offer Underwriting Agreement, the Public Offer Underwriters have agreed severally and not jointly to purchase or procure purchasers for the Public Offer Shares which are being offered but are not taken up under the Public Offer on the terms and conditions of this prospectus, the Application Forms and the Public Offer Underwriting Agreement.

Grounds for Termination

The Global Coordinator, on behalf of the Public Offer Underwriters, may in its sole and absolute discretion terminate the Public Offer Underwriting Agreement by giving notice to us (with a copy of such notice to Mr. Zhu and the other Public Offer Underwriters) at any time prior to 8:00 a.m. on the Listing Date, if at or prior to such time:

(a) there has been a material breach of any of the Warranties (as defined in the Public Offer Underwriting Agreement) given by either us, Mr. Zhu or any of the Selling Shareholders or there has been a breach by us, Mr. Zhu or any of the Selling Shareholders of any of the provisions of the Public Offer Underwriting Agreement or the International Underwriting Agreement; or

(b) any matter has arisen or has been discovered which would, had it arisen immediately before the date of this prospectus, not having been disclosed in this prospectus, constitute a material omission from this prospectus; or

(c) any statement contained in the Public Offer Documents (as defined in the Public Offer Underwriting Agreement) has become or been discovered to be untrue, incorrect or misleading in any material respect, or any forecasts, expressions of opinion, intention or expectation expressed in the Public Offer Documents are not, in all material respects, fair and honest and based on reasonable assumptions, when taken as a whole; or

(d) there shall have been any material adverse change or prospective material adverse change in the assets, liabilities, conditions, business affairs, prospects, profits, losses or the financial or trading position or performance of any member of our Group; or

(e) any of the Reporting Accountant, Property Valuer, Conyers Dill & Pearman as our legal advisers on Cayman Islands law and Jun He Law Offices as our legal advisers on PRC law has withdrawn its respective consent to the issue of this prospectus with the inclusion of its reports, letters, summaries of valuations and/or legal opinions (as the case may be) and references to its name included in the form and context in which it respectively appears; or

(f) approval for the listing of and permission to deal in the Shares on the Stock Exchange is refused or not granted, other than subject to customary conditions, on or before the listing approval date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or

(g) the Company withdraws the Offer Documents (as defined in the Public Offer Underwriting Agreement) or the Global Offering; or

(h) there shall have developed, occurred, happened or come into effect any event or series of events, matters or circumstances concerning or relating to:

  (i) any change in, or any event or series of events likely to result in any change in, local, national or international financial, political, economic, legal, military, industrial, fiscal, regulatory, currency or market conditions or equity securities or stock or other financial market conditions or any monetary or trading settlement system or matters and/or disaster (including, without limitation, a material devaluation of the Hong Kong dollar or the Renminbi against any foreign currencies) in Hong Kong, the Cayman Islands, the US, the United Kingdom or the PRC; or

  (ii) any new law or change in existing laws or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, the Cayman Islands, the US, the United Kingdom or the PRC; or

  (iii) any event of force majeure affecting Hong Kong, the Cayman Islands, the US, the United Kingdom or the PRC, including, without limiting the generality thereof, any act of God, war, outbreak or escalation of hostilities (whether or not war is declared) or act of terrorism, or declaration of a national or international emergency or war, riot, public disorder, civil commotion, economic sanctions, fire, flood, explosion, epidemic, outbreak of an infectious disease, calamity, crisis, strike or lock-out (whether or not covered by insurance); or

  (iv) a suspension or material limitation in trading in securities generally on the Stock Exchange or the New York Stock Exchange or the London Stock Exchange or a material disruption in commercial banking or securities settlement or clearing services in the US, Hong Kong or the United Kingdom or a general moratorium on commercial banking activities in Hong Kong, New York or London, due to exceptional financial circumstances or otherwise; or

(v) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for the United States or by the European Union (or any member thereof) on the PRC; or

(vi) a change or development involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in Hong Kong, the Cayman Islands, the US, the United Kingdom or the PRC; or

(vii) any material litigation or claim being threatened or instigated against any member of our Group or any Director; or

(viii) any executive Director being charged with an indictable office or prohibited by operation of Law or otherwise disqualified from taking part in the management of a company; or

(ix) Mr. Zhu vacating his office as Chairman; or

(x) the commencement by any regulatory body of any public action against any executive Director in his or her capacity as such or an announcement by any regulatory body that it intends to take any such action; or

(xi) a contravention by any member of the Group of the Companies Ordinance or any of the Listing Rules material to the Global Offering; or

(xii) other than with the approval of the Global Coordinator, the issue or requirement to issue by the Company of a supplementary prospectus, Application Form, preliminary or final offering circular pursuant to the Companies Ordinance or the Listing Rules in circumstances where the matter to be disclosed is, in the sole opinion of the Global Coordinator, materially adverse to the marketing for or implementation of the Global Offering; or

(xiii) any change or development involving a prospective change of any of the risks set out in the section headed "Risk Factors" in this prospectus; or

(xiv) a petition is presented for the winding-up or liquidation of any member of the Group or any member of the Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of the Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of any member of the Group or anything analogous thereto occurs in respect of any member of the Group,

which, in the sole opinion of the Global Coordinator (for itself and on behalf of the Public Offer Underwriters):

(A) is or will be, or is likely to be, materially adverse to the general affairs, management, business, financial, trading or other condition or prospects of the Group or to any present or prospective shareholder of the Company in its capacity as such; or

(B) has or will have or is likely to have a material adverse impact on the success of the Global Offering or the level of Offer Shares applied for or accepted or subscribed for or purchased or the distribution of the Offer Shares or dealings in the Shares in the secondary market; or

(C) makes it impracticable, inadvisable or inexpedient to proceed with or to market the Public Offer and/or the International Placing on the terms and in the manner contemplated in the Offer Documents; or

(D) would have the effect of making any part of this Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof.

Undertakings

Pursuant to Rule 10.08 of the Listing Rules, no further Shares or securities convertible into equity securities (whether or not of a class already listed) may be issued or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date, except in certain prescribed circumstances, which includes the issue of Shares pursuant to the Share Option Scheme.

Pursuant to the Public Offer Underwriting Agreement and the International Underwriting Agreement, we have undertaken to the Global Coordinator, the Public Offer Underwriters and the International Underwriters, respectively, and the controlling shareholder has undertaken to procure, that, except pursuant to the Global Offering or any share option scheme of any member of our Group, at any time after the date of the Public Offer Underwriting Agreement and the International Underwriting Agreement, respectively, up to and including the date falling six months after the Listing Date, we will not, without the prior written consent of the Joint Global Coordinators (on behalf of the Public Offer Underwriters and the International Underwriters) and unless in compliance with the Listing Rules, (a) offer, pledge, charge, mortgage, issue, sell, contract to issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of the Company or any interests therein (including, but not limited to, any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such Shares or other securities or any interest therein (the "Held Interests"), or (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences or incident of ownership of any such Held Interests; or (c) enter into any transaction with the same economic effect as any transaction described in (a) or (b) above; or (d) agree or contract to, or publicly announce any intention to enter into, any transaction described in (a), (b) or (c) above; whether any such transaction described in (a), (b) or (c) above is to be settled by delivery of such Held Interests, in cash or otherwise.

Our controlling shareholder has undertaken to us and the Stock Exchange that he will not, except in compliance with the requirements of the Listing Rules, (a) in the period commencing from the date of this prospectus and ending on the date which is six months from the Listing Date (the "First Six-month Period"), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interest or encumbrances in respect of, any of the Shares in respect of which the controlling shareholder are shown by this prospectus to be the beneficial owners (the "Parent Shares"); (b) in the six-month period commencing on the expiry of the First Six-month Period (the "Second Six-month Period") dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the Parent Shares to such an extent that immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, the controlling shareholder would then cease to be our controlling shareholder as defined in the Listing Rules.

Further, our controlling shareholder and each of the Selling Shareholders have undertaken to us, the Global Coordinator, the Public Offer Underwriters and the International Underwriters, respectively, that, save as pursuant to the Global Offering, any stock borrowing arrangements or any exercise of the Over-allotment Option, at any time after the date of the Public Offer Underwriting Agreement and the International Underwriting Agreement, respectively, up to and including the date falling six months after the Listing Date, they will not, without the prior written consent of the Global Coordinator (on behalf of the Underwriters) and unless in compliance with the Listing Rules, (a) offer, pledge, charge, mortgage, issue, sell, contract to issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of the Company or any interests therein (including, but not limited to, any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such Shares or other securities or any interest therein (the "Held Interests"), or (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences or incident of ownership of any such Held Interests; or (c) enter into any transaction with the same economic effect as any transaction described in (a) or (b) above; or (d) agree or contract to, or publicly announce any intention to enter into, any transaction described in (a), (b) or (c) above; whether any such transaction described in (a), (b) or (c) above is to be settled by delivery of such Held Interests, in cash or otherwise.

Our controlling shareholder has undertaken to us and the Stock Exchange that within the period commencing on the date by reference to which disclosure of any shareholding is made in this prospectus and ending on the date which is 12 months from the Listing Date, he will (i) if and when he pledges or charges any securities of our Company beneficially owned by him in favor of an authorized institution pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform us, the Global Coordinator and the Stock Exchange in writing of such pledge or charge, together with the number of securities so pledged or charged; and (ii) if and when he receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities of our Company will be disposed of, immediately inform us in writing of such indications. We are required under Note (3) to Rule 10.07(2) of the Listing Rules to inform the Stock Exchange as soon as we have been informed of the matters referred to in (i) and (ii) of this paragraph by our controlling shareholder and to disclose such matters by way of a press announcement as soon as possible.

Each of the 21 Individual Shareholders has undertaken to us and the Global Coordinator, on behalf of the Public Offer Underwriters and the International Underwriters, that at any time from the date of this prospectus and ending on the date which is six months after the Listing Date, he or she will not (a) offer, pledge, charge, mortgage, issue, sell, contract to issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of the Company or any interests therein (including, but not limited to, any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such Shares or other securities or any interest therein (the "Held Interests"), or (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences or incident of ownership of any such Held Interests; or (c) enter into any transaction with the same economic effect as any transaction described in (a) or (b) above; or (d) agree or contract to, or publicly announce any intention to enter into, any transaction described in (a), (b) or (c) above; whether any such transaction described in (a), (b) or (c) above is to be settled by delivery of such Held Interests, in cash or otherwise.

Commission and expenses

The Public Offer Underwriters will receive a commission of 3.35% of the aggregate Offer Price payable for the Public Offer Shares initially offered under the Public Offer, out of which they will pay any sub-underwriting commissions. For unsubscribed Public Offer Shares reallocated to the International Placing, we will pay an underwriting commission at the rate applicable to the International Placing and such commission will be paid to the International Underwriters and not the Public Offer Underwriters.

Underwriters' interest in our Group

Save for their respective obligations under the Public Offer Underwriting Agreement and the International Underwriting Agreement and the stock borrowing agreement with the Warburg Pincus Funds and Cao Haoqiang dated October 15, 2005, none of the Underwriters has any shareholding interests in any member of our Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

International Placing

International Underwriting Agreement

In connection with the International Placing, we, the controlling shareholder, the International Underwriters, the Global Coordinator and the Selling Shareholders expect to enter into the International Underwriting Agreement with the International Underwriters. Under the International Underwriting Agreement, the International Underwriters to be named therein would severally agree to purchase the International Placing Shares or procure purchasers for the International Placing Shares.

Under the International Underwriting Agreement, the Warburg Pincus Funds and Cao Haoqiang intend to grant to the Global Coordinator the Over-allotment Option, exercisable, in whole or in part at one or more times, at the sole and absolute discretion of the Global Coordinator for up to 30 days after the last day for lodging applications under the Public Offer, to require the Warburg Pincus Funds and Cao Haoqiang to sell up to an aggregate of 45,633,000 additional Shares, representing in aggregate 15.0% of the Offer Shares initially available under the Global Offering. These Shares will be sold at the Offer Price and will be for the purpose of, among other things, covering over-allocations in the International Placing, if any.

TOTAL EXPENSES

Assuming an Offer Price of HK$2.85 per Share (being the mid-point of the stated offer price range of HK$2.55 to HK$3.15 per Share), the aggregate commissions and fees, together with Stock Exchange listing fees, SFC transaction levy of 0.005%, investor compensation levy of 0.002%, Stock Exchange trading fee of 0.005%, legal and other professional fees and printing and other expenses relating to the Global Offering, are estimated to amount in aggregate to approximately HK$60.3 million (assuming the Over-allotment Option is not exercised) in total. Such commissions, fees and expenses are payable by us as to (HK$40.2 million) and the Selling Shareholders (as to HK$20.1 million), being in proportion to the number of Shares sold by us and the Selling Shareholders under the Global Offering.

THE GLOBAL OFFERING

This prospectus is published in connection with the Public Offer as part of the Global Offering. UBS is the Global Coordinator and Sole Bookrunner of the Global Offering.

The Global Offering consists of (subject to adjustment and the Over-allotment Option):

- the Public Offer of 30,422,000 Shares (subject to adjustment as mentioned below) in Hong Kong as described below under "The Public Offer"; and

- the International Placing of 273,798,000 Shares (subject to adjustment as mentioned below) in the US with QIBs in reliance on Rule 144A, and outside the US in reliance on Regulation S.

Out of a total of 304,220,000 Shares comprised in the Global Offering (assuming the Over-allotment Option is not exercised), we are offering 202,809,074 Shares and the Selling Shareholders are offering 101,410,926 Shares.

Investors may apply for the Offer Shares under the Public Offer or indicate an interest, if qualified to do so, for the Offer Shares under the International Placing, but may not do both. The Public Offer is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Placing will involve selective marketing of the Offer Shares to QIBs in the US in reliance on Rule 144A, as well as to institutional and professional investors and other investors expected to have a sizeable demand for the Offer Shares in Hong Kong and other jurisdictions outside the US in reliance on Regulation S. The International Underwriters are soliciting from prospective investors indications of interest in acquiring the Offer Shares in the International Placing. Prospective investors will be required to specify the number of Offer Shares under the International Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building," is expected to continue up to, and to cease on or around Friday, October 14, 2005.

The number of Offer Shares to be offered under the Public Offer and the International Placing respectively may be subject to reallocation as described in "Pricing and Allocation."

PRICING AND ALLOCATION

The Offer Price is expected to be fixed by agreement between the Global Coordinator (on behalf of the Underwriters), the Selling Shareholders and us on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around Saturday, October 15, 2005 and in any event, no later than Sunday, October 16, 2005.

The Offer Price will be not more than HK$3.15 per Offer Share and is expected to be not less than HK$2.55 per Offer Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Public Offer, as explained below. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative offer price range stated in this prospectus.

If, based on the level of interest expressed by prospective institutional, professional and other investors during the book-building process, the Global Coordinator (on behalf of the Underwriters and with our consent and the consent of the Selling Shareholders) considers it appropriate, the indicative offer price range may be reduced below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Public Offer. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Public Offer on Friday, October 14, 2005, cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) notice of the reduction in the indicative offer price range. Such notice will also include confirmation or revision, as appropriate, of the offering statistics as currently set out in the section headed "Summary" and any other financial information which may change as a result of such reduction. Before submitting applications for Public Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the indicative offer price range may not be made until the day which is the last day for lodging applications under the Public Offer. Applicants under the Public Offer should note that in no circumstances can applications be withdrawn once submitted, even if the indicative offer price range is so reduced. The Offer Price, if agreed upon, will be fixed within such revised Offer Price range. In the absence of any notice being published of a reduction in the indicative Offer Price range stated in this prospectus on or before the last day for lodging applications under the Public Offer, the Offer Price, if agreed upon, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

The Shares to be offered in the Public Offer and the International Placing may, in certain circumstances, be reallocated as between these offerings at the discretion of the Global Coordinator.

Allocation of the Offer Shares pursuant to the International Placing will be determined by the Global Coordinator and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell Shares after the listing of the Offer Shares on the Stock Exchange. Such allocation may be made to professional, institutional, corporate and is intended to result in a distribution of our Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and our shareholders as a whole.

Allocation of Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. The basis of allocation may vary, depending on the number of Public Offer Shares validly applied for by applicants, although the allocation of Public Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

The net proceeds from the Global Offering accruing to us are estimated to be approximately HK$537.8 million. The estimated net proceeds are calculated assuming an Offer Price of HK$2.85 per Share (being the mid-point of the stated offer price range of HK$2.55 to HK$3.15 per Share) and after deduction of underwriting fees and estimated expenses payable by us in relation to the Global Offering.

The net proceeds from the Global Offering accruing to the Selling Shareholders (after deduction of underwriting fees and estimated expenses payable by the Selling Shareholders in relation to the Global Offering, assuming that the Over-allotment Option is not exercised and an Offer Price of HK$2.85, being the mid-point of the proposed Offer Price range of HK$2.55 to HK$3.15), are estimated to be approximately HK$268.9 million.

The applicable Offer Price, level of applications in the Public Offer, the level of indications of interest in the International Placing, and the basis of allocations of the Public Offer Shares are expected to be announced on Wednesday, October 19, 2005 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese).

CONDITIONS OF THE PUBLIC OFFER

Acceptance of all applications for the Public Offer Shares pursuant to the Public Offer will be conditional on:

(a) the granting by the Listing Committee of the Stock Exchange of listing of, and permission to deal in, the Shares being offered pursuant to the Global Offering;

(b) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and

(c) the obligations of the Underwriters under each of the Public Offer Underwriting Agreement and the International Underwriting Agreement having become unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than November 9, 2005.

If for any reason, the Offer Price is not agreed by Sunday, October 16, 2005 between the Global Coordinator (on behalf of the Underwriters), the Selling Shareholders and us, the Global Offering will not proceed and will lapse.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will cause a Notice of the lapse of the Public Offer to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed "How to Apply for Public Offer Shares." In the meantime, the application monies will be held in separate bank account(s) with the receiving banker(s) or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

The consummation of each of the Public Offer and the International Placing is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

THE PUBLIC OFFER

We are initially offering 30,422,000 Shares at the Offer Price, representing 10% of the 304,220,000 Shares initially available under the Global Offering, for subscription by the public in Hong Kong. Subject to adjustment as mentioned below, the number of Shares offered under the Public Offer will represent 3.0% of our total issued share capital immediately after completion of the Global Offering. In Hong Kong, individual retail investors are expected to apply for Offer Shares through the Public Offer and individual retail investors, including individual investors in Hong Kong applying through banks and other institutions, seeking Offer Shares in the International Placing will not be allotted Offer Shares in the International Placing.

The Global Coordinator (on behalf of the Underwriters) may require any investor who has been offered Shares under the International Placing, and who has made an application under the Public Offer to provide sufficient information to the Global Coordinator so as to allow it to identify the relevant applications under the Public Offer and to ensure that it is excluded from any application for Shares under the Public Offer.

The Offer Price will be not more than HK$3.15 and is expected to be not less than HK$2.55. Applicants under the Public Offer are required to pay, on application, the maximum offer price of HK$3.15 per Share plus 1.0% brokerage fee, 0.005% SFC transaction levy, 0.002% investor compensation levy and 0.005% Stock Exchange trading fee. If the Offer Price, as finally determined on the Price Determination Date, is lower than HK$3.15, being the maximum price, we will refund the respective difference (including the brokerage fee, the SFC transaction levy, the investor compensation levy and the Stock Exchange trading fee attributable to the surplus application monies) to successful applicants, without interest. Further details are set out in the section headed "How to Apply for Public Offer Shares" to this prospectus.

For allocation purposes only, the 30,422,000 Shares initially being offered for subscription under the Public Offer (after taking into account any adjustment in the number of Offer Shares allocated between the Public Offer and the International Placing) will be divided equally into two pools: Pool A comprising 15,211,000 Public Offer Shares and Pool B comprising 15,211,000 Public Offer Shares, both of which are available on an equitable basis to successful applicants. All valid applications that have been received for Public Offer Shares with a total amount (excluding brokerage, SFC transaction levy, investor compensation levy and the Stock Exchange trading fee) of HK$5 million or below will fall into Pool A and all valid applications that have been received for Public Offer Shares with a total amount (excluding brokerage, SFC transaction levy, investor compensation levy and Stock Exchange trading fee) of over HK$5 million and up to the total value of Pool B, will fall into Pool B.

Applicants should be aware that applications in Pool A and Pool B are likely to receive different allocation ratios. If Public Offer Shares in one pool (but not both pools) are undersubscribed, the surplus Public Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. Applicants can only receive an allocation of Public Offer Shares from either Pool A or Pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 50% of the 30,422,000 Shares initially comprised in the Public Offer (that is 15,211,000 Public Offer Shares) are liable to be rejected.

The allocation of Shares between the Public Offer and the International Placing is subject to adjustment. If the number of Shares validly applied for in the Public Offer represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more, of the number of Shares initially available under the Public Offer, the total number of Shares available under the Public Offer will be increased to 91,266,000, 121,688,000 and 152,110,000 Shares, respectively, representing 30% (in the case of (i)), 40% (in the case of (ii)) and 50% (in the case of (iii)), respectively, of the total number of Shares initially available under the Global Offering (before any exercise of the Over-allotment Option). In such cases, the number of Shares allocated in the International Placing will be correspondingly reduced, in such manner as the Global Coordinator deems appropriate, and such additional Shares will be allocated to Pool A and Pool B.

If the Public Offer Shares are not fully subscribed, the Global Coordinator has the authority to reallocate all or any unsubscribed Public Offer Shares to the International Placing, in such proportions as the Global Coordinator deems appropriate.

References in this prospectus to applications, Application Forms, application monies or to the procedure for application relate solely to the Public Offer.

THE INTERNATIONAL PLACING

The number of Shares to be initially offered for subscription or sale under the International Placing will be 273,798,000 Shares (comprising 172,387,074 Shares and 101,410,926 Shares to be offered by us and the Selling Shareholders, respectively), representing 90.0% of the Offer Shares under the Global Offering. The International Placing is subject to the Public Offer being unconditional.

Pursuant to the International Placing, the International Underwriters will conditionally place our Shares with QIBs in the US in reliance on Rule 144A, as well as with institutional and professional investors and other investors expected to have a sizeable demand for our Shares in Hong Kong and other jurisdictions outside the US in reliance on Regulation S.

The Warburg Pincus Funds and Cao Haoqiang expect to grant the Over-allotment Option to the International Underwriters, exercisable by the Global Coordinator on behalf of the International Underwriters within 30 days from the last day for the lodging of applications under the Public Offer. A press announcement will be made in the event that the Over-allotment Option is exercised. Pursuant to the Over-allotment Option, the Global Coordinator will have the right to require the Warburg Pincus Funds and Cao Haoqiang to sell up to an aggregate of 45,633,000 additional Shares, representing in aggregate 15.0% of the initial Offer Shares, at the Offer Price, to, among other things, cover over-allocations in the International Placing, if any.

DEALING ARRANGEMENTS

Assuming that the Public Offer becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, October 20, 2005, it is expected that dealings in Shares on the Stock Exchange will commence at 9:30 a.m. on Thursday, October 20, 2005.

UNDERWRITING ARRANGEMENTS

The Public Offer is fully underwritten by the Public Offer Underwriters under the terms of the Public Offer Underwriting Agreement, subject to agreement on the Offer Price between the Global Coordinator (on behalf of the Underwriters) and us on the Price Determination Date.

We expect that we, the controlling shareholder, the International Underwriters, the Global Coordinator and the Selling Shareholders will, on or about Saturday, October 15, 2005, shortly after determination of the Offer Price, enter into the International Underwriting Agreement relating to the International Placing.

Underwriting arrangements, the Public Offer Underwriting Agreement and the International Underwriting Agreement are summarized in the section headed "Underwriting."

There are two ways to make an application for the Public Offer Shares. You may either use an Application Form or you may **electronically** instruct HKSCC to cause HKSCC Nominees to apply for the Public Offer Shares on your behalf. Except where you are a nominee and provide the required information in your application, you or you and your joint applicant(s) may not make more than one application (whether individually or jointly) by applying on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC.

I APPLYING BY USING AN APPLICATION FORM

WHICH APPLICATION FORM TO USE

Use a **white** Application Form if you want the Public Offer Shares issued in your own name.

Use a **yellow** Application Form if you want the Public Offer Shares issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

Public Offer Shares are not available to existing beneficial owners of Shares in our Company, the Directors or chief executive of our Company or any of our subsidiaries, or associates of any of them (as "associate" is defined in the Listing Rules) or US persons (as defined in Regulation S) or persons who do not have a Hong Kong address.

WHERE TO COLLECT THE APPLICATION FORMS

You can collect a **white** Application Form and a prospectus from:

Any participant of The Stock Exchange of Hong Kong Limited

or

UBS AG
52nd Floor, Two International Finance Centre
8 Finance Street
Central
Hong Kong

BNP Paribas Peregrine Capital Limited
63rd Floor, Two International Finance Centre
8 Finance Street
Central
Hong Kong

CITIC Capital Markets Limited
26th Floor, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

China Merchants Securities (HK) Co., Ltd.
48th Floor, One Exchange Square
Central
Hong Kong

First Shanghai Securities Limited
19th Floor, Wing On House
71 Des Voeux Road Central
Hong Kong

South China Securities Limited
28th Floor, Bank of China Tower
1 Garden Road
Central
Hong Kong

Sun Hung Kai International Limited
Level 12, One Pacific Place
88 Queensway
Hong Kong

or any of the following branches of **Bank of China (Hong Kong) Limited**:

	Branch Name	Address
Hong Kong Island:	Bank of China Tower Branch	3/F, 1 Garden Road
	Central District (Wing On House) Branch	71 Des Voeux Road Central
	409 Hennessy Road Branch	409-415 Hennessy Road, Wan Chai
	Taikoo Shing Branch	Shop G1006-7, Hoi Sing Mansion, Taikoo Shing
	Aberdeen Branch	25 Wu Pak Street, Aberdeen
	North Point (Kiu Fai Mansion) Branch	413-415 King's Road, North Point

	Branch Name	Address
Kowloon	Kwun Tong Branch	20-24 Yue Man Square, Kwun Tong
	Mong Kok (President Commercial Centre) Branch	608 Nathan Road, Mong Kok
	Diamond Hill Branch	G107 Plaza Hollywood, Diamond Hill
	Kowloon Plaza Branch	Unit 1, Kowloon Plaza, 485 Castle Peak Road
	Whampoa Garden Branch	Shop G8B, Site 1, Whampoa Garden, Hung Hom
	Humphrey's Avenue Branch	4-4A Humphrey's Avenue, Tsim Sha Tsui
New Territories	Castle Peak Road (Tsuen Wan) Wealth Management Centre	167 Castle Peak Road, Tsuen Wan
	Lucky Plaza Branch	Lucky Plaza, Wang Pok Street, Shatin
	Tuen Mun Town Plaza Branch	Shop 2, Tuen Mun Town Plaza Phase II

You can collect a **yellow** Application Form and a prospectus from:

(1) The **Depository Counter of HKSCC** at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong, or

(2) The **Customer Service Center of HKSCC** at Upper Ground Floor, V-Heun Building, 128-140 Queen's Road Central, Hong Kong.

HOW TO COMPLETE THE APPLICATION FORM

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions your application may be rejected and returned by ordinary post together with the accompanying check(s) or banker's cashier order(s) to you (or the first-named applicant in the case of joint applicants) at your own risk at the address stated in the Application Form.

You should note that by signing on the Application Form:

(a) you confirm that you have only relied on the information and representations in this prospectus in making your application and will not rely on any other information and representations save as set out in any supplement to this prospectus;

(b) you agree that we, the Selling Shareholders, the Global Coordinator, the Sponsor, the Underwriters and any of their respective directors, officers, employees, partners, agents or advisers are liable only for the information and representations contained in this prospectus and any supplement thereto;

(c) you undertake and confirm that, you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not indicated an interest for, applied for or taken up any Offer Shares under the International Placing; and

(d) you agree to disclose to our Company and/or our registrars, the receiving banker, the Selling Shareholders, the Global Coordinator and their respective advisers and agents personal data and any information which they require about you or the person(s) for whose benefit you have made the application.

In order for the **yellow** Application Forms to be valid:

(a) **If the application is made through a designated CCASS Participant (other than a CCASS Investor Participant):**

(i) the designated CCASS Participant or its authorized signatories must sign in the appropriate box; and

(ii) the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box.

(b) **If the application is made by an individual CCASS Investor Participant:**

(i) the Application Form must contain the CCASS Investor Participant's name and Hong Kong Identity Card Number; and

(ii) the CCASS Investor Participant must insert its participant I.D. and sign in the appropriate box in the Application Form.

(c) **If the application is made by a joint individual CCASS Investor Participant:**

(i) the Application Form must contain all joint CCASS Investor Participant's name and Hong Kong Identity Card Number of at least one of the joint CCASS Investor Participants; and

(ii) the participant I.D. must be inserted and the authorized signatory(ies) of the CCASS Investor Participant's stock account must sign in the appropriate box in the Application Form.

(d) **If the application is made by a corporate CCASS Investor Participant:**

(i) the Application Form must contain the CCASS Investor Participant's company name and Hong Kong Business Registration number; and

(ii) the participant I.D. and company chop (bearing its company name) endorsed by its authorized signatories must be inserted in the appropriate box in the Application Form.

Signature(s), number of signatories and form of chop, where appropriate, should match the records kept by HKSCC. Incorrect or incomplete details of the CCASS Participant or the omission or inadequacy of authorized signatory(ies) (if applicable), participant I.D. or other similar matters may render the application invalid.

If your application is made through a duly authorized attorney, we and the Global Coordinator as our agent may accept it at our discretion, and subject to any conditions we think fit, including evidence of the authority of your attorney. We, and the Global Coordinator in the capacity as our agent, will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

HOW MANY APPLICATIONS MAY YOU MAKE

You may make more than one application for the Public Offer Shares only if you are a **nominee**, in which case you may both give **electronic application instructions** to HKSCC (if you are a CCASS Participant) and lodge more than one Application Form in your own name on behalf of different beneficial owners. In the box on the Application Form marked "For nominees" you must include:

- an account number; or

- some other identification code

for each beneficial owner. If you do not include this information, the application will be treated as being for your benefit.

Otherwise, multiple applications are not allowed and will be rejected.

It will be a term and condition of all applications that by completing and delivering an Application Form, you:

- (if the application is made for your own benefit) warrant that the application made pursuant to the Application Form is the only application which will be made for your benefit on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC;

- (if you are an agent for another person) warrant that reasonable inquiries have been made of that other person which confirm that this is the only application which will be made for the benefit of that other person on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC, and that you are duly authorized to sign the Application Form as that other person's agent.

All of your applications will be rejected as multiple applications if you, or you and your joint applicant(s) together:

- make more than one application (whether individually or jointly) on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC; or

- both apply (whether individually or jointly) on one **white** Application Form and one **yellow** Application Form or on one **white** or **yellow** Application Form and give **electronic application instructions** to HKSCC; or

- apply on one **white** or **yellow** Application Form (whether individually or jointly) or by giving **electronic application instructions** to HKSCC for more than 50% of the Public Offer Shares initially being offered for sale under the Public Offer as more particularly described in the paragraph headed "Structure and Conditions of the Global Offering — The Public Offer;" or

- have indicated an interest for or have been or will be placed Offer Shares under the International Placing.

All of your applications will also be rejected as multiple applications if more than one application is made for **your benefit** (including the part of an application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and

- you exercise statutory control over that company,

then the application will be treated as being made for your benefit.

Unlisted company means a company with no equity securities listed on the Stock Exchange.

Statutory control means you:

- control the composition of our board of directors; or

- control more than one-half of our voting power; or

- hold more than one-half of our issued share capital (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

MEMBERS OF THE PUBLIC — TIME FOR APPLYING FOR PUBLIC OFFER SHARES

Completed **white** or **yellow** Application Forms, with payment attached, must be lodged by 12:00 noon on Friday, October 14, 2005, or, if the application lists are not open on that day, then by 12:00 noon on the next day the lists are open.

Your completed Application Form, with full payment in Hong Kong dollars attached, should be deposited in the special collection boxes provided at any of the branches of Bank of China (Hong Kong) Limited listed under the section headed "— Where to Collect The Application Forms" above at the following times:

Monday, October 10, 2005 — 9:00 a.m. to 5:00 p.m.
Wednesday, October 12, 2005 — 9:00 a.m. to 5:00 p.m.
Thursday, October 13, 2005 — 9:00 a.m. to 5:00 p.m.
Friday, October 14, 2005 — 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, October 14, 2005.

No proceedings will be taken on applications for the Public Offer Shares and no allotment of any such Public Offer Shares will be made until the closing of the application lists. No allotment of any of the Public Offer Shares will be made later than Wednesday, November 9, 2005.

EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a "black" rainstorm warning

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, October 14, 2005. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warning signals in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon.

If the application lists of the Public Offer do not open and close on Friday, October 14, 2005 or if there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal in force in Hong Kong on the other dates mentioned in the section headed "Expected timetable" in this prospectus, such dates mentioned in the section headed "Expected Timetable" in this prospectus may be affected. A press announcement will be made in such event.

PUBLICATION OF RESULTS

We expect to announce the Offer Price, the level of indication of interest in the International Placing, the basis of allotment, the results of applications and the Hong Kong Identity Card/passport/Hong Kong Business Registration numbers of successful applicants under the Public Offer on Wednesday, October 19, 2005 in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese).

DISPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND CHEQUES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the initial price per Offer Share (excluding brokerage, SFC transaction levy, investor compensation levy and Stock Exchange trading fee thereon) paid on application, or if the conditions of the Global Offering are not fulfilled in accordance with the section headed "Structure and Conditions of the Global Offering — Conditions of the Public Offer" or if any application is revoked or any allotment pursuant thereto has become void, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy, investor compensation levy and Stock Exchange trading fee, will be refunded, without interest. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

No temporary document of title will be issued in respect of the Public Offer Shares. No receipt will be issued for sums paid on application. Subject as mentioned below, in due course, there will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

(a) (i) share certificate(s) for all the Public Offer Shares applied for, if the application is wholly successful; or (ii) share certificate(s) for the number of Public Offer Shares successfully applied for, if the application is partially successful (except for wholly successful and partially successful applicants on **yellow** Application Forms whose share certificates will be deposited into CCASS as described below); and/or

(b) refund check(s) crossed "Account Payee Only" in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) the surplus application monies for the Public Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application monies, if the application is wholly unsuccessful; and/or (iii) the difference between the Offer Price and the initial price per Offer Share paid on application in the event that the Offer Price is less than the initial price per Offer Share paid on application, in each case including related brokerage at the rate of 1%, SFC transaction levy of 0.005%, investor compensation levy of 0.002% and Stock Exchange trading fee of 0.005% but without interest.

Part of your Hong Kong Identity Card number/passport number, or, if you are joint applicants, part of the Hong Kong Identity Card number/passport number of the first-named applicant, provided by you may be printed on your refund check, if any. Such data would also be transferred to a third party for refund purposes. Your banker may require verification of your Hong Kong Identity Card number/passport number before encashment of your refund check. Inaccurate completion of your Hong Kong Identity Card number/passport number may lead to delay in encashment of or may invalidate your refund check.

Subject as mentioned below, refund cheques for surplus application monies (if any) in respect of wholly and partially unsuccessful applications and share certificates for successful applicants under **white** Application Forms are expected to be posted on or before Wednesday, October 19, 2005. The right is reserved to retain any share certificates and any surplus application monies pending clearance of cheque(s).

If you apply using a white Application Form:

If you have applied for 1,000,000 Public Offer Shares or more and you have elected on your **white** Application Form to collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) in person, you may collect your refund check(s) (where applicable) and/or share certificate(s) (where applicable) from our Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Wednesday, October 19, 2005. If you are an individual, you must not authorize any other person to make collection on your behalf. If you are a corporate applicant, you must attend by your authorized representative bearing a letter of authorization from your corporation stamped with your company chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited. If you do not collect your refund check(s) and share certificate(s) within the time period specified for collection, they will be dispatched thereafter to you by ordinary post to the address as specified in your Application Form at your own risk.

If you have applied for 1,000,000 Public Offer Shares or above and have not indicated on your application forms that you will collect your share certificate(s) and/or refund check(s) (if any) in person, or you have applied for less than 1,000,000 Public Offer Shares or if your application is rejected, not accepted or accepted in part only, or if the conditions of the Public Offer are not fulfilled in accordance with the section headed "Structure and Conditions of the Global Offering — Condition of the Public Offer" in this prospectus, or if your application is revoked or any allotment pursuant thereto has become void, your Share certificate(s) (where applicable) and/or refund check(s) (where applicable) in respect of the application monies or the appropriate parties thereof, together with the related brokerage, Stock Exchange trading fee, SFC transaction levy and investor compensation levy, if any, (without interest) will be sent to the address on your Application Form on Wednesday, October 19, 2005 by ordinary post and at your own risk.

If you apply using a yellow Application Form:

If you apply for Public Offer Shares using a **yellow** Application Form and your application is wholly or partially successful, your Share certificates will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form at the close of business on Wednesday, October 19, 2005, or under contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant), for Public Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Public Offer Shares allotted to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant, we expect to publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the newspapers on Wednesday, October 19, 2005. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, October 19, 2005 or such other date as shall be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your stock account.

If you apply for 1,000,000 Public Offer Shares or more and you have elected on your **yellow** Application Form to collect your refund check (where applicable) in person, please follow the same instructions as those for **white** Application Form applicants as described above.

If you apply for less than 1,000,000 Public Offer Shares or if you apply for 1,000,000 Public Offer Shares or more but have not indicated on your **yellow** Application Form that you will collect your refund check(s) (where applicable) in person, your refund check(s) (where applicable) will be sent to the address on your **yellow** Application Form on Wednesday, October 19, 2005 by ordinary post and at your own risk.

II APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

GENERAL

CCASS Participants may give **electronic application instructions** to HKSCC to apply for the Public Offer Shares and to arrange payment of the monies due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (https://ip.ccass.com) (using the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Center
Upper Ground Floor
V-Heun Building
128-140 Queen's Road Central
Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf.

You are deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your broker or custodian, to our Company and our registrar.

APPLICATION FOR PUBLIC OFFER SHARES BY HKSCC NOMINEES ON YOUR BEHALF

Where a **white** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Public Offer Shares:

(a) HKSCC Nominees is only acting as a nominee for those persons and shall not be liable for any breach of the terms and conditions of the **white** Application Form or this prospectus;

(b) HKSCC Nominees does the following things on behalf of each such person:

   (i) agrees that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has inputted **electronic application instructions** on that person's behalf or that person's CCASS Investor Participant stock account;

(ii) undertakes and agrees to accept the Public Offer Shares in respect of which that person has given **electronic application instructions** or any lesser number;

(iii) undertakes and confirms that that person has not indicated an interest for, applied for or taken up any Offer Shares under the International Placing;

(iv) (if the **electronic application instructions** are given for that person's own benefit) declares that only one set of **electronic application instructions** has been given for that person's benefit;

(v) (if that person is an agent for another person) declares that that person has only given one set of electronic application instructions for the benefit of that other person and that that person is duly authorized to give those instructions as that other person's agent;

(vi) understands that the above declaration will be relied upon by our Company, the Directors and the Global Coordinator in deciding whether or not to make any allotment of Public Offer Shares in respect of the **electronic application instructions** given by that person and that that person may be prosecuted if he makes a false declaration;

(vii) authorizes our Company to place the name of HKSCC Nominees on the register of members of our Company as the holder of the Public Offer Shares allotted in respect of that person's **electronic application instructions** and to send Share certificate(s) and/or refund money in accordance with the arrangements separately agreed between our Company and HKSCC;

(viii) confirms that that person has read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;

(ix) confirms that that person has only relied on the information and representations in this prospectus in giving that person's **electronic application instructions** or instructing that person's broker or custodian to give **electronic application instructions** on that person's behalf;

(x) agrees that our Company, the Global Coordinator, the Sponsor, the Underwriters and any of their respective directors, officers, employees, partners, agents or advisers are liable only for the information and representations contained in this prospectus;

(xi) agrees to disclose that person's personal data to our Company, our registrar, receiving bankers, the Global Coordinator, the Underwriters and any of their respective advisers and agents and any information which they may require about that person;

(xii) agrees (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees is accepted, the application cannot be rescinded for innocent misrepresentation;

(xiii) agrees that that person cannot revoke the **electronic application instructions** before Wednesday, November 9, 2005, such agreement to take effect as a collateral contract with our Company and to become binding when that person gives the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Public Offer Shares to any person before Wednesday, November 9, 2005 except by means of one of the procedures referred to in this prospectus. However, that person may revoke the instructions before Wednesday, November 9, 2005 if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;

(xiv) agrees that once the application of HKSCC Nominees is accepted, neither that application nor that person's **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Public Offer published by our Company;

(xv) agrees to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to Public Offer Shares; and

(xvi) agrees that that person's application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the Laws of Hong Kong.

EFFECT OF GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to have done the following things neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below):

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offer Shares on your behalf;

- instructed and authorized HKSCC to arrange payment of the maximum offer price, and the related brokerage, the SFC transaction levy, the investor compensation levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or the Offer Price is less than the initial price per Offer Share paid on application, refund of the application monies (in each case including brokerage, the SFC transaction levy, the investor compensation levy and the Stock Exchange trading fee) by crediting your designated bank account;

- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **white** Application Form.

MULTIPLE APPLICATIONS

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application. No application for any other number of Public Offer Shares will be considered and any such application is liable to be rejected.

MINIMUM APPLICATION AMOUNT AND PERMITTED MULTIPLES

You may give or cause your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give **electronic application instructions** in respect of a minimum of 1,000 Public Offer Shares. Such instructions in respect of more than 1,000 Public Offer Shares must be in one of the multiples set out in the table in the Application Forms.

TIME FOR INPUTTING ELECTRONIC APPLICATION INSTRUCTIONS

CCASS Broker/Custodian Participants can input electronic application instructions at the following times on the following dates:

Monday, October 10, 2005 — 9:00 a.m. to 8:30 p.m.[(1)]
Wednesday, October 12, 2005 — 9:00 a.m. to 8:30 p.m.[(1)]
Thursday, October 13, 2005 — 9:00 a.m. to 8:30 p.m.[(1)]
Friday, October 14, 2005 — 9:00 a.m.[(1)] to 12:00 noon

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Broker/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Monday, October 10, 2005 until 12:00 noon on Friday, October 14, 2005 (24 hours daily, except the last application day).

EFFECT OF BAD WEATHER ON THE LAST APPLICATION DAY

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Friday, October 14, 2005, the last application day. If there is:

- a tropical cyclone warning signal number 8 or above; or
- a "black" rainstorm warning signal

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, October 14, 2005, the last application day will be postponed to the next Business Day which does not have either of those warning signals in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on such day.

If the application lists of the Public Offer do not open and close on Friday, October 14, 2005 or if there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal in force in Hong Kong on the other dates mentioned in the section headed "Expected timetable" in this prospectus, such dates mentioned in the section headed "Expected Timetable" in this prospectus may be affected. A press announcement will be made in such event.

ALLOCATION OF PUBLIC OFFER SHARES

For the purposes of allocating Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives electronic application instructions or each person for whose benefit each such instruction is given will be treated as an applicant.

DEPOSIT OF SHARE CERTIFICATES INTO CCASS AND REFUND OF APPLICATION MONIES

- No temporary documents of title will be issued. No receipt will be issued for application monies received.
- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give **electronic application instructions** on your behalf or your CCASS Investor Participant stock account at the close of business on Wednesday, October 19, 2005 or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees.
- We expect to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, we will include information relating to the relevant beneficial owner), your Hong Kong identity card/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the

Public Offer in the newspapers on Wednesday, October 19, 2005. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, October 19, 2005 or such other date as shall be determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

- If you have applied as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Wednesday, October 19, 2005. Immediately after the credit of the Public Offer Shares to your CCASS Investor Participant stock account, HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the initial price per Public Offer Share paid on application, in each case including the related brokerage of 1%, SFC transaction levy of 0.005%, investor compensation levy of 0.002% and Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on Wednesday, October 19, 2005. No interest will be paid thereon.

SECTION 40 OF THE HONG KONG COMPANIES ORDINANCE

For the avoidance of doubt, we and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies Ordinance.

PERSONAL DATA

The section of the Application Form headed "Personal Data" applies to any personal data held by our Company, our registrar, receiving bankers, the Global Coordinator, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

WARNING

The application of the Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. We, our Directors, the Sponsor, the Global Coordinator and the Underwriters take no responsibility for the application and provide no assurance that any CCASS Participant will be allotted any Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or the CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input their **electronic application instructions** to the systems. In the event that CCASS Investor Participants have problems connecting to the CCASS Phone System or the CCASS Internet System to submit their **electronic application instructions**, they should either: (i) submit a **white** or **yellow** Application Form; or (ii) go to HKSCC's Customer Service Center to complete an input request form for **electronic application instructions** before 12:00 noon on Friday, October 14, 2005.

III CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED PUBLIC OFFER SHARES

Full details of the circumstances in which you will not be allotted Public Offer Shares are set out in the notes attached to the Application Forms, and you should read them carefully. You should note in particular the following situations in which Public Offer Shares will not be allotted to you:

(a) **If your application is revoked:**

By completing and submitting an Application Form you agree that you cannot revoke your application on or before Wednesday, November 9, 2005. This agreement will take effect as a collateral contract with us, and will become binding when you lodge your application. This collateral contract will be in consideration of our Company agreeing that we will not offer any Public Offer Shares to any person on or before Wednesday, November 9, 2005 except by means of one of the procedures referred to in this prospectus.

You may only revoke your application on or before Wednesday, November 9, 2005 if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If any supplement to the prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of the prospectus as supplemented.

If your application has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(b) **Full discretion of our Company, the Global Coordinator or our or their respective agents to reject or accept:**

We, the Global Coordinator or our or their respective agents have full discretion to reject or accept any application, or to accept only part of any application. No reasons have to be given for any rejection or acceptance.

(c) **If the allotment of Public Offer Shares is void:**

The allotment of Public Offer Shares to you or to HKSCC Nominees (if you give **electronic application instruction** to HKSCC or apply by a **yellow** Application Form) will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Public Offer Shares either:

- within 3 weeks from the closing of the application lists; or

- within a longer period of up to 6 weeks if the Listing Committee of the Stock Exchange notifies us of that longer period within 3 weeks of the closing date of the application lists.

(d) **You will not receive any allotment if:**

- you make multiple applications or you are suspected to have made multiple applications;

- you or the person whose benefits you apply for have taken up or indicated an interest or applied for or received or have been or will be placed or allocated (including conditionally and/or provisionally) Offer Shares in the International Placing. By filling in any of the Application Forms, you agree not to apply for or indicate an interest for Offer Shares in the International Placing. Reasonable steps will be taken to identify and reject applications in the Public Offer from investors who have received Offer Shares in the International Placing, and to identify and reject indications of interest in the International Placing from investors who have received Public Offer Shares in the Public Offer;

- your payment is not made correctly or you pay by check or banker's cashier order and the check or banker's cashier order is dishonored upon its first presentation;

- your Application Form is not completed in accordance with the instructions as stated in the Application Form (if you apply by an Application Form);

- the Underwriting Agreements do not become unconditional; or
- the Underwriting Agreements are terminated in accordance with their respective terms.

You should also note that you may apply for Offer Shares under the Public Offer or indicate an interest for Offer Shares under the International Placing, but may not do both.

IV HOW MUCH ARE THE PUBLIC OFFER SHARES

The maximum offer price is HK$3.15 per Public Offer Share. You must also pay brokerage of 1%, SFC transaction levy of 0.005%, investor compensation levy of 0.002% and Stock Exchange trading fee of 0.005% This means that for every 1,000 Public Offer Shares, you will pay HK$3,181.88. The Application Forms have tables showing the exact amount payable for certain multiples of Public Offer Shares up to 1,000,000 Public Offer Shares.

You must pay the maximum offer price and related brokerage, SFC transaction levy, investor compensation levy and the Stock Exchange trading fee in full when you apply for the Public Offer Shares. You must pay the amount payable upon application for Public Offer Shares by a check or a banker's cashier order in accordance with the terms set out in the Application Form.

If your application is successful, brokerage is paid to participants of the Stock Exchange or the Stock Exchange, the SFC transaction levy, investor compensation levy and Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy and the investor compensation levy, collected by the Stock Exchange on behalf of the SFC).

V REFUND OF APPLICATION MONIES

If you do not receive any Public Offer Shares for any reason, we will refund your application monies, including related brokerage of 1%, SFC transaction levy of 0.005%, investor compensation levy of 0.002% and Stock Exchange trading fee of 0.005% No interest will be paid thereon.

If your application is accepted only in part, we will refund to you the appropriate portion of your application monies (including the related brokerage of 1%, SFC transaction levy of 0.005%, investor compensation levy of 0.002% and Stock Exchange trading fee of 0.005%) without interest.

If the Offer Price as finally determined is less than the initial price per Public Offer Share (excluding brokerage, SFC transaction levy, investor compensation levy and Stock Exchange trading fee thereon) paid on application, we will refund to you the surplus application monies, together with the related brokerage of 1%, SFC transaction levy of 0.005%, investor compensation levy of 0.002% and Stock Exchange trading fee of 0.005%, without interest.

All such interest accrued prior to the date of dispatch of refund cheques will be retained for our benefit.

In a contingency situation involving a substantial over-application, at the discretion of us and the Global Coordinator, cheques for applications made on Application Forms for certain small denominations of Public Offer Shares (apart from successful applications) may not be cleared.

Refund of your application monies (if any) is expected to be made on Wednesday, October 19, 2005 in accordance with the various arrangements as described above.

VI COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Public Offer Shares on the Stock Exchange are expected to commence on Thursday, October 20, 2005.

The Public Offer Shares will be traded in board lots of 1,000 each. The stock code of Shares is 496.

VII SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of and permission to deal in the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements will affect their rights and interests.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, from the auditors and reporting accountant of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong. As described in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix VIII, a copy of the Accountants' Report is available for inspection.

Deloitte.
德勤

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Deloitte Touche Tohmatsu
26/F Wing On Centre
111 Connaught Road Central
Hong Kong

October 10, 2005

The Directors
Kasen International Holdings Limited
UBS AG

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding Kasen International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended December 31, 2004 and the four months ended April 30, 2005 (the "Relevant Periods"), for inclusion in the prospectus of the Company dated October 10, 2005 (the "Prospectus").

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on December 19, 2002 under the Cayman Islands Companies Law. Details of the Company's subsidiaries as at the date of this report are set out in note 39 of section I below.

The Group is principally engaged in the processing of raw cowhides and wet blues into finished leather or fully assembled leather products. The Group's products mainly include leather and fabric upholstered furniture and furniture covers, furniture leather and automotive leather.

No audited financial statements have been prepared for the Company, Kasen International Company Limited and Cardina International Company Limited since their respective dates of incorporation as there are no statutory requirements for these entities to prepare audited financial statements. The statutory financial statements of the Company's subsidiaries established in the People's Republic of China (the "PRC") were prepared in accordance with relevant accounting principles and financial regulations applicable to companies established in the PRC.

For the purpose of this report, we have undertaken our own independent audits, in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, of the consolidated financial statements (the "Underlying Financial Statements") of the Group prepared under International Financial Reporting Standards ("IFRS") for the Relevant Periods.

We have examined the Underlying Financial Statements in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" as recommended by the Hong Kong Institute of Certified Public Accountants.

The Financial Information of the Group for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements. No adjustments were deemed necessary by us to the Underlying Financial Statements in preparing our report for inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the directors of the Company who approve their issue. The directors of the Company are responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as at December 31, 2002, December 31, 2003, December 31, 2004 and April 30, 2005 and of the Company as at December 31, 2002, December 31, 2003, December 31, 2004 and April 30, 2005 and of the consolidated results and cash flows of the Group for the Relevant Periods.

The comparative consolidated financial information of the Group for the four months ended April 30, 2004 set out in this report has been extracted from the Group's consolidated financial information for the same period which was prepared by the directors of the Company solely for the purpose of this report. We have reviewed the consolidated financial information for the four months ended April 30, 2004 in accordance with the Statement of Auditing Standards 700 "Engagements to review interim financial reports'' issued by the Hong Kong Institute of Certified Public Accountants. Our review consisted principally of making inquiries of management and applying analytical procedures to the consolidated financial information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as test 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 consolidated financial information for the four months ended April 30, 2004. 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 consolidated financial information for the four months ended April 30, 2004.

I. FINANCIAL INFORMATION

Consolidated income statements

	Notes	Year ended December 31, 2002 RMB'000	2003 RMB'000	2004 RMB'000	Four months ended April 30, 2004 RMB'000 (unaudited)	2005 RMB'000
Turnover	5	1,386,805	2,135,498	2,852,391	817,787	983,121
Cost of sales		(1,192,649)	(1,758,091)	(2,408,719)	(681,453)	(822,660)
Gross profit		194,156	377,407	443,672	136,334	160,461
Other operating income	5	74,149	201,583	189,895	80,504	20,818
Distribution costs		(9,205)	(29,904)	(56,487)	(13,112)	(18,332)
Administrative expenses		(25,980)	(67,985)	(93,902)	(31,420)	(32,475)
Other operating expenses		(23,993)	(144,743)	(133,596)	(67,088)	(7,234)
Operating profit	7	209,127	336,358	349,582	105,218	123,238
(Loss) gain on disposals of subsidiaries		—	(519)	3,013	—	(1,380)
Finance costs	10	(30,459)	(53,905)	(95,419)	(27,785)	(36,696)
Profit before taxation		178,668	281,934	257,176	77,433	85,162
Taxation	11	(51,307)	(49,420)	(22,646)	(6,101)	(9,396)
Profit for the year/period		127,361	232,514	234,530	71,332	75,766
Attributable to:						
Equity holders of the Company		108,706	199,323	225,701	61,944	81,699
Minority interests		18,655	33,191	8,829	9,388	(5,933)
		127,361	232,514	234,530	71,332	75,766
Dividends	12	—	16,900	—	—	—
Earnings per share	13					
Basic		25 cents	46 cents	47 cents	14 cents	15 cents
Diluted		N/A	40 cents	35 cents	10 cents	11 cents

Consolidated balance sheets

		At December 31,			At April 30,
		2002	2003	2004	2005
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS					
Goodwill	14	—	—	181,006	181,006
Negative goodwill	15	(871)	(4,913)	(4,395)	—
Property, plant and equipment	16	345,269	703,434	1,146,912	1,165,131
Land use rights	17	24,036	125,907	144,237	144,774
Intangible assets	18	29	257	905	910
Interest in an associate	19	—	—	5,173	5,173
Investments in securities	20	2,051	2,151	2,410	2,410
		370,514	826,836	1,476,248	1,499,404
CURRENT ASSETS					
Inventories	21	380,680	646,248	1,392,738	1,231,049
Trade and other receivables	22	372,733	624,099	529,466	609,604
Investments in securities	20	3,500	1,000	3,505	—
Amounts due from related companies	23	7,090	41,743	173,795	176,849
Tax recoverable		—	5,968	8,549	17,675
Pledged bank deposits	32	35,250	78,098	239,185	231,536
Bank balances and cash	40	175,111	410,293	213,458	338,384
		974,364	1,807,449	2,560,696	2,605,097
TOTAL ASSETS		1,344,878	2,634,285	4,036,944	4,104,501
CURRENT LIABILITIES					
Trade and other payables	24	192,064	517,396	873,382	721,250
Amounts due to related companies	23	3,420	775	74,289	110,004
Bank and other borrowings — due within one year	25	593,773	1,056,207	1,472,825	1,584,512
Convertible loan notes	26	—	180,435	304,934	304,934
Dividend payable to a minority shareholder		10,000	—	—	—
Tax payable		31,935	18,873	7,646	5,998
		831,192	1,773,686	2,733,076	2,726,698
NET CURRENT ASSETS (LIABILITIES)		143,172	33,763	(172,380)	(121,601)
TOTAL ASSETS LESS CURRENT LIABILITIES		513,686	860,599	1,303,868	1,377,803
NON-CURRENT LIABILITIES					
Amount due to a related company	23	—	41,500	—	—
Bank and other borrowings — due after one year	25	108,300	102,039	102,492	102,727
		108,300	143,539	102,492	102,727
NET ASSETS		405,386	717,060	1,201,376	1,275,076
EQUITY					
Share capital	27	541	541	689	689
Reserves		373,247	556,706	1,090,415	1,176,669
Equity attributable to equity holders of the Company		373,788	557,247	1,091,104	1,177,358
Minority interests		31,598	159,813	110,272	97,718
TOTAL EQUITY		405,386	717,060	1,201,376	1,275,076

Consolidated statements of movements in equity

	Attributable to equity holders of the Company									
	Share capital	**Share premium**	**Equity reserve**	**Exchange reserve**	**Statutory reserve**	**Special reserve**	**Retained earnings**	**Total**	**Minority interests**	**Total equity**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Note 28a)	RMB'000 (Note 28b)	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2002	541	—	—	(24)	18,688	168,459	77,418	265,082	23,714	288,796
Capital contribution from minority shareholders	—	—	—	—	—	—	—	—	100	100
Deemed acquisition from minority interests	—	—	—	—	—	—	—	—	(871)	(871)
Profit for the year	—	—	—	—	—	—	108,706	108,706	18,655	127,361
Transfer	—	—	—	—	28,664	—	(28,664)	—	—	—
Dividend payable to a minority shareholder	—	—	—	—	—	—	—	—	(10,000)	(10,000)
At January 1, 2003	541	—	—	(24)	47,352	168,459	157,460	373,788	31,598	405,386
Increase in special reserve arising from Reorganization	—	—	—	—	—	200	—	200	—	200
Exchange differences arising on translation of overseas operations	—	—	—	(455)	—	—	—	(455)	—	(455)
Recognition of equity component of convertible loan notes	—	—	1,291	—	—	—	—	1,291	—	1,291
Disposal of subsidiaries	—	—	—	—	(698)	—	698	—	(1,558)	(1,558)
Capital contribution from minority shareholders	—	—	—	—	—	—	—	—	102,897	102,897
Acquisition of additional interests in subsidiaries	—	—	—	—	—	—	—	—	(2,000)	(2,000)
Deemed acquisition from minority interests	—	—	—	—	—	—	—	—	(4,315)	(4,315)
Profit for the year	—	—	—	—	—	—	199,323	199,323	33,191	232,514
Transfer	—	—	—	—	52,401	—	(52,401)	—	—	—
Dividends	—	—	—	—	—	—	(16,900)	(16,900)	—	(16,900)
At January 1, 2004	541	—	1,291	(479)	99,055	168,659	288,180	557,247	159,813	717,060
Disposal of subsidiaries	—	—	—	—	—	—	—	—	(7,690)	(7,690)
Issue of shares	15	21,036	—	—	—	—	—	21,051	—	21,051
Exchange differences arising on translation of overseas operations	—	—	—	(183)	—	—	—	(183)	(29)	(212)
Capital contribution from minority shareholders	—	—	—	—	—	—	—	—	34,962	34,962
Acquisition of additional interests in subsidiaries	133	287,155	—	—	—	—	—	287,288	(85,613)	201,675
Profit for the year	—	—	—	—	—	—	225,701	225,701	8,829	234,530
Transfer	—	—	—	—	42,776	—	(42,776)	—	—	—
At January 1, 2005	689	308,191	1,291	(662)	141,831	168,659	471,105	1,091,104	110,272	1,201,376
On adoption of IFRS 3 (note 15)	—	—	—	—	—	—	4,395	4,395	—	4,395
Exchange differences arising on translation of overseas operations	—	—	—	160	—	—	—	160	—	160
Acquisition of additional interests in subsidiaries	—	—	—	—	—	—	—	—	(6,621)	(6,621)
Profit for the period	—	—	—	—	—	—	81,699	81,699	(5,933)	75,766
At April 30, 2005	689	308,191	1,291	(502)	141,831	168,659	557,199	1,177,358	97,718	1,275,076

	Attributable to equity holders of the Company									
	Share capital	Share premium	Equity reserve	Exchange reserve	Statutory reserve	Special reserve	Retained earnings	Total	Minority interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Note 28a)	RMB'000 (Note 28b)	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2004	541	—	1,291	(479)	99,055	168,659	288,180	557,247	159,813	717,060
Issue of shares (unaudited)	14	20,736	—	—	—	—	—	20,750	—	20,750
Capital contribution from minority shareholders (unaudited)	—	—	—	—	—	—	—	—	22,971	22,971
Exchange differences arising on translation of overseas operations (unaudited)	—	—	—	(262)	—	—	—	(262)	—	(262)
Profit for the period (unaudited)	—	—	—	—	—	—	61,944	61,944	9,388	71,332
At April 30, 2004 (unaudited)	555	20,736	1,291	(741)	99,055	168,659	350,124	639,679	192,172	831,851

Consolidated cash flow statements

	Year ended December 31,			Four months ended April 30,	
	2002	2003	2004	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
OPERATING ACTIVITIES					
Profit before taxation	178,668	281,934	257,176	77,433	85,162
Adjustments for:					
Allowances for bad and doubtful debts	2,599	21,451	9,968	2,803	3,765
Allowances for inventories	—	3,703	32,273	2,052	—
Amortization of intangible assets	6	53	113	23	71
Amortization of land use rights	466	846	3,201	1,431	1,093
Depreciation and amortization of property, plant and equipment	17,332	40,202	61,155	14,330	25,600
Discounts on acquisition of an additional interest in a subsidiary	—	—	—	—	(5,300)
Dividend income from investments in securities	(76)	(112)	—	—	—
Gain on disposal of investments in securities	—	(180)	—	—	—
(Gain) loss on disposal of property, plant and equipment	(54)	52	833	595	—
Interest expenses	30,459	53,905	95,419	27,785	36,696
Interest income	(1,147)	(4,572)	(4,106)	(488)	(1,208)
Issue of shares to a then employee charged to employee benefits	—	—	301	—	—
Loss (gain) on disposal of subsidiaries	—	519	(3,013)	—	1,380
Release of negative goodwill to income statement	—	(273)	(518)	(173)	—
Operating cash flows before movements in working capital	228,253	397,528	452,802	125,791	147,259
(Increase) decrease in inventories	(16,924)	(260,960)	(877,074)	(335,428)	161,689
Increase in trade and other receivables	(84,678)	(343,960)	(129,587)	(33,015)	(85,283)
(Increase) decrease in amounts due from related companies	(7,090)	(34,653)	63,227	34,160	(3,054)
Increase (decrease) in trade and other payables	29,164	333,951	507,681	245,126	(157,054)
Increase (decrease) in amounts due to related companies	3,420	(2,645)	36,684	26,015	51,925
Cash generated from operations	152,145	89,261	53,733	62,649	115,482
Income taxes paid	(39,300)	(68,230)	(50,395)	(24,520)	(20,170)
Income taxes refunded	16,236	—	13,941	—	—
NET CASH FROM OPERATING ACTIVITIES	129,081	21,031	17,279	38,129	95,312

	Notes	Year ended December 31, 2002 RMB'000	2003 RMB'000	2004 RMB'000	Four months ended April 30, 2004 RMB'000 (unaudited)	2005 RMB'000
INVESTING ACTIVITIES						
Purchase of property, plant and equipment		(164,633)	(375,940)	(738,797)	(314,021)	(58,778)
(Increase) decrease in pledged bank deposits		(21,311)	(42,848)	(161,087)	12,085	7,649
Purchase of land use rights		(1,964)	(89,383)	(24,698)	(8,243)	(1,630)
Purchase of investments in securities		(3,500)	(1,100)	(3,815)	—	—
Purchase of intangible assets		(35)	(281)	(761)	(96)	(76)
Proceeds from disposals of property, plant and equipment		4,940	3,828	20,768	1,171	14,959
Interest received		1,147	4,572	4,106	488	1,208
Dividends received		76	112	—	—	—
Purchase of subsidiaries	29	—	(20,008)	—	—	—
Purchase of additional interests in subsidiaries		—	(2,000)	—	—	(1,321)
Disposal of subsidiaries	30	—	6,423	(71,587)	—	—
Proceeds from sales of investments in securities		—	3,680	1,051	1,000	3,505
Investments in an associate		—	—	(5,173)	—	—
NET CASH USED IN INVESTING ACTIVITIES		(185,280)	(512,945)	(979,993)	(307,616)	(34,484)
FINANCING ACTIVITIES						
Bank and other borrowings raised		1,288,860	1,548,315	2,366,019	772,513	1,097,402
Capital contribution from minority shareholders		100	102,897	34,962	22,971	—
Repayment of bank and other borrowings		(1,052,684)	(1,071,199)	(1,716,018)	(533,633)	(985,480)
Interest paid		(30,459)	(48,152)	(80,413)	(22,948)	(31,614)
Proceeds on issue of convertible loan notes		—	180,435	124,499	124,499	—
Advances from related companies		—	41,500	64,880	16,450	14,200
Dividends paid		—	(16,900)	—	—	—
Dividends paid to a minority shareholder		—	(10,000)	—	—	—
Issue of shares		—	200	20,750	20,750	—
Repayment to related companies		—	—	(48,800)	—	(30,410)
NET CASH FROM FINANCING ACTIVITIES		205,817	727,096	765,879	400,602	64,098
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		149,618	235,182	(196,835)	131,115	124,926
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD		25,493	175,111	410,293	410,293	213,458
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD, represented by bank balances and cash		175,111	410,293	213,458	541,408	338,384

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL

Kasen International Holdings Limited is a limited company incorporated in the Cayman Islands.

2. GROUP REORGANIZATION AND BASIS OF PRESENTATION OF FINANCIAL INFORMATION

In preparation for listing of the Company's shares on The Stock Exchange of Hong Kong Limited, the Company underwent a group reorganization (the "Reorganization"). The Reorganization principally involved (1) the shareholders (the "Founding Shareholder Group") of Zhejiang Kasen Industrial Co. Ltd. ("Zhejiang Kasen"), the then principal operating company and a holding company of certain subsidiaries of the Group, subscribed for a total of 231,095,052 ordinary shares of US$0.0001 each of the Company on January 14, 2003 and February 14, 2003 respectively, so as to set up a holding company; and (2) a transfer of the entire ownership interest in Zhejiang Kasen to the Company. Zhejiang Kasen and the Company were controlled by the Founding Shareholder Group throughout the Reorganization and the Relevant Periods. The Founding Shareholder Group, as a result of contractual agreements, was regarded as a single entity controlling the Group and governed the financial and operating policies of the Group. In respect of step (2) of the Reorganization above, such contractual agreements include (i) a declaration of trust signed by Mr. Zhu Zhangjin ("Mr. Zhu"), a director and a shareholder of the Company, on February 26, 2003 which declared that 11.00% of the equity interest Mr. Zhu held in the Company was held on trust for two of the shareholders of Zhejiang Kasen ("Township Shareholders") and gave Mr. Zhu the full power to vote in his discretion on behalf of the Township Shareholders; and (ii) a voting agreement dated February 26, 2003 whereby the 21 individual shareholders of Zhejiang Kasen granted Mr. Zhu full power to vote on their behalf all shares owned by them. The declaration of trust and the voting agreement were terminated on September 16, 2004 and October 9, 2005, respectively; and (3) in return for the ownership interest in Zhejiang Kasen transferred by the Founding Shareholder Group, the Founding Shareholder Group subscribed for 421,078,856 further ordinary shares of US$0.0001 each in the Company on September 16, 2004. Zhejiang Kasen became a wholly-owned subsidiary of the Company during the process of Reorganization and the Reorganization was completed on September 16, 2004.

Accordingly, for the purpose of the preparation of the financial information of the Group, the Group accounted for Zhejiang Kasen as a wholly-owned subsidiary on the basis that the Company has been considered as the holding company of Zhejiang Kasen and its subsidiaries throughout the Relevant Periods, except for those subsidiaries which were established or acquired during the Relevant Periods. The preparation of the financial information of the Group under the Reorganization is in accordance with IFRS 3 *Business Combination* ("IFRS 3") and International Accounting Standard ("IAS") 27 *Consolidated and Separate Financial Statements*.

Acquisition and disposal of subsidiaries, other than those of the Reorganization, during the Relevant Periods is accounted for from the effective date of acquisition or disposal by the purchase method of accounting. Details of the acquisitions and disposal of subsidiaries during the Relevant Periods are set out in notes 29 and 30.

The results of the subsidiaries incorporated by the Group during the Relevant Periods are included in the consolidated income statement from the date of incorporation.

All inter-group equity interests transfers have been eliminated on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial information has been prepared in accordance with IFRS. All IFRS effective for the accounting period starting from January 1, 2005, together with the relevant transitional provision, have been adopted in the preparation of the financial information consistently throughout the Relevant Periods.

The financial information has been prepared on the historical cost basis, except for the revaluation of certain financial instruments. The principal accounting policies adopted are set out below:

Basis of consolidation

The consolidated financial information incorporates the financial information of the Company and entities controlled by the Company and its subsidiaries. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial information of the subsidiaries to bring the accounting policies used into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the consolidation. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combination

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognized at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations* ("IFRS 5"), which are recognized and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair values of the identifiable assets, liabilities and contingent liabilities recognized. If, after reassessment, the Group's interest in the net fair values of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized immediately in profit or loss with the adoption of IFRS 3 on January 1, 2005.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair values of the assets, liabilities and contingent liabilities recognized.

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in this financial information using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5. Under the equity method, investments in associates are carried in the balance sheet at the cost acquired by the Group as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate are not recognized.

Any excess of the cost of acquisition over the Group's share of the net fair values of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. Goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair values of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair values of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognized at the date of acquisition.

Goodwill is recognized as an asset at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described under "Investments in associates" above.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair values of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition.

IFRS 3 requires that, after reassessment, any excess of the acquirer's interest in the net fair values of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination should be recognized immediately in income statement. IFRS 3 prohibits the recognition of negative goodwill in the balance sheet. Previously, under IAS 22 *Business Combinations* (superceded by IFRS 3), the Group released negative goodwill to income over a number of accounting periods, based on an analysis of the circumstances from which the balance resulted. Negative goodwill was reported as a deduction from assets in the balance sheet.

In accordance with the transitional rules of IFRS 3, the Group has applied the revised accounting policy prospectively from January 1, 2005. Therefore, the change has had no impact on amounts reported for 2004 or prior periods.

The carrying amount of negative goodwill at January 1, 2005 has been derecognized at the transition date. Therefore, an adjustment of approximately RMB4,395,000 is made to opening retained earnings and negative goodwill at January 1, 2005. Under the previous accounting policy, approximately RMB173,000 of negative goodwill would have been released to income during four months ended April 30, 2005, leaving a balance of negative goodwill of approximately RMB4,222,000 at April 30, 2005. Therefore, the impact of the change in accounting policy for the period from January 1, 2005 to April 30, 2005 is a reduction in other operating income of approximately RMB173,000 and an increase in net assets at December 31, 2004 of approximately RMB4,395,000.

Revenue recognition

Revenue is measured at the fair values of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, value-added tax and other sales related taxes.

Sales of goods are recognized when goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognized when the shareholders' rights to receive payment have been established.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to income on a straight line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight line basis over the lease term.

Foreign currencies

Transactions in foreign currencies are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Gains and losses arising on retranslation are included in net profit or loss for the period, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognized directly in equity.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognized as income or as expenses in the period in which the operation is disposed of.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Government grants

Government grants are recognized as income over the periods necessary to match them with the related costs.

Where government grants are given for the purposes of immediate financial support to the Group with no further related cost to be incurred, the grants are recognized as income when they become receivable.

Grants relating to assets are presented as a deduction from the cost of the relevant asset.

Grants related to expense items are recognized in the same period as those expenses are charged to the income statement and are reported separately as other operating income.

Retirement benefits costs

Payments to defined contribution retirement benefits schemes are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial information and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Land use rights

Land use rights are stated at cost less accumulated amortization. The cost of land use rights are amortized on a straight line basis over the periods of the rights.

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less depreciation, amortization and accumulated impairment losses.

Construction in progress is stated at cost which includes all construction costs and other direct costs attributable to such projects including borrowing costs capitalized. It is not depreciated until completion of construction. Costs of completed construction works are transferred to the appropriate categories of property, plant and equipment.

Depreciation and amortization is provided to write off the cost of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account their estimated residual value, using the straight line method, as follows:

Buildings	over the shorter of the term of the land use rights or useful life
Plant and machinery	5 - 15 years
Motor vehicles	5 years
Furniture, fixtures and equipment	5 - 10 years

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the income statement.

Intangible assets

Costs incurred in the acquisition of computer software are capitalized and amortized on a straight line basis over their estimated useful lives of five years from the date of acquisition.

Internally-generated intangible assets — research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the Group's development activities is recognized only if all of the following conditions are met:

- an asset is created that can be identified (such as software and new processes);
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Internally-generated intangible assets are amortized on a straight line basis over their estimated useful lives. Where no internally-generated intangible asset can be recognized, development expenditure is charged to profit or loss in the period in which it is incurred.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost comprises direct materials and, where applicable, direct labor costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average cost method. Net realizable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Financial instruments

Financial assets and financial liabilities are recognized on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Investments

Investments are recognized and derecognized on a trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost, including transaction costs.

Investments are classified as either held-for-trading or available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in net profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognized directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in the net profit or loss for the period.

Financial liability and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the income statement using effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Convertible loan notes

Convertible loan notes are regarded as compound instruments, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible loan notes and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Group, is included in equity.

Issue costs are apportioned between the liability and equity components of the convertible loan notes based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity.

The interest expense on the liability component is calculated by applying the prevailing market interest rate for similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible loan note.

Trade payables

Trade payables are non-interest bearing and are stated at their nominal value.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Share-based Payments

The Group has applied the requirements of IFRS 2 *Share-based Payments* ("IFRS 2"). In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after November 7, 2002 that were unvested as at January 1, 2005.

The Group issues equity-settled and cash-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value 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 shares that will eventually vest.

A liability equal to the portion of the goods or services received is recognized at the current fair value determined at each balance sheet date for cash-settled share-based payments.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the entity's accounting policies which are described in note 3, management has made the following judgment that have most significantly effect on the amounts recognized in the financial information (apart from those involving estimations, which are dealt with below).

Depreciation and Amortization

The Group's net book value of property, plant and equipment as at April 30, 2005 was RMB1,165.1 million. The Group depreciates the manufacturing buildings and related improvements on a straight line basis over the shorter of the term of the land use rights or their useful life. The Group depreciates the plant and machinery on a straight line basis over the estimated useful life of five to fifteen years, commencing from the date the equipment is placed into productive use. The estimated useful life and dates that the Group places the equipment into productive use reflects the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's plant, equipment and land use rights.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Allowances for bad and doubtful debts

The provisioning policy for bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realization of these receivables, including the current creditworthiness and the past collection history of each customer.

If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Allowances for inventories

The management of the Group reviews an aging analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realizable value for such finished goods and work-in-progress based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

5. REVENUE

Analysis of the Group's revenue is as follows:

	Year ended December 31,			Four months ended April 30,	
	2002	2003	2004	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Sales of goods	1,386,805	2,135,498	2,852,391	817,787	983,121
Other operating income	74,149	201,583	189,895	80,504	20,818
	1,460,954	2,337,081	3,042,286	898,291	1,003,939

Details of other operating income are as follows:

	Year ended December 31,			Four months ended April 30,	
	2002	2003	2004	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Government grants					
Financial assistance	221	5,598	—	—	—
Grants for technology development	5,500	800	5,918	1,654	—
Grants for export sales	5,896	1,749	3,031	368	—
Incentive for business development in Zhejiang Province	25,636	13,256	15,444	799	4,500
Other grants	605	280	2,000	1,308	180
	37,858	21,683	26,393	4,129	4,680
Sales of raw materials	18,230	137,923	138,868	69,703	8,241
Interest income	1,147	4,572	4,106	488	1,208
Discounts on acquisition of an additional interest in a subsidiary/Release of negative goodwill on acquisition of subsidiaries	—	273	518	173	5,300
Value Added Tax refund	9,889	27,085	13,903	5,429	—
Others	7,025	10,047	6,107	582	1,389
	74,149	201,583	189,895	80,504	20,818

During the years ended December 31, 2002, 2003, 2004 and the four months ended April 30, 2004 and 2005, the Group received government grants of RMB19,768,000, RMB4,440,000, RMB25,007,000, Nil (unaudited) and RMB717,000 towards the acquisition of land use rights. The amounts have been deducted from the cost of the relevant assets.

6. SEGMENT INFORMATION

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

Business segment

During the Relevant Periods and the four months ended April 30, 2004, the Group has the following principal products:

- Upholstered furniture, comprising leather and fabric upholstered furniture and furniture covers;
- Furniture leather;
- Automotive leather;
- Leather garments; and
- Others

For the year ended December 31, 2002

	Upholstered furniture	Furniture leather	Automotive leather	Leather garments	Others	Eliminations	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TURNOVER							
External sales	567,317	351,376	610	439,557	27,945	—	1,386,805
Inter-segment sales	20,063	431,353	—	102,360	120,014	(673,790)	—

Inter-segment sales are charged at prevailing market prices.

	Upholstered furniture	Furniture leather	Automotive leather	Leather garments	Others	Eliminations	Consolidated
SEGMENT RESULTS	90,016	66,701	99	39,903	6,089	—	202,808
Unallocated other operating income							11,425
Unallocated corporate expenses							(5,106)
Operating profit							209,127
Finance costs							(30,459)
Profit before taxation							178,668
Taxation							(51,307)
Profit for the year							127,361

	Upholstered furniture	Furniture leather	Automotive leather	Leather garments	Others	Unallocated corporate items	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
OTHER INFORMATION							
Allowances for (reversal of) bad and doubtful debts	1,550	1,110	1	(150)	88	—	2,599
Capital additions	21,269	84,412	4	1,727	7,591	51,629	166,632
Depreciation and amortization	2,189	12,780	1	480	2,192	162	17,804

At December 31, 2002

	Upholstered furniture	Furniture leather	Automotive leather	Leather garments	Others	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
BALANCE SHEET						
ASSETS						
Segment assets	272,754	518,339	11,844	26,558	28,500	857,995
Unallocated corporate assets						486,883
Consolidated total assets						1,344,878
LIABILITIES						
Segment liabilities	15,217	40,137	13	13,501	5,681	74,549
Unallocated corporate liabilities						864,943
Consolidated total liabilities						939,492

For the year ended December 31, 2003

	Upholstered furniture	Furniture leather	Automotive leather	Leather garments	Others	Eliminations	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TURNOVER							
External sales	1,128,382	427,790	47,405	445,525	86,396	—	2,135,498
Inter-segment sales	106,451	866,457	5,340	91,059	498,283	(1,567,590)	—

Inter-segment sales are charged at prevailing market prices.

	Upholstered furniture	Furniture leather	Automotive leather	Leather garments	Others	Eliminations	Consolidated
SEGMENT RESULTS	196,341	57,044	2,295	53,739	15,066	—	324,485
Unallocated other operating income							20,115
Unallocated corporate expenses							(8,242)
Operating profit							336,358
Loss on disposal of subsidiaries							(519)
Finance costs							(53,905)
Profit before taxation							281,934
Taxation							(49,420)
Profit for the year							232,514

	Upholstered furniture	Furniture leather	Automotive leather	Leather garments	Others	Unallocated corporate items	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
OTHER INFORMATION							
Allowances for bad and doubtful debts	8,755	5,763	1,077	969	4,887	—	21,451
Allowances for inventories	642	239	2	242	2,578	—	3,703
Capital additions	222,567	144,934	245	1,192	4,320	92,346	465,604
Depreciation and amortization	4,933	28,944	22	584	3,111	3,507	41,101

At December 31, 2003

	Upholstered furniture	Furniture leather	Automotive leather	Leather garments	Others	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
BALANCE SHEET						
ASSETS						
Segment assets	482,747	918,414	80,692	14,444	9,313	1,505,610
Unallocated corporate assets						1,128,675
Consolidated total assets						2,634,285
LIABILITIES						
Segment liabilities	64,707	74,205	756	8,443	2,859	150,970
Unallocated corporate liabilities						1,766,255
Consolidated total liabilities						1,917,225

For the year ended December 31, 2004

	Upholstered furniture	Furniture leather	Automotive leather	Leather garments	Others	Eliminations	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TURNOVER							
External sales	2,033,173	491,839	127,451	130,811	69,117	—	2,852,391
Inter-segment sales	434,550	1,238,044	73	4,087	519,465	(2,196,219)	—

Inter-segment sales are charged at prevailing market prices.

SEGMENT RESULTS	255,551	58,153	11,005	13,044	10,141	—	347,894
Unallocated other operating income							13,744
Unallocated corporate expenses							(12,056)
Operating profit							349,582
Gain on disposals of subsidiaries							3,013
Finance costs							(95,419)
Profit before taxation							257,176
Taxation							(22,646)
Profit for the year							234,530

	Upholstered furniture	Furniture leather	Automotive leather	Leather garments	Others	Unallocated corporate items	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
OTHER INFORMATION							
Allowances for bad and doubtful debts	7,742	140	1,271	454	361	—	9,968
Allowances for inventories	1,489	30,659	—	125	—	—	32,273
Capital additions	453,015	213,939	555	1,480	579	94,688	764,256
Depreciation and amortization	18,467	30,842	64	345	3,805	10,946	64,469

At December 31, 2004

	Upholstered furniture	Furniture leather	Automotive leather	Leather garments	Others	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
BALANCE SHEET						
ASSETS						
Segment assets	1,111,436	1,635,120	110,428	28,676	34,227	2,919,887
Unallocated corporate assets						1,117,057
Consolidated total assets						4,036,944
LIABILITIES						
Segment liabilities	227,827	236,496	71,684	6,328	19,149	561,484
Unallocated corporate liabilities						2,274,084
Consolidated total liabilities						2,835,568

For the four months ended April 30, 2004 (unaudited)

	Upholstered furniture	Furniture leather	Automotive leather	Leather garments	Others	Eliminations	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TURNOVER							
External sales	622,113	146,477	36,961	7,979	4,257	—	817,787
Inter-segment sales	94,141	407,765	—	—	202,972	(704,878)	—

Inter-segment sales are charged at prevailing market prices.

	Upholstered furniture	Furniture leather	Automotive leather	Leather garments	Others	Eliminations	Consolidated
SEGMENT RESULTS	88,199	14,013	3,784	868	2,485	—	109,349
Unallocated other operating income							1,496
Unallocated corporate expenses							(5,627)
Operating profit							105,218
Finance costs							(27,785)
Profit before taxation							77,433
Taxation							(6,101)
Profit for the period							71,332

	Upholstered furniture	Furniture leather	Automotive leather	Leather garments	Others	Unallocated corporate items	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
OTHER INFORMATION							
Allowances for (reversal of) bad and doubtful debts	1,638	88	1,101	—	(24)	—	2,803
Allowances for inventories	—	2,052	—	—	—	—	2,052
Capital additions	194,194	106,091	95	40	21,940	—	322,360
Depreciation and amortization	4,069	9,933	—	27	—	1,755	15,784

For the four months ended April 30, 2005

	Upholstered furniture	Furniture leather	Automotive leather	Others	Eliminations	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TURNOVER						
External sales	756,713	178,766	47,333	309	—	983,121
Inter-segment sales	167,591	479,894	—	28,107	(675,592)	—

Inter-segment sales are charged at prevailing market prices.

SEGMENT RESULTS	94,430	18,843	5,271	2,407	—	120,951
Unallocated other operating income						7,501
Unallocated corporate expenses						(5,214)
Operating profit						123,238
Loss on disposals of subsidiaries						(1,380)
Finance costs						(36,696)
Profit before taxation						85,162
Taxation						(9,396)
Profit for the period						75,766

	Upholstered furniture	Furniture leather	Automotive leather	Others	Unallocated corporate items	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
OTHER INFORMATION						
Allowances for (reversal of) bad and doubtful debts	3,495	(134)	448	(44)	—	3,765
Capital additions	41,149	14,451	59	20	4,805	60,484
Depreciation and amortization	13,250	12,894	48	5	567	26,764

At April 30, 2005

	Upholstered furniture	Furniture leather	Automotive leather	Others	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
BALANCE SHEET					
ASSETS					
Segment assets	1,425,525	1,381,948	132,723	34,425	2,974,621
Unallocated corporate assets					1,129,880
Consolidated total assets					4,104,501
LIABILITIES					
Segment liabilities	271,453	55,820	519	14,645	342,437
Unallocated corporate liabilities					2,486,988
Consolidated total liabilities					2,829,425

Geographical segments

Most of the identifiable assets of the Group are located in the PRC.

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

	Year ended December 31,			Four months ended April 30,	
	2002	2003	2004	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
United States	528,088	1,046,170	1,915,701	561,105	734,375
PRC, including Hong Kong	421,745	594,184	637,763	210,422	214,643
Russia	411,317	395,733	131,742	—	562
Others	25,655	99,411	167,185	46,260	33,541
	1,386,805	2,135,498	2,852,391	817,787	983,121

7. OPERATING PROFIT

Operating profit has been arrived at after charging:

	Year ended December 31,			Four months ended April 30,	
	2002	2003	2004	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Allowances for bad and doubtful debts	2,599	21,451	9,968	2,803	3,765
Allowances for inventories	—	3,703	32,273	2,052	—
Amortization of land use rights (included in administrative expenses)	466	846	3,201	1,431	1,093
Amortization of intangible assets (included in administrative expenses)	6	53	113	23	71
Auditors' remuneration	1,477	3,855	2,255	315	121
Cost of inventories recognized as expenses	1,192,649	1,758,091	2,408,719	681,453	822,660
Cost of sales of raw materials (included in other operating expenses)	17,676	137,437	128,163	64,913	5,200
Depreciation and amortization of property, plant and equipment	17,332	40,202	61,155	14,330	25,600
Loss on disposal of property, plant and equipment	—	52	833	595	—
Operating lease rentals in respect of land and buildings	166	683	1,290	364	154
Research, design and product development	127	352	10,630	373	7,610
Staff costs (note 9)	51,983	90,014	190,221	55,695	66,314
and after crediting:					
Dividend income from investments in securities	76	112	—	—	—
Gain on disposal of investments in securities	—	180	—	—	—
Gain on disposal of property, plant and equipment	54	—	—	—	—

8. DIRECTORS AND EMPLOYEES' REMUNERATION

Details of emoluments paid by the Group to the directors for the Relevant Periods and the four months ended April 30, 2004 are, as follows:

	Year ended December 31,			Four months ended April 30,	
	2002	2003	2004	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Fee	—	—	—	—	—
Other emoluments for executive directors					
— basic salaries and other benefits	276	276	350	92	402
— contributions to retirement benefits scheme	6	6	32	2	14
	282	282	382	94	416

The emoluments of directors analyzed by individual directors are as follows:

	Year ended December 31,			Four months ended April 30,	
	2002	2003	2004	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Directors					
Executive directors					
Mr. Zhu	102	102	102	34	151
Jiang Jianzhong	—	—	100	—	149
Zhou Xiaosong	90	90	90	30	58
Zhu Jianqi	90	90	90	30	58
Non-executive director					
Sun Qiang Chang	—	—	—	—	—
Independent non-executive directors					
Lu Ken	—	—	—	—	—
Chow Joseph	—	—	—	—	—
Shi Zhengfu	—	—	—	—	—
	282	282	382	94	416
Number of directors included in the five highest paid individuals	3	3	4	3	3

The emoluments of the remaining top five highest paid individuals of the Group for the Relevant Periods and the four months ended April 30, 2004 are as follows:

	Year ended December 31,			Four months ended April 30,	
	2002	2003	2004	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Basic salaries and other benefits	133	175	169	58	243
Contributions to retirement benefits scheme	4	4	8	1	4
	137	179	177	59	247

During the Relevant Periods and the four months ended April 30, 2004, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the Relevant Periods and the four months ended April 30, 2004.

9. STAFF COSTS

	Year ended December 31,			Four months ended April 30,	
	2002	2003	2004	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Staff costs, including directors' remuneration					
— salaries and other benefits	49,845	88,591	187,674	55,003	64,522
— contributions to retirement benefits scheme	2,138	1,423	2,547	692	1,792
Total staff costs	51,983	90,014	190,221	55,695	66,314

The Group contributes to a local municipal government retirement scheme for all qualifying employees in the PRC. The employer and its employees are each required to make contributions to the scheme at the rates specified in the rules. The only obligation of the Group with respect to the retirement scheme is to make the required contributions under the scheme.

In addition, the Group operates a Mandatory Provident Fund ("MPF") Scheme for its qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes at the lower of HK$1,000 or 5% of relevant payroll costs monthly to the MPF Scheme, which contribution is matched by employees.

10. FINANCE COSTS

	Year ended December 31,			Four months ended April 30,	
	2002	2003	2004	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Interest on:					
Bank borrowings wholly repayable within five years	30,341	47,917	77,340	22,414	30,633
Other borrowings wholly repayable within five years	118	234	2,975	589	922
Other borrowings not wholly repayable within five years	—	—	205	51	59
Convertible loan notes	—	5,754	14,899	4,731	5,082
	30,459	53,905	95,419	27,785	36,696

11. TAXATION

	Year ended December 31,			Four months ended April 30,	
	2002	2003	2004	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
PRC enterprise income tax for current year/period	51,307	49,420	22,646	6,101	9,396

PRC enterprise income tax is calculated at the applicable rates to the PRC subsidiaries.

For the period prior to July 14, 2003, Zhejiang Kasen was subject to a tax rate of 33%. On July 14, 2003, Zhejiang Kasen was re-registered as a Sino-foreign joint stock limited liability company and the tax rate applicable to Zhejiang Kasen changed to 26.4%.

Pursuant to the relevant laws and regulations in the PRC, Zhejiang Kasen and 海寧卡雷諾傢俬有限公司 (Haining Kareno Furniture Co., Ltd.) ("Haining Kareno") were exempted from PRC income tax for two years, from 2004 and from 2001 respectively, and were entitled to a 50% reduction on the PRC income tax for the next three years ("Tax Holidays").

In accordance with the applicable enterprise income tax law of the PRC and the relevant rules in the PRC, 海寧卡森皮革有限公司 (Haining Kasen Leather Co., Ltd.) ("Haining Kasen") and Haining Kareno were subject to a tax rate of 26.4% on the assessable profit. As Haining Kasen and Haining Kareno exported 70% or more of the production value of its products, they were able to enjoy a reduced rate of 12%. During the years ended December 31, 2003 and 2004, Haining Kasen and Haining Kareno fulfilled the above condition and the assessable profit was subject to a 12% rate.

No provision for Hong Kong Profits Tax has been made as the Group has no significant assessable profits arising in or derived from Hong Kong during the Relevant Periods.

The taxation for the year/period can be reconciled to the profit before taxation per the consolidated income statements as follows:

	Year ended December 31,			Four months ended April 30,	
	2002	2003	2004	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Profit before taxation	178,668	281,934	257,176	77,433	85,162
Applicable tax rate	33%	26.4%	26.4%	26.4%	26.4%
Tax at the applicable rate	58,960	74,430	67,894	20,442	22,483
Tax effect of income not taxable for tax purpose	(322)	(72)	(138)	(46)	(928)
Tax effect of expenses/losses not deductible for tax purpose	2,903	4,097	3,931	1,626	1,407
Tax effect of deferred tax assets not recognized	1,676	1,905	—	1,197	815
Tax effect of tax losses not recognized	—	3,852	9,897	3,505	3,502
Effect of Tax Holidays	(6,795)	(24,577)	(39,852)	(14,626)	(17,891)
Tax effect of different tax rates of subsidiaries operating with different tax regulations in the PRC and in Hong Kong	(5,115)	(10,215)	(19,086)	(5,997)	8
Taxation for the year/period	51,307	49,420	22,646	6,101	9,396

At December 31, 2002, 2003, 2004 and April 30, 2005, the Group has unused tax losses of approximately nil, RMB10,358,000, RMB45,432,000 and RMB57,725,000, respectively, available to offset against future profits. The unrecognized tax losses can be utilized to offset against future profits within five years from the date of incurrence.

Details of unrecognized deferred tax assets in respect of other deductible temporary differences at the respective balance sheets date are follows:

	At December 31,			At April 30,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Allowances for bad and doubtful debts and inventories	2,599	23,607	65,089	64,541

In the opinion of the Directors of the Company, no deferred tax asset has been recognized as most of the reversal of the temporary differences will fall within the Tax Holidays.

12. DIVIDENDS

No dividends have been paid or declared by the Company since the date of its incorporation. However, during the Relevant Periods and the four months ended April 30, 2004, the following subsidiaries have paid dividends to their then owners prior to the Reorganization.

	Year ended December 31,			Four months ended April 30,	
	2002	2003	2004	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
— Zhejiang Kasen	—	16,900	—	—	—
— Haining Kasen	40,000	—	—	—	—
	40,000	16,900	—	—	—
Less: Elimination of intra-group dividends	(30,000)	—	—	—	—
Dividend receivable by a minority shareholder of a subsidiary	(10,000)	—	—	—	—
	—	16,900	—	—	—

13. 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

	Year ended December 31,			Four months ended April 30,	
	2002	2003	2004	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Earnings for the purposes of basic earnings per share, being net profit attributable to equity holders of the Company	108,706	199,323	225,701	61,944	81,699
Effect of dilutive potential ordinary shares:					
Interest on convertible loan notes	N/A	5,754	14,899	4,731	5,082
Earnings for the purposes of diluted earnings per share	N/A	205,077	240,600	66,675	86,781

Number of shares

	Year ended December 31,			Four months ended April 30,	
	2002	2003	2004	2004	2005
				(unaudited)	
Weighted average number of ordinary shares for the purposes of basic earnings per share	434,782,605	434,782,605	476,675,977	444,057,169	552,263,153
Effect of dilutive potential ordinary shares:					
Convertible loan notes	N/A	72,662,299	207,951,216	200,574,919	211,594,203
Weighted average number of ordinary shares for the purposes of diluted earnings per share	N/A	507,444,904	684,627,193	644,632,088	763,857,356

The weighted average number of ordinary shares for the purpose of calculating basic and diluted earnings per share attributable to the equity holders of the Company for the Relevant Periods has been retrospectively adjusted for the effect of the share consolidation completed subsequent to April 30, 2005. Details of the share consolidation are set out in note 27 (xii).

14. GOODWILL

	RMB'000
GROSS AMOUNT	
Arising on acquisition of an additional interest in subsidiaries during the year ended December 31, 2004	181,006
At December 31, 2004 and April 30, 2005	181,006

Goodwill arose from the Group's acquisition of SFT International Pty. Ltd. ("SFT") in September 2004 (see note 29) and is not amortized in accordance with IFRS 3.

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill had been allocated under "Upholstered furniture" segment and "Automotive leather" segment.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next three years and extrapolates cash flows for the following five years. The directors considered no impairment loss is necessary at December 31, 2004 and April 30, 2005.

15. NEGATIVE GOODWILL

	RMB'000
GROSS AMOUNT	
Arising on acquisition of an additional interest in a subsidiary during the year ended December 31, 2002	871
At December 31, 2002	871
Arising on acquisition of additional interests in subsidiaries	4,315
At December 31, 2003 and 2004 and January 1, 2005	5,186
Elimination of amount accumulated prior to the adoption of IFRS 3	(5,186)
At April 30, 2005	—
RELEASED TO INCOME	
At January 1, 2002 and 2003	—
Released to income	273
At December 31, 2003	273
Released to income	518
At December 31, 2004 and January 1, 2005	791
Elimination of amortization accumulated prior to the adoption of IFRS 3	(791)
At April 30, 2005	—
CARRYING AMOUNT	
At April 30, 2005	—
At December 31, 2004	4,395
At December 31, 2003	4,913
At December 31, 2002	871

Prior to January 1, 2005, the negative goodwill was released to income on a straight line basis over ten years. Starting from January 1, 2005, the Group has discontinued the recognition of negative goodwill through amortization but credited the discounts on acquisition (previously known as negative goodwill) to the income statement when incurred in accordance with IFRS 3.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At January 1, 2002	65,026	90,578	7,925	6,264	70,902	240,695
Additions	15,479	62,906	1,962	3,641	80,645	164,633
Disposals	—	(102)	—	—	(4,883)	(4,985)
Transfers	108,563	3,863	176	16	(112,618)	—
At January 1, 2003	189,068	157,245	10,063	9,921	34,046	400,343
Additions	8,304	70,355	6,029	11,963	279,289	375,940
Acquisition of subsidiaries	1,748	1,478	430	170	22,664	26,490
Disposals	—	(1,782)	—	—	(2,451)	(4,233)
Disposal of subsidiaries	—	—	(317)	(84)	—	(401)
Transfers	54,061	9,863	304	—	(64,228)	—
At January 1, 2004	253,181	237,159	16,509	21,970	269,320	798,139
Additions	37,007	174,098	9,503	11,700	506,489	738,797
Disposals	(13)	(4,512)	(17)	(192)	(17,632)	(22,366)
Disposal of subsidiaries	(139,539)	(48,306)	(3,611)	(1,298)	(35,541)	(228,295)
Transfers	540,821	22,002	206	1,380	(564,409)	—
At January 1, 2005	691,457	380,441	22,590	33,560	158,227	1,286,275
Additions	7,282	9,165	982	2,571	38,778	58,778
Disposals	(8,065)	—	—	—	(8,887)	(16,952)
Transfers	11,920	684	162	—	(12,766)	—
At April 30, 2005	702,594	390,290	23,734	36,131	175,352	1,328,101
DEPRECIATION AND AMORTIZATION						
At January 1, 2002	8,246	22,903	4,428	2,264	—	37,841
Provided for the year	4,013	11,177	903	1,239	—	17,332
Eliminated on disposals	—	(99)	—	—	—	(99)
At January 1, 2003	12,259	33,981	5,331	3,503	—	55,074
Provided for the year	14,266	22,033	1,793	2,110	—	40,202
Disposal of subsidiaries	—	—	(183)	(35)	—	(218)
Eliminated on disposals	—	(353)	—	—	—	(353)
At January 1, 2004	26,525	55,661	6,941	5,578	—	94,705
Provided for the year	22,567	30,900	3,321	4,367	—	61,155
Disposal of subsidiaries	(6,990)	(7,751)	(769)	(222)	—	(15,732)
Eliminated on disposals	—	(644)	(4)	(117)	—	(765)
At January 1, 2005	42,102	78,166	9,489	9,606	—	139,363
Provided for the period	11,487	10,923	1,422	1,768	—	25,600
Eliminated on disposals	(1,993)	—	—	—	—	(1,993)
At April 30, 2005	51,596	89,089	10,911	11,374	—	162,970
NET BOOK VALUES						
At April 30, 2005	650,998	301,201	12,823	24,757	175,352	1,165,131
At December 31, 2004	649,355	302,275	13,101	23,954	158,227	1,146,912
At December 31, 2003	226,656	181,498	9,568	16,392	269,320	703,434
At December 31, 2002	176,809	123,264	4,732	6,418	34,046	345,269

The buildings are situated on land held under medium-term land use rights in the PRC.

17. LAND USE RIGHTS

	RMB'000
COST	
At January 1, 2002	22,972
Additions	1,964
At January 1, 2003	24,936
Additions	89,383
Acquisition of subsidiaries	13,334
At January 1, 2004	127,653
Additions	24,698
Disposal of subsidiaries	(3,510)
At January 1, 2005	148,841
Additions	1,630
At April 30, 2005	150,471
ACCUMULATED AMORTIZATION	
At January 1, 2002	434
Provided for the year	466
At January 1, 2003	900
Provided for the year	846
At January 1, 2004	1,746
Provided for the year	3,201
Disposal of subsidiaries	(343)
At January 1, 2005	4,604
Provided for the period	1,093
At April 30, 2005	5,697
NET BOOK VALUES	
At April 30, 2005	144,774
At December 31, 2004	144,237
At December 31, 2003	125,907
At December 31, 2002	24,036

The cost of land use rights is amortized over the term of the rights (50 years) on a straight line basis.

All land use rights the Group has acquired are in relation to properties located in the PRC. While the Group has paid the relevant land use right granting fees in full, due to general local practice in Haining City in the PRC, the Group has only obtained interim land use right certificates for the relevant land use rights before it completes construction of buildings and structures on the relevant land. Upon completion of the constructions and the application procedures, the Group will obtain official land use right certificates.

At April 30, 2005, the carrying amount of the land use rights for which the Group had not obtained official land use right certificates amounted to approximately RMB97,551,000 which was subsequently reduced to approximately RMB29,025,000 as at September 25, 2005.

The directors believe that the relevant official land use right certificates will be granted to the Group in due course and the absence of official land use right certificates of these land use rights does not impair the value of the relevant properties of the Group.

18. INTANGIBLE ASSETS

	RMB'000
COST	
Additions during the year ended December 31, 2002	35
At January 1, 2003	35
Additions	281
At January 1, 2004	316
Additions	761
At January 1, 2005	1,077
Additions	76
At April 30, 2005	1,153
ACCUMULATED AMORTIZATION	
Provided for the year ended December 31, 2002	6
At January 1, 2003	6
Provided for the year	53
At January 1, 2004	59
Provided for the year	113
At January 1, 2005	172
Provided for the period	71
At April 30, 2005	243
NET BOOK VALUES	
At April 30, 2005	910
At December 31, 2004	905
At December 31, 2003	257
At December 31, 2002	29

Intangible assets represent expenditure incurred for certain computer software and are amortized over five years.

19. INTEREST IN AN ASSOCIATE

The interest in an associate represents a 25% interest in 海寧美景海綿有限公司 (Future Foam Asia, Inc.) ("Future Foam"), an equity joint venture established in the PRC in 2004, with the cost of investment of approximately RMB5,173,000. The associate was established for the principal purpose of manufacturing foam used in sofa production and has not yet commenced business up to April 30, 2005.

	At December 31,			At April 30,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Summarized financial information relating to the associate				
Total assets	—	—	28,455	28,464
Total liabilities	—	—	(5)	(14)
	—	—	28,450	28,450

At December 31, 2004 and April 30, 2005, an amount of approximately RMB5,202,000 outstanding capital has been committed but not yet contributed by the Group to the associate and accordingly the paid up capital contributed by the Group only represented 18% equity interest in Future Foam at the respective balance sheet dates.

20. INVESTMENTS IN SECURITIES

	At December 31,			At April 30,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Listed investments	3,500	1,100	3,505	—
Unlisted equity securities	2,051	2,051	2,410	2,410
	5,551	3,151	5,915	2,410

	At December 31,			At April 30,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount analyzed for reporting purposes as				
Non-current	2,051	2,151	2,410	2,410
Current	3,500	1,000	3,505	—
	5,551	3,151	5,915	2,410

The directors consider that the carrying amount of unlisted equity securities approximate their fair value. The carrying value of the listed investments approximates their quoted market prices.

21. INVENTORIES

	At December 31,			At April 30,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	81,594	234,050	377,089	290,114
Work in progress	211,444	327,192	866,750	818,348
Finished goods	87,642	85,006	148,899	122,587
	380,680	646,248	1,392,738	1,231,049

The inventories, which are carried at net realizable value and included in above, are as follows:

	At December 31,			At April 30,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	1,349	134	2,750	2,750

22. TRADE AND OTHER RECEIVABLES

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

	At December 31,			At April 30,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Aged:				
Within 60 days	61,516	134,556	226,629	277,400
61 - 90 days	16,415	49,511	12,903	6,351
91 - 180 days	17,900	16,072	18,189	62,572
181 - 365 days	6,098	22,772	11,344	9,559
1 - 2 years	1,102	156	1,483	1,670
Total trade receivables, net of allowances	103,031	223,067	270,548	357,552
Bills receivable	—	—	—	700
Prepayments	142,675	283,517	108,018	139,029
Other receivables	127,027	117,515	150,900	112,323
	372,733	624,099	529,466	609,604

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

23. AMOUNTS DUE FROM (TO) RELATED COMPANIES

Details of the amounts due from (to) related companies are as follows:

		At December 31,			At April 30,
		2002	2003	2004	2005
Name of related companies	**Notes**	RMB'000	RMB'000	RMB'000	RMB'000
(a) Operating in nature					
海寧卡森房地產開發有限公司 Haining Kasen Real Estate Company Limited ("Kasen Real Estate")	(i), (vi)	(1,193)	—	—	—
上海森橋皮業有限公司 Shanghai Sunbridge Leather Industry Co., Ltd. ("Sunbridge Leather")	(ii), (vi)	662	2,566	5,431	5,266
Ausen International Pty. Ltd. ("Ausen")	(iii), (vi)	4,201	12,447	—	—
浙江森橋進出口有限公司 Zhejiang Sunbridge Import and Export Co., Ltd. ("Sunbridge I&E")	(ii), (vi)	—	19,130	—	—
海寧宇潔物資回收有限公司 Haining Yujie Material Recycling Co., Ltd. ("Yujie")	(ii), (vi)	—	—	14,355	16,665
伊犁霍爾果斯皮革有限公司 Yili Horgos Leather Co., Ltd. ("Yili Horgos")	(ii), (vi), (xi)	—	—	1,521	(50,604)
白銀卡森皮革有限公司 Baiyin Kasen Leather Co., Ltd. ("Baiyin Kasen")	(ii), (vi), (xi)	—	—	(37,118)	(29,946)
克孜勒蘇新蓉皮革有限公司 Kezilesu Xinrong Leather Co., Ltd. ("Kezilesu Xinrong")	(ii), (vi), (xi)	—	—	3,832	30,818
白銀白利斯皮革有限公司 Baiyin Palace Leather Co. Ltd. ("Baiyin Palace")	(ii), (vi), (xi)	—	—	591	10,787
Starcorp Corporation Pty. Ltd ("Starcorp")	(ii), (vi)	—	—	3,083	11,183
Kasen UK Co. Ltd.	(i), (vi)	—	—	2,985	—
海寧萬盛絲綢噴織有限公司 Haining Wansheng Silk Weaving Co., Ltd. ("Wansheng Silk")	(vi), (viii)	—	—	(9,971)	—
浙江吉思仕服裝集團進出口有限公司 Zhejiang Jeans Clothing Group Import & Export Co., Ltd. ("JCG")	(vi), (x)	—	—	—	(7,188)
海寧獵馬皮革服裝有限公司 Haining Liema Leather Garments Co., Ltd. ("Liema Garments")	(vi), (viii)	—	—	—	(2)

Name of related companies	Notes	At December 31, 2002 RMB'000	At December 31, 2003 RMB'000	At December 31, 2004 RMB'000	At April 30, 2005 RMB'000
(b) Non-operating in nature					
浙江森橋實業(集團)有限公司 Zhejiang Sunbridge Industrial (Group) Co. Ltd. ("Sunbridge")	(i), (vi), (xii)	—	7,600	141,997	96,454
SFT	(iv), (v)	—	(42,162)	—	—
海寧富華皮件有限公司 Haining Fuhua Leather Co., Ltd. ("Haining Fuhua")	(vii), (ix), (xii)	—	(113)	(13,000)	(1,495)
海寧長虹進出口有限公司 Haining Changhong Import and Export Co., Ltd. ("Changhong I&E")	(vii), (ix), (xii)	—	—	(5,620)	(9,620)
海寧長虹皮件有限公司 Haining Changhong Leather Co., Ltd. ("Changhong Leather")	(vii), (viii), (xii)	—	—	(8,580)	(9,576)
浙江吉恩仕股份實業有限公司 Zhejiang Jeans Joint Stock Company ("Jeans")	(vi), (viii), (xii)	—	—	—	5,103
海寧海派皮業有限公司 Haining Haipei Leather Industry Co., Ltd. ("Haipei Leather")	(vii), (viii), (xii)	—	—	—	(1,000)
		3,670	(532)	99,506	66,845
Represented by:					
Amounts due from related companies, included in current assets		7,090	41,743	173,795	176,849
Amounts due to related companies, included in current liabilities		(3,420)	(775)	(74,289)	(110,004)
Loan from a related company, included in non-current liabilities		—	(41,500)	—	—
		3,670	(532)	99,506	66,845

Notes:

(i) Mr. Zhu has beneficial interests in these companies.

(ii) Mr. Zhu has beneficial interests in these companies through Sunbridge.

(iii) Mr. Zhu had beneficial interests in this company from April 1, 2002 to April 22, 2004 and he was also a director.

(iv) SFT was a subsidiary of the Company from September 16, 2004 to April 29, 2005. Prior to September 16, 2004, Mr. Zhu had beneficial interests in SFT.

(v) The amount included a loan of RMB41,500,000 that was unsecured, interest bearing at prevailing market rates and repayable in 2008. During the year ended December 31, 2004, the amount was fully settled through cash and issue of shares. The remaining amount was unsecured, interest-free and repayable on demand.

(vi) The amounts are unsecured, interest-free and repayable on demand.

(vii) The amounts are unsecured, interest bearing at prevailing market rates and repayable on demand.

(viii) A director of a non-wholly owned subsidiary has beneficial interests in these companies.

(ix) A director of a non-wholly owned subsidiary has beneficial interests in these companies through Changhong Leather.

(x) A director of a non-wholly owned subsidiary has beneficial interests in this company through Jeans.

(xi) The companies ceased to be subsidiaries of the Company since December 2004.

(xii) The amounts outstanding at April 30, 2005 had fully settled subsequent to April 30, 2005.

The directors consider that the carrying amount of amounts due from related companies approximates their fair value. All non-trade balances with related companies, including the loan of RMB7,000,000 from Changhong Leather to a subsidiary of the Group, Haining Oyi May, were settled subsequent to April 30, 2005.

24. TRADE AND OTHER PAYABLES

The aged analysis of trade payables is as follows:

	At December 31,			At April 30,
	2002	**2003**	**2004**	**2005**
	RMB'000	RMB'000	RMB'000	RMB'000
Aged:				
Within 60 days	75,717	167,639	339,688	202,935
61 - 90 days	834	15,396	61,320	28,789
91 - 180 days	1,042	702	40,140	43,808
181 - 365 days	202	3,418	12,032	4,950
1 - 2 years	557	783	6,160	7,182
Over 2 years	—	367	630	1,538
Total trade payables	78,352	188,305	459,970	289,202
Bills payable	54,661	117,997	214,838	247,170
Other payables and accrued liabilities	59,051	211,094	198,574	184,878
	192,064	517,396	873,382	721,250

The average credit period taken for trade purchases generally ranges from 30 days to 60 days.

During the year ended December 31, 2003, the local government paid approximately RMB53 million to the Group for the construction of certain infrastructure and public facilities on its behalf in an area which is under-developed. The Group applied the amount received from the government to the construction of such facilities and entered into various construction contracts. Up to April 30, 2005, the Group recorded a balance of approximately RMB29 million which had not been utilized for the construction and was included in other payables and accrued liabilities. Details of the capital commitments of the Group under the relevant construction contracts at the balance sheet dates are set out in note 34.

The directors consider that the carrying amount of trade and other payables approximates to their fair value.

25. BANK AND OTHER BORROWINGS

	At December 31,			At April 30,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Bank borrowings	699,073	1,147,846	1,564,917	1,676,839
Other borrowings	3,000	10,400	10,400	10,400
Total	702,073	1,158,246	1,575,317	1,687,239
Analyzed as:				
Secured	98,293	116,080	202,470	163,521
Unsecured	603,780	1,042,166	1,372,847	1,523,718
	702,073	1,158,246	1,575,317	1,687,239
Denominated in United States Dollars ("US dollars")	225,879	181,604	53,383	24,416
Denominated in Renminbi ("RMB")	476,194	976,642	1,521,934	1,662,823
	702,073	1,158,246	1,575,317	1,687,239
The bank and other borrowings are repayable as follows:				
Within one year	593,773	1,056,207	1,472,825	1,584,512
More than one year, but not exceeding two years	108,300	91,639	92,092	92,327
Over five years	—	10,400	10,400	10,400
	702,073	1,158,246	1,575,317	1,687,239
Less: Amount due within one year shown under current liabilities	(593,773)	(1,056,207)	(1,472,825)	(1,584,512)
Amount due after one year	108,300	102,039	102,492	102,727

The Bank borrowings of the Group carry interests ranging from 4.7% to 7.9% per annum.

Other borrowings represent loans advanced by independent third parties and carry interests ranging from 1.4% - 1.8% per annum.

The borrowings were guaranteed by group companies, related parties and independent third parties and were also secured by the assets owned by the Group. Details of the assets pledged by the Group and the corporate guarantees given by related parties in favor of the Group's borrowings are set in notes 32 and 35(b), respectively.

The directors consider that the carrying amount of bank and other borrowings approximates their fair value as the weighted average interest rates approximate the market rate.

26. CONVERTIBLE LOAN NOTES

On February 26, 2003, an investor of the Group, the Warburg Pincus Funds, entered into a restructuring and loan agreement (the "Agreement") with the Company, Kasen International and Zhejiang Kasen and the shareholders of the Company, pursuant to which, among other things, the Warburg Pincus Funds agreed to make a loan of US$21,739,130.43 ("First Warburg Pincus Convertible Loan") to the Company.

Pursuant to the Agreement, First Warburg Pincus Convertible Loan was convertible, at the option of the Warburg Pincus Funds or mandatorily at the maturity date upon satisfaction of certain conditions (which may be waived in whole or in part by the Warburg Pincus Funds), into 217,391,304 of the Company's preferred shares (the "Series A Preferred Shares"). The Series A Preferred Shares, once issued, were convertible into 217,391,304 ordinary shares of US$0.0001 at any time at the sole option of the Warburg Pincus Funds.

On July 2, 2003, First Warburg Pincus Convertible Loan was drawn down by the Company.

Due to additional capital needs of the Group, on January 19, 2004, the Warburg Pincus Funds entered into an amendment agreement to the Agreement with the Company, Kasen International, Zhejiang Kasen and Cardina and the shareholders of the Company, pursuant to which the Warburg Pincus Funds agreed to make a further loan of US$15,000,000 ("Second Warburg Pincus Convertible Loan") to the Company.

On January 21, 2004, Second Warburg Pincus Convertible Loan was drawn down by the Company.

According to its terms, Second Warburg Pincus Convertible Loan was convertible, at the option of the Warburg Pincus Funds or mandatorily at the maturity date upon satisfaction of certain conditions (which may be waived in whole or in part by the Warburg Pincus Funds), into 100,000,000 of a second series of the Company's preferred shares (the "Series B Preferred Shares").

The terms of the Series B Preferred Shares were otherwise identical to those of the Series A Preferred Shares, except that the initial conversion price of the Series B Preferred Shares was US$0.15 per share while the initial conversion price of the Series A Preferred Shares was US$0.10 per share. The Series B Preferred Shares, once issued, were convertible into 100,000,000 ordinary shares of US$0.0001 at any time at the sole option of the Warburg Pincus Funds.

If the notes have not been converted, they will be redeemed on the assigned date at par. The loan notes bear interest at a rate per annum equal to the prime lending rate charged by a bank until repayment or the conversion of the entire loan amount.

According to the terms of the loan notes, upon conversion of the loan amount, any accrued but unpaid interest on the loan notes shall cease to be payable. As at April 30, 2005, the accrued but unpaid interest, included in the trade and other payables, amounted to approximately RMB24,444,000.

The net proceeds receivable from the issue of the convertible loan notes have been split between the liability element and an equity component, representing the fair value of the embedded option to convert the liability into equity of the Group, as follows:

	Nominal value of notes issued			Present value of the notes issued		
	At December 31,		At April 30,	At December 31,		At April 30,
	2003	2004	2005	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Notes issued	180,435	304,934	304,934	180,435	304,934	304,934
Less: Equity portion attributable at the time of issue	(1,291)	(1,291)	(1,291)			
Liability portion of notes, excluding interest	179,144	303,643	303,643			
Less: Amount due for settlement within one year				(180,435)	(304,934)	(304,934)
Amount due for settlement after one year				—	—	—

The equity component of the convertible loan notes was calculated with reference to a report issued by American Appraisal China Limited, an independent external valuer, with reference to the requirement of IFRS.

The directors consider that the carrying value of the convertible loan notes approximates their fair value.

Subsequent to the balance sheet date, the holder of Warburg Pincus Convertible Loans and the Company entered into a supplemental extension agreement to adjust the number of shares issued to the holder upon conversion. Pursuant to this agreement, the First Warburg Pincus Convertible Loan, at the option of the holder, will convert into 265,040,899 ordinary shares of US$0.0001 (or 176,693,933 shares of US$0.00015, taken into account the effect of the share consolidation completed subsequent to April 30, 2005) and the Second Warburg Pincus Convertible Loan, at the option of the holder, will convert into 121,918,814 ordinary shares of US$0.0001 (or 81,279,209 shares of US$0.00015, taken into account the effect of the share consolidation completed subsequent to April 30, 2005).

27. CAPITAL

	Number of shares		Equivalent to
		US$	RMB'000
Issued share capital			
Issue of shares on January 14, 2003	100,000	100	1
Addition due to subdivision of shares into 10 ordinary shares of US$0.0001 each	900,000	—	—
Issue of shares on February 14, 2003	230,095,052	23,010	191
	231,095,052	23,110	192
Increase during the year ended December 31, 2004	598,799,678	59,880	497
At January 1, 2005 and April 30, 2005	829,894,730	82,990	689

The Company was incorporated with an authorized share capital of US$50,000 divided into 50,000,000 ordinary shares of US$0.001 each.

For the presentation of balance sheets of the Group, the share capital at December 31, 2002 and December 31, 2003 represented the aggregate of those 231,095,052 and 421,078,856 ordinary shares as set out in (i), (ii), (iv) and (x) below of US$0.0001 each issued pursuant to the Reorganization (see note 2).

Since the date of incorporation of the Company, the following alterations in its issued share capital have taken place:

(i) On January 14, 2003, one subscriber share was issued at US$0.001.

(ii) On January 14, 2003, an aggregate of 99,999 new ordinary shares of US$0.001 were allotted and issued to the Founding Shareholder Group at nil paid.

(iii) On February 14, 2003, every issued and unissued share of US$0.001 each in the capital of the Company was sub-divided into 10 ordinary shares and upon completion, the Company had an authorized share capital of US$50,000 divided into 500,000,000 ordinary shares of US$0.0001 each and 1,000,000 ordinary shares of US$0.0001 each had been issued.

(iv) On February 14, 2003, an aggregate of 230,095,052 ordinary shares of US$0.0001 were allotted and issued to the Founding Shareholder Group at US$0.0001 each.

(v) On June 29, 2003, the authorized share capital of the Company was amended by way of special resolutions of members to US$40,000,000 divided into 399,782,608,696 ordinary shares and 217,391,304 preferred shares of US$0.0001 each ("Preferred Shares").

(vi) On January 21, 2004, 16,666,666 ordinary shares of US$0.0001 each were allotted and issued to investors for US$2,500,000.

(vii) On September 16, 2004, 362,319 ordinary shares of US$0.0001 were allotted and issued to a then employee for US$36,232.

(viii) On September 16, 2004, 144,025,170 ordinary shares of US$0.0001 were allotted and issued to Mr. Zhu for acquisition of a subsidiary.

(ix) On September 16, 2004, 16,666,667 ordinary shares of US$0.0001 were allotted and issued to Mr. Zhu for assumption of a loan of US$2,500,000 which was originally owned by the Group to SFT which Mr. Zhu has beneficial interests.

(x) On September 16, 2004, 421,078,856 ordinary shares of US$0.0001 were issued to the Founding Shareholder Group at an aggregate consideration of US$20,485,160, representing the transfer of the remaining equity interests of Zhejiang Kasen owned by the Founding Shareholder Group to the Group.

(xi) On September 28, 2004, the authorized share capital of the Company was further amended by way of special resolutions of members to US$40,000,000 divided into 399,682,608,696 Shares and 217,391,304 series A Preferred Shares and 100,000,000 series B Preferred Shares of US$0.0001 each.

(xii) On September 24, 2005, every 1.5 shares in the capital of the Company of US$0.0001 each were consolidated into 1 share of US$0.00015 each.

(xiii) On September 26, 2005, a total of approximately 5.3 shares of US$0.00015 each arising from the consolidation were transferred for free to an employee, of which the 0.3 share was immediately repurchased by the Company from the employee and then cancelled.

(xiv) On September 26, 2005, an aggregate of 317,391,304 Preferred Shares were conditionally allotted and issued to the holder of Warburg Pincus Convertible Loans upon the conditional conversion of loans in the aggregate amount of US$31,739,130 owing by the Company which will be converted in full into 257,973,142 ordinary shares of US$0.00015 each upon the allotment and issue of the Preferred Shares becoming unconditional.

Holders of the Preferred Shares were entitled to vote at the general meetings of the Company and the Preferred Shares carried a right to a preference on liquidation, redemption and conversion into ordinary shares.

28. STATUTORY AND SPECIAL RESERVES

(a) The statutory reserve represents amounts appropriated from the profit after tax of certain subsidiaries of the Company established in the PRC under the PRC laws and regulations.

(b) The special reserve represents the difference between the nominal value of the share capital issued by the Company and the nominal value of the share capital of Zhejiang Kasen acquired pursuant to the Reorganization.

29. PURCHASE OF SUBSIDIARIES

On January 24, 2003 and December 9, 2003, the Group acquired a 75% and 74.78% interests in Shanghai La Kassa Furniture Co., Ltd. and Haining Hengsen Furniture Co., Ltd. respectively. On September 16, 2004, the Group acquired a 100% interest in SFT from Mr. Zhu. SFT owned a number of equity investments, including a 25% equity interest in Haining Kasen, a 22.804% equity interest in Haining Kareno, a 25% equity interest in Haining Schinder Tanning Co., Ltd and a 25% equity interest in Haining Home Direct Furniture Co., Ltd. These investments are engaged in the business segment of upholstered furniture and automotive leather. These transactions have been accounted for by purchase method of accounting:

	Year ended December 31,	
	2003	2004
	RMB'000	RMB'000
Net assets acquired:		
Property, plant and equipment	26,490	—
Land use rights	13,334	—
Inventories	9,699	—
Trade and other receivables	14,449	—
Amount due from a related company	—	20,750
Bank balances and cash	11,562	—
Trade and other payables	(40,907)	(81)
Bank and other borrowings	(3,057)	—
	31,570	20,669
Minority interests, representing acquisition of additional interests in subsidiaries	—	85,613
Goodwill arising on acquisition	—	181,006
	31,570	287,288
Satisfied by:		
Cash paid on acquisition	31,570	—
Issue of shares, at fair value (Note)	—	287,288
	31,570	287,288

Net cash inflow in connection with purchase of subsidiaries:

	Year ended December 31,	
	2003	2004
	RMB'000	RMB'000
Bank balances and cash acquired	11,562	—
Cash paid on acquisition	(31,570)	—
Net outflow of cash and cash equivalents in connection with the purchase of subsidiaries	(20,008)	—

Note:

In connection with the acquisition of SFT from Mr. Zhu, the Company issued to Mr. Zhu an aggregate of 160,691,837 ordinary shares, of which 16,666,667 ordinary shares were issued for assumption of a loan of US$2,500,000 which was originally owed by the Group to SFT. In determining the fair value of the 160,691,837 ordinary shares issued, an analysis of the publicly traded companies that are comparable to the Company was performed by the management. The estimation of fair value was primarily based on a market approach where prevailing market conditions as at the date of issuance of the ordinary shares and in particular quoted price for shares of those comparable publicly traded companies were considered.

The subsidiaries acquired during the two years ended December 31, 2003 and 2004 accounted for a loss of approximately RMB8,075,000 and profits of RMB8,097,000 respectively in the Group's profit.

30. DISPOSAL OF SUBSIDIARIES

On December 24, 2003, the Group disposed of its interest in Sunbridge I&E. On November 11, 2004, the Group disposed of its interests in Baiyin Kasen, Yili Horgos, Kezilesu Xinrong and Baiyin Palace. On April 29, 2005, the Group disposed of its interests in SFT.

	Year ended December 31,		Four months ended April 30,
	2003	2004	2005
	RMB'000	RMB'000	RMB'000
Property, plant and equipment	183	212,563	—
Land use rights	—	3,167	—
Amounts due from related companies	—	268	—
Inventories	1,388	98,311	—
Trade and other receivables	85,592	214,252	1,381
Bank balances and cash	7,077	71,587	—
Trade and other payables	(54,443)	(166,994)	—
Bank borrowings	(24,000)	(232,930)	—
Tax payable	(220)	—	—
Minority interests	(1,558)	(7,690)	—
	14,019	192,534	1,381
(Loss) gain on disposal	(519)	3,013	(1,380)
Total consideration	13,500	195,547	1
Satisfied by:			
Cash	13,500	—	—
Consideration receivable	—	195,547	1
	13,500	195,547	1
Net cash inflow (outflow) arising on disposal of subsidiaries:			
Cash consideration	13,500	—	—
Cash and cash equivalents disposed of	(7,077)	(71,587)	—
	6,423	(71,587)	—

31. OTHER MAJOR NON-CASH TRANSACTIONS

(a) During the year ended December 31, 2004, the Company had issued an aggregate of 160,691,837 ordinary shares of US$0.0001 to Mr. Zhu for the consideration of the acquisition of a 100% interest in SFT.

(b) During the year ended December 31, 2004, the Company had issued 362,319 ordinary shares of US$0.0001 to a then employee at a consideration of approximately RMB301,000 as an employee benefit. The amount had included in the staff costs of the Group.

32. PLEDGE OF ASSETS

At the respective balance sheet dates, certain of the Group's assets have been pledged to secure the borrowings granted to the Group. The aggregate carrying amount of the assets of the Group at the respective balance sheet dates is as follows:

	At December 31,			At April 30,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Land use rights	21,828	21,362	27,575	44,819
Property, plant and equipment	38,794	51,008	209,150	208,808
Other receivables	28,500	12,375	—	—
Bank deposits	35,250	78,098	239,185	231,536
	124,372	162,843	475,910	485,163

33. LEASE ARRANGEMENTS

As lessee

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

	At December 31,			At April 30,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	54	950	1,053	661
In the second to fifth year inclusive	—	766	188	117
	54	1,716	1,241	778

Operating 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 two years.

34. CAPITAL COMMITMENTS

Other than as disclosed in note 19, at the respective balance sheet dates, the Group had capital commitments as follows:

	At December 31,			At April 30,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Capital expenditure contracted for but not provided in the financial information in respect of acquisition of property, plant and the equipment	27,799	212,426	108,365	87,508
Capital expenditure contracted for but not provided in the financial information in respect of construction of certain infrastructure and public facilities in the PRC on behalf of the government (note 24)	—	54,680	33,200	29,100
	27,799	267,106	141,565	116,608

35. 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 Relevant Periods:

			Year ended December 31,			Four months ended April 30,	
			2002	2003	2004	2004	2005
Related parties	Nature of transactions	Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
						(unaudited)	
SFT	Interest expense charged to the Group	(i)	—	662	225	413	—
Changhong Leather	Interest expense charged to the Group	(i)	—	—	126	—	179
	Sales by the Group	(vi)	—	—	—	—	26
Wansheng Silk	Interest expense charged to the Group	(i)	—	—	114	—	237
	Purchase by the Group*	(i)	—	—	267	—	211
Changhong I&E	Interest expense charged to the Group	(i)	—	—	65	—	156
Haipai Leather	Interest expense charged to the Group	(i)	—	—	—	—	10
Haining Fuhua	Interest expense charged to the Group	(i)	—	—	423	—	220
Mr. Zhu	Acquisition of additional interests in subsidiaries	(i), (iv)	—	—	287,288	—	—

Related parties	Nature of transactions	Notes	Year ended December 31, 2002 RMB'000	Year ended December 31, 2003 RMB'000	Year ended December 31, 2004 RMB'000	Four months ended April 30, 2004 RMB'000 (unaudited)	Four months ended April 30, 2005 RMB'000
Kasen Real Estate	Acquisition of additional interests in subsidiary	(i)	—	2,000	—	—	—
Yujie	Sales of production wastes by the Group*	(vi)	—	—	8,739	4,780	5,199
Ausen	Purchase by the Group	(vi)	135,982	107,385	39,914	39,914	—
JCG	Purchase by the Group*	(vi)	—	—	32,242	7,977	10,083
	Sales by the Group	(vi)	—	2,478	5,149	1,375	—
Liema Garments	Purchase by the Group	(i)	—	42	159	—	23
	Sales by the Group	(vi)	—	8,677	4,833	1,325	—
Baiyin Kasen	Purchase by the Group*	(i)	—	—	9,525	—	58,773
	Sales by the Group	(vi)	—	—	1,976	—	1,997
Yili Horgos	Purchase by the Group*	(i)	—	—	8,806	—	33,888
Kezilesu Xinrong	Purchase by the Group*	(i)	—	—	—	—	6,576
上海思達傢俱有限公司 Shanghai Star Furniture Co., Ltd.	Purchase by the Group	(i), (ii)	—	—	10	—	—
Jeans	Purchase by the Group	(i)	—	—	—	—	135
	Consulting services charged to the Group	(i)	—	—	—	—	234
Sunbridge Leather	Sales by the Group	(vi)	5,511	6,219	5,952	1,393	1,531
上海捷思傢俱有限公司 JCH Home Furnishings Co., Ltd.	Sales by the Group	(iii), (vi)	—	1,342	3,415	3,415	—
Sunbridge I&E	Sales by the Group	(vi)	—	—	4,769	—	—
Kasen UK Co. Ltd.	Sales by the Group	(vi)	—	—	8,293	2,498	—
Starcorp	Sales by the Group*	(vi)	—	—	3,256	173	8,101
上海星塋傢俱有限公司 Shanghai Xingying Furniture Co., Ltd.	Sales by the Group	(ii), (vi)	—	—	2,134	—	—
Baiyin Palace	Sales by the Group	(vi)	—	—	1,130	—	10,424
Sunbridge	Sales of property, plant and equipment	(i)	—	—	—	—	4,255
	Disposal of subsidiaries	(i), (v)	—	7,600	181,997	—	—

Notes:

(i) The transactions were carried out based on terms determined and agreed by the relevant parties. Interest expenses are charged at prevailing market rates.

(ii) Mr. Zhu has beneficial interests in these companies through Sunbridge.

(iii) Mr. Zhu had beneficial interests in this company from April 1, 2002 to April 22, 2004 through Ausen.

(iv) Details of the transaction are set out in note 29.

(v) Details of the transaction are set out in note 30.

(vi) The transactions were carried out based on the terms determined and agreed by the relevant parties. The price was determined by reference to market prices or, where no market prices were available, at cost plus a percentage mark-up.

(b) Corporate guarantees given by related companies in favor of the Group's borrowings:

	At December 31,			At April 30,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Kasen Real Estate	115,000	63,716	—	—
Wansheng Silk	—	2,500	2,500	—
Mr. Zhu and his spouse	—	—	30,000	30,000
Sunbridge	—	—	—	40,000
Sunbridge I&E	—	—	—	40,000
Jeans	—	—	—	9,000
Jeans I&E	—	—	—	3,000
	115,000	66,216	32,500	122,000

Subsequent to April 30, 2005, corporate guarantees given by related companies in favor of the bank borrowings granted to the Group had been fully released.

(c) Details of the balances with related parties are set out on the balance sheets and note 23.

(d) Details of guarantees given by the Group in favor of banking facilities extended to related parties are set out in note 36.

The directors have confirmed that other than those denoted with an asterisk "*", the transactions are not expected to continue after the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited.

36. CONTINGENT LIABILITIES

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

	At December 31,			At April 30,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Guarantees given to banks in respect of banking facilities extended to				
— Sunbridge I&E	—	—	33,000	58,200
— Yili Horgos	—	—	80,000	65,000
— 海寧獵馬進出口有限公司 (Haining Liema Import & Export Co. Ltd.) (i)	—	—	—	10,000
— Liema Garments	—	—	—	8,569
— Independent third parties	17,300	157,482	261,663	287,020
	17,300	157,482	374,663	428,789

Subsequent to April 30, 2005, other than a guarantee given by the Group in favor of an independent third party to a bank amounting to approximately RMB68,838,000, the guarantees given to banks by the Group at April 30, 2005 in respect of banking facilities granted to the above parties had been fully released.

Note:

(i) A director of a non-wholly owned subsidiary has beneficial interests in this company.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank borrowings, convertible loan notes and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial instruments such as trade receivables, trade payables and amounts due from/to related companies, which arise directly from its operations.

It is, and has been throughout the Relevant Periods, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The directors review and agree policies for managing each of these risks and they are summarized below.

Interest rate risk

The Group's exposure to interest rate risk relates primarily to the debt obligations, including bank and other borrowings and convertible loan notes. The Group has not entered into any interest rate hedging contracts or any other derivative financial instrument.

Foreign currency risk

The Group's exposure to foreign currency risk related primarily to the turnover and costs that denominated in US dollars. The Group has not entered into any forward contracts to hedge the exposures.

Commodity price risk

The Group's exposure to commodity price risk related primarily to the costs of raw cowhides or wet blues for the manufacturing of the goods. The Group has not entered into any contracts to hedge the exposure.

Credit risk

The Group's principal financial assets are bank balances and cash, trade and other receivables and amounts due from related companies, which represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheets are net of allowances for bad and doubtful debts, estimated by the Group's management based on prior experience and their assessment of the current economic environment.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

With respect to credit risk arising from the other financial assets of the Group which comprise cash and cash equivalents and amounts due from related companies, the Group's exposure to credit risk arising from default of the counter party is limited as the counter party has good reputation and the Group does not expect to incur a significant loss for uncollected advances/deposits from these entities.

The Group trades only with recognized creditworthy third parties. It is Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

Subsequent to April 30, 2005, the Group maintains export credit insurance to protect the Group against the risk that the overseas customers may refuse to settle the Group's receivables.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and the flexibility through the use of bank and other borrowings and convertible loan notes. In the opinion of the directors, most of the borrowings that mature within one year are able to renew and the Group expects to have adequate source of funding to finance the Group and manage the liquidity position. Subsequent to April 30, 2005, certain of the banks have confirmed to the Group for continuance of granting credit facilities to the Group. In addition, if the conversion of the convertible loan notes takes place, the liquidity position of the Group will improve.

38. BALANCE SHEETS OF THE COMPANY

The Company was incorporated on December 19, 2002. The balance sheets of the Company as at December 31, 2002, 2003, 2004 and April 30, 2005 are as follows:

		At December 31,			At April 30,
		2002	2003	2004	2005
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets					
Property, plant and equipment	38(a)	—	—	79	109
Investments in subsidiaries	39	—	180,435	654,350	387,812
Loans to subsidiaries	38(b)	—	—	78,850	78,850
		—	180,435	733,279	466,771
Current assets					
Trade and other receivables	38(c)	—	—	1,216	7,228
Amounts due from subsidiaries	38(d)	—	15	61,193	54,726
Bank balances and cash		—	85	7,694	4,013
		—	100	70,103	65,967
Current liabilities					
Other payables		—	4,466	19,605	24,554
Amounts due to subsidiaries	38(d)	—	—	16,029	10,939
Convertible loan notes	26	—	180,435	304,934	304,934
		—	184,901	340,568	340,427
Net current liabilities		—	(184,801)	(270,465)	(274,460)
		—	(4,366)	462,814	192,311
Equity					
Share capital	38(e)	—	192	689	689
Share premium	38(e)	—	—	308,191	308,191
Contributed surplus	38(e)	—	7	169,684	169,684
Equity reserve	38(e)	—	1,291	1,291	1,291
Accumulated losses	38(e)	—	(5,856)	(17,041)	(287,544)
		—	(4,366)	462,814	192,311

Notes:

(a) Details of the property, plant and equipment are set out as follows:

	Leasehold Improvement	Furniture and Fixture	Office Equipment	Computer Equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost					
Additions during the year ended December 31, 2004 and at December 31, 2004...	—	26	32	32	90
Additions	31	—	5	—	36
As at April 30, 2005	31	26	37	32	126
Depreciation					
Provided for the year ended December 31, 2004 and at December 31, 2004	—	3	4	4	11
Provided for the period ended April 30, 2005	—	2	2	2	6
At April 30, 2005	—	5	6	6	17
Net Book Values					
At April 30, 2005	31	21	31	26	109
At December 31, 2004	—	23	28	28	79

(b) The loans to subsidiaries are unsecured, interest bearing at 4.5% per annum and repayable on or before August 2006.

(c) The Company allows a credit period predominantly ranging from 30 days to 90 days to its customers. The aged analysis of trade receivables is as follows:

	At December 31,			At April 30,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Aged:				
Within 90 days	—	—	1,007	5,124
90 - 180 days	—	—	—	1,808
Total trade receivables	—	—	1,007	6,932
Other receivables	—	—	209	296
	—	—	1,216	7,228

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

(d) The amounts are unsecured, interest-free and repayable on demand.

(e) Statements of movements in equity

	Share capital	Share premium	Equity reserve	Contributed surplus	Accumulated losses
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2003	—	—	—	—	—
Issue of shares	192	—	—	7	—
Recognition of equity component of a convertible loan note	—	—	1,291	—	—
Loss for the year	—	—	—	—	(5,856)
At January 1, 2004	192	—	1,291	7	(5,856)
Issue of shares	15	21,036	—	—	—
Increase in share issue for Reorganization	349	—	—	169,677	—
Acquisition of subsidiaries	133	287,155	—	—	—
Loss for the year	—	—	—	—	(11,185)
At January 1, 2005	689	308,191	1,291	169,684	(17,041)
Loss for the period	—	—	—	—	(270,503)
At April 30, 2005	689	308,191	1,291	169,684	(287,544)

39. SUBSIDIARIES

The financial year end dates of the Company and its subsidiaries are December 31. Particulars of the Company's subsidiaries at the date of this report are set out below:

Name of the company	Place and date of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Company		Principal activities
			Direct	Indirect	
			%	%	
Cardina International Company Limited 凱迪納國際有限公司 (Notes a and c)	Cayman Islands August 13, 2003	US$1.01	—	100	Investment holding
Haining Gaosheng Leather Co., Ltd. 海寧高盛皮革有限公司 (Notes a and i)	China June 25, 2004	RMB60,000,000	—	89	Not yet commenced business
Haining Hainix Sofa Co., Ltd. 海寧吉恩仕沙發有限公司 (Notes b and h)	China September 10, 2003	US$6,000,000	—	50.5	Production and sale of upholstered furniture
Haining Hengsen Furniture Co., Ltd. 海寧恒森傢具有限公司 (Notes a and g)	China November 11, 2000	RMB6,569,600 (subsequently increased to RMB30,000,000)	—	100	Production and sale of wooden parts for upholstered furniture
Haining Hidea Furniture Co., Ltd. 海寧慧達傢俱有限公司 (Notes b and i)	China September 10, 2003	US$5,000,000	—	50.5	Production and sale of upholstered furniture

Name of the company	Place and date of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Company		Principal activities
			Direct	Indirect	
			%	%	
Haining Higher Point Investment Development Co., Ltd. 海寧高點投資發展有限公司 (Notes a and j)	China August 12, 2003	RMB100,000,000	—	100	Investment and development
Haining Home Craft Furniture Co., Ltd. 海寧家藝傢俱有限公司 (Notes b and g)	China September 10, 2003	US$5,000,000, being US$1,812,500 has been paid in	—	100	Not yet commenced business
Haining Home Direct Furniture Co., Ltd. 海寧家值傢俬有限公司 (Notes b and g)	China May 28, 2003	US$8,000,000, being registered capital; US$4,000,000 has been paid in	—	100	Not yet commenced business
Haining Home Impression Furniture Co., Ltd. 海寧家美傢俱有限公司 (Notes a and j)	China October 17, 2003	US$2,000,000	—	100	Production and sale of upholstered furniture
Haining Home Point Furniture Co., Ltd. 海寧家典傢俱有限公司 (Notes b and g)	China September 10, 2003	US$5,000,000	—	100	Production and sale of upholstered furniture
Haining Kareno Furniture Co., Ltd. 海寧卡雷諾傢俬有限公司 (Notes b and e)	China April 7, 2000	US$3,600,000	—	100	Production and sale of upholstered furniture
Haining Kasen Leather Co., Ltd. 海寧卡森皮革有限公司 (Notes b and e)	China April 3, 1995	US$3,000,000	—	100	Production and sale of upholstered furniture
Haining Libero Furniture Co., Ltd. 海寧利貝奧沙發有限公司 (Notes b and i)	China September 10, 2003	US$5,000,000	—	100	Not yet commenced business
Haining Oyi May Sofa Co., Ltd. 海寧歐意美沙發有限公司 (Notes b and j)	China September 10, 2003	US$5,000,000	—	50.5	Production and sale of upholstered furniture
Haining Schinder Tanning Co., Ltd. 海寧森德皮革有限公司 (Notes b and f)	China October 22, 2002	US$1,000,000	—	100	Production and sale of automotive leather
Haining Wansheng Furniture Co., Ltd. 海寧萬盛沙發有限公司 (Notes b and g)	China September 10, 2003	US$5,000,000	—	50.5	Production and sale of upholstered furniture
Haining Xieqiao Senbo Water Co., Ltd. 海寧市斜橋森博水務有限公司 (Notes a and i)	China June 26, 2003	RMB4,500,000	—	66.67	Collection and transportation of waste water
Kasen International Company Limited (Notes a and c)	Cayman Islands December 20, 2002	US$10.001 Ordinary shares US$1 non-voting deferred share (Note k)	100	—	Investment holding

Name of the company	Place and date of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Company		Principal activities
			Direct	Indirect	
			%	%	
Richmond International Trading Limited 富華國際貿易有限公司 (Notes a and g)	HK October 13, 2004	HK$100	—	100	Trading of leather and other furniture products
Shanghai La Kassa Furniture Co., Ltd. 上海禾美傢俱有限公司 (Notes a and f)	China May 22, 2002	US$4,000,000	—	100	Production and sale of upholstered furniture
Zhejiang Kasen Industrial Co., Ltd. 浙江卡森實業有限公司 (Notes d and e)	China June 12,1995	RMB427,565,000	—	100	Research, development, production and sales of furniture leather
Zhejiang Liema Furniture Co., Ltd. 浙江獵馬傢俬有限公司 (Notes b and j)	China March 17, 2003	US$7,000,000	—	50.5	Production and sale of upholstered furniture

Notes:

(a) The companies are limited liability companies.

(b) The companies are Sino-foreign owned enterprises.

(c) No audited financial statements have been prepared for the companies as they were incorporated in a country where there is no statutory audit requirements.

(d) Zhejiang Kasen was established on June 12, 1995 in China as a domestic limited liability company, and was converted into a company limited by shares on August 24, 2001. On July 1, 2004, Zhejiang Kasen was converted to a Sino-foreign joint venture enterprise. On August 9, 2004, Zhejiang Kasen became a wholly-owned subsidiary of Kasen International Company Limited pursuant to the Reorganization.

(e) The statutory financial statements of the companies for the year ended December 31, 2002, 2003 and 2004 are audited by 中磊會計師事務所有限公司嘉興分所 (Zhonglei Certified Public Accountants Jiaxing Branch), certified public accountants registered in the PRC.

(f) Newly incorporated in 2003, the statutory financial statements of the companies for the period ended December 31, 2003 and the year ended December 31, 2004 are audited by 中磊會計師事務所有限公司嘉興分所 (Zhonglei Certified Public Accountants Jiaxing Branch), certified public accountants registered in the PRC.

(g) Newly incorporated in 2003, the statutory financial statements of the companies for the period ended December 31, 2003 and the year ended December 31, 2004 are audited by 海寧凱達信會計師事務所 (Haining Kaidaxin Certified Public Accountants), certified public accountants registered in the PRC.

(h) Newly incorporated in 2004, the statutory financial statements of the companies for the period ended December 31, 2004 are audited by 中磊會計師事務所有限公司嘉興分所 (Zhonglei Certified Public Accountants Jiaxing Branch), certified public accountants registered in the PRC.

(i) Newly incorporated in 2004, the statutory financial statements of the companies for the period ended December 31, 2004 are audited by 海寧凱達信會計師事務所 (Haining Kaidaxin Certified Public Accountants), certified public accountants registered in the PRC.

(j) Newly incorporated in 2003, the statutory financial statements of the companies for the period ended December 31, 2003 are audited by 海寧凱達信會計師事務所 (Haining Kaidaxin Certified Public Accountants), certified public accountants registered in the PRC, and for the year ended December 31, 2004 are audited by 中磊會計師事務所有限公司嘉興分所 (Zhonglei Certified Public Accountants Jiaxing Branch), certified public accountants registered in the PRC.

(k) The deferred shares practically carry no rights to dividends or to receive notice of attend or vote at any general meeting of the Company or to participate in any distribution on winding up. On September 20, 2005, the non-voting deferred share was cancelled.

40. BANK BALANCES AND CASH

As at December 31, 2002, 2003, 2004 and April 30, 2005, the Group had bank balances and cash (including pledged bank deposits) denominated in RMB amounting to approximately RMB127 million, RMB329 million, RMB374 million and RMB441 million. RMB is not freely convertible into other currencies.

II. DIRECTORS' REMUNERATION

Save as disclosed herein, no remuneration has been paid or is payable to the Company's directors and supervisors by the Company or its subsidiary in respect of the Relevant Periods.

Under the arrangement presently in force, the aggregate amount of the directors' remuneration, excluding discretionary bonus, for the year ending December 31, 2005 is estimated to be approximately RMB2,520,000.

III. DISTRIBUTABLE RESERVES OF THE COMPANY

As at April 30, 2005, the Company's reserve available for distribution to the equity holders of the Company amounted to approximately RMB191,622,000.

IV. SUBSEQUENT EVENTS

The following events have occurred subsequent to April 30, 2005:

(a) Pursuant to written resolutions of the Company passed on September 24, 2005, the transactions which are set out in the paragraph headed "Written resolutions of the Company passed on September 24, 2005" in Appendix VII to the Prospectus had been taken into effect.

(b) A deed of indemnity dated September 29, 2005 given by Mr. Zhu in favor of the Group, containing, among other things, indemnities in relation to estate duty, taxation, social insurance fees, environmental and other liabilities.

(c) Details of other significant events occurred subsequent to April 30, 2005 are disclosed in notes 2, 26, 27, 35 and 36.

V. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or its subsidiaries have been prepared in respect of any period subsequent to April 30, 2005.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative statement of unaudited pro forma adjusted net tangible assets of the Group attributable to the equity holders of the Company which has been prepared for the purpose of illustrating the effect of the Global Offering as if it had been taken place on April 30, 2005 and based on the our audited consolidated net tangible assets as at April 30, 2005, as derived from the Accountants' Report set out in Appendix I to this prospectus and is adjusted as follows.

	Audited consolidated net tangible assets of the Group attributable to the equity holders of the Company as at April 30, 2005(1)	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted net tangible assets(2)(3)	Unaudited pro forma adjusted net tangible assets per Share(2)(4)	
	RMB'000	RMB'000	RMB'000	RMB	HK$
Based on an Offer Price of HK$2.55 per Share (after share consolidation) ..	995,442	498,136	1,493,578	1.98	1.90
Based on an Offer Price of HK$3.15 per Share (after share consolidation) ..	995,442	620,434	1,615,876	2.14	2.05

Notes:

(1) As at April 30, 2005, our audited consolidated net tangible assets attributable to equity holders of the Company equals total equity attributable to equity holders of the Company less goodwill and intangible assets. Under IFRS, land use rights is accounted for as operating lease and cost of land use rights is treated as prepaid lease payment. Accordingly, land use rights of RMB144,774,000 as at April 30, 2005 does not meet the definition of an intangible asset and is included as net tangible assets above.

(2) The calculation of unaudited pro forma adjusted net tangible assets has not taken into account the conversion of the Warburg Pincus Convertible Loans.

(3) By comparing the valuation of our property interests as set out in Appendix IV to this prospectus and the unaudited net book value of these properties as at August 31, 2005, the net valuation surplus is approximately RMB273.7 million (represented by a gross surplus of RMB274.3 million and a gross deficit of RMB0.6 million on individual property interest basis), which has not been included in the above net tangible assets. The revaluation of our property interests will not be incorporated in our financial statements for the year ending December 31, 2005. If the revaluation surplus is to be included in our financial statements for the year ending December 31, 2005, an additional depreciation charge of approximately RMB14.0 million per annum would be incurred.

(4) The unaudited pro forma adjusted net tangible assets value per Share is arrived at after making the adjustment set forth in this section and on the basis of a total of 756,072,227 Shares (including 553,263,153 Shares (after share consolidation) in issue prior to the Global Offering and 202,809,074 Shares expected to be issued in the Global Offering) but does not take into account any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares.

B. EARNINGS PER SHARE

For the year ending December 31, 2005

Forecast consolidated profit attributable to the equity holders of the Company(1)	not less than RMB260.0 million (HK$250.0 million)
Pro forma forecast earnings per Share — fully diluted(2)	RMB0.26 (HK$0.25)

Notes:

(1) The forecast consolidated profit attributable to the equity holders of the Company for the year ending December 31, 2005 is extracted from the section headed "Financial Information — Profit Forecast" in this prospectus. The bases on which the above profit forecast for the year ending December 31, 2005 has been prepared are summarized in Appendix III to this prospectus.

The forecast consolidated profit attributable to the equity holders of the Company for the year ending December 31, 2005 prepared by our Directors is based on the audited results of our Company for the four months ended April 30, 2005, the unaudited management accounts of our Company for the four months ended August 31, 2005 and a forecast for our results for the four months of the financial year ending December 31, 2005. The forecast has been prepared on the basis of the accounting policies consistent in all material respects with those we have currently adopted as summarized in the Accountants' Report, the text of which is set out in Appendix I to this prospectus.

(2) The calculation of the pro forma forecast earnings per Share on a fully diluted basis is based on our forecast profit attributable to equity holders of the Company for the year ending December 31, 2005, assuming the Global Offering had been completed on January 1, 2005 and a total of 1,014,045,369 Shares (giving effect to the share consolidation completed subsequent to April 30, 2005 and full conversion of the Warburg Pincus Convertible Loans on January 1, 2005) were in issue during the entire year, taking no account of any additional income we may have earned from the estimated net proceeds from the Global Offering, taking no account of any Shares which may be allotted and issued or purchased by us pursuant to the General Mandate and the Repurchase Mandate.

C. COMFORT LETTER ON PRO FORMA FINANCIAL INFORMATION

Deloitte.
德勤

德勤・關黃陳方會計師行
香港中環干諾道中111號
永安中心26樓

Deloitte Touche Tohmatsu
26/F Wing On Centre
111 Connaught Road Central
Hong Kong

October 10, 2005

The Directors
Kasen International Holdings Limited
UBS AG

Dear Sirs,

We report on the unaudited pro forma financial information of Kasen International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages II-1 to II-2 in parts (A) and (B) in Appendix II to the Company's prospectus dated October 10, 2005 (the "Prospectus"). The unaudited pro forma financial information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the share offer might have affected the relevant financial information of the Group.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

It is our responsibility to form an opinion, as required by the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work with reference to the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the listing rules" issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company.

Our work does 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 accordingly, we do not express any such assurance on the unaudited pro forma financial information.

The unaudited pro forma financial information has been prepared on the basis set out on pages II-1 to II-2 in parts (A) and (B) of Appendix II of the Prospectus for illustrative purpose only and, because of its nature, it may not give an indicative financial position of Group at April 30, 2005 or at any future date nor the earnings per share of the Group for year ending December 31, 2005.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

A. OVERVIEW

The forecast of our consolidated profit attributable to equity holders of the Company for the year ending December 31, 2005 is set out in the section headed "Financial Information — Profit Forecast."

B. BASES AND ASSUMPTIONS

Our Directors have prepared the forecast of our consolidated profit attributable to equity holders of the Company for the year ending December 31, 2005 on the basis of our audited results for the four months ended April 30, 2005, the unaudited management accounts for the four months ended August 31, 2005 and a forecast of the results for the four months ending December 31, 2005. The forecast has been presented on the basis of accounting policies consistent in all material respects with those adopted by us as summarized in the Accountants' Report in Appendix I to this prospectus and is based as the following principal assumptions:

1. there will be no material changes in existing political, legal (including changes in legislation, laws or regulations, government policies or rules), regulatory, fiscal, market or economic conditions in the PRC, in which we carry on businesses;

2. there will be no material changes in inflation, interest rates and exchange rates from those prevailing as at the date of the Prospectus; and

3. there will be no material changes in the bases or rates of taxation or duties in the PRC.

C. LETTER FROM THE REPORTING ACCOUNTANT

The following is the text of a letter, prepared for inclusion in this prospectus, received by our Directors from Deloitte Touche Tohmatsu in connection with our forecast of the consolidated profit attributable to equity holders of the Company for the year ending December 31, 2005.

Deloitte.
德勤

德勤・關黃陳方會計師行
香港中環干諾道中111號
永安中心26樓

Deloitte Touche Tohmatsu
26/F Wing On Centre
111 Connaught Road Central
Hong Kong

October 10, 2005

The Directors
Kasen International Holdings Limited
UBS AG

Dear Sirs,

We have reviewed the accounting policies adopted and calculations made in arriving at the forecast of the consolidated profit attributable to equity holders of Kasen International Holdings Limited (the "Company") and its subsidiaries (hereinafter, together with the Company, referred to as the "Group") for the year ending December 31, 2005, for which the directors of the Company are solely responsible, as set out in the prospectus dated October 10, 2005 (the "Prospectus") issued by the Company (the "Forecast"). The Forecast is prepared based on the audited results of the Group for the four months ended April 30, 2005, the results shown unaudited management accounts of the Group for the four months ended August 31, 2005 and a forecast of the Group's in the results for the remaining four months of the financial year ending December 31, 2005.

In our opinion, the Forecast, so far as the accounting policies and calculations are concerned, has been properly compiled on the basis of the assumptions made by the directors of the Company as set out in Appendix III to the Prospectus and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our accountants' report dated October 10, 2005 as set out in Appendix I to the Prospectus.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

D. LETTER FROM THE SPONSOR

The following is the text of a letter, prepared for inclusion in this prospectus, received by our Directors from the Sponsor, UBS, in connection with the forecast of the consolidated profit attributable to equity holders of the Company for the year ending December 31, 2005

UBS AG
52/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong

October 10, 2005

The Directors
Kasen International Holdings Limited

Dear Ladies and Gentleman,

We refer to the forecast of the consolidated profit attributable to equity holders of Kasen International Holdings Limited (the "Company") and its subsidiaries (together with the Company, the "Group") for the year ending December 31, 2005 (the "Forecast") as set out in the prospectus issued by the Company dated October 10, 2005 (the "Prospectus"). The Forecast is prepared based on the audited results of the Group for the four months ended April 30, 2005, unaudited management accounts of the Group for the four months ended August 31, 2005 and a forecast of the Group's results for the four months ending December 31, 2005.

We have discussed with you the bases and assumptions made by the directors of the Company as set out in Appendix III to the Prospectus upon which the Forecast has been made. We have also considered the letter dated October 10, 2005 addressed to yourselves and ourselves from Deloitte Touche Tohmatsu regarding the accounting policies and calculations upon which the Forecast has been made.

On the basis of the information comprising the Forecast and on the basis of the accounting policies and calculations adopted by you and reviewed by Deloitte Touche Tohmatsu, we are of the opinion that the Forecast, for which you as directors of the Company are solely responsible, has been made after due and careful inquiry.

Yours faithfully,

For and on behalf of	For and on behalf of
UBS AG	**UBS AG**
Heidi Yang	**Johnson Ngie**
Executive Director	Associate Director

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this prospectus received from Sallmanns (Far East) Limited, an independent valuer, in connection with its valuation as at August 31, 2005 of the property interests of the Group.

Sallmanns

西門

Corporate valuation and consultancy
www.sallmanns.com

22/F Siu On Centre
188 Lockhart Road
Wan Chai
Hong Kong
Tel: (852) 2169 6000
Fax: (852) 2528 5079

October 10, 2005

The Board of Directors
Kasen International Holdings Limited

Dear Sirs,

In accordance with your instructions to value the properties in which Kasen International Holdings Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") have interests in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant inquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at August 31, 2005 (the "date of valuation").

Our valuations of the property interests represent the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion."

Where, due to the nature of the buildings and structures of the properties in the PRC, there are no market sales comparables readily available, the property interests have been valued on the basis of their depreciated replacement cost.

Depreciated replacement cost is defined as "the current cost of replacement (reproduction) of a property less deductions for physical deterioration and all relevant forms of obsolescence and optimization." It is based on an estimate of the Market Value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement costs of the property interests are subject to adequate potential profitability of the concerned business.

In valuing the property interests in Group III which are currently under construction, we have assumed that they will be developed and completed in accordance with the Group's latest development proposal provided to us. In arriving at our opinion of value, we have taken into account the construction costs and professional fees relevant to the stage of construction as at the date of valuation and the remainder of the costs and fees to be expended to complete the developments.

Our valuations have been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charges, mortgages or amounts owing on any of the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Appraisal and Valuation Standards (5th Edition May 2003) published by the Royal Institution of Chartered Surveyors; and the HKIS Valuation Standards on Properties (1st Edition January 2005) published by the Hong Kong Institute of Surveyors.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including State-owned Land Use Rights Certificates, Building Ownership Certificates, Real Estate Title Certificates and official plans relating to the property interests and have made relevant inquiries. Where possible, we have examined the original documents to verify the existing titles to the property interests in the PRC and any material encumbrances that might be attached to the property interests or any lease amendments. We have relied considerably on the advice given by the Group's PRC legal adviser — Jun He Law Offices, concerning the validity of the Group's titles to the property interests.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the properties but have assumed that the site areas shown on the documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our valuations are summarized below and the valuation certificates are attached.

Yours faithfully,
for and on behalf of
Sallmanns (Far East) Limited
Paul L. Brown
B.Sc. FRICS FHKIS
Director

Note: Paul L. Brown is a Chartered Surveyor who has 22 years' experience in the valuation of properties in the PRC and 25 years of property valuation experience in Hong Kong, the United Kingdom and the Asia-Pacific region.

SUMMARY OF VALUES

Group I — Property interests held and occupied by the Group in the PRC

No.	Property	Capital value in existing state as at August 31, 2005 (RMB)	Interest attributable to the Group (%)	Capital value attributable to the Group as at August 31, 2005 (RMB)
1.	Land, various buildings and structures of Kasen old factory located at Huafeng Village Xieqiao Town Haining City Zhejiang Province The PRC	53,754,000	100	53,754,000
2.	Land, various buildings and structures located at Gufen Second District Huafeng Village Xieqiao Town Haining City Zhejiang Province The PRC	66,990,000	100	66,990,000
3.	Land, various buildings and structures located at Kasen Industrial Park Huafeng Village Xieqiao Town Haining City Zhejiang Province The PRC	242,714,000	100	242,714,000
4.	Land, various buildings and structures located at No. 259 Qianjiang West Road Haining City Zhejiang Province The PRC	87,819,000	100	87,819,000

No.	Property	Capital value in existing state as at August 31, 2005 (RMB)	Interest attributable to the Group (%)	Capital value attributable to the Group as at August 31, 2005 (RMB)
5.	Land, various buildings and structures located at Nos. 67 and 72 Xieqiao West Street Xieqiao Town Haining City Zhejiang Province The PRC	2,067,000	100	2,067,000
6.	Land, various buildings and structures located at No. 14 Jianshe Road Xieqiao Town Haining City Zhejiang Province The PRC	33,119,000	100	33,119,000
7.	Land, various buildings and structures located at No. 26 Yongchang Road Yuanhua Town Jianshan New District Haining City Zhejiang Province The PRC	84,045,000	100	84,045,000
8.	Land, various buildings and structures located at No. 28 Wenchang Road Jianshan New District Haining City Zhejiang Province The PRC	92,511,000	50.5	46,718,000
9.	Land, various buildings and structures located at Zhouwangmiao Town Haining City Zhejiang Province The PRC	No commercial value	50.5	No commercial value

No.	Property	Capital value in existing state as at August 31, 2005 (RMB)	Interest attributable to the Group (%)	Capital value attributable to the Group as at August 31, 2005 (RMB)
10.	Land, various buildings and structures located at No. 28 Yongchang Road Jianshan New District Haining City Zhejiang Province The PRC	89,747,000	50.5	45,322,000
11.	Land, various buildings and structures located at No. 426 Lutong Road Liantang Town Qingpu District Shanghai The PRC	20,000,000	100	20,000,000
	Sub-total:	772,766,000		682,548,000

Group II — Property interests held for future development by the Group in the PRC

No.	Property	Capital value in existing state as at August 31, 2005 (RMB)	Interest attributable to the Group (%)	Capital value attributable to the Group as at August 31, 2005 (RMB)
12.	A parcel of land located at Jianshan 01 Weiken District Haining City Zhejiang Province The PRC	No commercial value	100	No commercial value
	Sub-total:	Nil		Nil

Group III — Property interests held under development by the Group in the PRC

No.	Property	Capital value in existing state as at August 31, 2005 (RMB)	Interest attributable to the Group (%)	Capital value attributable to the Group as at August 31, 2005 (RMB)
13.	Land, various buildings and structures under construction located at Jianshan 01 Weiken District Haining City Zhejiang Province The PRC	No commercial value	100	No commercial value
14.	Land, various buildings and structures under construction located at No. 259 Qianjiang West Road Haining City Zhejiang Province The PRC	No commercial value	100	No commercial value
15.	Land, various buildings and structures under construction located at Jianshan 01 Weiken District Haining City Zhejiang Province The PRC	91,485,000	50.5	46,200,000
16.	Land, various buildings and structures under construction located at Jianshan 01 Weiken District Haining City Zhejiang Province The PRC	89,130,000	50.5	45,011,000
17.	Land, various buildings and structures under construction located at Jianshan 01 Weiken District Haining City Zhejiang Province The PRC	90,099,000	50.5	45,500,000
	Sub-total:	270,714,000		136,711,000
	Grand Total:	1,043,480,000		819,259,000

VALUATION CERTIFICATE

Group I — Property interests held and occupied by the Group in the PRC

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at August 31, 2005 (RMB)
1.	Land, various buildings and structures of Kasen old factory located at Huafeng Village Xieqiao Town Haining City Zhejiang Province The PRC	The property comprises 9 parcels of land with a total site area of approximately 90,015 sq.m. on which are erected 79 buildings and 4 structures completed in various stages between 1992 and 2000. The property also comprises 2 structures which are under construction and scheduled to be completed by 2006. The property has a total gross floor area of approximately 59,984.85 sq.m. The major buildings include industrial buildings, office buildings and warehouses. The major structures include road, green areas and boundary wall. The land use rights of the property have been granted for a term of 50 years with the latest date expiring on December 30, 2048.	The property is currently occupied by the Group for production purposes except for an office room which is leased to Haining Xieqiao Senbo Water Co., Ltd. (see note 4)	53,754,000 100% interest attributable to the Group: RMB53,754,000

Notes:

1. Pursuant to 9 State-owned Land Use Rights Certificates — Hai Guo Yong (2002) Zi Nos. 6003130018, 6003130020 and 6003130022 and Hai Guo Yong (2005) Zi Nos. 6003130048 to 6003130053 issued by the People's Government of Haining City, the land use rights of 9 parcels of land with a total site area of approximately 90,015 sq.m. have been granted to Zhejiang Kasen Industrial Co., Ltd. ("Zhejiang Kasen"), a wholly-owned subsidiary of the Group, for a term of 50 years commencing from December 31, 1998 for industrial use.

2. Pursuant to 20 Building Ownership Certificates — Haining Fang Quan Zheng Xie Zi Nos. 000609 to 000617 and Haining Fang Quan Zheng Xie Zi Nos. Xie 00028747 to 00028757 issued by the People's Government of Haining City, 79 buildings with a total gross floor area of approximately 59,984.85 sq.m. are vested in Zhejiang Kasen.

3. According to 2 Maximum Amount Mortgage Contracts dated May 24, 2004 and May 31, 2004, a parcel of land (Certificate no.: Hai Guo Yong (2002) Zi No. 6003130018) with a site area of approximately 16,519.9 sq.m. and several buildings (Certificate nos.: Haining Fang Quan Zheng Xie Zi Nos. 000609 to 000612) with a total gross floor area of approximately 13,788.55 sq.m. of the property are subject to a mortgage in favor of Rural Credit Cooperative Union of Haining City ("the Bank") as security for bank loans with the total maximum amount of RMB4,600,000 granted to the Group for mortgage periods with the latest date expiring on May 31, 2006.

4. Pursuant to a Tenancy Agreement entered into between Zhejiang Kasen and Haining Xieqiao Senbo Water Co., Ltd., an office room with a gross floor area of approximately 17.65 sq.m. is leased to Haining Xieqiao Senbo Water Co., Ltd., a 66.67% owned subsidiary of the Group, for a term of 1 year commencing from June 10, 2005 and expiring on June 9, 2006, at an annual rental of RMB800 exclusive of all outgoings.

5. We have been provided with a legal opinion regarding the property interest by the Group's PRC legal adviser, which contains, inter alia, the following:

   (i) Zhejiang Kasen legally owns the land use rights and the building ownership rights of the property.

   (ii) The land and the buildings of the property which are subject to a mortgage can be legally transferred by the Company upon obtaining the approval from the Bank. The rest of the property is not subject to mortgage or any other encumbrances and can be legally transferred, sublet or mortgaged by Zhejiang Kasen.

   (iii) The Tenancy Agreement is valid, binding and enforceable under PRC laws.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at August 31, 2005 (RMB)
2.	Land, various buildings and structures located at Gufen Second District Huafeng Village Xieqiao Town Haining City Zhejiang Province The PRC	The property comprises 3 parcels of land with a total site area of approximately 99,353 sq.m. on which are erected 28 buildings and 2 structures completed in various stages between 2000 and 2003. The property has a total gross floor area of approximately 60,828.03 sq.m. The major buildings include office buildings, industrial buildings and dormitories. The major structures include road and boundary wall. The land use rights of the property have been granted for a term of 50 years with the latest date expiring on June 29, 2049.	The property is currently occupied by the Group for production purposes except for a portion of buildings which are leased to Haining Schinder Tanning Co., Ltd. and Haining Gaosheng Leather Co., Ltd. (see notes 3 and 4)	66,990,000 100% interest attributable to the Group: RMB66,990,000

Notes:

1. Pursuant to 3 State-owned Land Use Rights Certificates — Hai Guo Yong (2002) Zi Nos. 6000000016 and 6000000012 and Hai Guo Yong (2005) Zi No. 600000055 issued by the People's Government of Haining City, the land use rights of 3 parcels of land with a total site area of approximately 99,353 sq.m. have been granted to Zhejiang Kasen Industrial Co., Ltd. ("Zhejiang Kasen"), a wholly-owned subsidiary of the Group, for a term of 50 years commencing from June 30, 1999 for industrial use.

2. Pursuant to 7 Building Ownership Certificates — Haining Fang Quan Zheng Xie Zi Nos. 000630 and 000624 to 000627 and Haining Fang Quan Zheng Xie Zi Nos. Xie 00028758 and 00028759 issued by the People's Government of Haining City, 28 buildings with a total gross floor area of approximately 60,828.03 sq.m. are vested in Zhejiang Kasen.

3. Pursuant to a Tenancy Agreement entered into between Zhejiang Kasen and Haining Schinder Tanning Co., Ltd. dated September 9, 2004, several industrial buildings with a total gross floor area of approximately 22,506.63 sq.m. is leased to Haining Schinder Tanning Co., Ltd., a wholly-owned subsidiary of the Group, for a term of 3 years commencing from January 1, 2003 and expiring on December 31, 2005 at an annual rental of RMB950,000, exclusive of all outgoings.

4. Pursuant to a Tenancy Agreement entered into between Zhejiang Kasen and Haining Gaosheng Leather Co., Ltd. dated December 24, 2004, several industrial buildings with a total gross floor area of approximately 35,017.83 sq.m. is leased to Haining Gaosheng Leather Co., Ltd, a 89% owned subsidiary of the Group, commencing from December 24, 2004 and expiring on June 1, 2006 for a term of about 1.5 years at an annual rental of RMB600,000.

5. According to 2 Maximum Amount Mortgage Contracts dated May 24, 2004 and June 9, 2004, 2 parcels of land (Certificate nos.: Hai Guo Yong (2002) Zi Nos. 6000000012 and 6000000016) with a total site area of approximately 41,018 sq.m. and several buildings (Certificate nos.: Haining Fang Quan Zheng Xie Zi Nos. 000624 to 000627 and 000630) with a total gross floor area of approximately 29,482.19 sq.m. of the property are subject to a mortgage in favor of Haining Sub-branch of Agricultural Bank of China ("the Bank") as security for bank loans with total maximum amount of RMB13,950,000 granted to Zhejiang Kasen for mortgage periods with the latest date expiring on June 3, 2006.

6. According to a Maximum Amount Mortgage Contract dated September 23, 2005, a parcel of land (Certificate no.: Hai Guo Yong (2005) Zi No. 6000000055) with a site area of approximately 58,335 sq.m. and several buildings (Certificate nos.: Haining Fang Quan Zheng Xie Zi Nos. Xie 00028758 and 00028759) with a total gross floor area of approximately 31,345.84 sq.m. of the property are subject to a mortgage in favor of Haining Sub-branch of Bank of China ("the Bank") as security for bank loans with maximum amount of RMB27,000,000 granted to Zhejiang Kasen for a term of 3 years expiring on September 22, 2008.

7. We have been provided with a legal opinion regarding the property interest by the Group's PRC legal advisers, which contains, inter alia, the following:

   (i) Zhejiang Kasen legally owns the land use rights and the building ownership rights of the property.

   (ii) The land and the buildings of the property which are subject to mortgages can be legally transferred by Zhejiang Kasen upon obtaining the approval from the Banks.

   (iii) The Tenancy Agreements are valid, binding and enforceable under PRC laws.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at August 31, 2005 (RMB)
3.	Land, various buildings and structures located at Kasen Industrial Park Huafeng Village Xieqiao Town Haining City Zhejiang Province The PRC	The property comprises 2 parcels of land with a total site area of approximately 334,771 sq.m. on which are erected 22 buildings and 8 structures completed in various stage between 2003 and 2004. The property also comprises 2 structures which are under construction and scheduled to be completed by 2006. The property has a total gross floor area of approximately 219,658.09 sq.m. The major buildings include industrial buildings and testing centers. The major structures of the property include road, boundary wall and sheds. The land use rights of the property have been granted for a term of 50 years with the latest date expiring on May 10, 2052.	The property is currently occupied by the Group for production purposes except for a portion of buildings which are leased to Haining Kasen Leather Co., Ltd., Haining Home Impression Furniture Co., Ltd. and Haining Kasen-Melx Leather Co., Ltd. (see notes 3, 4 and 5)	242,714,000 100% interest attributable to the Group: RMB242,714,000

Notes:

1. Pursuant to 2 State-owned Land Use Rights Certificates — Hai Guo Yong (2005) No. 6006100040 and Hai Guo Yong (2005) No.6006100041 dated June 28, 2005 issued by the People's Government of Haining City, the land use rights of the property with a total site area of approximately 334,771 sq.m. have been granted to Zhejiang Kasen Industrial Co., Ltd. ("Zhejiang Kasen"), a wholly-owned subsidiary of the Group, for a term of 50 years commencing from November 8, 2002 and May 11, 2002 for industrial use.

2. Pursuant to 7 Building Ownership Certificates — Haining Fang Quan Zheng Xie Zi Nos. Xie 00028737 to 00028742 and 00028746 dated June 9, 2005 and August 4, 2005 respectively issued by the People's Government of Haining City, 22 buildings with a total gross floor area of approximately 219,658.09 sq.m. are vested in Zhejiang Kasen.

3. Pursuant to a Tenancy Agreement entered into between Zhejiang Kasen and Haining Kasen Leather Co., Ltd dated January 1, 2005, an industrial building with a gross floor area of approximately 24,585.31 sq.m. is leased to Haining Kasen Leather Co., Ltd, a wholly-owned subsidiary of the Group, for a term of 3 years commencing from January 1, 2005 and expiring on December 31, 2007 at an annual rental of RMB1,320,000, exclusive of all outgoings.

4. Pursuant to a Tenancy Agreement entered into between Zhejiang Kasen and Haining Home Impression Furniture Co., Ltd. dated September 9, 2004, an industrial building with a gross floor area of approximately 34,895.74 sq.m. is leased to Haining Home Impression Furniture Co., Ltd., a wholly-owned subsidiary of the Group, for a term of 2 years commencing from September 9, 2004 and expiring on September 28, 2006 at an annual rental of RMB1,000,000, exclusive of all outgoings.

5. Pursuant to a Tenancy Agreement entered into between Zhejiang Kasen and Haining City Kasen-Melx Leather Co., Ltd. in which 50% interest is owned by Zhejiang Kasen, ("Kasen-Melx"), an office room with a gross floor area of approximately 400 sq.m. is leased to Kasen-Melx, a wholly-owned subsidiary of the Group, for a term of 19 years commencing from July 14, 2005 and expiring on July 13, 2024 at an annual rental of RMB12,336, exclusive of all outgoings.

6. According to 2 Maximum Amount Mortgage Contracts, a parcel of land (Certificate no.: Hai Guo Yong (2005) Zi No. 60060061041) with a site area of approximately 254,578 sq.m. and several buildings (Certificate nos.: Haining Fang Quan Zheng Xie Zi Nos. Xie 00028737, 00028739 and 00028742) with a total gross floor area of approximately 16,768.99 sq.m. of the property are subject to mortgages in favor of Haining Sub-Branch of Bank of China ("the Bank") as security for bank loans with total maximum amount of RMB139,743,000 granted to the Company for mortgage periods with the latest date expiring on July 17, 2008.

7. We have been provided with a legal opinion regarding the property interest by the Group's PRC legal advisers, which contains, inter alia, the following:

   (i) Zhejiang Kasen legally owns the land use rights and the building ownership rights of the property.

   (ii) The land and the buildings of the property which are subject to a mortgage can be legally transferred by Zhejiang Kasen upon obtaining the approval from the Bank. The rest of the property is not subject to mortgage or any other encumbrances and can be legally transferred, sublet or mortgaged by Zhejiang Kasen.

   (iii) The Tenancy Agreements are valid, binding and enforceable under PRC laws.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at August 31, 2005 (RMB)
4.	Land, various buildings and structures located at No. 259 Qianjiang West Road Haining City Zhejiang Province The PRC	The property comprises a parcel of land with a site area of approximately 122,741 sq.m. on which are erected 24 buildings and various ancillary structures completed in various stages between 2001 and 2002. The property has a total gross floor area of approximately 63,380.72 sq.m. The major buildings include industrial buildings and dormitories. The major structures include road, boundary wall and sheds. The land use rights of the property have been granted for a term of 50 years expiring on September 25, 2050.	The property is currently occupied by the Group for production purposes except for 17 buildings which are used for the purpose of staff quarters.	87,819,000 100% interest attributable to the Group: RMB87,819,000

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate — Hai Guo Yong (2002) No. 6503100587 dated May 8, 2002 issued by the People's Government of Haining City, the land use rights of a parcel of land with a site area of approximately 122,741 sq.m. have been granted to Haining Kareno Furniture Co., Ltd ("Haining Kareno"), a wholly-owned subsidiary of the Group, for a term of 50 years commencing from September 26, 2000 for industrial use.

2. Pursuant to 6 Building Ownership Certificates — Haining Fang Quan Zheng Xia Zi Nos. 00033121, 00033120 and 00078090-00078093 dated April 25, 2002 and August 4, 2005 issued by the People's Government of Haining City, 24 buildings with a total gross floor area of approximately 63,380.72 are vested in Haining Kareno.

3. According to 2 Maximum Amount Mortgage Contracts dated April 20, 2004 and April 22, 2004, a portion of the property is subject to a mortgage in favor of Haining Sub-branch of Agricultural Bank of China ("the Bank") as security for bank loans with total maximum amount of RMB30,500,000 granted to Haining Kareno for mortgage periods with the latest date expiring on April 21, 2006.

4. We have been provided with a legal opinion regarding the property interest by the Group's PRC legal advisers, which contains, inter alia, the following:

   (i) Haining Kareno legally owns the land use rights and the building ownership rights of the property.

   (ii) According to the statement of the Haining Administration of Land and Resources dated July 6, 2005, if Kareno intends to partially transfer the employees' dormitory buildings with a total area of 11,369.77 square meters to which the Building Ownership Certificates have been granted, the usage of the land purpose mentioned hereinabove should be modified in accordance with relevant regulations. It is possible that the usage of the land purpose may be modified and the grant fee may be adjusted and Haining Kareno may be required to make additional grant fee when it transfers the employees' dormitory buildings.

   (iii) The land and the buildings of the property which are subject to a mortgage can be legally transferred by Haining Kareno upon obtaining the approval from the Bank. The rest of the property is not subject to mortgage or any other encumbrances and can be legally transferred, sublet or mortgaged by Haining Kareno.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at August 31, 2005 (RMB)
5.	Land, various buildings and structures located at Nos. 67 and 72 Xieqiao West Street Xieqiao Town Haining City Zhejiang Province The PRC	The property comprises a parcel of land with a site area of approximately 4,729.4 sq.m. on which are erected 14 buildings completed in various stages between 1969 and 1998. The property has a total gross floor area of approximately 5,774.59 sq.m. The buildings include 6 industrial buildings and 8 dormitories. The land use rights of the property have been granted for a term of 50 years expiring on July 19, 2050.	The property is currently occupied by the Group for production purposes.	2,067,000 100% interest attributable to the Group: RMB2,067,000

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate — Hai Guo Yong (2004) Zi No. 5802010035 dated August 18, 2004 issued by the People's Government of Haining City, the land use rights of a parcel of land with a site area of approximately 4,729.4 sq.m. have been granted to Haining Hengsen Furniture Co., Ltd ("Haining Hengsen"), a wholly-owned subsidiary of the Group for a term of 50 years commencing from July 20, 2000 for industrial use.

2. Pursuant to 3 Building Ownership Certificates — Haining Fang Quan Zheng Xie Zi No. 000682, 000683 and 000684 dated October 2, 2003 issued by the People's Government of Haining City, 14 buildings with a total gross floor area of approximately 5,774.59 sq.m. are vested in Haining Hengsen.

3. According to a Maximum Amount Mortgage Contract, the land of the property is subject to a mortgage dated November 5, 2004 in favor of Haining Sub-branch of Bank of China ("the Bank") as security for a bank loan with maximum amount of US$45,000 granted to Haining Hengsen for the mortgage period expiring on November 5, 2007.

4. We have been provided with a legal opinion regarding the property interest by the Group's PRC legal advisers, which contains, inter alia, the following:

   (i) Haining Hengsen legally owns the land use rights and the building ownership rights of the property.

   (ii) The land of the property which is subject to a mortgage can be legally transferred by Haining Hengsen upon obtaining the approval from the Bank. The rest of the property is not subject to mortgage or any other encumbrances and can be legally transferred, sublet or mortgaged by Haining Hengsen.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at August 31, 2005 (RMB)
6.	Land, various buildings and structures located at No.14 Jianshe Road Xieqiao Town Haining City Zhejiang Province The PRC	The property comprises a parcel of land with a site area of approximately 58,725.7 sq.m. on which are erected 21 buildings and various ancillary structures completed in various stages between 1982 and 2004. The property has a total gross floor area of approximately 35,134.72 sq.m. The major buildings include office buildings, industrial buildings, warehouses etc. The major structures include road and boundary wall. The land use rights of the property have been granted for a term of 50 years expiring on July 19, 2050.	The property is currently occupied by the Group for production purposes.	33,119,000 100% interest attributable to the Group: RMB33,119,000

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate — Hai Guo Yong (2004) Zi No. 5800050036 dated August 20, 2004, the land use rights of the property with a site area of approximately 58,725.7 sq.m. have been granted to Haining Hengsen Furniture Co., Ltd. ("Haining Hengsan"), a wholly-owned subsidiary of the Group for a term of 50 years commencing from July 20, 2000 for industrial use.

2. Pursuant to 5 Building Ownership Certificates — Haining Fang Quan Zheng Xie Zi Nos. 000685, 000686, 000687, 000688 and 000720 dated October 2, 2003 issued by the People's Government of Haining City, 21 buildings with a total gross floor area of approximately 35,134.72 sq.m. are vested in Haining Hengsen.

3. According to 2 Maximum Amount Mortgage Contracts dated April 20, 2004 and November 5, 2004, the land and the buildings (Certificate no.: Haining Fang Quan Zheng Xie Zi No. 000720) of the property are subject to a mortgage in favor of Haining Sub-branch of Bank of China ("the Bank") as security for bank loans with total maximum amount of US$1,570,000 granted to Haining Hengsen for mortgage periods expiring both on November 5, 2007.

4. We have been provided with a legal opinion regarding the property interest by the Group's PRC legal advisers, which contains, inter alia, the following:

   (i) Haining Hengsen legally owns the land use rights and the building ownership rights of the property.

   (ii) The land and the building of the property which are subject to a mortgage can be legally transferred by Haining Hengsen upon obtaining the approval from the Bank. The rest of the property is not subject to mortgage or any other encumbrances and can be legally transferred, sublet or mortgaged by Haining Hengsen.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at August 31, 2005 (RMB)
7.	Land, various buildings and structures located at No. 26 Yongchang Road Yuanhua Town Jianshan New District Haining City Zhejiang Province The PRC	The property comprises a parcel of land with a site area of approximately 152,114 sq.m. on which are erected 9 buildings and various ancillary structures completed in 2005. The property has a total gross floor area of approximately 93,558.58 sq.m. The major buildings include office buildings, industrial buildings and warehouses etc. The major structures include road and boundary wall. The land use rights of the property have been granted for a term of 50 years expiring on December 29, 2053.	The property is currently occupied by the Group for production purposes except for a portion of buildings which are leased to Haining Higher Point Investment Development Co., Ltd. (see note 4)	84,045,000 100% interest attributable to the Group: RMB84,045,000

Notes:

1. Pursuant to a State-owned Land Use Rights Grant Contract — Hai Di He (2003) No. 356 dated December 17, 2003 entered into between the People's Government of Haining City and Haining Home Point Furniture Co., Ltd. ("Home Point Furniture"), a wholly-owned subsidiary of the Group, the land use rights of a parcel of land were granted to Home Point Furniture for a term of 50 years commencing from December 30, 2003.

2. Pursuant to a State-owned Land Use Rights Certificate — Hai Guo Yong (2005) No. 7400JS0011 dated June 5, 2005 issued by the People's Government of Haining City, the land use rights of the property with a site area of approximately 152,114 sq.m. have been granted to Home Point Furniture for a term of 50 years commencing from December 30, 2003 for industrial use.

3. Pursuant to 2 Building Ownership Certificates — Haining Fang Quan Zheng Yuan Zi Nos. Yuan 00031611 and 00031612 dated June 28, 2005 issued by the People's Government of Haining City, 9 buildings with a total gross floor area of approximately 93,558.58 sq.m. are vested in Haining Home Point Furniture Co., Ltd.

4. Pursuant to a Tenancy Agreement entered into between Home Point Furniture and Haining Higher Point Investment Development Co., Ltd. a wholly-owned subsidiary of the Group, dated June 29, 2005, a room of an office building with a gross floor area of approximately 87.61 sq.m. is leased to Haining Higher Point Investment Development Co., Ltd. for a term of 3 years commencing from June 29, 2005 and expiring on June 28, 2008 at an annual rental of RMB8,400.

5. According to a Maximum Amount Mortgage Contract dated August 4, 2005, the property is subject to a mortgage in favor of Zhejiang Branch of Industrial and Commercial Bank of China (“the Bank”) as security for a bank loan with maximum amount of RMB91,200,000 granted to Home Point Furniture for the mortgage period expiring on August 3, 2008.

6. We have been provided with a legal opinion regarding the property interest by the Group’s PRC legal advisers, which contains, inter alia, the following:

   (i) Home Point Furniture legally owns the land use rights and the building ownership rights of the property.

   (ii) The property can be legally transferred, sublet or mortgaged by Home Point Furniture upon obtaining the approval from the Bank.

   (iii) The Tenancy Agreement is valid, binding and enforceable under PRC laws.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at August 31, 2005 (RMB)
8.	Land, various buildings and structures located at No. 28 Wenchang Road Jianshan New District Haining City Zhejiang Province The PRC	The property comprises a parcel of land with a site area of approximately 144,786 sq.m. on which are erected 13 buildings and various ancillary structures completed in 2005. The property has a total gross floor area of approximately 108,727.33 sq.m. The major buildings include industrial buildings and warehouses etc. The major structures include road and boundary wall. The land use rights of the property have been granted for a term of 50 years expiring on December 29, 2053.	The property is currently occupied by the Group for production purposes.	92,511,000 50.5% interest attributable to the Group: RMB46,718,000

Notes:

1. Pursuant to a State-owned Land Use Rights Grant Contract — Hai Di He (2003) No. 355 dated December 17, 2003 entered into between the People's Government of Haining City and Haining Hainix Sofa Co., Ltd. ("Haining Hainix"), a 50.5% owned subsidiary of the Group, the land use rights of a parcel of land were granted to Haining Hainix for a term of 50 years commencing from December 31, 2003.

2. Pursuant to a State-owned Land Use Rights Certificate — Hai Guo Yong (2005) No. 7400030007 dated April 30, 2005 issued by the People's Government of Haining City, a parcel of land with a site area of approximately 144,786 sq.m. has been granted to Haining Hainix for a term of 50 years commencing from December 31, 2003 for industrial use.

3. Pursuant to 2 Building Ownership Certificates — Haining Fang Quan Zheng Yuan Zi Nos. Yuan 00031619 and 00031620 dated July 27, 2005 issued by the People's Government of Haining City, 13 buildings with a total gross floor area of approximately 108,727.33 sq.m. are vested in Haining Hainix.

4. According to 2 Maximum Amount Mortgage Contracts dated September 12, 2005, the property is subject to a mortgage in favor of Haining Sub-branch of Bank of China ("the Bank") as security for a bank loan with total maximum amount of RMB67,850,000 granted to Haining Hainix for the mortgage period expiring on September 12, 2007.

5. We have been provided with a legal opinion regarding the property interest by the Group's PRC legal advisers, which contains, inter alia, the following:

   (i) Haining Hainix legally owns the land use rights and the building ownership rights of the property.

   (ii) The property can be legally transferred and sublet by Haining Hainix upon obtaining the approval from the Bank.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at August 31, 2005 (RMB)
9.	Land, various buildings and structures located at Zhouwangmiao Town Haining City Zhejiang Province The PRC	The property comprises a parcel of land with a site area of approximately 45,439 sq.m. on which are erected 7 buildings and 4 ancillary structures completed in 2005. The property has a total gross floor area of approximately 32,404 sq.m. The major buildings of the property include industrial buildings, composite building and dormitories. The major structures of the property include road and motor cycle shed. The land use rights of the property have been granted for a term of 50 years expiring on June 8, 2053.	The property is currently occupied by the Group for production purposes.	No commercial value

Notes:

1. Pursuant to a State-owned Land Use Rights Grant Contract — Hai Di He Zi (2003) No. 165 dated 9 June 2003 entered into between the People's Government of Haining City and Zhejiang Liema Furniture Co., Ltd. ("Liema Furniture") (formerly known as Zhejiang Liema Clothing Co., Ltd.), a 50.5% owned subsidiary of the Group, the land use rights of the property are granted to Liema Furniture for a term of 50 years commencing from June 9, 2003 for industrial use.

2. Pursuant to an Interim Certificate for State-owned Land Use Rights — Hai Guo Tu Deng Zi (2003) No. 180 dated 20 June 2003 issued by the People's Government of Haining City, a parcel of land with a site area of approximately 45,439 sq.m. was granted to Liema Furniture for a term of 50 years commencing from June 9, 2003 for industrial use.

3. In the valuation of this property, we have not attributed any commercial value to the property which has not obtained any proper title certificate. However, for reference purposes, we are of the opinion that the capital value of the buildings and structures (including the land) as at the date of valuation would be RMB31,149,000 assuming all relevant title ownership certificates had been obtained and the property could be freely transferred.

4. As advised by the Company, the Land Use Rights Certificate is under application with the relevant local authorities.

5. We have been provided with a legal opinion regarding the property interests by the Group's PRC legal advisers, which contains, inter alia, the following:

   (i) The Interim Certificate for State-owned Land Use Rights is not a legitimate certificate of land use rights, therefore Liema Furniture has not obtained an enforceable land use rights certificate.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at August 31, 2005 (RMB)
10.	Land, various buildings and structures located at No. 28 Yongchang Road Jianshan New District Haining City Zhejiang Province The PRC	The property comprises a parcel of land with a site area of approximately 144,824 sq.m. on which are erected 18 buildings and various ancillary structures completed in 2005. The property has a total gross floor area of approximately 108,942.46 sq.m. The major buildings include industrial buildings and warehouses etc. The major structures include road and boundary wall. The land use rights of the property have been granted for a term of 50 years expiring on December 15, 2053.	The property is currently occupied by the Group for production purposes.	89,747,000 50.5% interest attributable to the Group: RMB45,322,000

Notes:

1. Pursuant to a State-owned Land Use Rights Grant Contract — Hai Di He (2003) No. 345 dated December 3, 2003 entered into between the People's Government of Haining City and Haining Wansheng Furniture Co., Ltd. ("Haining Wansheng"), a 50.5% owned subsidiary of the Group, the land use rights of a parcel of land were granted to Haining Wansheng for a term of 50 years commencing from December 16, 2003.

2. Pursuant to a State-owned Land Use Rights Certificate — Hai Guo Yong (2005) No. 7400JS0013 dated June 15, 2005 issued by the People's Government of Haining City, a parcel of land with a site area of approximately 144,824 sq.m. has been granted to Haining Wansheng for a term of 50 years commencing from December 16, 2003 for industrial use.

3. Pursuant to 3 Building Ownership Certificates — Haining Fang Quan Zheng Yuan Zi Nos. Yuan 00031623 to 00031625 dated August 31, 2005 issued by the People's Government of Haining City, 18 buildings with a total gross floor area of approximately 108,942.46 sq.m. are vested in Haining Wansheng.

4. We have been provided with a legal opinion regarding the property interest by the Group's PRC legal advisers, which contains, inter alia, the following:

   (i) Haining Wansheng legally owns the land use rights and the building ownership rights of the property.

   (ii) The property can be legally transferred and sublet or mortgaged by Haining Wansheng.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at August 31, 2005 (RMB)
11.	Land, various buildings and structures located at No. 426 Lutong Road Liantang Town Qingpu District Shanghai The PRC	The property comprises a parcel of land with a site area of approximately 100,000 sq.m. on which are erected 3 buildings and various ancillary structures completed in 2005. The property has a total gross floor area of approximately 52,837 sq.m. The major buildings include industrial buildings and warehouses etc. The major structures include road and boundary wall. The land use rights of the property have been granted for a term of 50 years expiring on June 15, 2055.	The property is currently occupied by the Group for production purposes.	20,000,000 100% interest attributable to the Group: RMB20,000,000

Notes:

1. Pursuant to a State-owned Land Use Rights Grant Contract - Hu Qing Fang Di (2005) Chu Rang He Tong No. 112 dated June 16, 2005 entered into between the Housing and Land Administration Bureau of Qingpu District of Shanghai and Shanghai La Kassa Furniture Co., Ltd. ("Shanghai La Kassa"), a wholly-owned subsidiary of the Group, the land use rights of a parcel of land were contracted to be transferred to Shanghai La Kassa, for a term of 50 years commencing from June 16, 2005.

2. Pursuant to a Real Estate Certificate - Hu Fang Di Qing Zi (2005) No. 012774 dated September 23, 2005 issued by Shanghai Housing and Land Resources Administration Bureau, the land use rights of the land with a site area of approximately 100,000 sq.m. were granted to Shanghai La Kassa for a term of 50 years expiring on June 15, 2055 for industrial use.

3. In the valuation of this property, we have not attributed any commercial value to the 3 buildings with a total gross floor area of approximately 52,837 sq.m. which have not obtained any proper title certificate. However, for reference purposes, we are of the opinion that the capital value of the buildings and structures (excluding land) as at the date of valuation would be RMB29,951,000 assuming all building ownership certificates had been obtained and the buildings could be freely transferred.

4. We have been provided with a legal opinion regarding the property interest by the Group's PRC legal advisers, which contains, inter alia, the following:

   (i) Shanghai La Kassa legally owns the land use rights of the property.

   (ii) Shanghai La Kassa has passed through all final construction-related inspections and acceptances and completed the filing formalities for all the aforesaid workshops actually erected.

VALUATION CERTIFICATE

Group II — Property interests held for future development by the Group in the PRC

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at August 31, 2005 (RMB)
12.	A parcel of land located at Jianshan 01 Weiken District Haining City Zhejiang Province The PRC	The property comprises a parcel of land with a site area of approximately 152,114 sq.m. The land use rights of the property have been granted for a term of 50 years expiring on December 29, 2053.	The property is currently vacant.	No commercial value

Notes:

1. Pursuant to a State-owned Land Use Rights Grant Contract — Hai Di He (2003) No. 354 dated December 17, 2003 entered into between the People's Government of Haining City and Haining Home Craft Furniture Co., Ltd, a wholly-owned subsidiary of the Group, the land use rights of a parcel of land were granted to Haining Home Craft Furniture Co., Ltd for a term of 50 years commencing from December 30, 2003. The total land premium is RMB9,887,410.

2. Pursuant to an Interim Certificate for State-owned Land Use Rights — Hai Guo Tu Deng Zi (2004) No.045 dated February 4, 2004 issued by the People's Government of Haining City, a parcel of land with a site area of approximately 152,114 sq.m. has been granted to Haining Home Craft Furniture Co., Ltd. for a term of 50 years commencing from December 30, 2003 for industrial use.

3. Pursuant to a Construction Land Planning Permit — (2003) 0411172 issued by the Planning Bureau of Haining City, the permission of the subject land with a site area of approximately 265,125 sq.m. has been granted to Haining Home Craft Furniture Co., Ltd.

4. In the valuation of this property, we have not attributed any commercial value to the property because the property has not obtained land use right certificate. However, for reference purposes, we are of the opinion that the capital value of the property as at the date of valuation would be RMB16,288,000 assuming all title certificates had been obtained.

5. We have been provided with a legal opinion regarding the property interest by the Group's PRC legal advisers, which contains, inter alia, the following:

   (i) The Interim Certificate for State-owned Land Use Rights is not a legitimate certificate of land use rights, therefore Haining Home Craft Furniture Co., Ltd. has not obtained an enforceable land use rights certificate.

   (ii) There is no material obstacle for Haining Home Craft Furniture Co., Ltd. to apply for the Land Use Rights Certificate upon completion of the construction provided that Haining Home Craft Furniture Co., Ltd. fully complies with PRC laws, land use rights grant contracts and relevant approvals for the construction.

VALUATION CERTIFICATE

Group III — Property interests held under development by the Group in the PRC

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at August 31, 2005 (RMB)
13.	Land, various buildings and structures under construction located at Jianshan 01 Weiken District Haining City Zhejiang Province The PRC	The property comprises a parcel of land with a site area of approximately 152,023 sq.m. on which 5 buildings and structures are under construction. The development is scheduled to be completed in December 2005. The total planned gross floor area of the buildings upon completion will be approximately 62,038 sq.m. The total investment is estimated to be approximately RMB43,000,000, of which the construction cost paid up to the date of valuation is estimated to be approximately RMB36,630,721. The land use rights of the property have been granted for a term of 50 years expiring on December 29, 2053.	The property is currently under construction.	No commercial value

Notes:

1. Pursuant to a State-owned Land Use Rights Grant Contract — Hai Di He (2003) No.353 dated December 17, 2003 entered into between the People's Government of Haining City and Haining Libero Furniture Co., Ltd, the land use rights of a parcel of land with a site area of approximately 152,023 sq.m. were granted to Haining Libero Furniture Co., Ltd. ("Haining Libero"), a wholly-owned subsidiary of the Group for a term of 50 years commencing from December 30, 2003.

2. Pursuant to an Interim Certificate for State-owned Land Use Rights — Hai Guo Tu Deng Zi (2004) No. 042 dated February 4, 2004 issued by the People's Government of Haining City, a parcel of land with a site area of approximately 152,023 sq.m. has been granted to Haining Libero for a term of 50 years commencing from December 30, 2003 for industrial use.

3. Pursuant to a Construction Land Planning Permit — (2003) 0411166 issued by the Planning Bureau of Haining City, the permission towards the planning of a parcel of land with a site area of approximately 265,125 sq.m. is granted to Haining Libero.

4. Pursuant to a Construction Planning Permit — 0412181 issued by the Planning Bureau of Haining City in favor of Haining Libero, 7 buildings with a total gross floor area of approximately 115,192.2 sq.m. have been approved for construction.

5. Pursuant to a Construction Commencement Permit — 330481200401050101 Hai Jian Shi (2004) No. 107 issued by the Planning Bureau of Haining City in favor of Haining Libero, permission has been granted by the relevant local authority to commence the construction work on December 5, 2003.

6. According to a Maximum Amount Mortgage Contract dated January 24, 2005, the land of the property is subject to a mortgage. Haining Libero guarantees the creditor's rights between Haining Sub-branch of Bank of China ("the Bank") and Zhejiang Kasen with a bank loan of an amount of RMB5,930,000 for the mortgage period expiring on December 24, 2005.

7. In the valuation of this property, we have not attributed any commercial value to the property because the property has not obtained proper land use rights certificate. However, for reference purposes, we are of the opinion that the capital value of the building and structures (including the land) as at the date of valuation would be RMB56,102,000 assuming all title certificates had been obtained.

8. As advised by the Company, the land use rights certificate is under application with the relevant local authorities.

9. We have been provided with a legal opinion regarding the property interest by the Group's PRC legal advisers, which contains, inter alia, the following:

   (i) The Interim Certificate for State-owned Land Use Rights is not a legitimate certificate of land use rights, therefore Haining Libero has not obtained an enforceable land use rights certificate.

   (ii) There is no material obstacle for Haining Libero to apply for the Land Use Rights Certificate upon completion of the construction provided that Haining Libero fully complies with PRC laws, land use rights grant contracts and relevant approvals for the construction.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at August 31, 2005 (RMB)
14.	Land, various buildings and structures under construction located at No. 259 Qianjiang West Road Haining City Zhejiang Province The PRC	The property comprises 2 parcels of land with a total site area of approximately 74,135 sq.m. on which 2 buildings and structures are under construction. The development is scheduled to be completed in December 2005. The total planned gross floor area of the buildings upon completion will be approximately 43,457.4 sq.m. The total investment is estimated to be approximately RMB56,000,000, of which the construction cost paid up to the date of valuation is estimated to be approximately RMB35,236,669. The land use rights of the property have been granted for a term of 50 years expiring on December 29, 2053.	The property is currently under construction.	No commercial value

Notes:

1. Pursuant to a State-owned Land Use Rights Grant Contract — Hai Di He (2004) No.364 dated December 19, 2003 entered into between the People's Government of Haining City and Haining Kareno Furniture Co., Ltd. ("Haining Kareno"), a wholly-owned subsidiary of the Group, the land use rights of a parcel of land were granted to Haining Kareno for a term of 50 years commencing from December 30, 2003.

2. Pursuant to 2 Interim Certificates for State-owned Land Use Right — Hai Guo Tu Deng Zi (2004) Nos.055 and 056 dated March 11, 2004 issued by the People's Government of Haining City, a parcel of land with a site area of approximately 74,135 sq.m. has been granted to Haining Kareno for a term of 50 years commencing from December 30, 2003 for industrial use.

3. Pursuant to a Construction Land Planning Permit — (2003) 041010051 issued by the Planning Bureau of Haining City, the permission towards the planning of the subject land with a site area of approximately 74,135 sq.m. has been granted to Haining Kareno.

4. Pursuant to a Construction Planning Permit — (2004) 04101041 issued by the Planning Bureau of Haining City in favor of Haining Kareno, 3 buildings with a total gross floor area of approximately 47,735 sq.m. have been approved for construction.

5. Pursuant to 2 Construction Commencement Permits — 330481200404290201 Hai Jian Shi (2004) No.133 and 330481200404290201 Hai Jian Shi (2004) No.134 issued by the Planning Bureau of Haining City in favor of Haining Kareno, permission has been granted by the relevant local authority to commence the construction work in November 2003.

6. According to 2 Maximum Amount Mortgage Contracts dated May 25, 2004, 2 parcels of land with a total site area of approximately 74,135 sq.m. of the property are subject to a mortgage in favor of Haining Sub-branch of Bank of China ("the Bank") as security for bank loans with total maximum amount of RMB8,800,000 granted to Haining Kareno for the mortgage periods expiring both on December 27, 2005.

7. In the valuation of this property, we have not attributed any commercial value to the property because the property has not obtained proper land use rights certificate. However, for reference purposes, we are of the opinion that the capital value of the building and structures (including the land) as at the date of valuation would be RMB65,000,000 assuming all title certificates had been obtained.

8. As advised by the Company, the land use rights certificate is under application with the relevant local authorities.

9. We have been provided with a legal opinion regarding the property interest by the Group's PRC legal advisers, which contains, inter alia, the following:

    (i) The Interim Certificate for State-owned Land Use Rights is not a legitimate certificate of land use rights, therefore Haining Kareno has not obtained an enforceable land use rights certificate.

    (ii) There is no material obstacle for Haining Kareno to apply for the Land Use Rights Certificate upon completion of the construction provided that Haining Kareno fully complies with PRC laws, land use rights grant contracts and relevant approvals for the construction.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at August 31, 2005 (RMB)
15.	Land, various buildings and structures under construction located at Jianshan 01 Weiken District Haining City Zhejiang Province The PRC	The property comprises a parcel of land with a site area of approximately 152,023 sq.m. on which 8 buildings and structures are under construction. The development is scheduled to be completed in December 2005. The total planned gross floor area of the buildings upon completion will be approximately 112,029.6 sq.m. The total investment is estimated to be approximately RMB78,000,000, of which the construction cost paid up to the date of valuation is estimated to be approximately RMB69,338,477. The land use rights of the property have been granted for a term of 50 years expiring on December 15, 2053.	The property is currently under construction.	91,485,000 50.5% interest attributable to the Group: RMB46,200,000

Notes:

1. Pursuant to a State-owned Land Use Rights Grant Contract — Hai Di He Zi (2003) No. 343 dated December 3, 2003 entered into between the People's Government of Haining City and Haining Hidea Furniture Co., Ltd, the land use rights of the property were granted to Haining Hidea Furniture Co., Ltd. ("Hidea Furniture"), a 50.5% owned subsidiary of the Group for a term of 50 years commencing from December 16, 2003.

2. Pursuant to a State-owned Land Use Rights Certificate — Hai Guo Yong (2005) No. 7400JS0017 dated July 7, 2005 issued by the People's Government of Haining City, a parcel of land with a site area of approximately 152,023 sq.m. has been granted to Hidea Furniture for a term of 50 years commencing from December 16, 2003 for industrial use.

3. Pursuant to a Construction Planning Permit — 0412187 issued by the Planning Bureau of Haining City in favor of Hidea Furniture, 8 buildings with a total gross floor area of approximately 112,029.6 sq.m. have been approved for construction.

4. Pursuant to a Construction Commencement Permit — 330481200401050201 Hai Jian Shi (2004) No.106 issued by the Planning Bureau of Haining City in favor of Haining Hidea Furniture Co., Ltd, permission has been granted by the relevant local authority to commence construction work on October 18, 2003.

5. As advised by the Company, the total outstanding construction fee is approximately RMB21,126,049.3.

6. We have been provided with a legal opinion regarding the property interest by the Group's PRC legal advisers, which contains, inter alia, the following:

   (i) Hidea Furniture legally owns the land use rights and the development rights of the property.

   (ii) Hidea Furniture has obtained necessary approvals from the relevant authorities to commence construction.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at August 31, 2005 (RMB)
16.	Land, various buildings and structures under construction located at Jianshan 01 Weiken District Haining City Zhejiang Province The PRC	The property comprises a parcel of land with a site area of approximately 151,985 sq.m. on which 8 buildings and structures are under construction. The development is scheduled to be completed in December 2005. The total planned gross floor area of the buildings upon completion will be approximately 112,029.6 sq.m. The total investment is estimated to be approximately RMB78,000,000, of which the construction cost paid up to the date of valuation is estimated to be approximately RMB68,673,678. The land use rights of the property have been granted for a term of 50 years expiring on December 15, 2053.	The property is currently under construction.	89,130,000 50.5% interest attributable to the Group: RMB45,011,000

Notes:

1. Pursuant to a State-owned Land Use Rights Grant Contract — Hai Di He (2003) No. 344 dated December 3, 2003 entered into between the People's Government of Haining City and Zhejiang Liema Furniture Co., Ltd. ("Liema Furniture") (formerly known as Zhejiang Liema Clothing Co., Ltd.), a 50.5% owned subsidiary of the Group, the land use rights of a parcel of land were granted to Liema Furniture for a term of 50 years commencing from December 16, 2003.

2. Pursuant to a State-owned Land Use Rights Certificate — Hai Guo Yong (2005) No. 7400JS0015 dated June 23, 2003 issued by the People's Government of Haining City, a parcel of land with a site area of approximately 151,985 sq.m. has been granted to Liema Furniture for a term of 50 years commencing from December 16, 2003 for industrial use.

3. Pursuant to a Construction Planning Permit — 0412185 issued by the Planning Bureau of Haining City in favor of Liema Furniture, 8 buildings with a total gross floor area of approximately 112,029.6 sq.m. have been approved for construction.

4. Pursuant to a Construction Commencement Permit — 330481200401050301 Hai Jian Shi (2004) No. 160 issued by the Planning Bureau of Haining City in favor of Liema Furniture, permission has been granted by the relevant local authority to commence the construction work on December 30, 2003.

5. We have been provided with a legal opinion regarding the property interest by the Group's PRC legal advisers, which contains, inter alia, the following:

   (i) Liema Furniture legally owns the land use rights and the development rights of the property.

   (ii) Liema Furniture has obtained necessary approvals from the relevant authorities to commence construction.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at August 31, 2005 (RMB)
17.	Land, various buildings and structures under construction located at Jianshan 01 Weiken District Haining City Zhejiang Province The PRC	The property comprises a parcel of land with a site area of approximately 151,894 sq.m. on which 8 buildings and structures are under construction. The development is scheduled to be completed in December 2005. The total planned gross floor area of the buildings upon completion will be approximately 112,029.6 sq.m. The total investment is estimated to be approximately RMB78,000,000, of which the construction cost paid up to the date of valuation is estimated to be approximately RMB61,336,602. The land use rights of the property have been granted for a term of 50 years expiring on December 15, 2053.	The property is currently under construction.	90,099,000 50.5% interest attributable to the Group: RMB45,500,000

Notes:

1. Pursuant to a State-owned Land Use Rights Grant Contract — Hai Di He (2003) No. 342 dated December 3, 2003 entered into between the People's Government of Haining City and Haining Oyi May Sofa Co., Ltd ("Haining Oyi May"), a 50.5% owned subsidiary of the Group, the land use rights of a parcel of land were granted to Haining Oyi May Sofa Co., Ltd for a term of 50 years commencing from December 16, 2003.

2. Pursuant to a Land Use Rights Certificate — Hai Guo Yong (2005) No. 7400JS0012 dated May 31, 2005 issued by the People's Government of Haining City, a parcel of land with a site area of approximately 151,894 sq.m. has been granted to Haining Oyi May for a term of 50 years commencing from December 16, 2003 for industrial use.

3. Pursuant to a Construction Planning Permit — 04128184 issued by the Planning Bureau of Haining City in favor of Haining Oyi May, 8 buildings with a total gross floor area of approximately 112,029.6 sq.m. have been approved for construction.

4. Pursuant to a Construction Commencement Permit — 330481200401070301 Hai Jian Shi (2004) No. 164 issued by the Planning Bureau of Haining City in favor of Haining Oyi May, permission has been granted by the relevant local authority to commence the construction work on December 5, 2003.

5. As advised by the Company, the total outstanding construction fee is approximately RMB324,892.4.

6. We have been provided with a legal opinion regarding the property interest by the Group's PRC legal advisers, which contains, inter alia, the following:

   (i) Haining Oyi May legally owns the land use rights and the development rights of the property.

   (ii) Haining Oyi May has obtained necessary approvals from the relevant authorities to commence construction.

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of our Company and of certain aspects of Cayman Islands company law:

The Company has incorporated in the Cayman Islands as an exempted company with limited liability on December 19, 2002 under the Cayman Islands Companies Law. The Memorandum of Association and the Articles of Association comprise its constitution.

(1) MEMORANDUM OF ASSOCIATION

(a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Cayman Islands Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

(b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

(2) ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on September 24, 2005. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) *Power to allot and issue shares and warrants*

Subject to the provisions of the Cayman Islands Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Cayman Islands Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Cayman Islands Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) ***Power to dispose of the assets of the Company or any subsidiary***

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Cayman Islands Companies Law to be exercised or done by the Company in general meeting.

(iii) ***Compensation or payments for loss of office***

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) ***Loans and provision of security for loans to Directors***

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) ***Disclosure of interests in contracts with the Company or any of its subsidiaries***

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favor of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Cayman Islands Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realized by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

(aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;

(ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or

(ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) ***Remuneration***

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all traveling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) ***Retirement, appointment and removal***

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office provided that every Director shall be subject to retirement at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by a special resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office or director shall be vacated:

(aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;

(bb) becomes of unsound mind or dies;

(cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;

(dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

(ee) if he is prohibited from being a director by law;

(ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) ***Borrowing powers***

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Cayman Islands Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) *Proceedings of the Board*

The board may meet for the dispatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) *Register of Directors and Officers*

The Cayman Islands Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) **Alterations to constitutional documents**

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) **Alteration of capital**

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Cayman Islands Companies Law:

(i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;

(ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;

(iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;

(iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Cayman Islands Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares;

(v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Cayman Islands Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) **Variation of rights of existing shares or classes of shares**

Subject to the Cayman Islands Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking pari passu therewith.

(e) **Special resolution-majority required**

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which not less than twenty-one (21) clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95)% in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than twenty-one (21) clear days' notice has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) **Voting rights (generally and on a poll) and right to demand a poll**

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorized representative shall have one vote and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorized representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless voting by way of a poll is required by the rules of the Designated Stock Exchange (as defined in the Articles) or (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by (i) the chairman of the meeting or (ii) at least three members present in person or, in the case of a member being a corporation, by its duly authorized representative or by proxy for the time being entitled to vote at the meeting or (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorized representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorized representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right or if required by the rules of the Designated Stock Exchange, by any Director or Directors, who, individually or collectively, hold proxies in respect of shares representing five per cent. (5%) or more of the total voting rights at such meeting.

If a recognized clearing house (or its nominee(s)) is a member of the Company it may authorize such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be deemed to have been duly authorized without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognized clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) **Requirements for annual general meetings**

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than 15 months after the holding of the last preceding annual general meeting or a period of 18 months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) **Accounts and audit**

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Cayman Islands Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorized by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons a summary financial statement derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) **Notices of meetings and business to be conducted thereat**

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by at least twenty-one (21) clear days' notice in writing, and any other extraordinary general meeting shall be called by at least fourteen (14) clear days' notice (in each case exclusive of the day on which the notice is served or deemed to be served and of the day for which it is given). The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

(i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

(ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent. (95)% in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

(aa) the declaration and sanctioning of dividends;

(bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

(cc) the election of directors in place of those retiring;

(dd) the appointment of auditors and other officers;

(ee) the fixing of the remuneration of the directors and of the auditors;

(ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent. (20)% in nominal value of its existing issued share capital; and

(gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Cayman Islands Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognize any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) **Power for the Company to purchase its own shares**

The Company is empowered by the Cayman Islands Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) **Power for any subsidiary of the Company to own shares in the Company**

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(m) **Dividends and other methods of distribution**

Subject to the Cayman Islands Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realized or unrealized, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Cayman Islands Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) **Proxies**

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the

Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

(o) **Call on shares and forfeiture of shares**

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or installment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20)% per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20)% per annum as the board determines.

(p) **Inspection of register of members**

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Cayman Islands Companies Law or, upon a maximum payment of HK$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) **Quorum for meetings and separate class meetings**

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorized representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) **Rights of the minorities in relation to fraud or oppression**

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarized in paragraph 3(f) of this Appendix.

(s) **Procedures on liquidation**

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed pari passu amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Cayman Islands Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Cayman Islands Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

(3) CAYMAN ISLANDS COMPANIES LAW

The Company is incorporated in the Cayman Islands subject to the Cayman Islands Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorized share capital.

(b) Share capital

The Cayman Islands Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account." At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Cayman Islands Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Cayman Islands Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course business.

The Cayman Islands Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "Court"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) **Financial assistance to purchase shares of a company or its holding company**

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) **Purchase of shares and warrants by a company and its subsidiaries**

Subject to the provisions of the Cayman Islands Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorize the manner or purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorized by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Cayman Islands Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Cayman Islands Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) **Management**

The Cayman Islands Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) **Accounting and auditing requirements**

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) **Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) **Taxation**

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

(1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and

(2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from January 28, 2003.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Cayman Islands Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Cayman Islands Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Cayman Islands Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) Winding up

A company may be wound up by either an order of the Court or by a special resolution of its members. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidator; and the Court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (pari passu if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting shall be called by Public Notice (as defined in the Cayman Islands Companies Law) or otherwise as the Registrar of Companies of the Cayman Islands may direct.

(o) **Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75)% in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) **Compulsory acquisition**

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than ninety per cent. (90)% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) **Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

(4) GENERAL

Conyers Dill & Pearman, our special legal adviser on Cayman Islands law, have sent to us a letter of advice summarizing certain aspects of Cayman Islands company law. This letter, together with a copy of the Cayman Islands Companies Law, is available for inspection as referred to in the paragraph headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix VIII. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

The following discussion is a summary of certain anticipated tax consequences of our operations and of an investment in the Shares under Hong Kong tax laws, Cayman Islands tax laws and the PRC income tax laws. The discussion does not deal with all possible tax consequences relating to the Company's operations or to an investment in the Shares. In particular, the discussion does not address the tax consequences under state, local and other (e.g., non-Hong Kong, non-Cayman Islands, non-Chinese) tax laws. Accordingly, each prospective investor should consult his or her tax adviser regarding the tax consequences of an investment in the Shares. The discussion is based upon law and relevant interpretations thereof in effect as at the date of this prospectus, all of which are subject to change.

CAYMAN ISLANDS TAXATION

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

PRC TAXATION

Dividends from our China operations

Under current PRC tax laws, regulations and rulings, dividends from our operations in China paid to us through Kasen International are currently exempt from any PRC withholding or income tax.

Dividends paid by the Company to its overseas investors

The Company is not incorporated in the PRC. Under current PRC law, even though we have significant operating subsidiaries in the PRC, the distribution of its dividends to its overseas investors such as yourself is not currently subject to PRC tax.[1]

Transfer or disposition of our Shares

As we are not incorporated in the PRC, under current PRC law, any transfer or disposition of our Shares by an overseas investor such as yourself does not trigger PRC tax liabilities.

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[1] However, if you are a PRC mainland citizen, you shall be subject to the PRC individual income tax at a rate of 20% as you are liable for PRC tax for your global income under the current PRC law.

HONG KONG TAXATION

Dividends

Under the current practice of the Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by us.

Capital Gains and Profit Tax

No tax is imposed in Hong Kong in respect of capital gains from the sale of the Shares. Trading gains from the sale of Shares by persons carrying on a business in Hong Kong, where such gains are sourced in Hong Kong and arise from such business, will be chargeable to Hong Kong profits tax. Currently, profits tax is imposed on corporations at the rate of 17.5% and on individuals at a maximum rate of 16.0% with effect from April 1, 2004. Gains from sales of the Shares effected on the Hong Kong Stock Exchange will be considered to be sourced in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of Shares effected on the Hong Kong Stock Exchange realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

Stamp Duty

Hong Kong stamp duty will be payable by the purchaser on every purchase, and by the seller on every sale, of Shares registered on the Hong Kong branch register. The duty is charged at the ad valorem rate of 0.1% of the consideration for, or (if greater) the value of, the Shares transferred on each of the seller and purchaser. In other words, a total of 0.2% is currently payable on a typical sale and purchase transaction of Shares. In addition, any instrument of transfer (if required) will be subject to a flat rate of stamp duty of HK$5. Where a sale or purchase of Shares registered on the Hong Kong branch register is effected by a person who is not resident in Hong Kong and any stamp duty payable on the contract notes is not paid, the relevant instrument of transfer (if any) shall be chargeable with such duty, together with the duty otherwise chargeable thereon and the transferee shall be liable to pay such duty. No stamp duty will be levied on the transfer of Shares that are registered on a share register outside Hong Kong.

Estate Duty

Estate duty is imposed upon the principal value of property situated in Hong Kong passing on the death of a person. The Shares are regarded as property situated in Hong Kong for estate duty purposes if they are registered on the Hong Kong branch register at the time of death. Hong Kong estate duty is imposed on the principal value of a deceased's estate at graduated rates from 5% to 15%. At current rates, no estate duty is payable where the principal value of the dutiable estate does not exceed HK$7.5 million. The maximum rate of 15% applies where the principal value exceeds HK$10.5 million. No estate duty will be levied on Shares that are registered on a share register outside Hong Kong at the time of death.

(1) FURTHER INFORMATION ABOUT OUR COMPANY

(A) Incorporation

We were incorporated in the Cayman Islands under the Cayman Islands Companies Law as an exempted company with limited liability on December 19, 2002 with an authorized share capital of US$50,000 divided into 50,000,000 shares of US$0.001 each. Upon incorporation, Codan Trust Company (Cayman) Limited was the subscriber to our then memorandum of association, and subscribed for the one share thereby in issue. Pursuant to a written resolution of our sole director dated January 14, 2003, this one share was transferred from Codan Trust Company (Cayman) Limited to Mr. Zhu, and 99,999 further shares were subscribed by Mr. Zhu and the 21 Individual Shareholders.

We are registered as an oversea company under Part XI of the Companies Ordinance and our principal place of business in Hong Kong is at Room 1605, Tai Tung Building, 8 Fleming Road, Wanchai, Hong Kong. Yiu Hoi Yan of Room 1605, Tai Tung Building, 8 Fleming Road, Wanchai, Hong Kong, the authorized representative of our Company for the purposes of Part XI of the Companies Ordinance, has been appointed as our agent for the acceptance of service of process and notices in Hong Kong. The address for service of process on the Company in Hong Kong is the same as its principal place of business in Hong Kong set out above.

As we are established in the Cayman Islands, our corporate structure and Articles of Association are subject to the relevant laws and regulations of the Cayman Islands. A summary of the relevant laws and regulations of the Cayman Islands and of the Articles of Association is set out in Appendix V of this prospectus.

(B) Our Subsidiaries

Brief particulars regarding our subsidiaries are set out below.

Name of Company/ Partnership	Place and date of incorporation/ establishment	Issued and fully paid share/ registered capital	Attributable equity interest held	Principal activity	Minority Shareholders/ interest
Kasen International	Cayman Islands December 20, 2002	Issued and fully paid share capital — US$10.001	100%	Investment holding	
Zhejiang Kasen	China June 12, 1995 for a term of 50 years	Registered and fully paid capital — RMB427,565,000	100%	Research, development, production and sale of furniture leather	

Name of Company/ Partnership	Place and date of incorporation/ establishment	Issued and fully paid share/ registered capital	Attributable equity interest held	Principal activity	Minority Shareholders/ interest
Cardina	Cayman Islands August 13, 2003	Issued and fully paid share capital — US$1.01	100%	Investment holding	
Richmond International Trading Limited	Hong Kong October 13, 2004	Issued and fully paid share capital — HK$100	100%	Trading of leather and other furniture products	
Haining Home Impression	China October 17, 2003 for a term of 11 years	Registered and fully paid capital — US$2 million	100%	Production and sale of upholstered furniture	
海寧家典傢俱有限公司 (Haining Home Point Furniture Co., Ltd.)	China September 10, 2003 for a term of 50 years	Registered and fully paid capital — US$5 million	100%	Production and sale of upholstered furniture	
海寧家藝傢俱有限公司 (Haining Home Craft Furniture Co., Ltd.)	China September 10, 2003 for a term of 50 years	Registered capital — US$5 million As of May 25, 2004, US$1,812,500 has been paid in, and the remaining US$3,187,500 has yet to be paid up by August 2006.	100%	Not yet commenced business	
海寧吉恩仕沙發有限公司 (Haining Hainix Sofa Co., Ltd.)	China September 10, 2003 for a term of 50 years	Registered and fully paid capital — US$6 million	50.5%	Production and sale of upholstered furniture	Haining Zhiyuan Leather Supplementary Material Operation — 11.6% Haining Tianke Sofa Accessories Operation — 4.95% Haining Yushi Commercial & Trading Operation — 4.95% Haining Zheji Material Operation — 28%
海寧歐意美沙發有限公司 (Haining Oyi May Sofa Co., Ltd.)	China September 10, 2003 for a term of 50 years	Registered and fully paid capital — US$5 million	50.5%	Production and sale of upholstered furniture	Haining Oyi Leather Supplementary Material Operation — 49.5%

Name of Company/ Partnership	Place and date of incorporation/ establishment	Issued and fully paid share/ registered capital	Attributable equity interest held	Principal activity	Minority Shareholders/ interest
海寧慧達傢俱有限公司 (Haining Hidea Furniture Co., Ltd.)	China September 10, 2003 for a term of 50 years	Registered and fully paid capital — US$5 million	50.5%	Production and sale of upholstered furniture	Haining Huiteng Garments Material Operation — 27% Haining Liangda Sofa Accessories Operation — 22.5%
海寧萬盛沙發有限公司 (Haining Wansheng Furniture Co., Ltd.)	China September 10, 2003 for a term of 50 years	Registered and fully paid capital — US$5 million	50.5%	Production and sale of upholstered furniture	Haining Tongsheng Textile Products Operation — 49.5%
海寧利貝奧沙發有限公司 (Haining Libero Furniture Co., Ltd.)	China September 10, 2003 for a term of 50 years	Registered and fully paid capital — US$5 million	100%	Not yet commenced business	
浙江獵馬傢俬有限公司 (Zhejiang Liema Furniture Co., Ltd.)	China March 17, 2003 for a term of 50 years	Registered and fully paid capital — US$7 million	50.5%	Production and sale of upholstered furniture	Yuena Co., Ltd. — 25% Haining Qiangye Textile Trading Operation — 15.15% Haining Liema Leather Garments Co., Ltd. — 9.35%
Higher Point Investment	China August 12, 2003 for a term of 50 years	Registered and fully paid capital — RMB100 million	100%	Investment and development	
海寧市斜橋森博水務有限公司 (Haining Xieqiao Senbo Water Co., Ltd.)	China June 26, 2003 for a term of 20 years	Registered and fully paid capital — RMB4.5 million	66.7%	Collection and transportation of waste water	Haining Xieqiao Industrial Economic Development Co., Ltd. — 33.3%
Haining Hengsen	China November 11, 2000 for a term expiring on January 4, 2028	Registered and fully paid capital — RMB30 million	100%	Production and sale of wooden parts for upholstered furniture	

Name of Company/ Partnership	Place and date of incorporation/ establishment	Issued and fully paid share/ registered capital	Attributable equity interest held	Principal activity	Minority Shareholders/ interest
海寧家值傢俬有限公司 (Haining Home Direct Furniture Co., Ltd.)	China May 28, 2003 for a term of 50 years	Registered capital — US$8 million As of June 4, 2003, US$4 million has been paid in, and the remaining US$4 million has yet to be paid up by May 27, 2006.	100%	Not yet commenced business	
Haining Schinder	China October 22, 2002 for a term of 11 years	Registered and fully paid capital — US$1 million	100%	Production and sale of automotive leather	
Haining Kareno	China April 7, 2000 for a term of 50 years	Registered and fully paid capital — US$3.6 million	100%	Production and sale of upholstered furniture	
Haining Kasen	China April 3, 1995 for a term of 11 years	Registered and fully paid capital — US$3 million	100%	Production and sale of upholstered furniture	
Shanghai La Kassa	China May 22, 2002 for a term expiring on June 30, 2015	Registered and fully paid capital — US$4 million	100%	Production and sale of upholstered furniture	
海寧高盛皮革有限公司 (Haining Gaosheng Leather Co., Ltd.)	China June 25, 2004 for a term of 50 years	Registered and fully paid capital — RMB60 million	89%	Not yet commenced business	Haining Qingyun Township Assets Management Company Limited — 5% Haining Xieqiao Township Huafeng Village Economic Cooperative Society — 6%

Note: The English translation of the names of our PRC incorporated subsidiaries is for reference only.

(C) Changes in share capital of our Company

We were incorporated with an authorized share capital of US$50,000 divided into 50,000,000 shares of US$0.001 each.

Since the date of incorporation of the Company, the following alterations in its share capital have taken place:

(i) On January 14, 2003, one subscriber share which was allotted and issued to Codan Trust Company (Cayman) Limited at par was transferred to Mr. Zhu;

(ii) On January 14, 2003, an aggregate of 99,999 new ordinary shares of US$0.001 each were allotted and issued to 22 individuals as follows:

Name	Number of shares of US$0.001 each
Mr. Zhu	50,999
Cao Haoqiang	7,000
Yu Guanlin	3,430
Mi Linfei	2,300
Yang Jianing	2,300
Yao Yueming	2,300
Zhu Xiaoxuan	2,300
Shi Caibin	2,300
Chen Shengqing	2,300
Song Linong	2,300
Xu Hongmei	2,300
Guo Xiaoyuan	2,300
Zhu Bihao	2,300
Zhu Jianxing	2,130
Xia Yin	2,130
Zhou Xiaohong	2,130
Zhou Xiaosong	1,880
Shen Xiaoping	1,770
Zhu Jianqi	1,720
Zhu Jianqiang	1,500
Song Hongbin	1,500
Zhang Mingfa	810

(iii) On February 14, 2003, every issued and unissued share of US$0.001 each in the capital of the Company was sub-divided into 10 shares of US$0.0001 each and upon completion, the Company had an authorized share capital of US$50,000 divided into 500,000,000 shares of US$0.0001 each and 100,000 shares of US$0.001 each in the issued share capital became 1,000,000 shares of US$0.0001 each.

(iv) On February 14, 2003, the authorized share capital of the Company was increased from US$50,000 divided into 500,000,000 of US$0.0001 each to US$40,000,000 divided into 400,000,000,000 shares of US$0.0001 each.

(v) On February 14, 2003, an aggregate of 230,095,052 shares of US$0.0001 each were allotted and issued to all 22 of its then individual shareholders as follows:

Allottees	Number of Shares
Mr. Zhu	117,348,477
Cao Haoqiang	16,106,654
Yu Guanlin	7,892,260
Mi Linfei	5,292,186
Yang Jianing	5,292,186
Yao Yueming	5,292,186
Zhu Xiaoxuan	5,292,186
Shi Caibin	5,292,186
Chen Shengqing	5,292,186
Song Linong	5,292,186
Xu Hongmei	5,292,186
Guo Xiaoyuan	5,292,186
Zhu Bihao	5,292,186
Zhu Jianxing	4,901,025
Xia Yin	4,901,025
Zhou Xiaohong	4,901,025
Zhou Xiaosong	4,325,787
Shen Xiaoping	4,072,682
Zhu Jianqi	3,957,635
Zhu Jianqiang	3,451,426
Song Hongbin	3,451,426
Zhang Mingfa	1,863,770

(vi) On June 29, 2003, the authorized share capital of the Company was amended by way of special resolutions of members to US$40,000,000 divided into 399,782,608,696 shares and 217,391,304 preferred shares ("Preferred Shares") of US$0.0001 each.

(vii) On January 21, 2004, 10,000,000 shares were allotted and issued to Symbiospartners for US$1,500,000.

(viii) On January 21, 2004, 6,666,666 shares were allotted and issued to Ocean Creator for US$1,000,000.

(ix) On September 16, 2004, 362,319 shares were allotted and issued to Wang Runyi for US$36,232.

(x) On September 16, 2004, 144,025,170 shares were allotted and issued to Mr. Zhu in exchange for Mr. Zhu's causing the sale of all issued and outstanding shares in SFT to the Company.

(xi) On September 16, 2004, 16,666,667 shares were allotted and issued to Mr. Zhu in exchange for Mr. Zhu's causing SFT to forgive a loan in the amount of US$2,500,000 made by SFT to Kasen International.

(xii) On September 16, 2004, 421,078,856 shares were issued to Mr. Zhu and 21 Individual Shareholders at an aggregate consideration of US$20,485,160.

(xiii) On September 28, 2004, the authorized share capital of the Company was further amended by way of special resolutions of members to US$40,000,000 divided into 399,682,608,696 shares and 217,391,304 series A Preferred Shares and 100,000,000 series B Preferred Shares of US$0.0001 each.

(xiv) On September 24, 2005, every 1.5 shares in the capital of the Company of US$0.0001 each were consolidated into 1 Share of US$0.00015 each ("Consolidation").

(xv) On September 26, 2005, a total of 5⅓ Shares arising from the Consolidation were transferred for free to Yiu Hoi Yan, of which ⅓ Share was immediately repurchased by the Company for US$1.00 from Yiu Hoi Yan and then cancelled which was the only share repurchased by the Company in the previous six months.

(xvi) On September 26, 2005, loans in the aggregate amount of US$36,739,130 owing by the Company were converted into an aggregate of 317,391,304 Preferred Shares which were conditionally allotted to the Warburg Pincus Funds and will be issued upon satisfaction of the "Listing Conditions" as defined in the shareholders' resolutions dated September 24, 2005. All such Preferred Shares will then be converted in full into an aggregate of 257,973,142 Shares each upon the allotment and issue of the Preferred Shares becoming unconditional.

Holders of the Preferred Shares were entitled to vote at the general meetings of the Company and the Preferred Shares carried a right to a preference on liquidation, redemption and conversion into ordinary shares.

Immediately following the Global Offering becoming unconditional and the issue of Offer Shares as mentioned in this prospectus being made, the authorized share capital of the Company will be US$40,000,000 divided into 266,666,666,666⅔ Shares of US$0.00015 each, of which 1,014,045,369 Shares will be issued fully paid or credited as fully paid, and 265,652,621,297⅔ Shares will remain unissued. Other than Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, we do not have any present intention to issue any of the authorized but unissued share capital.

Save as disclosed herein and in the section entitled "Further information about our Company — Written resolutions of the Company passed on September 24, 2005" in this Appendix, there has been no alteration in the share capital of the Company since its incorporation.

(D) **Changes in share capital of our subsidiaries**

The following alterations in the share capital or registered capital of our subsidiaries took place within the two years immediately preceding the date of this prospectus:

(a) ***Kasen International***

On January 21, 2004, the Company subscribed for one ordinary share of US$0.001 in Kasen International for US$4,500,000.

On September 16, 2004, the Company subscribed for one ordinary share of US$0.001 in Kasen International for US$20,485,160.

(b) ***Cardina***

On January 21, 2004, Kasen International subscribed for one ordinary share in Cardina of US$0.01 for US$4,500,000.

(c) ***Zhejiang Kasen***

On December 14, 2004, a new certificate of approval was issued by the Ministry of Commerce of the People's Republic of China, approving Zhejiang Kasen to increase its registered capital from RMB349,000,000 to RMB427,565,000 by converting the shareholder loan of US$9.5 million extended by Kasen International. A new business license was issued on December 23, 2004.

(d) *海寧市斜橋森博水務有限公司* ***(Haining Xieqiao Senbo Water Co., Ltd.) ("Senbo Water")***

On December 27, 2003, the two shareholders of Senbo Water agreed to increase the registered capital of Senbo Water from RMB3,000,000 to RMB4,500,000 with Zhejiang Kasen and Haining Xieqiao Industrial Park Development Co., Ltd. contributing an additional RMB1,000,000 and RMB500,000, respectively. A new business license was issued on March 1, 2004.

(e) ***Haining Kasen***

On October 21, 2003, the two shareholders of Haining Kasen agreed to increase the total investment amount and the registered capital of Haining Kasen from US$800,000 and US$800,000 to US$3,900,000 and US$3,000,000, respectively. The capital increase was made by conversion of capital reserves and undistributed profits of Haining Kasen. A new certificate of approval was issued on January 19, 2004 evidencing that the capital increase was approved. A new business license was issued on April 2, 2004.

(f) ***Shanghai La Kassa***

On September 3, 2003, the two shareholders of Shanghai La Kassa agreed to increase the registered capital of Shanghai La Kassa from RMB6,202,500 to RMB25,000,000. A new business license was issued on December 9, 2003.

On April 5, 2004, the two shareholders of Shanghai La Kassa agreed to increase the registered capital of Shanghai La Kassa from RMB25,000,000 to US$4,000,000. A new foreign investor, Cardina (a subsidiary of the Company), subscribed for all the increased capital of US$1,000,000. The capital increase was approved by the Shanghai Commission of Foreign Trade and Economic Cooperation on May 14, 2004. A new business license was issued on June 28, 2004.

(g) ***Haining Hengsen***

On August 10, 2005, the two shareholders of Haining Hengsen agreed to increase the registered capital of Haining Hengsen from RMB6,569,600 to RMB30,000,000. The two shareholders contributed to the increased capital in proportion to their original shareholding ratio. A new business license was issued on August 23, 2005.

(E) Written resolutions of the Company passed on September 24, 2005

By written resolutions approved in writing by all shareholders entitled to vote at general meetings of the Company, which were passed on September 24, 2005, such that, inter alia:

(a) conditional upon (1) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus; (2) the Offer Price having been duly determined and the delivery of the Price Determination Agreement; and (3) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise:

(i) the Warburg Pincus Convertible Loans would be converted into 217,391,304 Series A Preferred Shares and 100,000,000 Series B Preferred Shares which would then be converted into an aggregate of 257,973,142 Shares;

(ii) the Global Offering was approved and the Directors were authorized to approve to allot and issue the Public Offer Shares and the International Placing Shares, pursuant to the Global Offering on and subject to the terms and conditions stated in this prospectus and in the relevant application forms; and

(iii) the rules of the Share Option Scheme were approved and adopted, and the Directors or any committee thereof established by the Board were authorized, at their sole discretion, to make such further changes to the Share Option Scheme as requested by the Stock Exchange and which they deem necessary and/or desirable and to grant options to subscribe for Shares thereunder up to the limits referred to in the Share Option Scheme and to allot, issue and deal with Shares pursuant to the exercise of any option which may be granted under the Share Option Scheme and to take all such actions as they consider necessary, desirable or expedient to implement or give effect to the Share Option Scheme;

(b) a general unconditional mandate was given to the Directors to allot, issue and deal with Shares (otherwise than pursuant to, or in consequence of, the Global Offering, a rights issue or the exercise of any subscription rights under the Share Option Scheme or any scrip dividend scheme or similar arrangements, any adjustment of rights to subscribe for Shares under options and warrants or a special authority granted by our shareholders) with an aggregate nominal value of not more than the sum of:

(i) 20% of the aggregate nominal value of the share capital of the Company in issue immediately following the completion of the Global Offering; and

(ii) the aggregate nominal value of the share capital of the Company repurchased by the Company (if any);

(c) a general unconditional mandate was given to the Directors to exercise all powers of the Company to repurchase Shares (Shares which may be listed on the Stock Exchange) with a total nominal value of not more than 10% of the aggregate nominal value of the Company's share capital in issue immediately following the completion of the Global Offering;

(d) the general unconditional mandate as mentioned in paragraph (e) above was extended by the addition to the aggregate nominal value of the Shares which may be allotted and issued or agreed to be allotted and issued by the Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the Shares purchased by the Company pursuant to the mandate to purchase Shares referred to in paragraph (d) above (up to 10% of the aggregate nominal value of the Shares in issue immediately following completion of the Global Offering);

(e) conditional and immediately upon this prospectus being approved by the Directors for bulk-printing and receipt of confirmation of its registration from the Companies Registry of Hong Kong on or before 31 December 2005, the Company adopted the Memorandum of Association and the Articles; and

(f) every 1.5 shares in the capital of the Company of US$0.0001 each were consolidated into 1 Share of US$0.00015 each.

Each of the general mandates referred to in paragraphs (b), (c) and (d) above will remain in effect until whichever is the earliest of (i) the conclusion of the next annual general meeting of the Company; (ii) the expiration of the period within which the next annual general meeting of the Company is required to be held by any applicable law or the Articles; or (iii) the time when such mandate is revoked or varied by an ordinary resolution of the shareholders of the Company in a general meeting.

(2) REPURCHASE OF OUR SHARES

(A) Relevant legal and regulatory requirements in Hong Kong

The Listing Rules permit shareholders of a company whose shares are listed on the Stock Exchange to grant a general mandate to the directors of such company to carry out a repurchase by such company of its shares that are listed on the Stock Exchange or on any other recognized stock exchange. Such mandate is required to be given by way of an ordinary resolution passed by shareholders in general meeting.

(a) *Shareholders' approval*

All proposed repurchases of Shares (which must be fully paid up) must be approved in advance by an ordinary resolution of our shareholders in general meeting, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution passed by our shareholders on September 24, 2005, the Repurchase Mandate was given to the Directors to exercise all our powers to repurchase Shares (Shares which may be listed on the Stock Exchange) with a total nominal value of not more than 10% of the aggregate nominal value of the Company's share capital in issue immediately following the completion of the Global Offering. The Repurchase Mandate will remain in effect until whichever is the earliest of (i) the conclusion of the next annual general meeting of the Company; (ii) the expiration of the period within which the next annual general meeting of the Company is required to be held by any applicable law or the Articles; or (iii) the time when such mandate is revoked or varied by any ordinary resolution of the shareholders of the Company in a general meeting.

(b) *Source of funds*

Repurchases by our Company must be funded out of funds legally available for the purpose in accordance with the Articles and the applicable laws and regulations of the Cayman Islands. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange.

Any repurchase by the Company may be made out of the profits of the Company or out of a fresh issue of shares made for the purpose of the repurchase or, if authorized by its articles of association and subject to the Cayman Islands Companies Law, out of capital and, in the case of any premium payable on the repurchase, out of the profits of the Company or from sums standing to the credit of the share premium account of the Company or, if authorized by its Articles of Association and subject to the Cayman Islands Companies Law, out of capital.

(c) *Trading restrictions*

The total number of Shares which we may repurchase is up to 10% of the aggregate nominal value of the Company's share capital in issue immediately following the completion of the Global Offering. We may not issue or announce a proposed issue of Shares for a period of 30 days immediately following a repurchase of Shares, without the prior approval of the Stock Exchange. In addition, we are prohibited from repurchasing Shares on the Stock Exchange if the purchase price is higher than 5% or more than the average closing market price for the five preceding trading days on which Shares were traded on the Stock Exchange. We are also prohibited from repurchasing Shares on the Stock Exchange if the repurchase would result in the number of listed Shares which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. We are required to procure that the broker appointed by us to effect a repurchase of Shares discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

(d) *Status of repurchased Shares*

All repurchased Shares (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those Shares must be cancelled and destroyed. Under Cayman Islands law, a company's repurchased shares shall be treated as cancelled and the amount of the company's issued share shall be reduced by the aggregate value of the repurchased shares accordingly although the authorized share capital of the company will not be reduced.

(e) *Suspension of repurchase*

Pursuant to the Listing Rules, we shall not make any repurchase of Shares after a price sensitive development has occurred or has been the subject of a decision until such time as the price sensitive information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of: (i) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and (ii) the deadline for us to publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement, we may not repurchase our Shares on the Stock Exchange unless the circumstances are exceptional. In addition, the Stock Exchange may prohibit a repurchase of the Shares on the Stock Exchange if we have breached the Listing Rules.

(f) *Procedural and reporting requirements*

As required by the Listing Rules, repurchase of Shares of the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 9:30 a.m. (Hong Kong time) on the following Business Day reporting the total number of Shares purchased the previous day, the purchase price per Share or the highest and lowest prices paid for such purchases. In addition, our annual report is required to disclose details regarding repurchases of Shares made during the year, including a monthly analysis of the number of shares repurchased, the purchase price per Share or the highest and lowest price paid for all such purposes, where relevant, and the aggregate prices paid.

(g) *Connected parties*

A company is prohibited from knowingly repurchasing securities on the Stock Exchange from a "connected person," that is, a director, chief executive or substantial shareholder of such company or any of its subsidiaries or any of their associates (as defined in the Listing Rules) and a connected person shall not knowingly sell his securities to the company on the Stock Exchange, unless certain requirements are fulfilled.

(B) Reasons for Repurchases

Our Directors believe that it is in the best interests of our Company and shareholders for our Directors to have general authority from our shareholders to enable us to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where our Directors believe that such repurchases will benefit our Company and shareholders.

(C) Funding of Repurchases

In repurchasing securities, we may only apply funds legally available for such purpose in accordance with our Articles of Association, the Listing Rules and the applicable laws and regulations of the Cayman Islands.

On the basis of our current financial position as disclosed in this prospectus and taking into account our current working capital position, our Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on our working capital and/or our gearing position as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on our working capital requirements or the gearing levels which in the opinion of our Directors are from time to time appropriate for us.

The exercise in full of the Repurchase Mandate, on the basis of 1,014,045,369 Shares in issue immediately after the Global Offering (taking no account of any Shares which may be issued pursuant to any exercise of any Options granted or to be granted under the Share Option Scheme), could accordingly result in up to 101,404,536 Shares being repurchased by our Company during the period prior to (1) the conclusion of the next annual general meeting of the Company; (2) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the Articles to be held; or (3) the revocation or variation of the Repurchase Mandate by ordinary resolution of shareholders in a general meeting, whichever occurs first.

(D) General

None of our Directors nor, to the best of their knowledge having made all reasonable inquiries, any of their associates (as defined in the Listing Rules) currently intends to sell any Shares to us.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws and regulations of the Cayman Islands.

If, as a result of any repurchase of Shares, a shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purposes of the Hong Kong Codes on Takeovers and Mergers and Share Repurchases (the "Takeovers Codes"). Accordingly, a shareholder or a group of shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Codes. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Codes as a consequence of any repurchases pursuant to the Repurchase Mandate.

No connected person (as defined in the Listing Rules) has notified us that he has a present intention to sell Shares to us, or has undertaken not to do so, if the Repurchase Mandate is exercised.

(3) FURTHER INFORMATION ABOUT OUR BUSINESS

(A) Summary of our Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by us or our subsidiaries within the two years preceding the date of this prospectus and are or may be material:

(a) an amendment to the restructuring and loan agreement and notes dated January 14, 2004 by and among the Company, Zhejiang Kasen and the Warburg Pincus Funds in relation to extension of repayment date of the loan of US$21,739,130 from January 15, 2004 to March 31, 2004;

(b) a second amendment to the restructuring and loan agreement dated January 19, 2004 by and among the Company, Kasen International, Cardina, Zhejiang Kasen, Mr. Zhu, the 21 Individual Shareholders, the Township Shareholders and the Warburg Pincus Funds in relation to granting a convertible loan in the amount of US$15,000,000 by the Warburg Pincus Funds to the Company;

(c) an agreement dated February 1, 2004 between Jia Fengxian (as vendor) and Haining Kasen (as purchaser) in respect of the transfer of 49.5% equity interest in Haining Libero Furniture Co., Ltd. at a consideration of RMB10,271,250;

(d) a third amendment to the restructuring and loan agreement and notes dated March 30, 2004 by and among the Company, Kasen International, Cardina, Zhejiang Kasen and the Warburg Pincus Funds in relation to extension of repayment date of the two loans of US$21,739,130 and US$15,000,000 to July 10, 2004;

(e) an agreement dated July 5, 2004 by and among Haining Xieqiao Township Huafeng Village Economic Cooperative Society (as vendor), Mr. Zhu (as purchaser), Kasen International, Haining Qingyun Township Assets Management Company Limited and the 21 Individual Shareholders in respect of the transfer of 2.9% equity interest in Zhejiang Kasen at a consideration of RMB18,037,000;

(f) an agreement dated July 5, 2004 by and among Haining Qingyun Township Assets Management Company Limited (as vendor), Mr. Zhu (as purchaser), Kasen International, Haining Xieqiao Township Huafeng Village Economic Cooperative Society and the 21 Individual Shareholders in respect of the transfer of 2.4% equity interest in Zhejiang Kasen at a consideration of RMB15,030,000;

(g) an agreement dated July 5, 2004 among Mr. Zhu, 21 Individual Shareholders and Kasen International, whereby Mr. Zhu and 21 Individual Shareholders aggregately sold 48.4% equity interest in Zhejiang Kasen to Kasen International at a consideration of US$20,485,000;

(h) a fourth amendment to the restructuring and loan agreement and notes dated July 9, 2004 by and among the Company, Kasen International, Cardina, Zhejiang Kasen and the Warburg Pincus Funds in relation to extension of repayment date of the two loans of US$21,739,130 and US$15,000,000 to December 31, 2004;

(i) an amendment agreement dated September 16, 2004 by and among Mr. Zhu, the Company, the Township Shareholders and the Warburg Pincus Funds which amends the supplemental agreement dated February 26, 2003 in relation to, among others, Mr. Zhu's subscription of additional 46,318,673 ordinary shares in the Company;

(j) a termination agreement dated September 16, 2004 by and among Mr. Zhu, SFT, the Company and Kasen International whereby Mr. Zhu caused SFT to forgive a loan of US$2,500,000 owed by Kasen International in consideration of the Company issuing 16,666,667 ordinary shares to Mr. Zhu;

(k) a subscription agreement dated September 16, 2004 between Wang Runyi and the Company whereby Wang Runyi subscribed for and the Company agreed to allot 362,319 ordinary shares at the price of US$0.10 per share;

(l) an exchange agreement dated September 16, 2004 by and among the Company, Lily Song and Mr. Zhu in relation to the sale of all issued and outstanding shares in SFT by Lily Song, who held those shares as nominee of Mr. Zhu, to the Company in exchange for 144,025,170 ordinary shares of the Company to be issued to Mr. Zhu;

(m) an agreement dated December 10, 2004 entered into between Zhejiang Kasen (as vendor) and Sunbridge (as purchaser) in respect of the sale and purchase of 45% equity interest in Yili Horgos and relevant undistributed profit and surplus reserve fund at a consideration of RMB42,434,520;

(n) an agreement dated December 10, 2004 entered into between Zhejiang Kasen (as vendor) and Sunbridge (as purchaser) in respect of the sale and purchase of 90% equity interest in Kezilesu Xinrong and relevant undistributed profit and surplus reserve fund at a consideration of RMB17,615,106;

(o) an agreement dated December 10, 2004 entered into among Zhejiang Kasen, Haining Kasen (both as vendors), Sunbridge and Yujie (both as purchasers) in respect of the sale and purchase of 90% and 10% equity interest in Baiyin Kasen at a consideration of RMB121,947,475 and RMB13,549,719, respectively;

(p) a fifth amendment to the restructuring and loan agreement and notes dated December 30, 2004 by and among the Company, Kasen International, Cardina, Zhejiang Kasen and the Warburg Pincus Funds in relation to extension of repayment date of the two loans of US$21,739,130 and US$15,000,000 to March 31, 2005;

(q) a sixth amendment to the restructuring and loan agreement and notes dated March 29, 2005 by and among the Company, Kasen International, Cardina, Zhejiang Kasen and the Warburg Pincus Funds in relation to extension of repayment date of the two loans of US$21,739,130 and US$15,000,000 to June 30, 2005;

(r) a seventh amendment to the restructuring and loan agreement and notes dated June 29, 2005 by and among the Company, Kasen International, Cardina, Zhejiang Kasen and the Warburg Pincus Funds in relation to extension of repayment date of the two loans of US$21,739,130 and US$15,000,000 to September 30, 2005;

(s) an eighth amendment to the restructuring and loan agreement dated August 5, 2005 by and among the Company, Kasen International, Cardina, Zhejiang Kasen, all the shareholders of the Company, and the Warburg Pincus Funds, whereby the parties agree that Series A Preferred Shares and Series B Preferred Shares are convertible into an aggregate of 386,959,713 Shares or further proportionately reduced to 257,973,142 Shares after the Consolidation becoming effective;

(t) a deed of indemnity dated September 29, 2005 given by Mr. Zhu in favor of the Group, containing, among other things, indemnities in relation to estate duty, taxation, social insurance fees, environmental and other liabilities;

(u) a ninth amendment to the restructuring and loan agreement dated September 29, 2005 by and among the Company, Kasen International, Cardina, Zhejiang Kasen, all the shareholders of the Company, and the Warburg Pincus Funds, whereby the parties agreed that the execution and delivery of the Company Shareholders Agreement as provided in the restructuring and loan agreement dated February 26, 2003 shall no longer be a condition to the conversion if all the conditions to the Public Offer have been satisfied and that the repayment date of the two loans is extended to October 31, 2005; and

(v) an underwriting agreement dated October 7, 2005 relating to the Public Offer among the Company, Mr. Zhu, the Warburg Pincus Funds, Cao Haoqiang, Symbiospartners, Ocean Creator, and the Public Offer Underwriters under which, among other things, the Public Offer Underwriters will be paid an underwriting commission of 3.35% of the aggregate Offer Price of the Public Offer Shares.

(B) Intellectual Property Rights of our Company

Trade Marks

As at the Latest Practicable Date, we are the registered proprietors of the following trademarks:

Trademark	Place of registration	Class(1)	Registration number	Registration date	Expiry date
	PRC	2	912923	December 14, 1996	December 13, 2006
	PRC	3	900351	November 21, 1996	November 20, 2006
	PRC	4	904474	November 28, 1996	November 27, 2006
	PRC	6	898327	November 14, 1996	November 13, 2006
	PRC	7	898921	November 14, 1996	November 13, 2006
	PRC	8	903581	November 21, 1996	November 20, 2006
	PRC	12	898292	November 14, 1996	November 13, 2006
	PRC	13	890998	October 28, 1996	October 27, 2006
	PRC	14	904369	November 28, 1996	November 27, 2006
	PRC	15	888401	October 28, 1996	October 27, 2006
	PRC	16	904224	November 28, 1996	November 27, 2006
	PRC	17	900077	November 21, 1996	November 20, 2006
	PRC	18	896823	November 14, 1996	November 13, 2006
	PRC	19	912867	December 14, 1996	December 13, 2006
	PRC	20	901796	November 21, 1996	November 20, 2006

Trademark	Place of registration	Class[1]	Registration number	Registration date	Expiry date
	PRC	21	905795	November 28, 1996	November 27, 2006
	PRC	22	905841	November 28, 1996	November 27, 2006
	PRC	23	905811	November 28, 1996	November 27, 2006
	PRC	24	901873	November 21, 1996	November 20, 2006
	PRC	25	897291	November 14, 1996	November 13, 2006
	PRC	26	905878	November 28, 1996	November 27, 2006
	PRC	27	905856	November 28, 1996	November 27, 2006
	PRC	29	899541	November 14, 1996	November 13, 2006
	PRC	31	895317	November 7, 1996	November 6, 2006
	PRC	34	890970	October 28, 1996	October 27, 2006
	PRC	37	919829	December 21, 1996	December 20, 2006
	PRC	40	935900	January 21, 1997	January 20, 2007
	PRC	2	1972108	February 14, 2003	February 13, 2013
	PRC	3	1972564	August 21, 2003	August 20, 2013
	PRC	6	1973858	December 7, 2002	December 6, 2012
	PRC	7	1975495	July 7, 2003	July 6, 2013
	PRC	8	1976490	January 21, 2003	January 20, 2013
	PRC	12	2008695	January 21, 2003	January 20, 2013
	PRC	14	2011136	November 28, 2002	November 27, 2012
	PRC	15	2012919	October 7, 2002	October 6, 2012

Trademark	Place of registration	Class[1]	Registration number	Registration date	Expiry date
	PRC	16	1995459	January 14, 2003	January 13, 2013
	PRC	17	1979741	October 28, 2002	October 27, 2012
	PRC	18	2002999	November 21, 2002	November 20, 2012
	PRC	19	1988184	October 14, 2003	October 13, 2013
	PRC	20	1991719	January 14, 2003	January 13, 2013
	PRC	21	1995897	January 14, 2003	January 13, 2013
	PRC	22	1991908	December 14, 2002	December 13, 2012
	PRC	23	1993479	January 7, 2003	January 6, 2013
	PRC	24	2002668	December 21, 2002	December 20, 2012
	PRC	26	1988438	December 7, 2002	December 6, 2012
	PRC	40	2008254	March 28, 2003	March 27, 2013
	PRC	40	2008250	March 28, 2003	March 27, 2013
	PRC	37	1989038	November 21, 2003	November 20, 2013
	PRC	29	1986462	May 7, 2004	May 6, 2014
	PRC	20	1991730	February 21, 2004	February 20, 2014
	PRC	6	1973863	December 7, 2002	December 6, 2012
	PRC	18	2002996	January 21, 2004	January 20, 2014

As at the Latest Practicable Date, we have applied for registration of the following trademarks:

Name of applicant	Trademark	Place of application	Class	Application number	Application date
Zhejiang Kasen		PRC	25	2001175517	September 19, 2001
Zhejiang Kasen		PRC	20	4133728	June 23, 2004
Zhejiang Kasen		PRC	20	4133729	June 23, 2004

Pursuant to a trademark license agreement between Zhejiang Kasen and Haining Kasen dated June 8, 2001, Haining Kasen was granted a non-exclusive license to use the trademarks registered by Zhejiang Kasen for an annual royalty of RMB300,000, the details of which are as follows:

Trademark	Place of registration	Registration number	Class	Specified territory
	PRC	896823	18	N/A
	PRC	901796	20	N/A

Note (1): The following classes cover in the PRC, the products specified below among other things.

Registration number	Class	Specifications
912923	2	dyes, colorants, mordants (excluding food purpose),pigments (excluding food and insulation purposes), metals in foil and powder form for painters, decorators, printers and artists, food colorants, ink, paints and ancillary materials (excluding insulated paints), paint for ceramics, protective preparations for metals, wood preservatives and raw natural resins.
900351	3	soap, cakes of toilet soap, medicated soap and other substances for household washing and cleaning, bleaching preparations and other substances for laundry, cleaning and scouring preparations, abrasive materials and preparations, cosmetics, dentifrices, sachets and shampoo for pets.
904474	4	industrial oils and greases, lubricants, liquid fuel, fuel gas and lighting fuel, solidified fuel, industrial wax, candles and lamp wicks.
898327	6	plates of metal, fittings of metal for furniture and doors of metal, nails and standard fastening pieces.
898921	7	leather working machines, sewing machines and machines for shoe-making industry.
903581	8	hand-operated livestock tools, forestry and gardening hand tools, electric sharpening instruments, small farm tools, hair clippers and nail clippers.
898292	12	safety belts for vehicle seats and baby carriages.
890998	13	gun cases.
904369	14	purses of precious metal, chain mesh handbags of precious metal.
888401	15	music cases, skins for drums, drumheads and musical instruments.
904224	16	leather folders (office requisite), paper for industrial purpose, Xuan paper (for Chinese painting and calligraphy), hygienic paper, cardboard, playing cards, staplers for offices, cabinets for stationery, paper clips, ink, prepared Chinese ink, stamps, ink pads, writing brushes and pencils.

Registration number	Class	Specifications
900077	17	fireproof packings, regenesis rubber.
896823	18	leather and imitation leather, tool bags of leather, purses, coverings of skins and furs, trunks, bags for travel, handbags, cases of leather, briefcases, school bags, key cases (leatherware), boxes of imitation leather, fur skins, kids, moleskin (imitation leather).
912867	19	doors (not of metal), semi-worked wood, earth for bricks, cement, concrete building elements, tiles for building, felt, coatings (building materials) and binding materials.
901796	20	furniture, leather cushions for chairs, mirrors and works of art of bamboo and wood.
905795	21	cosmetic utensils, chamois leather for cleaning, combs, brushes, polishing leather.
905841	22	awnings, hammocks, weave bags, ropes and strings (not of metal), silk flock.
905811	23	threads, yarns for textile use, silk and wool.
901873	24	leather ticks, leather bed covers, tablecloth, fabric of imitation animal skins, towels, bath towels.
897291	25	clothing, footwear, hats, gloves, neckties, scarves, mantillas, girdles and belts.
905878	26	buttons, lace headwear, false hair, artificial flowers and shoulder pads for clothing.
905856	27	floor coverings and leather husk mats.
899541	29	aquatic products, pickles, fresh and cooked meat, edible oil, pectin for food, processed peanuts, melon seeds and salads.
895317	31	animal forage, unprocessed cereal and agricultural products and seed vegetables.
890970	34	leather containers for cigar lighter, leather tobacco pipes and smoking set.
919829	37	clothing repair, renovation of clothing, mending clothing, fur care, fur cleaning and repair, leather care, leather cleaning and repair, cleaning and washing of linen, linen ironing, laundry, washing and ironing of clothing, pressing of clothing, dry cleaning and diaper cleaning.
935900	40	shoe staining, skin dressing, tanning, leather dyeing, fur dyeing, fur glossing, fur mothproofing, fur staining, fur working, leather working, custom fashion of fur, dressmaking, clothing alteration, cloth cutting, tailoring, embroidery, saddlers working, cutting, clothing alteration.
1972108	2	mordants, colorants, stains for leather, dyes, metals in powder form for painters, decorators, printers and artists, food colorants, colorants for liqueurs.
1972564	3	laundry preparations, decontamination powder, preservatives for leather (polishes), abrasive materials, perfumery, dentifrices, incense.
1973858	6	furniture casters of metal, plates of metal; windows of metal, hinges of metal, fittings of metal for furniture and doors of metal.
1975495	7	leather working machines, leather spraying machines, heel-making machines and sewing machines.

Registration number	Class	Specifications
1976490	8	hand-operated garden tools, hand-operated livestock tools, skinning appliances and instruments for butchers' animals, scissors.
2008695	12	safety belts for vehicle seats and baby carriages.
2011136	14	watch bands and chain mesh handbags of precious metal.
2012919	15	kettledrums, skins for drums, drumheads and musical instruments.
1995459	16	paper, Xuan paper (for Chinese painting and calligraphy), hygienic paper, cardboard, playing cards, staplers for offices, cabinets for stationery, ink and writing instruments.
1979741	17	waterproof packings and packing (cushioning, stuffing) materials of rubber or plastics.
2002999	18	pelts, briefcases, bags for travel, leather straps, leather mat, cases of leather or leather board, furniture coverings of leather, purses, cases of imitation leather, handbags, fur-skins, school bags, kid, key cases (leatherware) and curried skins.
1988184	19	semi-worked wood, earth for bricks, cement, concrete building elements, framework (not of metal) for building and binding agents for making stones.
1991719	20	mattresses, cushions, furniture, furniture fittings (not of metal); sofas, head-rests furniture, picture frames, bassinettes, chairs (seats) and works of art of bamboo and wood.
1995897	21	animal bristles, brushes, combs, cosmetic utensils, polishing leather, chamois leather for cleaning, polishing gloves.
1991908	22	weave bags, hammocks, textile fibers, ropes and strings (not of metal), silk flock, wool and awnings.
1993479	23	yarns and threads for textile use, filament, thread and wool.
2002668	24	bed covers, fabric of imitation animal skins, towels of textile, place mats (not of paper), covers (loose) for furniture, tick, moleskin (fabric), towels of textile, bath towels, and table cloths (not of paper).
1988438	26	shoulder pads for clothing, laces, false hair, zippers, buttons and artificial flowers.
2008254	40	dyeing, dressmaking, leather staining, fur conditioning, custom fashion of fur, fur mothproofing, skin dressing, tanning, leather working and fur dyeing.
2008250	40	dyeing, dressmaking, leather staining, fur conditioning, custom fashion of fur, fur mothproofing, skin dressing, tanning, leather working and fur dyeing.
1989038	37	interior decoration and repairs, furniture manufacturing (repairs), mending clothes, leather maintenance, cleaning and repairs, fur maintenance, cleaning and repairs.
1986462	29	canned meat, fruit salad.
1991730	20	photo frames, bamboo and wood crafts, non-metal parts of furniture, cushions (leaning cushions).
1973863	6	metal wheels of furniture, metal signs, metal window frames, metal hinges, metal furniture parts, metal doors.
2002996	18	Pelts, curried skin, leather furniture coverings, husk mat, leather mat, kidskin, hides; leather straps (other than for clothing).

Domain Names

As at the Latest Practicable Date, members of our Group have registered the following domain names.

Registrant	Domain Name	Date of Registration
Zhejiang Kasen	www.kasen.com.cn	June 1, 1999
Zhejiang Kasen	www.kareno.com.cn	October 13, 2000
Zhejiang Kasen	www.kaseninternational.com	May 21, 2004
Zhejiang Kasen	www.kasenltd.com	May 21, 2004
Zhejiang Kasen	www.higherpoint.com.cn	May 21, 2004
Shanghai La Kassa	www.lakassa.com	October 10, 2002
Haining Hidea Furniture Co., Ltd	www.hidea.net.cn	May 25, 2004
Haining Home Point Furniture Co., Ltd.	www.homeclassic.com.cn	March 2, 2005
Haining Oyi May Sofa Co., Ltd.	www.oyimay.net	May 25, 2005
Haining Home Point Furniture Co., Ltd	www.home-point.com.cn	August 30, 2005
Zhejiang Kasen	www.kasenholdings.com	September 26, 2005

Patents

As at the Latest Practicable Date, we have applied for the following patents:

Name of applicant	Description	Application number	Application date
Zhejiang Kasen	a kind of leather manufacturing technology and relevant processing device to realize zero-emission in the treatment and recycling of bate and waste chrome liquor	2004100993896	December 31, 2004
Zhejiang Kasen	a kind of technology and relevant equipment to use boiler fume in tannery sludge drying	2004100993909	December 31, 2004

(4) FURTHER INFORMATION ABOUT OUR DIRECTORS

Particulars of Directors' service contracts

(A) *Directors' service contracts*

We have not entered into any service contract with our Directors which is for a duration that may exceed three years or which is not determinable by us within one year without payment of compensation (other than statutory compensation).

(B) *Directors' remuneration*

For each of the three years ended December 31, 2004 and the four months ended April 30, 2005, the aggregate of the remuneration paid and benefits in kind granted to our Directors by our Company and our subsidiaries was RMB282,000, RMB282,000, RMB382,000 and RMB416,000, respectively. No discretionary bonus was granted to any of our Directors during the Track Record Period.

Under the arrangements currently in force, we estimate that the aggregate remuneration payable to, and benefits in kind receivable by, our Directors (excluding discretionary bonus) by our Company and our subsidiaries for the year ending December 31, 2005 will be approximately RMB2,520,000.

(5) DISCLOSURE OF INTERESTS

(A) Disclosure of Interests

(a) *Interests and short positions of the Directors in the share capital of the Company and its associated corporations following the Global Offering*

Immediately following completion of the Global Offering and taking no account of any Shares which may be allotted and issued pursuant to the Share Option Scheme or sold pursuant to the exercise of the Over-allotment Option, the interests or short positions of the Directors and the chief executive in the Shares, underlying Shares and debentures of the Company and its associated corporations, within the meaning of Part XV of the SFO which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section

352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, will be as follows:

Interests and short positions in the shares, underlying shares and debentures of our Company and our associated corporations:

Name of Director	**Name of corporation**	**Nature of interest**	**Amount of share capital/registered capital held**	**Approximate percentage of interest in the Company/ associated corporations**
Zhu Zhangjin	the Company	Beneficial	328,867,019	32.43%
Zhu Jianqi	the Company	Beneficial	7,478,260	0.74%
Zhou Xiaosong	the Company	Beneficial	8,173,912	0.81%

(b) *Interests and short positions discloseable under Divisions 2 and 3 of Part XV of the SFO*

Immediately following completion of the Global Offering and taking no account of any Shares which may be allotted and issued pursuant to the Share Option Scheme, in addition to the interests disclosed under paragraph (a) above, so far as the Directors are aware, the following persons are expected to have interests or short positions in the shares or underlying shares of the Company which are required to be disclosed to the provisions of Divisions 2 and 3 of Part XV of the SFO or, are expected to be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group.

Interests and short positions in the Shares and underlying shares of our Group:

Name	**Company/subsidiary**	**Capacity/ Nature of interest**	**Amount of capital/ registered capital held**	**Approximate percentage of shareholding**
Zhu Zhangjin	the Company	Beneficial	328,867,019	32.43%
Warburg Pincus International Partners, L.P.	the Company	Beneficial	89,616,811	8.84%
Warburg Pincus Private Equity VIII L.P.	the Company	Beneficial	90,605,988	8.94%
Warburg Pincus Partners LLC[1]	the Company	Beneficial	186,989,966	18.44%
Warburg Pincus & Co.[1]	the Company	Beneficial	186,989,966	18.44%

Name	Company/subsidiary	Capacity/ Nature of interest	Amount of capital/ registered capital held	Approximate percentage of shareholding
海寧浙吉物資經營部 (Haining Zheji Material Operation)	Haining Hainix Sofa Co., Ltd.	Beneficial	Registered Capital — US$1.68 million	28%
張利法 (Zhang Lifa)[2]	Haining Hainix Sofa Co., Ltd.	Corporate	Registered Capital — US$1.68 million	28%
海寧市志遠皮革輔料經營部 (Haining Zhiyuan Leather Supplementary Material Operation)	Haining Hainix Sofa Co., Ltd.	Beneficial	Registered Capital — US$0.696 million	11.6%
周志賢 [3] (Zhou Zhixian)	Haining Hainix Sofa Co., Ltd.	Corporate	Registered Capital — US$0.696 million	11.6%
海寧市歐意皮革輔料經營部 (Haining Oyi Leather Supplementary Material Operation)	Haining Oyi May Sofa Co., Ltd.	Beneficial	Registered Capital — US$2.475 million	49.5%
許月蓮 (Xu Yuelian)[4]	Haining Oyi May Sofa Co., Ltd.	Corporate	Registered Capital — US$2.475 million	49.5%
海寧市慧騰服裝面料經營部 (Haining Huiteng Garments Material Operation)	Haining Hidea Furniture Co., Ltd.	Beneficial	Registered Capital — US$1.35 million	27%
周慧敏 (Zhou Huimin)[5]	Haining Hidea Furniture Co., Ltd.	Corporate	Registered Capital — US$1.35 million	27%
海寧市良達沙發配件經營部 (Haining Liangda Sofa Accessories Operation)	Haining Hidea Furniture Co., Ltd.	Beneficial	Registered Capital — US$1.125 million	22.5%
孫時良 (Sun Shiliang)[6]	Haining Hidea Furniture Co., Ltd.	Corporate	Registered Capital — US$1.125 million	22.5%
海寧市通盛紡織品經營部 (Haining Tongsheng Textile Products Operation)	Haining Wansheng Furniture Co., Ltd.	Beneficial	Registered Capital — US$2.475 million	49.5%
孫建新 (Sun Jianxin)[7]	Haining Wansheng Furniture Co., Ltd.	Corporate	Registered Capital — US$2.475 million	49.5%
岳娜有限責任公司 (Yuena Co., Ltd.)	Zhejiang Liema Furniture Co., Ltd.	Beneficial	Registered Capital — US$1.75 million	25%

Name	Company/subsidiary	Capacity/ Nature of interest	Amount of capital/ registered capital held	Approximate percentage of shareholding
海寧強業針紡織貿易經營部 (Haining Qiangye Textile Trading Operation)	Zhejiang Liema Furniture Co., Ltd.	Beneficial	Registered Capital — US$1.0608 million	15.15%
沈志強 (Shen Zhiqiang)[8]	Zhejiang Liema Furniture Co., Ltd.	Corporate	Registered Capital — US$1.0608 million	15.15%
海寧市斜橋工業經濟發展開發有限公司 (Haining Xieqiao Industrial Economic Development Co., Ltd.)	Haining Xieqiao Senbo Water Co., Ltd.	Beneficial	Registered Capital — RMB1.5 million	33.3%

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 (see "Definitions" section).

2 Haining Zheji Material Operation is a private enterprise wholly-owned by Zhang Lifa. Therefore, Zhang Lifa is deemed to be interested in the registered capital of US$1.68 million of Haining Hainix Sofa Co., Ltd. held by Haining Zheji Material Operation.

3 Haining Zhiyuan Leather Supplementary Material Operation is a private enterprise wholly-owned by Zhou Zhixian. Therefore, Zhou Zhixian is deemed to be interested in the registered capital of US$0.696 million of Haining Hainix Sofa Co., Ltd. held by Haining Zhiyuan Leather Supplementary Material Operation.

4 Haining Oyi Leather Supplementary Material Operation is a private enterprise wholly-owned by Xu Yuelian. Therefore, Xu Yuelian is deemed to be interested in the registered capital of US$2.475 million of Haining Oyi May Sofa Co., Ltd. held by Haining Oyi Leather Supplementary Material Operation.

5 Haining Huiteng Garments Material Operation is a private enterprise wholly-owned by Zhou Huimin. Therefore, Zhou Huimin is deemed to be interested in the registered capital of US$1.35 million of Haining Hidea Furniture Co., Ltd. held by Haining Huiteng Garments Material Operation.

6 Haining Liangda Sofa Accessories Operation is a private enterprise wholly-owned by Sun Shiliang. Therefore, Sun Shiliang is deemed to be interested in the registered capital of US$1.125 million of Haining Hidea Furniture Co., Ltd. held by Haining Liangda Sofa Accessories Operation.

7 Haining Tongsheng Textile Products Operation is a private enterprise wholly-owned by Sun Jianxin. Therefore, Sun Jianxin is deemed to be interested in the registered capital of US$2.475 million of Haining Wansheng Furniture Co., Ltd. held by Haining Tongsheng Textile Products Operation.

8 Haining Qiangye Textile Trading Operation is a private enterprise wholly-owned by Shen Zhiqiang. Therefore, Shen Zhiqiang is deemed to be interested in the registered capital of US$1.0608 million of registered capital of Zhejiang Liema Furniture Co., Ltd. held by Haining Qiangye Textile Trading Operation.

(B) **Disclaimers**

Save as disclosed in this prospectus:

(a) the Directors are not aware of any person (not being a Director or chief executive of the Company) who will, immediately after completion of the Global Offering (taking no account of the Over-allotment Option or any Shares which may be issued pursuant to the exercise of options under the Share Option Scheme), have an interest or a short position in Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group;

(b) none of our Directors has any interest or short position in any of our Shares, underlying Shares or debentures or any shares, underlying shares or debentures of any associated corporation within the meaning of Part XV of the SFO, which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to us and the Stock Exchange pursuant to the Model Code of Securities Transactions by Directors of Listed Companies, in each case once the Shares are listed;

(c) none of our Directors nor any of the parties listed in the section headed "— Other Information — Consents of Experts" of this Appendix is interested in the promotion of our Company, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to us or any of our subsidiaries, or are proposed to be acquired or disposed of by or leased to us or any of our subsidiaries;

(d) none of our Directors nor any of the parties listed in the section headed "— Other Information — Consents of Experts" of this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our business;

(e) save in connection with the Underwriting Agreements, none of the parties listed in the section headed "— Other Information — Consents of Experts" of this Appendix:

(i) is interested legally or beneficially in any securities of the Company or any of its subsidiaries; or

(ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of the Company or any of its subsidiaries;

(f) none of our Directors or their associates (as defined in the Listing Rules) or our existing shareholders (who, to the knowledge of our Directors, owns more than 5% of our issued share capital) has any interest in any of our five largest customers; and

(g) none of our Directors or their associates (as defined in the Listing Rules) or our existing shareholders (who, to the knowledge of our Directors, owns more than 5% of our issued share capital) has any interest in any of our five largest suppliers.

(6) OTHER INFORMATION

(A) Estate Duty, Tax and Other Indemnities

Mr. Zhu, our controlling shareholder (the "Indemnifier"), has entered into a deed of indemnity with and in favor of the Company (for itself and as trustee for each of its present subsidiaries) (being the material contract (t) referred to in paragraph 3 of this Appendix) to provide indemnities in respect of, among other matters, any liability for Hong Kong estate duty which might be incurred by any member of our Group by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance, Chapter 111 of the Laws of Hong Kong) to any member of our Group on or before the date on which the Global Offering becomes unconditional.

Under the deed of indemnity, the Indemnifier has also given indemnities to us in relation to (i) taxation which might be payable by any member of our Group in respect of any income, profits or gains earned, accrued or received, and (ii) other liabilities in respect of social insurance fees in the PRC, non-observance of the Company Law of the PRC, non-observance of the laws and regulations of the PRC regarding approval and valuation of assets, and non-observance of the environmental laws and regulations of the PRC, on or before the date on which the Global Offering becomes unconditional.

The deed of indemnity does not cover any claim and the Indemnifier shall be under no liability under the deed in respect of any taxation or the aforesaid other liabilities:

(a) to the extent that provision has been made for such taxation or other liabilities in the combined audited accounts of the Company or the audited accounts of the relevant Group members up to April 30, 2005;

(b) falling on any of the members of our Group in respect of any accounting period commencing after May 1, 2005 unless such taxation or other liabilities would not have arisen but for any act or omission of, or transaction entered into by, the Indemnifier and any member of our Group, otherwise than in the ordinary course of business or of acquiring or disposing of capital assets on or before the conditions of the Global Offering being fulfilled;

(c) to the extent that such taxation or other liabilities arises or is incurred as a result of any retrospective change in the law or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or any other relevant authority (in Hong Kong, the PRC, the Cayman Islands or elsewhere) coming into force after the date of the deed of indemnity or to the extent such claim arises or is increased by an increase in rates of taxation after such date with retrospective effect;

(d) to the extent that such taxation or other liabilities is discharged by another person who is not any member of the Group and that none of the members of our Group is required to reimburse such person; or

(e) to the extent that any provision or reserve made for taxation or other liabilities in the audited accounts of any member of our Group up to April 30, 2005 which is finally established to be an over-provision or an excessive reserve in which case the Indemnifier's liability (if any) in respect of such taxation shall be reduced, provided that the amount of any such provision or reserve applied referred to in this item (e) to reduce the Indemnifier's liability in respect of taxation shall not be available in respect of any such liability arising thereafter.

(B) **Litigation**

Neither us nor any of our subsidiaries is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on our results of operations or financial condition.

(C) **Preliminary Expense**

Our preliminary expenses are approximately US$3,000 and have been paid by us.

(D) **Sponsor**

The Sponsor has made an application on our behalf to the Listing Committee of the Stock Exchange for listing of, and permission to deal in, the Shares in issue as mentioned herein and any Shares which may be issued pursuant to the exercise of options that may be granted under the Share Option Scheme. All necessary arrangements have been made to enable such Shares to be admitted into CCASS.

(E) **No Material Adverse Change**

Our Directors confirm that there has been no material adverse change in our financial or trading position or prospects since April 30, 2005 (being the date to which our latest audited financial statements were made up).

Our Directors confirm that they have performed sufficient due diligence on our Company to ensure that, up to the date of this prospectus, there has been no material adverse change in our financial position or prospects since April 30, 2005 and there is no event since April 30, 2005 which would materially affect the information shown in this Appendix VII.

(F) Binding Effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

(G) Miscellaneous

Save as disclosed in this prospectus:

(a) within the two years immediately preceding the date of this prospectus, no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;

(b) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(c) neither we nor any of our subsidiaries have issued or agreed to issue any founder shares, management shares or deferred shares;

(d) within the two years immediately preceding the date of this prospectus, no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any shares or loan capital of any member of our Group;

(e) within the two years preceding the date of this prospectus, no commission has been paid or payable (except commissions to the Underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares in our Company;

(f) none of the equity and debt securities of our Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought; and

(g) we have no outstanding convertible debt securities.

(H) **Exception of Inclusion of Certain Information in this prospectus**

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

(I) **Qualifications of experts**

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus.

Name	Qualification
UBS	Deemed registered corporation under the SFO for Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities as defined under the SFO
Deloitte Touche Tohmatsu	Certified Public Accountants
Sallmanns (Far East) Limited	Property valuer
Jun He Law Offices	PRC legal adviser
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
American Appraisal China Limited	Valuer

(J) **Consents of experts**

Each of the Sponsor, Deloitte Touche Tohmatsu, Sallmanns (Far East) Limited, Conyers Dill & Pearman, Junhe Law Offices and American Appraisal China Limited has given and has not withdrawn their respective consents respectively to the issue of this prospectus with the inclusion of its report and/or letter and/or summary of valuations and/or legal opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

None of the experts named above has any shareholding interests in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

(K) **Promotor**

Our Company does not have any promotor.

(L) **Exemption from the Companies Ordinance**

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

(7) SHARE OPTION SCHEME

The following is a summary of principal terms of the Share Option Scheme conditionally approved by a resolution of the shareholders passed on September 24, 2005 and adopted by a resolution of the Board on September 26, 2005. The terms of the Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules.

(A) Purpose of Share Option Scheme

The purpose of the Share Option Scheme is to attract skilled and experienced personnel, to incentivize them to remain with us and to give effect to our customer-focused corporate culture, and to motivate them to strive for the future development and expansion of our Company and our subsidiaries, by providing them with the opportunity to acquire equity interests in our Company.

(B) Who may join

(a) The Board may, at its absolute discretion, offer any employees, management members and directors of our Company, or any of our subsidiaries, and third party service providers such as any consultant or adviser of our Company in our business or business development or any supplier of goods or services to our Company, options ("Options") to subscribe for Shares on the terms set out in the Share Option Scheme.

(b) Options granted to Directors or substantial shareholders:

(i) Any Options to be granted to a Director, chief executive or substantial shareholder (as defined in the Listing Rules) of our Company or any of their respective associates (as defined in the Listing Rules) shall be approved by our independent non-executive Directors (excluding any independent non-executive Director who is the proposed grantee of the Options);

(ii) Without prejudice to the generality of sub-paragraph (b)(i) above, if any Options to be granted to a substantial shareholder or independent non-executive Director of our Company, or any of their respective associates, would result in the total number of Shares issued and to be issued upon exercise of all the Options granted and to be granted (including Options exercised, cancelled and outstanding) to such person in the period of 12 months up to and including the date of the grant:

- representing in aggregate over 0.1% of the Shares in issue; and
- having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK$5,000,000,

the further grant of Options must be approved by our shareholders in general meeting. We must send a circular to our shareholders containing such information as required under Rule 17.04 of the Listing Rules. All our connected persons shall abstain from voting in favor at such general meeting, and any vote taken at such meeting must be taken on a poll; and

(iii) Any change in the terms of the Options granted to a substantial shareholder or an independent non-executive Director of our Company, or any of their respective associates, shall be approved by our shareholders in general meeting in the manner described in sub-paragraph (b)(ii) above.

(C) Maximum number of Shares

(a) The maximum number of Shares in respect of which Options may be granted under the Share Option Scheme when aggregated with the maximum number of Shares in respect of which options may be granted under any other scheme involving the issue or grant of options over Shares or other securities by us or any of our subsidiaries (the "Maximum Number of Shares") shall not exceed 10% of our issued share capital on the Listing Date (such 10% limit representing 101,404,536 Shares). Options lapsed in accordance with the terms of the Share Option Scheme shall not be counted for the purpose of calculating the 10% limit.

(b) The Maximum Number of Shares may, with the approval of our shareholders, be "refreshed" from time to time as required up to a maximum of 10% of our issued share capital as at the date of the shareholders' approval. Options previously granted under the Share Option Scheme or any other scheme, including options outstanding, cancelled or lapsed in accordance with the relevant scheme or exercised options, shall not be counted for the purpose of calculating the limit to be refreshed.

(c) We may obtain a separate approval from our shareholders to grant Options which will result in the number of Shares in respect of all the Options granted under the Share Option Scheme and all the options granted under any other Scheme exceeding 10% of our issued share capital, provided that such Options are granted only to employees specifically identified by us before the separate approval of our shareholders is sought.

(d) The maximum number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Share Option Scheme and any other options granted and yet to be exercised under any other scheme shall not exceed 30% of our issued share capital from time to time.

(e) No Option may be granted to any one person such that the total number of Shares issued and to be issued upon exercise of Options granted and to be granted to that person in any 12-month period up to the date of the latest grant exceeds 1% of our issued share capital from time to time.

(D) Grant of Options

(a) The period within which the Options must be exercised will be specified by us at the time of grant, and must expire no later than 10 years from the date of grant of the Option (being the date on which the Board makes a written offer of grant of the Option to the relevant proposed beneficiary).

(b) An offer of grant of an Option shall be made by letter to the proposed beneficiary, specifying the number of Options proposed to be granted and the applicable terms and conditions relating to the Options. These terms and conditions may include provisions as to the performance conditions which must be satisfied before the Option can be exercised, the minimum period for which an Option must be held before it can be exercised, vesting conditions (if any), lapse conditions and such other provisions as the Board may determine. The proposed beneficiary is required to accept the offer and undertake to hold the Option on the terms and conditions of the grant and, upon receipt by our Board of such acceptance, together with the payment of HK$1.00 by way of consideration, the Option shall be deemed to have been granted, to and accepted by, the proposed beneficiary (an "Option Holder") and to have taken effect.

(c) The Board shall not grant any Option under the Share Option Scheme after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced pursuant to the requirements of the Listing Rules. In particular, no Option shall be granted during the period commencing one month immediately preceding the earlier of the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our results for any year, half-year, quarterly or any other interim period and the deadline for us to publish an announcement of our results for any year, half-year, quarterly or any other interim period, and ending on the date of the results announcements.

(E) **Minimum holding period**

The Share Option Scheme does not contain any minimum period(s) for which an Option must be held before it can be exercised. However, at the time of grant of the Options, we may specify any such minimum period(s).

(F) **Performance targets**

The Share Option Scheme does not contain any performance target(s) which must be achieved before the Options can be exercised in whole or in part. At the time of grant of the Options, we may specify any performance target(s).

(G) **Amount payable for Options**

The amount payable on acceptance of an Option is HK$1.00.

(H) **Exercise price**

The amount payable for each Share to be subscribed for under an Option upon exercise shall be determined by the Board and notified to a proposed beneficiary at the time of offer of the Option and shall be not less than the higher of:

(a) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date, which must be a business day, of the date of grant;

(b) the average closing price of the Shares as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of grant; or

(c) the nominal value of the Shares.

(I) **Voting and other rights**

No voting rights shall be exercisable and no dividends shall be payable in respect of Options that have not been exercised.

(J) **Rights on death**

If an Option Holder dies and none of the events which would be a ground for termination of his employment or his services engagement under sub-paragraph (Q)(c) or Q(f) respectively below has occurred, the legal personal representative(s) of the Option Holder shall be entitled within a period of 12 months from the date of death (or such longer period as the Board may determine) to exercise the Option up to his entitlement (to the extent not already exercised).

(K) **Rights on ceasing to be an employee**

(a) If the Option Holder ceases to be an employee for any reason other than his death or the termination of his employment on one or more of the grounds specified in sub-paragraph (K)(b) or (Q)(c) below, the Option Holder may exercise the Option up to his entitlement at the date of cessation of his employment (to the extent not already exercised) within the period of one month following the date of such cessation, which date shall be the last actual working day with us or our relevant subsidiary, whether salary is paid in lieu of notice or not.

(b) If the Option Holder ceases to be an employee by reason of ill-health, injury or disability not attributable to his own misconduct or redundancy (as defined in the Employment Ordinance (Chapter 57 of the Laws of Hong Kong)), retirement, agreement with the Board or transfer of business in relation to which the employee was engaged to a company outside our group of companies and none of the events which would be a ground for termination of his employment under sub-paragraph (Q)(c) below has occurred, the Option Holder may exercise the Option up to his entitlement at the date of cessation of his employment (to the extent not already exercised) within the period of three months following the date of such cessation, which date shall be the last actual working day with us or our relevant subsidiary, whether salary is paid in lieu of notice or not.

(L) **Rights on ceasing to be a third party service provider**

(a) If the Option Holder ceases to be a third party service provider under a fixed term contract by reason of termination or expiry of the term of the relevant fixed term contract without any extension or renewal by us or our relevant subsidiary for reasons other than (I) on one or more of the grounds specified in sub-paragraph Q(f) or (2) on his death, the Option Holder may exercise the Option up to his entitlement at the date of cessation (to the extent not already exercised) following the date of such cessation, which date shall be the date of expiry of the relevant fixed term contract.

(b) If the Option Holder ceases to be a third party service provider not under any fixed term contract, by reason of the Grantee ceasing to provide any further advisory or consultancy or other kind of services, support, assistance or contribution to us or its relevant subsidiary as may be determined by the Board and notified to such third party service provider in writing within three months after the provision of its last services, support, assistance or contribution to the Company or its relevant subsidiary for reasons other than (1) on one or more of the grounds specified in sub-paragraph Q(f), or (2) on his death, the Option Holder may exercise the Option up to his entitlement at the date of cessation (to the extent not already exercised) within the period of nine months (or such other period as the Board may determine) following the date of such cessation, which date shall be the date of the written notification to the third party service provider.

(M) **Rights on general offer**

If a general offer (whether by way of take-over offer, share repurchase offer or scheme of arrangement or otherwise in like manner) is made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or in concert with the offeror) we shall use our best endeavors to procure that such offer is extended to all the Option Holders (on the same terms mutatis mutandis, and assuming that they will become, by the exercise in full of the Options granted to them, our shareholders). If such offer, having been approved in accordance with applicable laws and regulatory requirements becomes, or is declared unconditional, the Option Holder (or his legal personal representative(s)) shall be entitled to exercise the Option in full (to the extent not already exercised) at any time within 14 days after the date on which such general offer becomes or is declared unconditional.

(N) **Rights on a voluntary winding-up**

In the event a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, we shall on the same date as or soon after we dispatch such notice to each member of our Company give notice thereof to all option holders (together with a notice of the existence of the provisions of the Share Option Scheme relating to this paragraph (N)) and thereupon, each Option Holder (or his or her personal representatives) shall be entitled to exercise all or any of his options (to the extent not already exercised) at any time not later than two business days prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the Option Holder credited as fully paid.

(O) **Rights on schemes of compromise or arrangement**

If, pursuant to the Companies Ordinance, a compromise or arrangement between our Company and our shareholders or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of our Company or our amalgamation with any other company or companies, we shall give notice thereof to all Option Holders (together with a notice of the existence of the provisions of this paragraph (O)) on the same date as it dispatches to each member or creditor of our Company a notice summoning the meeting to consider such a compromise or arrangement, and thereupon each Option Holder (or where permitted under paragraph (J) his legal personal representative(s)) shall be entitled to exercise all or any of his Options in whole or in part at any time prior to 12:00 noon on the day immediately preceding the date of the meeting directed to be convened by the Court for the purposes of considering such compromise or arrangement. With effect from the date of such meeting, the rights of all Option Holders to exercise their respective Options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all Options shall, to the extent that they have not been exercised, lapse and determine. The Directors shall endeavor to procure that the Shares issued as a result of the exercise of Options under this paragraph (O) shall for the purposes of such compromise or arrangement form part of our issued share capital on the effective date thereof and that such Shares shall in all respects be subject to such compromise or arrangement. If for any reason such compromise or arrangement is not approved by the Court (whether upon the terms presented to the Court or upon any other terms as may be approved by such Court) the rights of Option Holders to exercise their respective Options shall with effect from the date of the making of the order by the Court be restored in full and shall thereupon become exercisable (but subject to the other terms of the scheme) as if such compromise or arrangement had not been proposed by us and no claim shall lie against us or any of our officers for any loss or damage sustained by any Option Holder as a result of the aforesaid suspension.

(P) **Life of Share Option Scheme**

Unless otherwise terminated by our Board or our shareholders in general meeting in accordance with the terms of the Share Option Scheme, the Share Option Scheme shall be valid and effective for a period of 10 years from the date on which it becomes unconditional in accordance with paragraph (X) below, after which no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting Options granted prior to the expiry of the 10-years period or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

(Q) **Lapse of Share Option Scheme**

An Option shall lapse automatically and not be exercisable, to the extent not already exercised, on the earliest of:

(a) the expiry of the period for exercise of the Option;

(b) 12 months after (or such longer period as the Board may determine) the death of the Option Holder;

(c) an Option Holder ceasing to be an employee of us or any of our subsidiaries on the ground of:

- the Option Holder's misconduct;

- the Option Holder has committed any act of bankruptcy or has made any arrangement or composition with his creditors generally;

- the Option Holder being convicted of any criminal offence involving his integrity or honesty; or

- his employer would be entitled to summarily terminate his employment at common law or pursuant to his contract of employment;

(d) three months after the Option Holder ceases to be an employee of us or any of our subsidiaries by reason of:

- retirement;

- redundancy;

- ill health or disability; or

- a transfer of business and the employee is transferred to a company outside our group of companies;

(e) one month after the termination of the Option Holder's employment with us or any of our subsidiaries for reasons other than the reasons specified in sub-paragraphs (Q)(c) and (Q)(d) above;

(f) the date on which:

- the contract between the third party service provider and us or our relevant subsidiary is terminated, where such contract is terminated by reason of breach of contract on the part of the third party service provider; or

- the third party service provider appears either unable to pay or have no reasonable prospect to be able to pay debts, or had become insolvent, or has made any arrangement (including a voluntary arrangement) or composition with his creditors generally, or ceases or threatens to cease to carry on his business, or is bankrupted, or has been convicted or any criminal offence involving integrity or honesty,

provided that whether any one or more of the events specified above occur in relation to a third party service provider shall, in its reasonable opinion, be solely and conclusively determined by the Board;

(g) in the case of any takeover, scheme of compromise or arrangement or voluntary winding-up, the expiry of the periods of notice as specified in the Share Option Scheme, provided that in the case of a scheme of compromise or arrangement, the proposed compromise or arrangement becomes effective;

(h) save as otherwise provided in paragraph (N) above, the date of commencement of the winding-up of our Company; or

(i) any breach of the provision described in paragraph (V) below.

(R) **Adjustment**

In the event of a capitalization issue, rights issue, subdivision or consolidation of Shares or reduction of our share capital while any Option remains exercisable, but excluding, for the avoidance of doubt, any alteration in our capital structure as a result of an issue of Shares as consideration in a transaction to which we are a party, our auditors or the financial adviser engaged by us for such purpose shall determine what adjustment is required to be made to the subscription price, the number of Shares to be issued on exercise of the Options (or any combination of the foregoing), provided that any such adjustments give the Option Holder the same proportion of our issued share capital and no adjustment may be made to the extent that Shares would be issued at less than their nominal value.

(S) **Cancellation of Options not exercised**

Any Options granted but not exercised may be cancelled if the Option Holder so agrees and new Options may be granted to the same Option Holder provided such Options fall within the limits, specified in paragraph (C) above and are otherwise granted in accordance with the terms of the Share Option Scheme.

(T) **Ranking of Shares**

The Shares to be allotted and issued to an Option Holder upon the exercise of an Option shall be subject to all the provisions of our Articles of Association for the time being in force and will rank pari passu with the fully paid Shares in issue on the date the name of the Option Holder is registered on our register of members. Prior to the Option Holder being registered on our register of members, the Option Holder shall not have any voting rights, or rights to participate in any dividends or distributions (including those arising on a liquidation of our Company), in respect of the Shares to be issued upon the exercise of the Option.

(U) **Termination**

We, by ordinary resolution of our shareholders, or the Board, may at any time terminate the operation of the Share Option Scheme and in such event no further Options will be offered or granted, but in all other respects the Share Option Scheme shall remain in full force and effect. Any granted but unexercised and unexpired Options shall continue to be exercisable in accordance with their terms of issue after the termination of the Share Option Scheme.

(V) **Transferability**

The Options are personal to the Option Holders and are not transferable, except for the transmission of an Option on the death of an Option Holder to his personal representative(s) on the terms of the Share Option Scheme.

(W) **Amendment**

Subject to the terms set out in the paragraph below, the Board may amend any of the provisions of the Share Option Scheme (including without limitation amendments in order to comply with changes in legal or regulatory requirements and amendments in order to waive any restrictions, imposed by the provisions of the Share Option Scheme, which are not found in Chapter 17 of the Listing Rules) at any time (but not so as to affect adversely any rights which have accrued to any Option Holder at that date).

Those specific provisions of the Share Option Scheme which relate to the matters set out in Rule 17.03 of the Listing Rules cannot be altered to the advantage of Option Holders, and no changes to the authority of the Directors or administrator of the Share Option Scheme in relation to any alteration of the terms herein shall be made, without the prior approval of our shareholders in general meeting. Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature, or any change to the terms of Options granted, must be approved by our shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme. The Share Option Scheme so altered must comply with Chapter 17 of the Listing Rules.

(X) **Conditions of the Share Option Scheme**

The Share Option Scheme is conditional on:

(a) the Listing Committee of the Stock Exchange granting approval of the listing of, and permission to deal in, the Shares which may be issued pursuant to the exercise of Options under the Share Option Scheme; and

(b) the commencement of dealings in the Shares on the Stock Exchange.

If any of the above conditions are not satisfied on or before the date which is 30 days after the date of this prospectus (or such later date as the Board may decide), the Share Option Scheme shall forthwith terminate and no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option Scheme. Application has been made to the Stock Exchange for the Listing of 101,404,536 Shares which may be issued pursuant to the exercise of Options under the Share Option Scheme.

(8) PARTICULARS OF THE SELLING SHAREHOLDERS

The particulars of the Selling Shareholders are as follows:

Name	Registered Address/Address	Number of Shares to be sold (assuming the Over-allotment Option is not exercised)
Warburg Pincus Funds	466 Lexington Avenue New York, NY 10017 USA	70,983,176
Cao Haoqiang	Building 2, No. 10, Xingfu Lane, Chang'an Town, Haining City, Zhejiang Province China	19,316,640
Symbiospartners	Vanterpool Plaza, 2nd Floor, Wickhams Cay I Road Town, Tortola, British Virgin Islands	6,666,666
Ocean Creator	P.O. Box 3321, Road Town, Tortola, British Virgin Islands	4,444,444

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were: (i) copies of the white and yellow Application Forms; (ii) the written consents referred to in the paragraph (6)(J) of Appendix VII; (iii) copies of each of the material contracts referred to in paragraph (3)(A) of Appendix VII; and (iv) a statement as to the names, description and address of the Selling Shareholders.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of O' Melveny & Myers at Suite 1905, Tower Two, 89 Lippo Center, Queensway, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

(a) the Memorandum of Association and the Articles of Association;

(b) the Accountants' Report prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix I;

(c) the report on unaudited pro forma financial information prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix II;

(d) the letters relating to profit forecast, the text of which are set out in Appendix III;

(e) the audited consolidated financial statements for the companies comprising our Group for the three financial years ended December 31, 2004 and for the four months ended April 30, 2005;

(f) the letter, summary of valuation and valuation certificates relating to our property interests prepared by Sallmanns (Far East) Limited, the texts of which are set out in Appendix IV;

(g) the material contracts referred to in paragraph (3)(A) of Appendix VII;

(h) the written consents referred to in paragraph (6)(J) of Appendix VII;

(i) the letter prepared by Conyers Dill & Pearman summarizing certain aspects of Cayman Islands company law referred to in Appendix V;

(j) the rules of the Share Option Scheme;

(k) a statement as to the name, address and description of the Selling Shareholders;

(l) the letter, summary of appraisal report and certificate of appraiser relating to liability and equity components of convertible loans prepared by American Appraisal China Limited referred to in Note 26 in Appendix I; and

(m) the service agreements entered into by and between the Company and each executive Director dated September 26, 2005.