卡森國際控股有限公司
KASEN INTERNATIONAL HOLDINGS LIMITED

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

stock code : 496

Interim Report 2008

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BUSINESS REVIEW AND PROSPECTS

RESULTS OVERVIEW

For the six months ended June 30, 2008, the Group recorded a consolidated turnover of RMB1,081.1 million (six months ended June 30, 2007: RMB1,770.5 million), representing a decrease of approximately 38.9%.

The Group's gross profit for the first half of 2008 was RMB132.9 million (six months ended June 30, 2007: RMB223.7 million) with gross profit margin of 12.3%, representing a decrease of approximately 40.6% in gross profit when compared with that of the corresponding period in 2007.

The profit attributable to equity holders of the Company for the first half of 2008 was RMB5.4 million (six months ended June 30, 2007: RMB46.5 million), representing a decrease of approximately 88.3% when compared with that of the corresponding period in 2007.

Sales Analysis by Products

The table below shows the total turnover by product category for the six months ended June 30, 2008, together with the comparative figures for the corresponding period of last year:

	Six Months Ended June 30,				
	2008		2007		Change
	RMB'Million	**%**	*RMB'Million*	*%*	*%*
Upholstered Furniture	**712.4**	**65.9**	1,405.3	79.4	-49.3
Leather Sofa	***450.0***	***41.6***	*893.0*	*50.5*	*-49.6*
Fabric Sofa	***64.7***	***6.0***	*142.2*	*8.0*	*-54.5*
Leather Cut-and-Sew	***172.5***	***16.0***	*304.1*	*17.2*	*-43.3*
Fabric Cut-and-Sew	***25.2***	***2.3***	*66.0*	*3.7*	*-61.8*
Furniture Leather	**243.4**	**22.5**	208.5	11.8	16.7
Automotive Leather	**109.6**	**10.1**	122.7	6.9	-10.7
Others	**15.7**	**1.5**	34.0	1.9	-53.8
Total	**1,081.1**	**100.0**	1,770.5	100.0	-38.9

Upholstered Furniture

Sales of upholstered furniture including finished sofa and sofa cut-and-sew accounted for approximately 65.9% of the Group's total revenue. The subprime crises and downturn in the US housing market severely affected the sales of home furnishing and furniture products. Most of the Group's major US customers, i.e., upholstered furniture manufacturers and retailers, have experienced difficulties in their businesses. This has in turn affected the Group's sales.

In addition, during the first half of 2008, the Group disposed of its 50.5% interest in Haining Oyi May Sofa Company Limited and its 5% interest in Zhejiang Liema Furniture Co., Ltd. due to increasing operating costs. As a result of such disposal, the Group's overall production capacity for upholstered furniture has been reduced. This has further impacted the Group's sales. However, the Group still maintains four upholstered furniture factories with adequate capability to satisfy the needs of customers.

As a result of the above, the Group's upholstered furniture sales experienced a decrease of 49.3%, from RMB1,405.3 million in the first half of 2007 to RMB712.4 million in the first half of 2008.

BUSINESS REVIEW AND PROSPECTS (cont'd)

RESULTS OVERVIEW (cont'd)

Sales Analysis by Products (cont'd)

Furniture Leather

The Group's priority in furniture leather production is to meet the internal leather requirement of its upholstered furniture division. The Group has sold its interests in several sofas manufacturing subsidiaries in the second half of 2007. Therefore, during the first half of 2008, the sale of furniture leather to those disposed subsidiaries were no longer intra-group sale. The Group has also made efforts to promote the domestic sale of furniture leather. As a result, the Group's sales of furniture leather in the first half of 2008 increased by 16.7% when compared with that of the corresponding period in 2007.

Automotive Leather

Due to the reduction in tax rebates for finished leather exports, the Group had changed its business strategy to focus on the domestic market. During the first half of 2008, the automotive leather's domestic sale was increased to RMB101.4 million from RMB31.1 million for the corresponding period of last year, while the export was decreased to RMB8.2 million from RMB91.6 million.

Sales Analysis by Region

The table below shows the total turnover by geographic market for the six months ended June 30, 2008, together with the comparative figures for the corresponding period of last year:

	Six Months Ended June 30,				
	2008		2007		Change
	RMB'Million	**%**	*RMB'Million*	%	%
USA	**500.5**	**46.3**	1,213.1	68.5	-58.7
Europe	**73.7**	**6.8**	147.7	8.3	-50.1
Australia	**60.7**	**5.6**	50.7	2.9	19.7
PRC (including Hong Kong)	**406.2**	**37.6**	331.2	18.7	22.6
Others	**40.0**	**3.7**	27.8	1.6	43.9
Total	**1,081.1**	**100.0**	1,770.5	100.0	-38.9

During the period under review, the Group's sales to the US market declined by 58.7%, and the percentage of US sales to the Group's total turnover were reduced to 46.3%, representing a 22.2 percentage point drop as compared to the corresponding period of last year. This decrease was mainly due to the continued US housing market downturn which had led to slower residential furniture sales.

For the six months ended June 30, 2008, the Group's sales to the European market decreased by 50.1%, from RMB147.7 million for the corresponding period in 2007 to RMB73.7 million.

The Group's expansion into the Australian market is still ongoing. For the first half of 2008, the Group was able to grow its Australian business by 19.7%, and this segment accounted for 5.6% of the Group's total turnover.

BUSINESS REVIEW AND PROSPECTS (cont'd)

RESULTS OVERVIEW (cont'd)

Sales Analysis by Region (cont'd)

The Group's sales to the PRC domestic market, which mainly involved furniture leather and automotive leather, had achieved relatively better performance in the first half of 2008. The turnover of domestic sale represented 37.6% of the Group's total sales. Business in this segment increased by 22.6% in the first half of 2008.

As the Group only started the operation of its retail business, namely the home furnishing store in Shanghai in August 2007, only RMB3.0 million sales were therefore recorded in the first half of 2008.

Gross Margin Analysis

The Group's profit margin has continuously been under pressure: (1) The lower demand of upholstered furniture from overseas customers; (2) The continued appreciation of the RMB has been a major adverse factor for the Group's profitability as more than 65% of the Group's sales are denominated in US dollars; (3) With the global inflation of commodities prices, costs of chemicals, foam, timber and, to a lesser extent, labor, also experienced increases; and (4) Export tax rebates were reduced as part of the Chinese government's initiative in reducing its massive trade surplus.

However, the Group has taken several steps in improving its gross profit margin. Raw material procurement and supply chain management have been improved, and new incentive scheme was introduced to motivate its business units. The Group had also successfully negotiated for price increment for some of its products.

As a result of the above, the Group's gross profit margin recorded a modest decrease of 0.3 percentage point for the six months ended June 30, 2008.

OPERATING EXPENSES, TAXATION AND PROFIT ATTRIBUTABLE TO EQUITY HOLDERS

During the six months ended June 30, 2008, the Group had disposed of its interests in two subsidiaries. As a result, various expense items of the Group were reduced as compared to the corresponding period in 2007.

The Group's other income increased to RMB39.3 million in the first half of 2008 from RMB8.6 million for the corresponding period in 2007. The Management Committee of Haining Economic Development Zone (the "Haining Economic Development Zone") cancelled the granting of a parcel of land to the Group and returned the deposit of RMB17.1 million to the Group last year. During the period under review, the Haining Economic Development Zone agreed to pay RMB21.4 million to the Group as compensation, which was recorded as other income.

The Group's selling and distribution costs decreased to RMB41.3 million in the first half of 2008 from RMB57.2 million for the corresponding period in 2007. The selling and distribution costs to turnover in the first half of 2008 slightly increased to 3.8% from 3.2% for the corresponding period in 2007, due to the increase in the unit cost of domestic transportation.

The administrative costs for the six months ended June 30, 2008 were RMB64.6 million, with a decrease of 13.8% as compared to RMB74.9 million for the corresponding period of last year. Exchange losses on the Group's trade receivables for the six months ended June 30, 2008 decreased by 7.9% to RMB13.2 million compared to the corresponding period in 2007 due to appreciation of RMB. Total employee remuneration for the six months ended June 30, 2008 also decreased by RMB9.9 million, or 42.4% due to the decrease in the total number of employees recruited by the Group.

BUSINESS REVIEW AND PROSPECTS (cont'd)

OPERATING EXPENSES, TAXATION AND PROFIT ATTRIBUTABLE TO EQUITY HOLDERS (cont'd)

The Group's finance cost in the first half of 2008 increased by RMB13.1 million, or 30.4% compared to the corresponding period in 2007 due to the raising of bank lending rate, while the outstanding amount of bank borrowing of the Group remains at around the same level as in the corresponding period of last year.

The Group's income tax in the first half of 2008 decreased by RMB5.7 million or 54.8% as compared to the corresponding period in 2007.

For reasons mentioned above, the profit attributable to equity holders of the Company was RMB5.4 million (six months ended June 30, 2007: RMB46.5 million), representing a decrease of 88.3% in the corresponding period of last year.

FINANCIAL RESOURCES AND LIQUIDITY

As at June 30, 2008, the Group had cash and cash equivalent of RMB600.9 million (as at December 31, 2007: RMB508.9 million) and a total borrowings of RMB1,556.1 million (as at December 31, 2007: RMB1,580.9 million). This represents a gearing ratio of 78.4% (as at December 31, 2007: 79.7%) and a net debt-to-equity ratio of 48.0% (as at December 31, 2007: 53.9%). The gearing ratio is based on bank borrowings to shareholders' equity and the net debt-to-equity ratio is based on bank borrowings net of cash and cash equivalent to shareholders' equity.

As at June 30, 2008, the Group's inventory, comprising of mainly raw cowhides and wet blues, was RMB891.6 million, representing a decrease of RMB314.2 million or 26.1% as compared to the previous year end. Inventory turnover day for the six months ended June 30, 2008 has increased to 169 days as compared to 146 days as at December 31, 2007.

The Group's trade receivables had decreased by RMB61.6 million from RMB389.1 million as at December 31, 2007 to RMB327.4 million as at June 30, 2008. Trade receivables turnover day had increased to 55 days for the six months ended June 30, 2008 from 43 days as at the previous year end.

ACQUISITION AND DISPOSAL OF SUBSIDIARIES

The Group had acquired an interest in a subsidiary and disposed of its interests in two subsidiaries during the six months ended June 30, 2008. For details, please refer to notes 8 and 10 to the Condensed Consolidated Financial Statements.

PLEDGE OF ASSETS

The Group pledged deposits, property, plant and equipment to banks to secure the bank loans and bills payable issued by the Group and the bank facilities granted to the Group. The deposits carry an average interest rate of 0.72%.

FOREIGN EXCHANGE EXPOSURE

RMB appreciated approximately 6.1% against US dollar in the period under review. The Group is fully aware that most of its trade receivable was exposed to the fluctuation of exchange rates. The Group used forward contract and some other financial instruments to hedge foreign exchange risk, and recorded a gain of RMB9.1 million in the first half of 2008.

BUSINESS REVIEW AND PROSPECTS (cont'd)

DONATIONS

During the six months ended June 30, 2008, the Company had made a donation of RMB1.0 million for the victims of Sichuan Province Earthquake.

CONTINGENT LIABILITIES

As at June 30, 2008, no contingent liabilities were noted by the directors of the Company (the "Directors").

EMPLOYEES AND EMOLUMENTS POLICIES

As at June 30, 2008, the Group had employed a total of approximately 8,300 full time employees (as at June 30, 2007: approximately 14,200) which included management staff, technicians, salespersons and workers. For the six months ended June 30, 2008, the Group's total expenses on the remuneration of employees was RMB103.7 million (six months ended June 30, 2007: RMB138.9 million). The Group's emolument policies for employees are formulated on the performance of individual employees, which will be reviewed regularly every year. Apart from the provident fund scheme (according to the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees) or state-managed retirement pension scheme (for the PRC employees) and medical insurance, discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance.

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

KEY RISK FACTORS

Exchange Risk

As the Group's businesses are principally export-related and transactions are primarily denominated in US dollars (approximately 65%), management team of the Company considers that the Group is exposed to foreign exchange fluctuation risks. Although a substantial portion of the Group's procurements is denominated in US dollars and currency risks can be partly reduced, the Group is still subject to great effects as a result of exchange rate fluctuations. The Group monitors its foreign exchange exposure and has utilized appropriate financial instruments for hedging purposes.

Commodities Risk

Raw cowhides and wet-blues are the principal raw materials in the Group's business, accounted for approximately 45% of the Group's cost of sales in the first half of 2008 . As such, the Group is exposed to the fluctuations in the price of cattle raw hides. Although the cowhide prices have stabilized in the last twelve months, they are still well above their historical average. The Group remains cautious about the future trend of cowhide prices.

Cyclical Demand for Furniture

Historically, the furniture industry is cyclical in nature, fluctuating with economic cycles, and is sensitive to general economic conditions, home buying, interest rate levels, etc. The downturn in the US housing market has continued to impact the Group's sales adversely to this major market. The current financial uncertainties in the US might prolong and could further depress the market conditions for residential furniture.

BUSINESS REVIEW AND PROSPECTS (cont'd)

KEY RISK FACTORS (cont'd)

Export VAT Rebates

In order to reduce its massive trade surplus, the Chinese government has gradually reduced its export VAT rebates for many business sectors. Since July 1, 2007, export VAT rebates for all of the Group's product segments have been reduced, from 8% to nil for finished leather, from 13% to 5% for leather cut-and-sew, and from 13% to 11% for finished sofa. These reductions had affected the Group's profitability.

Processing Trade Policy Change

Since 2006, the Chinese government has been introducing changes to the processing trade ("加工貿易") policy – such as moving certain widely used materials to the prohibited category – aimed at restricting the production and export of high pollution, high energy consumption and resource consuming products. Pursuant to the latest policy implemented by the PRC government in July 2007, enterprises engaged in the processing trade industry in the prohibited category are required to pay a mandatory duty deposit for imported raw materials. As the Group's products fall into the category of prohibited industry, it will be required to pay a substantial amount of duty deposit to the PRC customs. This will cause adverse impact to the Group's cash flow and will incur increased financial costs.

Environmental Risk

The production of leather is pollutive. As the Chinese government is tightening the environmental protection policies, the Group's production activities will be put under close scrutiny. The Group has at all time adhered to high standard of social and environmental duties, and welcomes the government's new initiatives. However, it is possible that further investment will need to be made by the Group to upgrade waste treatment facilities and this will in turn increase the Group's waste treatment costs.

PROSPECTS

The export-oriented manufacturers for household products in China will continue to face challenges as US economy will not see any turnaround in the foreseeable future and it is expected that appreciation of RMB will continue to accelerate. As China's inflation rate escalates and as a result of the enactment of the New Labor Contract Law in 2008, going forward, the Group will focus on implementing its cost saving programs.

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

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

The Group's aggressive expansion prior to 2006 has resulted in relatively low level capacity utilization. As the industry wide over capacity is unlikely to abate soon, the Group has taken initiatives to consolidate its production capabilities while realizing returns arising from asset value appreciation. The Group is considering further consolidation of its assets and cash generated from this initiative for the purpose of financing its new business development projects.

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

BUSINESS REVIEW AND PROSPECTS (cont'd)

PROSPECTS (cont'd)

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

Kasen Home Furnishing Stores

The residential furniture market in China is currently very fragmented. The Group believes that, with its fast growing economy, China's residential furniture market will go through major changes in the next few years. The Group plans to tap into China's growth potentials for mid-to-high end residential furniture by opening large furniture malls in major cities in China. The Dalian store was opened in June 2008, and the Hangzhou store will open in October 2008.

Retail Mall Project

It is expected that the Changsha retail mall project will be under development by the end of year 2008.

The Company has entered into an agreement on February 19, 2008 to acquire 49.5% equity interest in Chengdu Longteng Shoe Market Investment and Development Co. Ltd for a consideration of RMB29.7 million. Chengdu Longteng Shoe Market Investment and Development Co. Ltd, as an associate of the Group, will focus on the development of shoe and shoe material market in Chengdu City, Sichuan Province.

Real estate development

In addition to the Group's property development business in Changsha land, the Group had acquired a parcel of land with a site area of approximately 139,669 square meters in Boao, Hainan province in 2006. In December 2007, the Group entered into an agreement to acquire Qionghai Bodi Real Estate Co., Ltd. which held a parcel of land with a site area of approximately 450,496 square meters, adjacent to the Group's existing land in Boao. After this acquisition, the Group owns a total site area of 590,165 square meters of lands in Boao which will be used for residential property development projects beginning in early 2009.

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

As at June 30, 2008, the Group had approximately 2 million square meters industrial-use land. For the purpose of consolidating its production capacities, the Group is considering negotiating with the local PRC government to change the use of some industrial-use land to commercial-use land.

The Group believes that these projects will provide the Group with good opportunity to diversify its business and will contribute to the Group's profitability in the long run.

DISCLOSURE OF INTERESTS

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

As at June 30, 2008, the interests of the Directors and chief executives of the Company in the shares of the Company (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as contained in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") are as follows:

(1) Long positions in shares of the Company

	Number of shares held, capacity and nature of interest			
Name of Director	**Directly beneficially owned**	**Through controlled corporation**	**Total number of shares interested**	**Percentage of the Company's issued share capital**
Zhu Zhangjin	–	328,867,019 *(Note)*	328,867,019	33.22%
Zhou Xiaosong	8,173,912	–	8,173,912	0.83%
Zhu Jianqi	7,478,260	–	7,478,260	0.76%

Note: 328,867,019 shares are held by Joyview Enterprises Limited, a company wholly and beneficially owned by Mr. Zhu Zhangjin. By virtue of his interest in Joyview Enterprises Limited, Mr. Zhu is deemed or taken to be interested in the 328,867,019 shares held by Joyview Enterprises Limited for the purposes of the SFO.

(2) Long positions in underlying shares of the Company

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

Save as disclosed herein, none of the Directors nor the chief executives of the Company has any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as at June 30, 2008.

DISCLOSURE OF INTERESTS (cont'd)

SHARE OPTIONS

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

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

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

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

The 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 granting of the options, the Company may specify any such minimum period(s).

Unless otherwise terminated by the Board or the Shareholders in general meeting in accordance with the terms of the Scheme, the Scheme shall be valid and effective for a period of 10 years from the date on which it becomes unconditional which was October 10, 2005, after which no further options will be granted or offered but the provisions of the 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-year period or otherwise as may be required in accordance with the provisions of the Scheme.

DISCLOSURE OF INTERESTS (cont'd)

SHARE OPTIONS (cont'd)

Details of the share options granted under the Share Option Scheme during the six months ended June 30, 2008 were as follows:

Name of Director	Exercise price (HK$)	Number of share options: Outstanding as at January 1, 2008	Granted from January 1, 2008 to June 30, 2008	Cancelled from January 1, 2008 to June 30, 2008	Outstanding as at June 30, 2008	Percentage of total issued share capital	Exercisable period	Notes
Zhu Zhangjin	2.38	1,000,000	–	–	1,000,000	0.10%	1/1/2007 to 8/3/2016	1,5,6
	2.38	1,000,000	–	–	1,000,000	0.10%	1/1/2008 to 8/3/2016	2,5,6
Zhou Xiaosong	2.38	1,000,000	–	–	1,000,000	0.10%	1/1/2007 to 8/3/2016	1,5,6
	2.38	1,000,000	–	–	1,000,000	0.10%	1/1/2008 to 8/3/2016	2,5,6
	1.18	–	500,000	–	500,000	0.05%	1/1/2009 to 4/5/2018	3,5,6
	1.18	–	500,000	–	500,000	0.05%	1/1/2010 to 4/5/2018	4,5,6
Zhu Jianqi	2.38	1,000,000	–	–	1,000,000	0.10%	1/1/2007 to 8/3/2016	1,5,6
	2.38	1,000,000	–	–	1,000,000	0.10%	1/1/2008 to 8/3/2016	2,5,6
	1.18	–	500,000	–	500,000	0.05%	1/1/2009 to 4/5/2018	3,5,6
	1.18	–	500,000	–	500,000	0.05%	1/1/2010 to 4/5/2018	4,5,6
Lu Yungang	2.38	200,000	–	–	200,000	0.02%	1/1/2007 to 8/3/2016	1,5,6
	2.38	200,000	–	–	200,000	0.02%	1/1/2008 to 8/3/2016	2,5,6
	1.18	–	300,000	–	300,000	0.03%	1/1/2009 to 4/5/2018	3,5,6
	1.18	–	300,000	–	300,000	0.03%	1/1/2010 to 4/5/2018	4,5,6
Chow Joseph	2.38	200,000	–	–	200,000	0.02%	1/1/2007 to 8/3/2016	1,5,6
	2.38	200,000	–	–	200,000	0.02%	1/1/2008 to 8/3/2016	2,5,6
	1.18	–	300,000	–	300,000	0.03%	1/1/2009 to 4/5/2018	3,5,6
	1.18	–	300,000	–	300,000	0.03%	1/1/2010 to 4/5/2018	4,5,6
Zhang Huaqiao	1.18	–	500,000	–	500,000	0.05%	1/1/2009 to 4/5/2018	3,5,6
	1.18	–	500,000	–	500,000	0.05%	1/1/2010 to 4/5/2018	4,5,6
		6,800,000	4,200,000	–	11,000,000	1.10%		
Other employees in aggregate	2.38	9,250,000	–	(50,000)	9,200,000	0.93%	1/1/2007 to 8/3/2016	1,5,6
	2.38	9,250,000	–	(50,000)	9,200,000	0.93%	1/1/2008 to 8/3/2016	2,5,6
	1.18	–	3,150,000	–	3,150,000	0.32%	1/1/2009 to 4/5/2018	3,5,6
	1.18	–	3,150,000	–	3,150,000	0.32%	1/1/2010 to 4/5/2018	4,5,6
		25,300,000	10,500,000	(100,000)	35,700,000	3.60%		

DISCLOSURE OF INTERESTS (cont'd)

SHARE OPTIONS (cont'd)

Notes:

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

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

3. These share options were granted pursuant to the Scheme on May 5, 2008 and are exercisable at HK$1.18 per Share from January 1, 2009 to May 4, 2018.

4. These share options were granted pursuant to the Scheme on May 5, 2008 and are exercisable at HK$1.18 per Share from January 1, 2010 to May 4, 2018.

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

6. Except for the cancelled share option stated above, up to June 30, 2008, none of these share options were exercised nor lapsed.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

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

SUBSTANTIAL SHAREHOLDERS

As at June 30, 2008, the following persons (other than Directors or chief executives of the Company stated in "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures") had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Shareholder	Capacity	Short position	Long position	Number of issued shares held	Percentage of the Company's issued share capital
Joyview Enterprises Limited[2]	Beneficial owner	–	328,867,019	328,867,019	33.22%
Warburg Pincus & Co.[1]	Interest of controlled corporation	–	186,989,966	186,989,966	18.88%
Warburg Pincus Partners LLC[1]	Beneficial owner	–	186,989,966	186,989,966	18.88%
Warburg Pincus Private Equity VIII L. P.[1]	Beneficial owner	–	90,605,988	90,605,988	9.15%
Warburg Pincus International Partners L.P.[1]	Beneficial owner	–	89,616,811	89,616,811	9.05%

Notes:

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

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

Save as disclosed above, the Company has not been notified of any other person (other than a Director or a chief executive of the Company) who had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at June 30, 2008.

CORPORATE GOVERNANCE

The Company has complied with the "Code on Corporate Governance Practices" (the "CG Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended June 30, 2008, except for the following deviations:

CODE PROVISION A.2.1

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

CODE PROVISION A.4.1

Under CG Code Provision A.4.1, non-executive Directors should be appointed for a specific term, subject to re-election. The current non-executive Director, Mr. Li Hui, David and independent non-executive Directors, Mr. Chow Joseph, Mr. Lu Yungang, Ken and Mr. Zhang Huaqiao, Joe are not appointed for specific terms, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's articles of association which has provided that at every annual general meeting, one-third of the Directors for the time being or, if their number is not a multiple of three, the number nearest to but not less than one-third, shall retire from office by rotation. In view of the provisions stipulated under the articles of association of the Company, the Company considers that appropriate measures have been taken by the Company regarding its corporate governance practices. The Board will keep these matters under review and will continue to monitor and revise the Company's corporate governance policies in order to ensure that such policies can meet the general rules and standards required by the Stock Exchange.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Specific enquiries have been made with all Directors, who have confirmed that, during the period under review, they were in compliance with the provisions of the Model Code. All Directors declared that they have complied with the Model Code for the six months ended June 30, 2008.

AUDIT COMMITTEE

The Audit Committee, comprises all the three independent non-executive Directors, has reviewed with management and the external auditors the accounting principles and practices adopted by the Group. The Audit Committee has held meetings to discuss the auditing, internal controls and financial reporting matters including the review of the unaudited interim financial statements for the six months ended June 30, 2008.

REMUNERATION COMMITTEE

The Remuneration Committee comprises two independent non-executive Directors and a non-executive Director. Mr. Li Hui, David is the chairman of the Remuneration Committee. The Remuneration Committee is responsible for establishing policies in respect of remuneration structure for all Directors and senior management of the Company, reviewing and determining the remuneration of all Directors and senior management of the Company.

OTHER INFORMATION

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended June 30, 2008.

POST BALANCE SHEET EVENTS

On May 26, 2008, the Group has entered into two agreements to acquire certain property interests through acquisition of entities. One of the agreements is to purchase from a connected party, Joyview Enterprises Limited, 100% equity interest in Investwise International Limited, an investment holding company, which owns 55% equity interest in Yancheng Sujia Real Estate Development Co., Ltd. ("Yancheng Sujia"), for a consideration of RMB209,002,021. The consideration for the acquisition has been satisfied by the allotment and issue by the Company to the connected party an aggregate of 174,425,616 shares at the issue price of HK$1.354 per share. The other agreement is to purchase from an independent third party 45% equity interest in Yancheng Sujia for a cash consideration of RMB171,001,654.

The principal activity of Yancheng Sujia is property development in Jiangsu Province, the People's Republic of China (the "PRC") and the major tangible assets of Yancheng Sujia are the property development sites in the PRC. Details of the transactions are set out in a circular issued by the Group on June 30, 2008. This transaction was completed in August 2008.

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

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

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is available to the Company and within the knowledge of its Directors, the Company has maintained sufficient public float as required under the Listing Rules throughout the six months ended June 30, 2008.

PRE-EMPTIVE RIGHTS

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

DIRECTORS

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

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

PRC, September 9, 2008

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

Deloitte.
德勤

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

Introduction

We have reviewed the interim financial information set out on pages 16 to 34 which comprises the condensed consolidated balance sheet of Kasen International Holdings Limited (the "Company") as of June 30, 2008 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by International Accounting Standard Board. The directors are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
September 9, 2008

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED JUNE 30, 2008

	NOTES	Six months ended June 30, 2008 RMB'000 (unaudited)	Six months ended June 30, 2007 RMB'000 (unaudited)
Turnover	3	**1,081,148**	1,770,478
Cost of sales		**(948,265)**	(1,546,780)
Gross profit		**132,883**	223,698
Other income	6	**39,257**	8,623
Distribution costs		**(41,281)**	(57,168)
Administrative expenses		**(64,587)**	(74,944)
Other expenses		**(3,421)**	(2,468)
Share of (losses) profits of associates		**(1,393)**	435
Gain on disposal of subsidiaries	8	**2,399**	3,388
Finance costs	9	**(56,384)**	(43,252)
Profit before taxation	4	**7,473**	58,312
Taxation	5	**(4,663)**	(10,325)
Profit for the period		**2,810**	47,987
Attributable to:			
Equity holders of the Company		**5,417**	46,468
Minority interests		**(2,607)**	1,519
		2,810	47,987
Dividend paid	11	**–**	–
Basic and Diluted earnings per share	13	**RMB1 cent**	RMB5 cents

CONDENSED CONSOLIDATED BALANCE SHEET

AT JUNE 30, 2008

	NOTES	**June 30, 2008 *RMB'000* (unaudited)**	December 31, 2007 *RMB'000* (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	*14*	**812,552**	952,492
Prepaid lease payments – non-current portion	*14*	**87,155**	102,265
Properties for development	*15*	**511,470**	314,781
Intangible assets		**1,548**	1,321
Interests in associates		**69,101**	15,833
Interest in a jointly controlled entity		**2,614**	2,614
Available-for-sale investments		**43,278**	43,278
Other long-term assets	*16*	**116,260**	143,360
		1,643,978	1,575,944
CURRENT ASSETS			
Inventories		**891,607**	1,142,720
Trade, bills and other receivables	*17*	**454,443**	549,588
Prepaid lease payments – current portion	*14*	**1,997**	2,311
Amounts due from related companies		**36,522**	24,372
Taxes recoverable		**6,255**	6,682
Derivative financial instruments	*18*	**14,814**	16,151
Pledged bank deposits		**136,246**	85,743
Bank balances and cash		**600,908**	504,549
		2,142,792	2,332,116
Assets classified as held for sale	*7*	**–**	231,390
TOTAL ASSETS		**3,786,770**	4,139,450
CURRENT LIABILITIES			
Trade, bills and other payables	*19*	**247,440**	429,576
Amounts due to related companies		**5,867**	81
Bank and other borrowings – due within one year	*20*	**1,546,405**	1,546,812
Taxes payable		**5,927**	7,722
		1,805,639	1,984,191
Liabilities classified as held for sale	*7*	**–**	175,013
NET CURRENT ASSETS		**337,153**	404,302
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,981,131**	1,980,246
NON-CURRENT LIABILITIES			
Bank and other borrowings – due after one year	*20*	**9,691**	10,400
NET ASSETS		**1,971,440**	1,969,846
CAPITAL AND RESERVES			
Share capital		**1,227**	1,227
Reserves		**1,921,937**	1,915,927
Equity attributable to equity holders of the Company		**1,923,164**	1,917,154
Minority interests		**48,276**	52,692
Total equity		**1,971,440**	1,969,846

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2008

	Attributable to equity holders of the Company									
	Share capital	**Share premium**	**Statutory reserve**	**Special reserve**	**Share option reserve**	**Reserve on acquisition**	**Retained earnings**	**Total**	**Minority interests**	**Total equity**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At January 1, 2007	1,227	1,121,546	180,004	168,659	15,486	(30,968)	652,911	2,108,865	74,112	2,182,977
Profit for the period and total recognized income and expense for the period	–	–	–	–	–	–	46,468	46,468	1,519	47,987
Share-based payment expense	–	–	–	–	1,536	–	–	1,536	–	1,536
Dividend paid	–	–	–	–	–	–	–	–	(660)	(660)
At June 30, 2007 (Unaudited)	1,227	1,121,546	180,004	168,659	17,022	(30,968)	699,379	2,156,869	74,971	2,231,840
Loss for the period and total recognized income and expense for the period	–	–	–	–	–	–	(240,617)	(240,617)	(22,279)	(262,896)
Share-based payment expense	–	–	–	–	902	–	–	902	–	902
Appropriation of statutory reserve	–	–	11,689	–	–	–	(11,689)	–	–	–
At December 31, 2007 (Audited)	1,227	1,121,546	191,693	168,659	17,924	(30,968)	447,073	1,917,154	52,692	1,969,846
Profit (loss) for the period and total recognized income and expense for the period	–	–	–	–	–	–	5,417	5,417	(2,607)	2,810
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	1,011	1,011
Capital contribution from minority interests	–	–	–	–	–	–	–	–	45,000	45,000
Share-based payment expense	–	–	–	–	593	–	–	593	–	593
Dividend paid	–	–	–	–	–	–	–	–	(660)	(660)
Disposal of subsidiaries *(note 8)*	–	–	–	–	–	–	–	–	(47,160)	(47,160)
At June 30, 2008 (Unaudited)	1,227	1,121,546	191,693	168,659	18,517	(30,968)	452,490	1,923,164	48,276	1,971,440

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED JUNE 30, 2008

	NOTES	Six months ended June 30, 2008 RMB'000 (unaudited)	Six months ended June 30, 2007 RMB'000 (unaudited)
NET CASH FROM OPERATING ACTIVITIES		**189,900**	45,744
INVESTING ACTIVITIES			
Addition to other long-term assets		**(67,000)**	–
Net cash (outflow) inflow arising from disposal of subsidiaries	*8*	**(55,261)**	9,007
(Increase) decrease in pledged bank deposits		**(22,557)**	40,204
Acquisition of a subsidiary	*10*	**(20,783)**	–
Prepaid lease payments made		**–**	(253,750)
Purchase of property, plant and equipment		**(10,139)**	(23,061)
Other investing activities		**(26,721)**	5,876
NET CASH USED IN INVESTING ACTIVITIES		**(202,461)**	(221,724)
FINANCING ACTIVITIES			
Bank and other borrowings raised		**1,323,800**	1,497,553
Repayment of bank and other borrowings		**(1,212,359)**	(1,146,226)
Dividends paid to minority shareholders		**(660)**	(660)
Advance from a minority shareholder		**–**	50,000
Other financing activities		**(6,162)**	(42,872)
NET CASH FROM FINANCING ACTIVITIES		**104,619**	357,795
NET INCREASE IN CASH AND CASH EQUIVALENTS		**92,058**	181,815
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		**508,850**	380,973
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by bank balances and cash		**600,908**	562,788

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2008

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the annual consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended December 31, 2007.

In the current interim period, the Group has applied, for the first time, the following new interpretations ("new Interpretations") issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB, which are effective for the Group's financial year beginning on January 1, 2008. The adoption of the new Interpretations had no material effect on the results or financial position of the Group for the current or prior accounting periods.

IFRIC – Int 11	IFRS 2: Group and Treasury Share Transactions
IFRIC – Int 12	Service Concession Arrangements
IFRIC – Int 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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

IFRSs (Amendments)	Improvements to IFRSs[1]
IAS 1 (Revised)	Presentation of Financial Statements[2]
IAS 23 (Revised)	Borrowing Costs[2]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
IAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
IAS 39 (Amendment)	Eligible Hedged Items[3]
IFRS 1 & IAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
IFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
IFRS 3 (Revised)	Business Combinations[3]
IFRS 8	Operating Segments[2]
IFRIC 13	Customer Loyalty Programmes[4]
IFRIC 15	Agreements for the Construction of Real Estate[2]
IFRIC 16	Hedges of a Net Investment in a Foreign Operation[5]

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

FOR THE SIX MONTHS ENDED JUNE 30, 2008

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

[1] Effective for annual periods beginning on or after January 1, 2009, except the amendments to IFRS 5 which are effective for annual periods beginning on or after July 1, 2009
[2] Effective for annual periods beginning on or after January 1, 2009
[3] Effective for annual periods beginning on or after July 1, 2009
[4] Effective for annual periods beginning on or after July 1, 2008
[5] Effective for annual periods beginning on or after October 1, 2008

The adoption of IFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after July 1, 2009. The directors of the Company anticipate that the application of the other new or revised standards or interpretation will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

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

Business segment

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

– Upholstered furniture, comprising leather and fabric upholstered furniture and furniture covers;
– Furniture leather;
– Automotive leather;
– Properties development; and
– Others (including sale of wooden frame, retail and others)

Segment information about these businesses is presented below:

	Upholstered furniture *RMB'000*	Furniture leather *RMB'000*	Automotive leather *RMB'000*	Properties development *RMB'000*	Others *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
Six months ended June 30, 2008							
Turnover							
External sales	**712,397**	**243,431**	**109,640**	**–**	**15,680**	**–**	**1,081,148**
Inter-segment sales	**189,527**	**421,864**	**–**	**–**	**39,925**	**(651,316)**	**–**
Six months ended June 30, 2007							
Turnover							
External sales	1,405,393	208,484	122,672	–	33,929	–	1,770,478
Inter-segment sales	283,547	765,815	–	–	65,352	(1,114,714)	–

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

FOR THE SIX MONTHS ENDED JUNE 30, 2008

3. SEGMENT INFORMATION (cont'd)

	Six months ended June 30, 2008 *RMB'000*	Six months ended June 30, 2007 *RMB'000*
Results		
Segment results		
– Upholstered furniture	**28,423**	70,878
– Furniture leather	**22,839**	24,970
– Automotive leather	**10,614**	(636)
– Properties development	**–**	–
– Others	**(14,524)**	2,535
	47,352	97,747
Unallocated corporate income	**24,624**	7,880
Unallocated corporate expenses	**(6,726)**	(4,498)
Share of (losses) profits of associates	**(1,393)**	435
Finance costs	**(56,384)**	(43,252)
Profit before taxation	**7,473**	58,312
Taxation	**(4,663)**	(10,325)
Profit for the period	**2,810**	47,987

4. PROFIT BEFORE TAXATION

	Six months ended June 30, 2008 *RMB'000*	Six months ended June 30, 2007 *RMB'000*
Profit before taxation has been arrived at after charging (crediting):		
Amortization of intangible assets	**270**	268
Amortization of prepaid lease payment	**1,162**	1,388
Depreciation of property, plant and equipment	**42,899**	48,007
Total depreciation and amortization	**44,331**	49,663
Write-back of impairment loss recognized in respect of trade and other receivables	**(9,593)**	(1,010)
Write-back of allowances for inventories *(note)*	**(18,393)**	(541)
Loss on disposal of property, plant and equipment	**713**	303
Net foreign exchange losses	**13,227**	14,364
Staff costs (including directors' remuneration)	**103,663**	138,882

Note: the write-back of allowances for inventories was mainly due to the subsequent usage and sales of the impaired inventories.

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

FOR THE SIX MONTHS ENDED JUNE 30, 2008

5. TAXATION

	Six months ended June 30, 2008 *RMB'000*	Six months ended June 30, 2007 *RMB'000*
PRC enterprise income tax		
– current period	**3,535**	11,040
– under (over) provision in prior periods	**1,128**	(715)
	4,663	10,325

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

Certain subsidiaries of the Company operating in the PRC are eligible for certain tax exemption and concessions for both periods.

6. OTHER INCOME

Details of other income are as follows:

	Six months ended June 30, 2008 *RMB'000*	Six months ended June 30, 2007 *RMB'000*
Government grants		
Grants for technology development	**–**	910
Incentive for business development	**–**	810
Other grants	**491**	351
	491	2,071
Compensation for cancellation of grant of land *(note)*	**21,430**	–
Interest income	**3,118**	2,902
Gain on fair value change on foreign currency forward contracts	**9,106**	–
Claims from insurance company	**1,446**	197
Others	**3,666**	3,453
	39,257	8,623

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

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

FOR THE SIX MONTHS ENDED JUNE 30, 2008

7. ASSETS/LIABILITIES HELD FOR SALE

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

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

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

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

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

The disposal of disposed business was completed on January 10, 2008 and the related assets and liabilities at the date of the disposal is disclosed in note 8.

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

FOR THE SIX MONTHS ENDED JUNE 30, 2008

8. DISPOSAL OF SUBSIDIARIES

As referred to note 7, the Group entered into an agreement to dispose of Oyi May, which carried out upholstered furniture manufacturing operations. The disposal was completed on January 10, 2008, the date on which the control of Oyi May was passed to the acquirer.

During the current period, the Group entered into an agreement to dispose of 5% equity interest in a non-wholly owned subsidiary, 浙江獵馬傢俬有限公司("Zhejiang Liema Furniture Co., Ltd.") ("Liema Furniture"), which carried out upholstered furniture manufacturing operations. The disposal was completed on June 17, 2008, the date on which the control of Liema Furniture was passed to the acquirer. The Group holds 45.5% equity interest in Liema Furniture after the disposal and accounts for Liema Furniture as an associate subsequently.

During the first half year of 2007, the Group entered into an agreement to dispose of a wholly owned subsidiary, 海寧家藝傢俱有限公司("Haining Home Craft Furniture Co., Ltd.") ("Home Craft "), which carried out upholstered furniture manufacturing operations. The disposal was completed on January 29, 2007, the date on which the control of Home Craft was passed to the acquirer.

The net assets of the disposed subsidiaries at the respective dates of disposal were as follows:

	Six months ended June 30, 2008			Six months ended June 30, 2007
	Oyi May	**Liema Furniture**	**Total**	Home Craft
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*
Property, plant and equipment	**74,377**	**103,587**	**177,964**	496
Prepaid lease payments	**9,083**	**15,762**	**24,845**	9,306
Amounts due from related companies	**4,793**	**–**	**4,793**	–
Inventories	**63,064**	**50,547**	**113,611**	–
Trade and other receivables	**48,236**	**63,941**	**112,177**	26,917
Intangible assets	**54**	**6**	**60**	–
Bank balances and cash	**32,247**	**47,522**	**79,769**	4,593
Trade and other payables	**(162,881)**	**(114,029)**	**(276,910)**	–
Amounts due to related companies	**(2,973)**	**–**	**(2,973)**	–
Bank borrowings	**(23,652)**	**(112,557)**	**(136,209)**	–
	42,348	**54,779**	**97,127**	41,312
Minority interests	**(20,085)**	**(27,075)**	**(47,160)**	–
Gain on disposal	**2,245**	**154**	**2,399**	3,388
	24,508	**27,858**	**52,366**	44,700
Satisfied by:				
Cash consideration received	**24,508**	**–**	**24,508**	13,600
Transferred to interests in an associate	**–**	**24,961**	**24,961**	–
Consideration receivable	**–**	**2,897**	**2,897**	31,100
	24,508	**27,858**	**52,366**	44,700
Net cash (outflow) inflow arising on disposal of subsidiaries:				
Cash consideration received	**24,508**	**–**	**24,508**	13,600
Cash and cash equivalents disposed of	**(32,247)**	**(47,522)**	**(79,769)**	(4,593)
	(7,739)	**(47,522)**	**(55,261)**	9,007

Oyi May and Liema Furniture did not make any significant contributions to the results and cash flows of the Group during both periods.

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

FOR THE SIX MONTHS ENDED JUNE 30, 2008

9. FINANCE COSTS

	Six months ended June 30, 2008 *RMB'000*	Six months ended June 30, 2007 *RMB'000*
Interest on:		
Bank borrowings wholly repayable within five years	**54,611**	42,899
Other borrowings wholly repayable within five years	**1,535**	97
Other borrowings not wholly repayable within five years	**238**	256
	56,384	43,252

10. ACQUISITION OF ASSETS THROUGH ACQUISITION OF A SUBSIDIARY

On January 7, 2008, the Group acquired 99% equity interest in Qionghai Bodi Real Estate Co., Ltd. ("Qionghai Bodi") from an independent party not connected with the Group, for a consideration of RMB100,062,000.

The principal activity of Qionghai Bodi is property development in Hainan Province of the PRC and the major assets of Qionghai Bodi is the property development sites in the PRC, accordingly, the transactions have been accounted for as the acquisition of assets through the acquisition of a subsidiary.

	As at January 7, 2008 *RMB'000*
Net assets acquired:	
Properties for development *(note 15)*	**185,013**
Other receivables	**677**
Bank balances and cash	**79**
Trade and other payables	**(84,696)**
Net assets	**101,073**
Less: Minority interests	**1,011**
Net assets acquired	**100,062**
Total consideration, satisfied by:	
Cash	**20,862**
Long-term assets	**79,200**
	100,062
Net cash outflow arising on acquisition of assets through acquisition of a subsidiary:	
Bank balances and cash acquired	**79**
Cash consideration paid	**(20,862)**
	(20,783)

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

FOR THE SIX MONTHS ENDED JUNE 30, 2008

11. DIVIDEND PAID

No dividends were paid during the period. The directors do not recommend the payment of an interim dividend.

12. SHARE OPTIONS

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

The Company granted a total of 29,800,000 share options to the directors and other eligible employees on March 9, 2006 (the "First Batch Option"). The exercise price of the options is HK$2.38. The vesting period of the First Batch Option expired on December 31, 2007. 50% of the First Batch Option is exercisable from January 1, 2007 to March 8, 2016, and the remaining is exercisable from January 1, 2008 to March 8, 2016.

The Company granted a total of 10,500,000 share options to the directors and other eligible employees on May 5, 2008 (the "Second Batch Option"). The exercise price of the options is HK$1.18 (the share price immediately before the grant date was HK$1.18). The closing share price of the grant date is HK$1.18.

The Binomial Model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

The following assumptions were used in the Binomial model for the Second Batch Option:

Average risk-free rate of return	2.73%
Weighted average expected option life	5.96 years
Volatility rate	55.81%
Dividend yield	4.22%

The share options could be exercised during the following periods:

Date	**Percentage of the Second Batch Option**
From January 1, 2009 to May 4, 2018	50%
From January 1, 2010 to May 4, 2018	50%

The fair value of the Second Batch Option determined at the date of grant using the Binomial Model was approximately RMB4,500,000 which was arrived at by reference to a valuation carried out by Jones Lang LaSalle Sallmanns Limited, an independent qualified professional valuer and the Company recorded a share-based payment expense of RMB593,000 in the current period (six months ended June 30, 2007: RMB1,536,000).

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

FOR THE SIX MONTHS ENDED JUNE 30, 2008

12. SHARE OPTIONS (cont'd)

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

	Number of share options
Outstanding as at January 1, 2008	25,300,000
Granted during the period	10,500,000
Lapsed during the period due to resignation of employees	(100,000)
Outstanding as at June 30, 2008	35,700,000

No share option has been exercised during current period.

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

	Six months ended June 30, 2008 *RMB'000*	Six months ended June 30, 2007 *RMB'000*
Earnings for the purposes of basic and diluted earnings per share, being profit attributable to equity holders of the Company	**5,417**	46,468

Number of shares

	Six months ended June 30, 2008	Six months ended June 30, 2007
Weighted average number of ordinary shares for the purpose of basic earnings per share	**990,048,369**	990,048,369
Effect of dilutive potential ordinary shares: Second Batch Option issued by the Company	**59,282**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**990,107,651**	990,048,369

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

FOR THE SIX MONTHS ENDED JUNE 30, 2008

13. EARNINGS PER SHARE (cont'd)

First Batch Option granted to the employees of the Group was not included in the computation of the diluted earnings per share because the exercise price of the share options was higher than the average market price of the Company's shares during the six months ended June 30, 2007.

14. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND PREPAID LEASE PAYMENTS

During the current period, the Group incurred expenditure of approximately RMB10,139,000 (six months ended June 30, 2007: RMB23,886,000) on property, plant and equipment to expand and upgrade the Group's manufacturing facilities.

During the current period, the Group disposed of certain property, plant and equipment with a carrying amount of approximately RMB2,928,000 (six months ended June 30, 2007: RMB5,980,000). In addition, a carrying amount of approximately RMB177,964,000 of property, plant and equipment and RMB24,845,000 of prepaid lease payments were disposed of as a result of the disposal of subsidiaries by the Group during the current period.

15. PROPERTIES FOR DEVELOPMENT

During the current period, the Group acquired two pieces of land in Xieqiao, Haining, Zhejiang Province and Boao, Hainan Province with the acquisition cost of RMB16,367,000 (including development cost RMB1,010,000) and RMB185,013,000 (note 10) respectively, the lands are with lease term ranging from 50 to 70 years and will be used for properties development (2007: RMB314,781,000 for the land in Boao, Hainan province and Changsha, Hunan province).

16. OTHER LONG-TERM ASSETS

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

	June 30, 2008 ***RMB'000*** **(unaudited)**	December 31, 2007 *RMB'000* (audited)
Deposit on property acquisition *(Note)*	**57,000**	79,200
An office	**19,260**	19,260
Land use rights in the PRC under medium-term lease from the Government	**40,000**	44,900
	116,260	143,360

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

FOR THE SIX MONTHS ENDED JUNE 30, 2008

16. OTHER LONG-TERM ASSETS (cont'd)

Note: On May 26, 2008, the Group has entered into two agreements to acquire certain property interests through acquisition of entities. One of the agreements is to purchase from a connected party, Joyview Enterprises Limited, 100% equity interest in Investwise International Limited, an investment holding company, which owns 55% equity interest in Yancheng Sujia Real Estate Development Co., Ltd. ("Yancheng Sujia"), for a consideration of RMB209,002,021. The consideration for the acquisition has been satisfied by the allotment and issue by the Company to the connected party an aggregate of 174,425,616 shares at the issue price of HK$1.354 per share. Another agreement is to purchase from an independent third party 45% equity interest in Yancheng Sujia for a cash consideration of RMB171,001,654. As at June 30, 2008, a deposit of RMB57 million has been paid to the vendor and is recorded as other long-term assets.

Pursuant to an equity transfer agreement dated December 20, 2007, the Company agreed to purchase 99% equity interest in Qionghai Bodi Real Estate Co., Ltd. (琼海博地置業有限公司) from an independent third party for a consideration of approximately RMB100 million. As at December 31, 2007, RMB79.2 million had been paid to the vendor and was recorded as other long-term assets. On January 7, 2008, the acquisition has completed and details are set out in note 10.

17. TRADE, BILLS AND OTHER RECEIVABLES

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

	June 30, 2008	December 31, 2007
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 60 days	**221,750**	256,714
61-90 days	**42,497**	37,943
91-180 days	**24,221**	49,144
181-365 days	**33,957**	19,691
1-2 years	**4,997**	2,824
Total trade receivables, net of impairment loss	**327,422**	366,316
Other receivables	**127,021**	183,272
Total	**454,443**	549,588

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

FOR THE SIX MONTHS ENDED JUNE 30, 2008

18. DERIVATIVE FINANCIAL INSTRUMENTS

	June 30, 2008	December 31, 2007
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Foreign currency forward contracts	**14,814**	16,151

During the period, the Group recorded a gain on fair value changes of foreign currency forward contracts of approximately RMB9,106,000 (six months ended June 30, 2007: Nil) as other income.

Major terms of the foreign currency contracts outstanding for six months ended June 30, 2008 are as follows:

Notional amount	Maturity	Exchange rate
US$76,000,000 Aggregated in total	Range from February 25, 2008 to May 11, 2009	Sell US$ at RMB from 6.6920 to 7.4804

The fair values are determined based on an independent valuation carried out by independent valuer at the balance sheet date.

19. TRADE, BILLS AND OTHER PAYABLES

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

	June 30, 2008	December 31, 2007
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 60 days	**113,096**	186,645
61-90 days	**13,796**	19,851
91-180 days	**7,992**	13,454
181-365 days	**25,191**	17,500
1-2 years	**887**	3,169
Over 2 years	**5,427**	6,957
Total trade payables	**166,389**	247,576
Bills payables *(note)*	**–**	36,836
Other payables and accrued liabilities	**81,051**	145,164
	247,440	429,576

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

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

FOR THE SIX MONTHS ENDED JUNE 30, 2008

20. BANK AND OTHER BORROWINGS

During the period, the Group obtained additional bank loans of approximately RMB1,323,800,000 (six months ended June 30, 2007: RMB1,497,553,000) and made repayments of approximately RMB1,212,359,000 (six months ended June 30, 2007: RMB1,146,226,000). The proceeds from the additional loans were used as working capital of the Group and for the acquisition of property, plant and equipment for repayment of short term bank loans and working capital.

21. CAPITAL COMMITMENTS

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

	June 30, 2008 ***RMB'000*** **(unaudited)**	December 31, 2007 *RMB'000* (audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of:		
– acquisition of property, plant and equipment	**22,334**	19,260
– construction of certain infrastructure and public facilities in the PRC on behalf of the government	**13,171**	13,202
– acquisition of an entity engaged in property development	**323,004**	20,862
	358,509	53,324

An amount of RMB209,002,021 capital commitment will be settled by issue of shares.

22. SIGNIFICANT CONNECTED AND RELATED PARTY DISCLOSURES

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

Parties	**Nature of transactions**	*Notes*	**Six months ended June 30, 2008** ***RMB'000***	Six months ended June 30, 2007 *RMB'000*
Connected and related parties				
伊犁霍爾果斯皮革有限公司 Yili Horgos Leather Co., Ltd. ("Yili Horgos")	Purchase by the Group	*(i)*	**5,688**	16,591

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

FOR THE SIX MONTHS ENDED JUNE 30, 2008

22. SIGNIFICANT CONNECTED AND RELATED PARTY DISCLOSURES (cont'd)

Parties	Nature of transactions	*Notes*	**Six months ended June 30, 2008 *RMB'000***	Six months ended June 30, 2007 *RMB'000*
Connected and related parties (cont'd)				
海寧宇潔物資回收有限公司 Haining Yujie Material Recycling Co., Ltd. ("Yujie")	Sales of production wastes by the Group	*(i)*	**2,681**	6,103
白銀卡森皮革有限公司 Baiyin Kasen Leather Co., Ltd. ("Baiyin Kasen")	Purchase by the Group	*(i)*	**37,235**	36,815
Starcorp Corporation Pty. Ltd ("Starcorp")	Sales by the Group	*(i)*	**4,807**	21,608
Sleep City Holdings Ltd.	Sales by the Group	*(i)*	**4,859**	–
Related parties				
海寧市卡森－美如可思皮革有限公司 Haining Kasen-Melx Leather Co., Ltd. ("Kasen-Melx")	Sales by the Group	*(ii)*	**336**	3,328
	Purchase by the Group		**2,141**	–

Notes:

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

(ii) Jointly controlled entity of the Company.

Haining Haipai Leather Co., Ltd. ("Haining Haipai") was a connected party to the Group before completion of disposal of an interest in a subsidiary, Haining Oyi May Sofa Co., Ltd. on January 10, 2008. During the period from January 1, 2008 to January 10, 2008, there was no transaction between the Group and Haining Haipai.

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

FOR THE SIX MONTHS ENDED JUNE 30, 2008

23. SUBSEQUENT EVENT

As details set out in note 16, the Group has entered into two agreements to acquire certain property interests through acquisition of entities.

The principal activity of Yancheng Sujia is property development in Jiangsu Province, the People's Republic of China (the "PRC") and the major tangible assets of Yancheng Sujia are the property development sites in the PRC. Details of the transactions are set out in a circular issued by the Company on June 30, 2008. This transaction was completed in August 2008.