
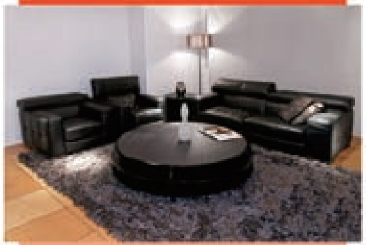
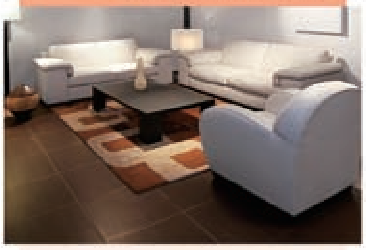

卡森國際控股有限公司
KASEN INTERNATIONAL HOLDINGS LIMITED

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

stock code : 496

Interim Report 2009

Contents

BUSINESS REVIEW AND PROSPECTS

RESULTS OVERVIEW

For the six months ended June 30, 2009, the Group recorded a consolidated turnover of RMB1,256.0 million (six months ended June 30, 2008: RMB1,081.1 million), representing an increase of 16.2%.

The Group's gross profit for the six months ended June 30, 2009 was RMB147.0 million (six months ended June 30, 2008: RMB132.9 million) with gross profit margin of 11.7%.

The net loss attributable to owners of the Company for the first half of 2009 was RMB85.7 million, compared to the net profit of RMB5.4 million of the corresponding period in 2008.

The results reflect the mixed performance across the Group's three business segments (manufacturing, properties development and others (comprising mainly retail business and property management service business)) in the challenging economic conditions.

Review by Business Segments

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

The table below shows the total turnover by business segments for the six months ended June 30, 2009, together with the comparative figures for the corresponding period of last year:

	Six Months Ended June 30,				
	2009		2008		Change
	RMB'Million	**%**	*RMB'Million*	*%*	*%*
Manufacturing	**677.5**	**53.9**	1,078.0	99.7	-37.2
Upholstered Furniture	**375.6**	**29.9**	725.0	67.1	-48.2
Furniture Leather	**148.8**	**11.8**	243.4	22.5	-38.9
Automotive Leather	**153.1**	**12.2**	109.6	10.1	39.7
Properties Development	**523.6**	**41.7**	–	–	N.M.
Others	**54.9**	**4.4**	3.1	0.3	1,671.0
Total	**1,256.0**	**100.0**	1,081.1	100.0	16.2

N.M. – Not meaningful.

Manufacturing Business

Manufacturing business is the core and fundamental business segment of the Group. This business segment includes three major operating divisions: upholstered furniture, furniture leather and automotive leather. This manufacturing segment experienced a decrease of 37.2% in its sales of RMB677.5 million for the first half of 2009 (first half of 2008: RMB1,078.0 million). Also this segment suffered an operating loss of RMB6.1 million for the first half of 2009 (first half of 2008: operating profit of RMB14.5 million). These decreases resulted from the combined net effect of the three operating divisions during the period under review. A brief discussion of the sales of the three operating divisions are as follows:

BUSINESS REVIEW AND PROSPECTS (cont'd)

RESULTS OVERVIEW (cont'd)

Review by Business Segments (cont'd)

Manufacturing Business (cont'd)

Upholstered Furniture

Sales of upholstered furniture including finished sofa and sofa cut-and-sew accounted for 29.9% of the Group's total revenue. The Group's major customers are furniture manufacturers and retailers in the U.S. The weak demand from the U.S market severely affected the sales of upholstered furniture.

As a result of the above, the Group's upholstered furniture sales experienced a decrease of 48.2%, from RMB725.0 million in the first half of 2008 to RMB375.6 million in the first half of 2009.

Furniture Leather

The Group's priority in furniture leather production is to meet the internal leather requirement of its upholstered furniture division. Along with the decreased demand from sofa subsidiaries and external customers, the sales of furniture leather decreased by 38.9%.

Automotive Leather

After achieving a rapid growth in the domestic market since the year of 2008, the Group has allocated more resources in the promotion of automotive leather's domestic sales and recorded an increase of 39.7%, from RMB109.6 million in the first half of 2008 to RMB153.1 million in the first half of 2009.

Properties Development Business

The operating loss in the overall properties development business amounted to RMB52.6 million in the first half of 2009.

As delivery of the units of Phase 1 of the residential buildings in Yancheng of Jiangsu Province ("Yancheng Project") took place during the period under review, the Group recorded a revenue of RMB523.6 million from the Yancheng Project. However, the unit selling price of Phase 1 was relatively low. Yancheng Project recorded an operating loss of RMB40.8 million accordingly during the period under review. It is expected that the unit selling price of Phases 2 and 3 will be higher than that of Phase 1.

Through the disposal of a piece of land located in Changsha, Hunan Province, the Group received a consideration of RMB285.1 million in the first half of 2009. As the land transfer registration had not been completed as at June 30, 2009, the disposal gain/loss would only be recognized upon the completion of such registration.

Others

Retail Business

The Group has entered into the UK furniture retail market in early March 2009 through acquisition of Sofas UK Plc ("Sofas UK"), a UK based furniture retailer, which has become a wholly owned subsidiary of the Company. Together with the expansion in the PRC domestic furniture retail business, the Group's retail sales recorded an increase from RMB3.1 million in the first half of 2008 to RMB54.9 million in the first half of 2009.

As the Group took a new step into the UK retail business market during the period under review, an operating loss of RMB19.9 million was recorded in this business segment during the first half of 2009.

BUSINESS REVIEW AND PROSPECTS (cont'd)

RESULTS OVERVIEW (cont'd)

Review by Region

The table below shows the total turnover by geographic market for the six months ended June 30, 2009, together with the comparative figures for the corresponding period of last year:

	Six Months Ended June 30,				
	2009		2008		Change
	RMB'Million	**%**	*RMB'Million*	%	%
USA	**272.3**	**21.7**	500.5	46.3	-45.6
Europe	**87.5**	**7.0**	73.7	6.8	18.7
Australia	**14.1**	**1.1**	60.7	5.6	-76.8
PRC (including Hong Kong)	**882.1**	**70.2**	406.2	37.6	117.2
Others	**–**	**–**	40.0	3.7	-100.0
Total	**1,256.0**	**100.0**	1,081.1	100.0	16.2

During the period under review, the Group's sales to the US market declined by 45.6%, and the percentage of US sales to the Group's total turnover reduced to 21.7%, representing a 24.6 percentage point drop as compared to the corresponding period of last year. This decrease is mainly due to the disappointing performance of the US furniture industry and slower residential furniture sales.

The Group's sales to the European market increased by 18.7%, from RMB73.7 million in the first half of 2008 to RMB87.5 million in the first half of 2009. During the period under review, the Group acquired a UK based furniture retailer. The Group believes that the acquisition will offer a good opportunity for the Group to expand its home furniture retail business in the UK.

The Group's sales to the Australian market was RMB14.1 million for the first half of 2009, as compared to RMB60.7 million for the first half of 2008, representing a decrease of 76.8%.

The Group's sales to the PRC domestic market reflected a better performance in the first half of 2009. The turnover of the Group's sales to the PRC domestic market represented 70.2% of its total sales during the period under review. The increase was mainly due to the newly generated revenue from the delivery of some of the residential building units in Yancheng of Jiangsu Province, and the growth in sales of automotive leather.

Operating Expenses, Taxation and Loss Attributable to Owners

The Group's selling and distribution costs during the period under review increased to RMB74.0 million, compared to RMB41.3 million in the first half of 2008, mainly due to (1) an increase of approximately RMB14.8 million in operating lease for the UK stores newly operated by the Group starting from March 2009, (2) an increase of RMB11.8 million in staff costs for salesperson of the Group's UK stores, and (3) an increase of RMB7.8 million in sales commission and marketing expenses paid. As a result, the selling and distribution costs to turnover in the first half of 2009 increased slightly to 5.9% as compared to 3.8% for the corresponding period in 2008.

The administrative costs for the six months ended June 30, 2009 were RMB53.2 million, with a decrease of RMB11.4 million as compared to RMB64.6 million during the corresponding period of last year, mainly due to a decrease of RMB18.3 million in the net foreign exchange losses offset by a reduction of RMB9.6 million in reversal of impairment loss in respect of trade and other receivables.

BUSINESS REVIEW AND PROSPECTS (cont'd)

RESULTS OVERVIEW (cont'd)

Operating Expenses, Taxation and Loss Attributable to Owners (cont'd)

The Group's finance cost in the first half of 2009 was RMB40.9 million, with a decrease of RMB15.5 million, compared to that of the same period of 2008, due to the reduction of the bank lending rate, and also the decrease in the level of outstanding amounts of bank borrowings of the Group during the period under review.

Other expenses for the six months ended June 30, 2009 were RMB51.2 million, compared to RMB3.4 million in the first half of 2008. The increase resulted from (1) an increase of RMB7.1 million in goodwill impairment arising from the acquisition of Sofas UK, (2) an increase of RMB31.3 million of loss on disposal of obsolete raw materials in inventories, and (3) an increase of RMB6.0 million in impairment loss on trade and other receivables.

The Group's income tax in the first half of 2009 was RMB29.3 million, with an increase of RMB24.6 million, compared to the same period of 2008, mainly due to the increase in taxable operating profit generated from the delivery of some of the residential building units in Yancheng of Jiangsu Province at subsidiary level.

For reasons mentioned above, the loss attributable to owners of the Company was RMB85.7 million, compared to a profit of RMB5.4 million in the corresponding period of 2008.

FINANCIAL RESOURCES AND LIQUIDITY

As at June 30, 2009, the Group had cash and cash equivalent of RMB572.2 million (as at December 31, 2008: RMB389.6 million) and a total borrowings of RMB1,277.4 million (as at December 31, 2008: RMB1,442.6 million). This represents a gearing ratio of 72.2% (as at December 31, 2008: 72.3%) and a net debt-to-equity ratio of 39.6% (as at December 31, 2008: 51.3%). The gearing ratio is based on bank borrowings to shareholders' equity and the net debt-to-equity ratio is based on bank borrowings net of cash and cash equivalent to shareholders' equity.

As at June 30, 2009, the Group's inventory, comprising of mainly raw cowhides and wet blues, was RMB616.1 million, representing a decrease of RMB111.1 million as compared to December 31, 2008. Inventory turnover days for the six months ended June 30, 2009 has increased to 192 days as compared to 147 days as at December 31, 2008.

The Group's trade receivables was RMB300.8 million, compared to RMB247.6 million as at December 31, 2008. The Group continued to maintain a strict credit policy. Many of the Group's customers are also in their difficult time, resulting in an increase in trade receivables turnover days to 74 days for the first half of 2009 (as at December 31, 2008: 48 days).

The accounts payable turnover days increased to 53 days for the six months ended June 30, 2009 (as at December 31, 2008: 25 days).

MATERIAL ACQUISITION AND DISPOSAL

During the period under review, the Group acquired the entire equity interest in Sofas UK which operates more than 20 furniture retail stores (now increased to 26 stores) in the UK. Sofas UK trades under the name of "Easyliving Furniture", a furniture brand with gaining popularity in the UK. The acquisition will offer a good opportunity for the Group to expand its home furniture retail business in the UK.

BUSINESS REVIEW AND PROSPECTS (cont'd)

MATERIAL ACQUISITION AND DISPOSAL (cont'd)

During the period under review, the Group also entered into a sale and purchase agreement to dispose of a piece of land located in Changsha, Hunan Province which was planned for properties development to avoid the potential uncertainties prevailing the property market in the PRC.

As at December 31, 2008, the Group entered into a sale and purchase agreement with the PRC local government to dispose of 9 parcels of land in Haining, Zhejiang Province for the use of its leather production to support an urban redevelopment plan. Up to the date of approval of this interim report, the disposal has not been completed.

PLEDGE OF ASSETS

The Group pledged deposits, property, plant and equipment to banks to secure the bills payable issued by the Group and the bank facilities granted to the Group. The deposits carry an average interest rate of 0.89%.

FOREIGN EXCHANGE EXPOSURE

The Group is fully aware that most of its trade receivables was exposed to the fluctuation of exchange rates. The Group used financial instruments to hedge foreign exchange risk, and recorded a gain of RMB0.7 million.

CONTINGENT LIABILITIES

As at June 30, 2009, the Group had no contingent liabilities.

EMPLOYEES AND EMOLUMENTS POLICIES

As at June 30, 2009, the Group employed a total of approximately 5,000 full time employees (as at June 30, 2008: approximately 8,300) including management staff, technicians, salespersons and workers. For the six months ended June 30, 2009, the Group's total expenses on the remuneration of employees were RMB77.6 million (six months ended June 30, 2008: RMB103.7 million). The Group's emolument policies for employees are formulated on the performance of individual employees, which are reviewed regularly every year. Apart from the provident fund scheme (according to the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees) or state-managed retirement pension scheme (for the PRC employees) and medical insurance, discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance.

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

FUTURE PLANS AND PROSPECTS

Although the Group is facing great difficulty under this economic climate, the Group is working hard to find more business opportunities and to overcome the challenges ahead.

Profit-oriented Upholstered Furniture Development Strategy

Facing the weak demand from the overseas markets and the rising cost, the Group has shifted its strategy from volume-oriented to profit-oriented. The Group will put more priority on the production and promotion of products with higher profit. Furthermore, the Group is taking steps to consolidate the production capacities. The Group has disposed of 9 pieces of land for the use of leather and furniture production to PRC local government and relocate the production facilities. As a result, the production structure and process will be re-designed and re-planned. After the consolidation of production facilities, business process efficiency will be further improved and the profit is estimated to increase. The Group will keep implementing a series of reforming schemes to motivate its business units. These will lead to strengthening of the Group's competitiveness.

BUSINESS REVIEW AND PROSPECTS (cont'd)

FUTURE PLANS AND PROSPECTS (cont'd)

Profit-oriented Upholstered Furniture Development Strategy (cont'd)

To maintain and strengthen the position as a major OEM is important to the Group's future development. Leveraging on the unique advantage in its vertically integrated production, the Group will continue to maintain strong relationships with its existing overseas customers and find more new cooperation possibilities from abroad.

Aggressive Expansion in Automobile Leather Market

The Group is pleased to see a rapid growth in automobile leather manufacture business in the first half of 2009. The Group is now the largest automobile seat leather supplier in the PRC and can supply both chrome and chrome free leather. The automobile leather division is equipped with advanced technology and instruments, along with experienced engineers and staffs. The Group's current customers are major automobile manufacturers in the PRC. Apart from maintaining the good relationship with its current customers, the Group will focus on its expansion in the PRC domestic market and expand its PRC customer base. Based on the leading research and development capability and mass production facility of the automotive leather division of the Group, the Group is aiming to achieve a 15% market share in the automotive leather market in the PRC by the end of year 2009.

Home Furniture Retail Business

Domestic

During the period under review, the Group owns two self-operating stores under its brand name "Kasen Home Furnishings" in Hangzhou and Shanghai respectively. In these stores, the Group provides domestic customers with quality furniture at affordable price. The Group has enacted a new pricing strategy to strengthen the competitiveness and the turnover showed a fast growth in the first half of 2009. In the future, the Group will implement more effective promotion, such as co-operation relationships with property developers, network marketing and setting up franchised chain-shops, etc. The Group is confident that a stronger brand can be built for its furniture retail business.

Overseas

In the first half of 2009, the Group acquired Sofas UK, a company principally engaged in the sale of home furniture in the UK. By acquiring Sofas UK, the Group will be able to make use of the floor areas of the current 26 retail stores of Sofas UK for promoting the brand of "Easyliving Furniture" with a view to gaining more popularity in the UK. In line with its expansion plan, the Group will open more new stores which will trade under "Easyliving Furniture". In the future, the Group will keep monitoring the possibilities of overseas acquisitions to expand its overseas retail business.

Properties Development

The Group is developing a commercial and residential property project in Yancheng, Jiangsu Province, PRC with a total construction area of 680,000 square meters. During the period under review, the sales generated from the first phase of Yancheng Project was recognized. It is estimated that steady income will be realized in the following years upon the sales in the next two phases.

The Group also owns two parcels of land with a total site area of 590,166 square meters in Boao, Hainan Province for the use of residential and tourism property development projects. Considering the optimistic future of the property market in Hainan, the Group will review and improve the construction plan to increase the attainable profit and it is expected that the project will be launched for construction in the end of year 2009.

DISCLOSURE OF INTERESTS

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

As at June 30, 2009, 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	1,604,000	503,292,635 *(Note)*	504,896,635	43.39%
Zhou Xiaosong	8,173,912	–	8,173,912	0.70%
Zhang Mingfa, Michael	1,980,000	–	1,980,000	0.17%

Note: 503,292,635 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 503,292,635 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, 2009.

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).

DISCLOSURE OF INTERESTS (cont'd)

SHARE OPTIONS (cont'd)

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-years period or otherwise as may be required in accordance with the provisions of the Scheme.

Details of the share options granted, pursuant to the Scheme on March 9, 2006, on May 5, 2008 and May 13, 2009 respectively, during the six months ended June 30, 2009 were as follows:

		Number of share options						
Name of Director	Exercise price *(HK$)*	Outstanding as at January 1, 2009	Granted from January 1, 2009 to June 30, 2009	Lapsed from January 1, 2009 to June 30, 2009	Outstanding as at June 30, 2009	Percentage of total issued share capital	Exercisable period	Notes
Zhu Zhangjin	2.38	1,000,000	–	–	1,000,000	0.08%	1/1/2007 to 8/3/2016	1,7,8
	2.38	1,000,000	–	–	1,000,000	0.08%	1/1/2008 to 8/3/2016	2,7,8
Zhou Xiaosong	2.38	1,000,000	–	–	1,000,000	0.08%	1/1/2007 to 8/3/2016	1,7,8
	2.38	1,000,000	–	–	1,000,000	0.08%	1/1/2008 to 8/3/2016	2,7,8
	1.18	500,000	–	–	500,000	0.04%	1/1/2009 to 4/5/2018	3,7,8
	1.18	500,000	–	–	500,000	0.04%	1/1/2010 to 4/5/2018	4,7,8
Zhang Mingfa, Michael	2.38	500,000	–	–	500,000	0.04%	1/1/2007 to 8/3/2016	1,7,8
	2.38	500,000	–	–	500,000	0.04%	1/1/2008 to 8/3/2016	2,7,8
	1.18	250,000	–	–	250,000	0.02%	1/1/2009 to 4/5/2018	3,7,8
	1.18	250,000	–	–	250,000	0.02%	1/1/2010 to 4/5/2018	4,7,8

DISCLOSURE OF INTERESTS (cont'd)

SHARE OPTIONS (cont'd)

Name of Director	Exercise price (HK$)	Number of share options: Outstanding as at January 1, 2009	Granted from January 1, 2009 to June 30, 2009	Lapsed from January 1, 2009 to June 30, 2009	Outstanding as at June 30, 2009	Percentage of total issued share capital	Exercisable period	Notes
Lu Yungang	2.38	200,000	–	–	200,000	0.02%	1/1/2007 to 8/3/2016	1,7,8
	2.38	200,000	–	–	200,000	0.02%	1/1/2008 to 8/3/2016	2,7,8
	1.18	300,000	–	–	300,000	0.03%	1/1/2009 to 4/5/2018	3,7,8
	1.18	300,000	–	–	300,000	0.03%	1/1/2010 to 4/5/2018	4,7,8
Chow Joseph	2.38	200,000	–	–	200,000	0.02%	1/1/2007 to 8/3/2016	1,7,8
	2.38	200,000	–	–	200,000	0.02%	1/1/2008 to 8/3/2016	2,7,8
	1.18	300,000	–	–	300,000	0.03%	1/1/2009 to 4/5/2018	3,7,8
	1.18	300,000	–	–	300,000	0.03%	1/1/2010 to 4/5/2018	4,7,8
		8,500,000	–	–	8,500,000	0.72%		
Other employees in aggregate	2.38	7,650,000	–	(150,000)	7,500,000	0.65%	1/1/2007 to 8/3/2016	1,7,8
	2.38	7,650,000	–	(150,000)	7,500,000	0.65%	1/1/2008 to 8/3/2016	2,7,8
	1.18	2,900,000	–	–	2,900,000	0.25%	1/1/2009 to 4/5/2018	3,7,8
	1.18	2,900,000	–	–	2,900,000	0.25%	1/1/2010 to 4/5/2018	4,7,8
Consultant in aggregate	0.53	–	5,000,000	–	5,000,000	0.43%	1/1/2010 to 12/5/2019	5,7,8,9
	0.53	–	5,000,000	–	5,000,000	0.43%	1/1/2011 to 12/5/2019	6,7,8,9
		29,600,000	10,000,000	(300,000)	39,300,000	3.38%		

Notes:

1. Pursuant to the Scheme, 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 were granted pursuant to the Scheme on May 13, 2009 and are exercisable at HK$0.53 per Share from January 1, 2010 to May 12, 2019.

6. These share options were granted pursuant to the Scheme on May 13, 2009 and are exercisable at HK$0.53 per Share from January 1, 2011 to May 12, 2019.

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

8. Except the lapsed share option stated above, up to June 30, 2009, none of these share options were exercised nor cancelled.

9. The Company granted 10,000,000 share options to an independent consultant of the Company on May 13, 2009 (the "Third Batch Option"). The exercise price of the options is HK$0.53. The fair value of the Third Batch Option is HK$2,623,000 (equivalent to RMB2,310,000).

DISCLOSURE OF INTERESTS (cont'd)

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, 2009, 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[1]	Beneficial owner	–	503,292,635	503,292,635	43.25%
Warburg Pincus & Co.[2]	Interest of controlled corporation	–	185,989,966	185,989,966	15.98%
Warburg Pincus Partners LLC[2]	Interest of controlled corporation	–	185,989,966	185,989,966	15.98%
Warburg Pincus Private Equity VIII L. P.[2]	Beneficial owner	–	90,120,988	90,120,988	7.74%
Warburg Pincus International Partners L.P.[2]	Beneficial owner	–	89,137,811	89,137,811	7.66%

Notes:

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

2. 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.

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, 2009.

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, 2009, 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, Kasen is the chairman and chief executive officer of the Company responsible for overseeing the operations of the Group. The Company is still considering appointing a new chief executive officer to replace Mr. Zhu if a candidate with suitable leadership, knowledge, skills and experience can be identified within or outside the Group. However, due to the nature and extent of the Group's operations, in particular in Mainland China and the in-depth knowledge and experience in the leather and upholstery furniture market required for the position of chief executive officer, the Company is unable to determine as to when the appointment of a chief executive officer for the Company can be effected.

CODE PROVISION A.4.1

Under CG Code Provision A.4.1, non-executive Directors should be appointed for a specific term and subject to re-election. The current independent non-executive Directors, namely Mr. Chow Joseph, Mr. Lu Yungang, Ken and Mr. Gu Mingchao are not appointed for specific terms, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Articles which provides that at every annual general meeting, one-third of the Directors for the time being or, if their number is not a multiple of three, the number nearest to but not less than one-third, shall retire from office by rotation. Given that the provisions are stipulated under the Articles, 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, 2009.

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, 2009.

REMUNERATION COMMITTEE

The Remuneration Committee comprises three members, the majority of which are independent non-executive Directors and an independent non-executive Director, Mr. Gu Mingchao 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, 2009.

POST BALANCE SHEET EVENTS

Pursuant to a conditional sale and purchase agreement dated September 1, 2009, Zhejiang Kasen Property Development Co., Ltd., a wholly-owned subsidiary of the Company, agreed to transfer its 49.5% equity interests with carrying amount of RMB27 million in Chengdu Longteng Shoes Market Investment and Development Co., Ltd. ("Chengdu Longteng"), a company established in the PRC with limited liability, to two independent third parties at a total consideration of RMB65,700,000. Upon completion of the Agreement, Chengdu Longteng will cease to be an associate of the Group.

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, 2009.

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. Zhang Mingfa, Michael, the independent non-executive Directors are Mr. Lu Yungang, Mr. Chow Joseph and Mr. Gu Mingchao.

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

PRC, September 16, 2009

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 15 to 26 which comprises the condensed consolidated statement of financial position of Kasen International Holdings Limited (the "Company") and its subsidiaries as of June 30, 2009 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows 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 requires the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standard Board ("IAS 34"). The directors of the Company 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 inquiries, 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 16, 2009

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2009

	NOTES	Six months ended June 30, 2009 RMB'000 (unaudited)	Six months ended June 30, 2008 RMB'000 (unaudited)
Turnover	3	**1,256,005**	1,081,148
Cost of sales		**(1,109,050)**	(948,265)
Gross profit		**146,955**	132,883
Other income		**16,310**	39,257
Distribution costs		**(73,976)**	(41,281)
Administrative expenses		**(53,158)**	(64,587)
Other expenses		**(51,217)**	(3,421)
Share of losses of associates		**(1,230)**	(1,393)
Gain on disposal of subsidiaries		**–**	2,399
Finance costs		**(40,903)**	(56,384)
(Loss) profit before taxation		**(57,219)**	7,473
Taxation	4	**(29,311)**	(4,663)
(Loss) profit for the period	5	**(86,530)**	2,810
Other comprehensive income for the period			
Exchange differences arising on translation		**(9,699)**	–
Total comprehensive (loss) income for the period		**(96,229)**	2,810
(Loss) profit for the period attributable to:			
Owners of the Company		**(85,711)**	5,417
Minority interests		**(819)**	(2,607)
		(86,530)	2,810
Total comprehensive (loss) income attributable to:			
Owners of the Company		**(95,410)**	5,417
Minority interests		**(819)**	(2,607)
		(96,229)	2,810
Basic and Diluted (loss) earnings per share	6	**RMB(7) cents**	RMB1 cent

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT JUNE 30, 2009

	NOTES	June 30, 2009 RMB'000 (unaudited)	December 31, 2008 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	7	**543,059**	572,078
Prepaid lease payments – non-current portion		**60,012**	61,031
Properties for development	8	**556,972**	948,919
Intangible assets		**3,925**	1,870
Interests in associates		**48,404**	49,634
Interest in a jointly controlled entity		**2,614**	2,614
Available-for-sale investments		**43,278**	43,278
Deferred tax assets		**–**	5,916
		1,258,264	1,685,340
CURRENT ASSETS			
Inventories		**616,076**	727,128
Properties under development and held for sale		**565,483**	747,936
Trade, bills and other receivables	9	**613,775**	463,382
Prepaid lease payments – current portion		**1,949**	1,949
Prepaid land appreciation tax		**1,194**	5,938
Tax recoverable		**15,155**	22,943
Pledged bank deposits		**145,473**	120,997
Bank balances and cash		**572,213**	389,647
		2,531,318	2,479,920
Assets classified as held for sale	10	**495,949**	214,485
		3,027,267	2,694,405
CURRENT LIABILITIES			
Trade, bills and other payables	11	**620,577**	376,421
Deposit received in respect of pre-sale of properties		**225,554**	617,516
Deposit received in respect of assets classified as held for sale		**285,143**	–
Derivative financial instruments		**–**	627
Bank and other borrowings – due within one year	12	**1,118,661**	1,429,002
Taxes payable		**7,664**	7,062
		2,257,599	2,430,628
NET CURRENT ASSETS		**769,668**	263,777
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,027,932**	1,949,117
NON-CURRENT LIABILITIES			
Other long-term liabilities		**33,568**	–
Bank and other borrowings – due after one year	12	**158,745**	13,555
		192,313	13,555
NET ASSETS		**1,835,619**	1,935,562
CAPITAL AND RESERVES			
Share capital		**1,404**	1,404
Reserves		**1,756,086**	1,852,654
Equity attributable to owners of the Company		**1,757,490**	1,854,058
Minority interests		**78,129**	81,504
TOTAL EQUITY		**1,835,619**	1,935,562

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2009

	Attributable to owners of the Company										
	Share capital RMB'000	Share premium RMB'000	Statutory reserve RMB'000 (note a)	Special reserve RMB'000 (note b)	Share option reserve RMB'000	Reserve on acquisition RMB'000 (note c)	Translation reserve RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Minority interests RMB'000	Total RMB'000
At January 1, 2008 (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 and total comprehensive income for the period	–	–	–	–	–	–	–	5,417	5,417	(2,607)	2,810
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	1,011	1,011
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	(47,160)	(47,160)
Capital contribution from minority shareholders	–	–	–	–	–	–	–	–	–	45,000	45,000
Recognition of equity-settled share-based payments	–	–	–	–	593	–	–	–	593	–	593
Dividend paid to a minority shareholder	–	–	–	–	–	–	–	–	–	(660)	(660)
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
Loss and total comprehensive expenses for the period	–	–	–	–	–	–	–	(279,221)	(279,221)	(1,772)	(280,993)
Issue of new shares	178	208,824	–	–	–	–	–	–	209,002	–	209,002
Release upon lapse of share options	–	–	–	–	(2,976)	–	–	2,976	–	–	–
Recognition of equity-settled share-based payments	–	–	–	–	1,644	–	–	–	1,644	–	1,644
Shares repurchased and cancelled	(1)	(530)	–	–	–	–	–	–	(531)	–	(531)
Capital contribution from minority shareholders	–	–	–	–	–	–	–	–	–	35,000	35,000
At December 31, 2008 (audited)	1,404	1,329,840	191,693	168,659	17,185	(30,968)	–	176,245	1,854,058	81,504	1,935,562
Loss for the period	–	–	–	–	–	–	–	(85,711)	(85,711)	(819)	(86,530)
Exchange differences arising on translation	–	–	–	–	–	–	(9,699)	–	(9,699)	–	(9,699)
Total comprehensive expenses for the period	–	–	–	–	–	–	(9,699)	(85,711)	(95,410)	(819)	(96,229)
Acquisition of additional interests in subsidiaries from minority shareholders	–	–	–	–	–	(1,973)	–	–	(1,973)	(2,256)	(4,229)
Release upon lapse of share options	–	–	–	–	(213)	–	–	213	–	–	–
Recognition of equity-settled share-based payments	–	–	–	–	815	–	–	–	815	–	815
Dividend paid to a minority shareholder	–	–	–	–	–	–	–	–	–	(300)	(300)
At June 30, 2009 (Unaudited)	1,404	1,329,840	191,693	168,659	17,787	(32,941)	(9,699)	90,747	1,757,490	78,129	1,835,619

Notes:

(a) The statutory reserve represents amounts appropriated from the profits after tax of certain subsidiaries of the Company established in the PRC to comply with the PRC laws and regulations.

(b) The special reserve arose from the reorganization completed in 2004.

(c) The reserve on acquisition represents the difference between the fair value and the carrying amount of the underlying assets and liabilities attributable to the additional interests in subsidiaries acquired by the Group.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2009

	NOTE	**Six months ended June 30, 2009 RMB'000 (unaudited)**	Six months ended June 30, 2008 RMB'000 (unaudited)
NET CASH FROM OPERATING ACTIVITIES		**99,056**	189,900
INVESTING ACTIVITIES			
Proceeds received on assets classified as held for sale		**285,143**	–
Acquisition of a subsidiary	13	**8,875**	(20,783)
Increase in pledged bank deposits		**(24,476)**	(22,557)
Purchase of property, plant and equipment		**(11,095)**	(10,139)
Net cash outflow arising from disposal of subsidiaries		**–**	(55,261)
Addition to other long-term assets		**–**	(67,000)
Other investing cash flows		**27,591**	(26,721)
NET CASH FROM (USED IN) INVESTING ACTIVITIES		**286,038**	(202,461)
FINANCING ACTIVITIES			
Repayment of bank and other borrowings		**(1,356,672)**	(1,212,359)
Dividends paid to a minority shareholder		**(300)**	(660)
Bank and other borrowings raised		**1,191,521**	1,323,800
Other financing cash flows		**(37,077)**	(6,162)
NET CASH (USED IN) FROM FINANCING ACTIVITIES		**(202,528)**	104,619
NET INCREASE IN CASH AND CASH EQUIVALENTS		**182,566**	92,058
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		**389,647**	508,850
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by bank balances and cash		**572,213**	600,908

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2009

1. BASIS OF PREPARATION

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

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 Group's annual financial statements for the year ended December 31, 2008.

In the current interim period, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations issued by the IASB, which are effective for the Group's financial year beginning on January 1, 2009.

IAS 1 (Revised 2007) has introduced a number of terminology changes, including revised titles for the condensed consolidated financial statements, and has resulted in a number of changes in presentation and disclosure.

IFRS 8 Operating Segments ("IFRS 8") is a disclosure Standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor Standard, IAS 14 Segment Reporting ("IAS 14"), required the identification of two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments by nature of products. The adoption of IFRS 8 has resulted in a redesignation for the Group's business segment (see note 3).

The adoption of the new and revised standards, amendments and interpretations has had no material effect on the reported results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognized.

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

The adoption of IFRS 3 (Revised 2008) Business Combinations may affect the Group's accounting for business combinations for which the acquisition dates are on or after January 1, 2010. IAS 27 (Revised 2008) Consolidated and Separate Financial Statements will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

The Group has adopted IFRS 8 with effect from January 1, 2009. IFRS 8 require operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess its performance. In contrast, the predecessor Standard (IAS 14) required an entity to identify two sets of segments (business and geographical), using a risks and returns approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments. In the past, the Group's primary reporting format was business segments by nature of goods and services supplied by the Group's operating divisions (i.e. upholstered furniture, furniture leather, automotive leather and properties development). However, information reported to Mr. Zhu Zhangjin, the Chief Executive Officer of the Company, for the purpose of resources allocation and performance assessment focuses more specifically on the categories of business. The principal categories of business are manufacturing and properties development. The unreported segments including retail business and property management service business are aggregated and presented as "Others". The Group's operating segments under IFRS 8 are therefore as follows:

- Manufacturing of upholstered furniture, furniture leather and automotive leather ("Manufacturing")
- Properties development; and
- Others, comprising mainly retail business and property management service business ("Others")

The segment results and segment assets are measured based on subsidiaries or group of subsidiaries that engaged in different businesses. Accordingly, the segment results include finance costs and tax expenses and segment assets include tax recoverable and bank balances and cash. Information regarding the above segments is reported below. Amounts reported for the prior period have been restated to conform to the requirements of IFRS 8.

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

	Manufacturing	**Properties development**	**Others**	**Eliminations**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Six months ended June 30, 2009					
Turnover					
External sales	**677,453**	**523,633**	**54,919**	**–**	**1,256,005**
Inter-segment sales	**21,702**	**–**	**–**	**(21,702)**	**–**
Total	**699,155**	**523,633**	**54,919**	**(21,702)**	**1,256,005**
Six months ended June 30, 2008					
Turnover					
External sales	1,078,056	–	3,092	–	1,081,148
Inter-segment sales	1,132	–	–	(1,132)	–
Total	1,079,188	–	3,092	(1,132)	1,081,148

3. SEGMENT INFORMATION (cont'd)

	Six months ended June 30, 2009 *RMB'000*	Six months ended June 30, 2008 *RMB'000*
Results		
Segment results		
– Manufacturing	**(6,147)**	14,500
– Properties development	**(52,608)**	(294)
– Others	**(19,887)**	(7,537)
	(78,642)	6,669
Unallocated corporate income	**976**	815
Unallocated corporate expenses	**(8,864)**	(4,674)
(Loss) profit for the period	**(86,530)**	2,810

Segment results represent the (loss) profit earned by each segment without allocation of corporate income, expenses and directors' salaries. This is the measure reported to the chief operating decision maker for the purpose of resources allocation and performance assessment.

The following is an analysis of the Group's assets by operating segment:

	June 30, 2009 *RMB'000*	December 31, 2008 *RMB'000*
Manufacturing	**2,250,409**	2,155,954
Properties development	**1,845,260**	2,164,202
Others	**143,081**	15,932
Total segment assets	**4,238,750**	4,336,088

4. TAXATION

	Six months ended June 30, 2009 *RMB'000*	Six months ended June 30, 2008 *RMB'000*
Land appreciation tax – current period	**5,532**	–
PRC enterprise income tax		
– current period	**17,955**	3,535
– (over) under provision in prior periods	**(92)**	1,128
	17,863	4,663
Deferred tax charged	**5,916**	–
	29,311	4,663

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

5. (LOSS) PROFIT FOR THE PERIOD

	Six months ended June 30, 2009 *RMB'000*	Six months ended June 30, 2008 *RMB'000*
(Loss) profit for the period has been arrived at after charging (crediting):		
Amortization of intangible assets	**295**	270
Amortization of prepaid lease payments	**1,019**	1,162
Amortization of properties for development	**3,114**	5,443
Depreciation of property, plant and equipment	**37,308**	42,899
Total depreciation and amortization	**41,736**	49,774
Interest on bank and other borrowings wholly repayable within five years	**43,157**	56,384
Less: amount capitalized in respect of properties under development	**(2,254)**	–
	40,903	56,384
Impairment loss recognized (reversed) in respect of trade and other receivables	**6,005**	(9,593)
Compensation for cancellation of grant of land	**–**	(21,430)
Net loss (gain) on sales of scrap, raw materials and work in progress	**31,284**	(62)
Net (gain) loss on disposal of property, plant and equipment	**(2,962)**	713
Net foreign exchange (gain) losses	**(5,057)**	13,227

6. (LOSS) EARNINGS PER SHARE

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

(Loss) earnings

	Six months ended June 30, 2009 *RMB'000*	Six months ended June 30, 2008 *RMB'000*
(Loss) earnings for the purposes of basic and diluted (loss) earnings per share, representing (loss) profit attributable to owners of the Company	**(85,711)**	5,417

Number of shares

Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,163,656,985**	990,048,369
Effect of dilutive potential ordinary shares: Share options issued by the Company	**–**	59,282
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,163,656,985**	990,107,651

The presentation of diluted loss per share for the six months period June 30, 2009 has not assumed the exercise of the Company's share options because the exercise price of share options granted by the Company is higher than the Company's share price.

7. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the current period, the Group incurred expenditure of approximately RMB11,095,000 (six months ended June 30, 2008: RMB10,139,000) on property, plant and equipment to expand and upgrade the Group's manufacturing facilities. In addition, a carrying amount of approximately RMB14,689,000 of leasehold improvements and equipments were acquired as a result of the acquisition of a subsidiary by the Group during the current period.

During the current period, the Group disposed of certain property, plant and equipment with a carrying amount of approximately RMB21,267,000 (six months ended June 30, 2008: RMB2,928,000).

8. PROPERTIES FOR DEVELOPMENT

	RMB'000
CARRYING AMOUNT	
At January 1, 2009	**948,919**
Additions	**2,672**
Transfer to properties under development	**(110,041)**
Transfer to assets classified as held for sale	**(281,464)**
Amortization made for the period	**(3,114)**
At June 30, 2009	**556,972**

9. TRADE, BILLS AND OTHER RECEIVABLES

The Group grants a credit period ranging from 30 days to 90 days to its trade customers under manufacturing segment. The following is an analysis of trade receivables by age, presented based on the invoice date:

	June 30, 2009 (unaudited) ***RMB'000***	December 31, 2008 (audited) *RMB'000*
Within 60 days	**227,792**	133,447
61 – 90 days	**47,338**	44,727
91 – 180 days	**19,437**	60,290
181 – 365 days	**24,963**	15,500
1 – 2 years	**3,297**	4,976
Total trade and bills receivables, net of impairment loss	**322,827**	258,940

Included in other receivables of the Group is an advance of RMB50,000,000 (December 31, 2008: Nil) to a shareholder of a non-wholly owned subsidiary. The amount is interest free and unsecured. Upon the completion of procedures for deregistration of the non-wholly owned subsidiary, the amount will be offset against the refund of capital to that shareholder.

10. ASSETS CLASSIFIED AS HELD FOR SALE

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

	June 30, 2009 (unaudited) ***RMB'000***	December 31, 2008 (audited) *RMB'000*
Building included in property, plant and equipment *(note a)*	**188,624**	188,624
Prepaid lease payments *(note a)*	**25,861**	25,861
Properties for development *(note b)*	**281,464**	–
Assets classified as held for sale	**495,949**	214,485

Notes:

(a) Pursuant to a Board resolution of the Company dated on December 31, 2008, certain subsidiaries of the Company entered into an agreement with Haining City Xieqiao Town Construction and Development Company Limited, the nominee of Haining City Xieqiao Town People's Government, regarding the relocation of the manufacturing plant of those subsidiaries to fulfill local government urban redevelopment plan requirements for a consideration to be received from local government. Up to the date of approval of this interim financial report, this disposal had not been completed.

(b) Pursuant to a Board resolution of the relevant subsidiary dated on April 10, 2009, an indirect non wholly-owned subsidiary of the Company entered into an agreement with a third party to transfer a land use right to this third party for a consideration of approximately RMB287,143,000. Up to the date of approval of this interim financial report, this disposal had not been completed.

11. TRADE, BILLS AND OTHER PAYABLES

The following is an analysis of trade payables by age, presented based on the invoice date:

	June 30, 2009 (unaudited) ***RMB'000***	December 31, 2008 (audited) *RMB'000*
Within 60 days	**219,252**	67,150
61 – 90 days	**39,124**	7,884
91 – 180 days	**505**	6,520
181 – 365 days	**19,662**	11,436
1 – 2 years	**20,852**	27,583
Over 2 years	**4,813**	3,791
Total trade payables	**304,208**	124,364
Bills payable *(note)*	**49,032**	3,163
	353,240	127,527

Note: All bills payable were not yet due at the end of the reporting period.

11. TRADE, BILLS AND OTHER PAYABLES (cont'd)

Included in other payables of the Group are an advance due to Zhejiang Sunbridge Industrial (Group) Co. Ltd, a company that a substantial shareholder and a director of the Company has significant influence and beneficial interests, amounting to RMB113,036,000 (December 31, 2008: RMB120,932,000) and an amount due to a director of RMB30,995,000 (December 31, 2008: RMB31,007,000). The amounts are unsecured, interest-free and repayable on demand.

12. BANK AND OTHER BORROWINGS

During the period, the Group obtained additional bank and other loans of approximately RMB1,191,521,000 (six months ended June 30, 2008: RMB1,323,800,000) and made repayments of approximately RMB1,356,672,000 (six months ended June 30, 2008: RMB1,212,359,000).

13. ACQUISITION OF A SUBSIDIARY

On March 2, 2009, the Group acquired 100% interest in Sofas UK Plc from an independent party at a consideration of GBP1.00 (equivalent to approximately RMB9.8). Sofas UK Plc is engaged in furniture retail business in the United Kingdom ("UK").

The net liabilities acquired in the transaction are as follows:

	Acquiree's carrying amount before combination	**Provisional fair value adjustment**	**Provisional fair value**
	RMB'000	*RMB'000*	*RMB'000*
Net liabilities acquired:			
Property, plant and equipment	14,689	–	14,689
Brand name	–	2,330	2,330
Inventories	47,064	–	47,064
Trade and other receivables	28,836	–	28,836
Bank balances and cash	8,875	–	8,875
Trade and other payables *(note a)*	(85,203)	–	(85,203)
Other non-current liabilities	(23,709)	–	(23,709)
	(9,448)	2,330	(7,118)
Add: Goodwill *(note b)*			7,118
Consideration of GBP1			–

Cash inflow arising on acquisition represented RMB8,875,000 bank balances and cash acquired.

13. ACQUISITION OF A SUBSIDIARY (cont'd)

Notes:

(a) The trade and other payables excluded an amount of RMB28,365,000 due to the subsidiaries of the Group that had fully impaired by the Group in previous years.

(b) Upon acquisition, the directors of the Company had reviewed the current economic outlooks in UK and considered the future profit stream is uncertain. Accordingly, the goodwill arising on acquisition was fully impaired and recognised as other expenses in the condensed consolidated statement of comprehensive income.

The fair value of assets acquired has been determined on a provisional basis, awaiting the receipt of professional valuations.

Sofas UK Plc contributed RMB49,676,000 to the Group's turnover and RMB7,212,000 to the Group's loss for the period between the date of acquisition and the end of reporting date.

14. CAPITAL AND OTHER COMMITMENTS

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

	June 30, 2009 (unaudited) ***RMB'000***	December 31, 2008 (audited) *RMB'000*
Expenditure contracted for but not provided in the condensed consolidated financial statements in respect of		
– Acquisition of property, plant and equipment	**15,523**	15,936
– Properties under development	**55,115**	146,112
– Construction of certain infrastructure and public facilities in the PRC on behalf of the government	**12,541**	13,072
	83,179	175,120

15. SUBSEQUENT EVENT

Pursuant to a conditional sale and purchase agreement dated September 1, 2009, Zhejiang Kasen Property Development Co., Ltd., a wholly-owned subsidiary of the Company, agreed to transfer its 49.5% equity interests with carrying amount of RMB27 million in Chengdu Longteng Shoes Market Investment and Development Co., Ltd. ("Chengdu Longteng"), a company established in the PRC with limited liability, to two independent third parties at a total consideration of RMB65,700,000. Upon completion of the Agreement, Chengdu Longteng will cease to be an associate of the Group.