



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 2010

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BUSINESS REVIEW AND PROSPECTS

RESULTS OVERVIEW

For the six months ended June 30, 2010, the Group recorded a consolidated turnover of RMB1,121.2 million (six months ended June 30, 2009: RMB1,256.0 million), representing a decrease of 10.7%.

The Group's gross profit for the six months ended June 30, 2010 was RMB261.3 million (six months ended June 30, 2009: RMB147.0 million) with gross profit margin of 23.3% (six months ended June 30, 2009: 11.7%).

The net profit attributable to owners of the Company for the first half of 2010 was approximately RMB22.4 million, representing an increase of 126.1% turnaround profit over a net loss of approximately RMB85.7 million of the corresponding period in 2009.

Review by Business Segments

The Group's reportable segments are manufacturing, property development, retail business and others (comprising mainly property management service business).

The table below shows the total turnover by product category for the six months ended June 30, 2010, together with the comparative figures for the corresponding period of last year:

	2010		Six Months Ended June 30, 2009		Change %
	RMB'Million	%	RMB'Million	%	
Manufacturing	913.2	81.5	677.5	53.9	34.8
Upholstered Furniture	456.4	40.7	375.6	29.9	21.5
Furniture Leather	142.0	12.7	148.8	11.8	-4.6
Automotive Leather	314.8	28.1	153.1	12.2	105.6
Property Development	98.6	8.8	523.6	41.7	-81.2
Retail	107.8	9.6	54.2	4.3	98.9
Others	1.6	0.1	0.7	0.1	128.6
Total	1,121.2	100.0	1,256.0	100.0	-10.7

BUSINESS REVIEW AND PROSPECTS (cont'd)

RESULTS OVERVIEW (cont'd)

Review by Business Segments (cont'd)

Manufacturing Business

During the period under review, manufacturing business showed a significant increase. This business segment, including three major operating divisions: upholstered furniture, furniture leather and automotive leather, recorded a total turnover of RMB913.2 million for the first half of 2010, representing an increase of 34.8% (six months ended June 30, 2009: RMB677.5 million). During the period under review, the segment gained an operating profit of RMB85.1 million, compared to the operating loss of RMB5.2 million for the corresponding period in 2009. A brief discussion of the performance of the three operating divisions are as follows:

Upholstered Furniture

Sales of upholstered furniture including finished sofa and sofa cut-and-sew accounted for 40.7% of the Group's total revenue. The Group completed a restructuring exercise at the end of 2009 to consolidate its manufacturing facilities. Through such initiative, excess capabilities were minimized and the Group was able to maintain its leading position as a major OEM partner with overseas customers during an uncertain economic environment. The Group's upholstered furniture sales was RMB456.4 million in the first half of 2010 (six months ended June 30, 2009: RMB375.6 million) and the gross profit margin was 19.0% (six months ended June 30, 2009: 19.9%).

Furniture Leather

The Group's priority in furniture leather production is to meet the internal leather requirement of its upholstered furniture division. The Group's sales of furniture leather performed steadily and recorded sales of RMB142.0 million in the first half of 2010 (six months ended June 30, 2009: RMB148.8 million).

Automotive Leather

The automobile industry in China is now one of the driving forces of China's national economy and maintained strong growth momentum in the first half of 2010. The Group, as one of the leading domestic automotive seat leather suppliers in China, successfully expanded its customer base and strengthened the relationships with major automakers in China. Revenue generated in automotive leather operating division was RMB314.8 million in the first half of 2010, representing a significant increase of 105.6% compared to the corresponding period in 2009 (six months ended June 30, 2009: RMB153.1 million). The gross profit margin was also increased to 31.3% for the six months ended June 30, 2010, compared to 15.6% of the corresponding period in 2009.

Property Development Business

Land Bank of the Group as at June 30, 2010

No.	Project Name	Location	Interests Contracted to the Group	Total Site Area (sq.m)
1	Asia Bay	Boao, Hainan	92%	590,165
2	Sanya Project (Note a)	Sanya, Hainan	51%	1,424,692
3	Qianjiang Continent	Yancheng, Jiangsu	100%	331,040
4	Jing Xiang Yuan	Haining, Zhejiang	100%	26,662
5	Xieqiao Project 1	Haining, Zhejiang	100%	93,578
6	Xieqiao Project 2 (Note b)	Haining, Zhejiang	100%	75,222
Grand Total				<u>2,541,359</u>

BUSINESS REVIEW AND PROSPECTS (cont'd)

RESULTS OVERVIEW (cont'd)

Review by Business Segments (cont'd)

***Property Development Business* (cont'd)**

Notes:

- a. On November 12, 2009, the Group entered into an agreement to acquire 51% equity interest in Hainan Hejia Property Development Co., Ltd. ("Hainan Hejia"), such that Sanya Project will be undertaken by Hainan Hejia. As at June 30, 2010, the acquisition of Hainan Hejia was not completed.
- b. On June 21, 2010, the Group entered into an agreement to acquire a parcel of land which is located in the north side of Xiaxie Road, Haining City, Zhejiang Province for Xieqiao Project 2. As at June 30, 2010, the acquisition of the land was not completed.

Flagship Projects Overview

Hainan Asia Bay



Hainan Asia Bay is located at the east coast of Boao City, with a site area of approximately 600,000 square meters. The project features a beautiful beach and has facilities including a five-star seaview hotel, several luxurious club houses and one health club. The total gross floor area is approximately 600,000 square meters, including six groups of island villas, six buildings of wave-shape apartments and seaview villas. Hainan Asia Bay is targeted to become the "Landmark at the east coast" (東線海岸地標) to attract the customers from all over the world. During the period under review, the Group commenced the construction of the first phase of Hainan Asia Bay which includes two groups of villas, namely "Bali Islands" and "Sentosa" with the theme of southeast Asia style and two apartment buildings. The first phase will be launched for sale in the second half of 2010.

BUSINESS REVIEW AND PROSPECTS (cont'd)

RESULTS OVERVIEW (cont'd)

Review by Business Segments (cont'd)

Property Development Business (cont'd)

Honours and Awards

1. 2010 Top Five Best Properties of Living Environment in Hainan (2010海南五大最佳人居環境樓盤)
2. 2010 The Most Expected Property of Hainan (2010海南最值得期待樓盤)



BUSINESS REVIEW AND PROSPECTS (cont'd)

RESULTS OVERVIEW (cont'd)

Review by Business Segments (cont'd)

Property Development Business (cont'd)

Qianjiang Continent

Qianjiang Continent, with a site area of approximately 331,000 square meters, is located in Yancheng city of Jiangsu Province. This project is adjacent to the main road of Yancheng and surrounded by forest park, commercial center and cultural district. The total gross floor area is approximately 626,000 square meters and it is the biggest residential property in Yancheng. Since its expansion to Yancheng, the Group has become the leader of local property market with its unique value.

During the period under review, the recognized gross floor area sold in this project was 19,495 square meters and the recognized sales was amounted to RMB98.6 million. A total of 226 units, including commercial units and residential units were delivered and the average selling price was RMB5,057 per square meter, compared to RMB3,750 per square meter during the corresponding period in 2009.



Honors and Awards

National Demonstration Project (國家康居示範工程)

Others

The construction of the first phase of Jing Xiang Yuan in Haining of Zhejiang Province ("Haining Project") was nearly completed in the first half of 2010. The total gross floor area is approximately 33,000 square meters. All units have been pre-sold with estimated revenue of RMB99.0 million. The average selling price was RMB3,000 per square meter.

The Group's other property projects, including projects in Sanya of Hainan Province and Haining of Zhejiang Province, were still undeveloped during the period under review. No contribution was made from these projects with respect to turnover and profit of the Group in the first half of 2010.

Retail Business

The Group has entered into the furniture retail market in both China and the United Kingdom ("UK"). The total turnover from retail business recorded an increase of 98.9% from RMB54.2 million in the first half of 2009 to RMB107.8 million in the first half of 2010. During the period under review, a total operating loss of RMB29.9 million was recorded in this business segment (six months ended June 30, 2009: loss of RMB20.8 million).

BUSINESS REVIEW AND PROSPECTS (cont'd)

RESULTS OVERVIEW (cont'd)

Review by Business Segments (cont'd)

Retail Business (cont'd)

At present, the Group operates five furniture stores in China's major cities trading under the brand name of "Kasen Home Furnishings" among which, two are self-owned stores and the other three are franchisees. The domestic retail business performed satisfactory and recorded a turnover of RMB9.6 million during the period under review (six months ended June 30, 2009: RMB4.5 million).

The Group entered into the UK furniture retail market in March 2009 through the acquisition of all the existing shares of Sofas UK Plc, a UK based furniture retailer. As at June 30, 2010, the Group operated 26 stores in the UK trading under the brand name of "Easyliving Furniture". Sales from the UK market was RMB98.2 million in the first half of 2010 (six months ended June 30, 2009: RMB49.7 million). The business in the UK is still in the deficit position because of the high operation cost and weak demand from UK individual customers.

Review by Region

The table below shows the total turnover by geographic market for the six months ended June 30, 2010, together with the comparative figures for the corresponding period of last year:

	2010		Six Months Ended June 30,		Change %
	RMB'Million	%	2009 RMB'Million	%	
USA	339.7	30.3	272.3	21.7	24.8
Europe	129.1	11.5	87.5	7.0	47.5
Australia	32.1	2.9	14.1	1.1	127.7
PRC (including Hong Kong)	619.0	55.2	882.1	70.2	-29.8
Others	1.3	0.1	–	–	N.M.
Total	1,121.2	100.0	1,256.0	100.0	-10.7

N.M. – Not meaningful.

During the period under review, the Group's sales to the US market increased by 24.8% as compared to the corresponding period of last year and the percentage of US sales to the Group's total turnover increased to 30.3%. By completing the restructuring of its upholstered furniture manufacturing operations at the end of 2009, the Group strengthened its cooperation with major overseas customers and consolidated its leading position in the US market. As the US economy started to pick up during the period under review, the Group's sales to the US market increased.

The Group's sales to the European market increased steadily. In the first half of 2010, this segment recorded a turnover of RMB129.1 million (six months ended June 30, 2009: RMB87.5 million) with an increase of 47.5% as compared to the corresponding period in 2009. The retail business in the UK will further help the Group to expand its business in Europe.

BUSINESS REVIEW AND PROSPECTS (cont'd)

RESULTS OVERVIEW (cont'd)

Review by Region (cont'd)

The Group's turnover from the PRC domestic market accounted for 55.2% of its total revenue in the first half of 2010. During the period under review, the Group's sales to the PRC domestic market showed a good performance, mainly attributable to the increased sales of automotive leather and also the sales from property development. However, total sales to the PRC domestic market was RMB619.0 million, representing a decrease of 29.8% as compared to RMB882.1 million for the first half of 2009 due to the reduced turnover resulting from a sharp decline in the delivery of property development during the period under review despite the significant increase in its sales of automotive seat leather.

Operating Expenses, Taxation and Profit Attributable to Owners

The Group's selling and distribution costs during the period under review increased to approximately RMB129.3 million, as compared to approximately RMB74.0 million in the first half of 2009, mainly due to (1) a net increase of approximately RMB10.0 million in operating lease rentals and government rates, attributed mainly by an increase of approximately RMB17.3 million from the UK operations as the number of stores increased and six months of expenses were recognized in the Group's results, offset by a reduction of RMB7.5 million for the reversal of PRC store lease rentals recognized in prior years and reduction of annual rentals as a result of alteration in PRC store leases, (2) an increase of approximately RMB8.2 million in staff costs for sales persons of the Group's UK stores, (3) an increase of approximately RMB11.8 million in transportation costs, and (4) an increase of approximately RMB19.8 million in payment of sales commission and marketing expenses, which included an increase of approximately RMB2.0 million and RMB8.6 million in marketing expenses incurred by the Group's UK stores and PRC property development projects respectively, and approximately RMB9.1 million increased sales commission due to increased sales in automotive leather division. As a result, the selling and distribution costs to turnover in the first half of 2010 increased to 11.5% as compared to 5.9% in the corresponding period in 2009.

The administrative costs for the six months ended June 30, 2010 was approximately RMB65.2 million, with an increase of approximately RMB7.0 million as compared to approximately RMB58.2 million during the corresponding period of last year, mainly due to an increase in staff costs.

The Group's finance cost in the first half of 2010 was approximately RMB30.2 million, with a decrease of approximately RMB10.7 million, as compared to approximately RMB40.9 million during the same period of 2009, due to the reduction of bank lending rate during the period under review.

Other expenses for the six months ended June 30, 2010 were approximately RMB29.4 million, as compared to approximately RMB45.2 million in the first half of 2009. Such decrease resulted from (1) a decrease of approximately RMB7.1 million in goodwill impairment arising from the acquisition of Sofas UK Plc, (2) a decrease of approximately RMB29.5 million of loss on disposal of obsolete raw materials in inventories, and offset by (3) the net foreign exchange loss of RMB8.4 million (net foreign exchange gain of approximately RMB5.0 million recorded as "Other income" in the corresponding period in 2009), together with (4) the net loss of approximately RMB9.3 million suffered from the PRC warehouse fire accident happened during the period under review.

BUSINESS REVIEW AND PROSPECTS (cont'd)

RESULTS OVERVIEW (cont'd)

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

Other income for the six months ended June 30, 2010 was approximately RMB41.5 million, as compared to approximately RMB20.7 million in the first half of 2009. The increase resulted from (1) a compensation of approximately RMB15.4 million received from the PRC Government in relation to the cancellation of grant of a small parcel of land in Yancheng, Jiangsu Province, and (2) dividend of approximately RMB3.1 million received from the investment in Haining China Leather Market, which was listed in the Shenzhen Stock Exchange.

The Group's income tax in the first half of 2010 was approximately RMB25.7 million, with a decrease of approximately RMB3.6 million, as compared to approximately RMB29.3 million in the corresponding period in 2009. The decrease resulted from (1) a decrease in PRC income tax of approximately RMB19.9 million as a result of a decrease in taxable profits generated from reduced delivery of some of the residential building units in Yancheng, Jiangsu Province, offset by (2) an increase in PRC income tax of approximately RMB16.3 million as a result of the increase in taxable profits generated from the increased sales of manufacturing business at subsidiary level.

For reasons mentioned above, the Group has made a successful turnaround in its business and become profitable in the first six months ended June 30, 2010. The net profit attributable to owners of the Company was approximately RMB22.4 million in the first half of 2010, as compared to a net loss of approximately RMB85.7 million in the corresponding period in 2009.

FINANCIAL RESOURCES AND LIQUIDITY

As at June 30, 2010, the Group had cash and cash equivalent of RMB436.5 million (as at December 31, 2009: RMB461.9 million) and a total borrowings of RMB1,488.7 million (as at December 31, 2009: RMB1,281.9 million). This represents a gearing ratio of 69.2% (as at December 31, 2009: 62.1%) and a net debt-to-equity ratio of 48.8% (as at December 31, 2009: 39.5%). 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, 2010, the Group's inventory now primarily represented leather crust, was RMB490.1 million, representing an increase of RMB80.9 million as compared to December 31, 2009. Inventory turnover days for the six months ended June 30, 2010 has increased to 117 days as compared to 110 days as at December 31, 2009. This increase was primarily due to the fact that the Group increased its purchase of leather crust to cope with rising purchase orders from its upholstered furniture and automotive leather businesses, leading to higher inventories at all major group companies.

In the six months ended June 30, 2010, the Group continued to maintain a strict credit policy. Longer credit terms were granted to customers in the automotive leather division, account receivable turnover days increased to 84 days for the first half of 2010 (as at December 31, 2009: 82 days).

The accounts payable turnover days decreased to 45 days for the six months ended June 30, 2010 (as at December 31, 2009: 51 days).

BUSINESS REVIEW AND PROSPECTS (cont'd)

MATERIAL ACQUISITION AND DISPOSAL

During the period under review, the Group acquired two parcels of land located in Haining of Zhejiang Province in January and June 2010, respectively with a total site area of 168,800 square meters for the purpose of property development.

During the period under review, the Group entered into the sale and purchase agreements to further acquire 26% equity interest in Hainan Hejia Property Development Co., Ltd and to dispose of 2% equity interest in Hainan Boao Kasen Property Development Co., Ltd.

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 0.36%.

FOREIGN EXCHANGE EXPOSURE

The Group is principally engaged in export-related business, and transactions (including sales and procurements) were mainly denominated in US dollars, and most of the trade receivables were exposed to fluctuation. In the six months ended June 30, 2010, the Group used forward contracts and some other financial instruments to hedge foreign exchange risk, and recorded a gain of approximately RMB2,305,000.

On the other hand, the Group's exposure to foreign currency in retail segment has increased during the period under review. It was mainly due to the reason that the functional currency in respect of the acquisition of Sofas UK is in GBP while the majority of the purchase of Sofas UK is in USD. However, Sofas UK's foreign exchange risk of GBP against USD is minimised partly by reason of an arrangement reached between Sofas UK and a supplier to fix the settlement rate of payable in its own functional currency. The payable under such arrangement amounted to approximately RMB43.8 million as at June 30, 2010.

CONTINGENT LIABILITIES

As at June 30, 2010, the Group had certain contingent liabilities. For details, please refer to note 16 to the Condensed Consolidated Financial Statements.

EMPLOYEES AND EMOLUMENTS POLICIES

As at June 30, 2010, the Group employed a total of approximately 4,600 full time employees (as at June 30, 2009: approximately 5,000) including management staff, technicians, salespersons and workers. For the six months ended June 30, 2010, the Group's total expenses on the remuneration of employees were RMB97.0 million (six months ended June 30, 2009: RMB77.6 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), state-managed retirement pension scheme (for the PRC employees) or state National Insurance scheme (for the UK employees) and medical insurance, discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance.

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

BUSINESS REVIEW AND PROSPECTS (cont'd)

FUTURE PLANS AND PROSPECTS

Manufacturing Business

Production of leather products and upholstered furniture will still be an important segment of the Group's business. The Group aims to follow its principle of "Specialty, Excellence and Perfection" in manufacturing in order to further improve its profitability in this traditional segment.

The automotive leather business will be the core element in the Group's leather production division. The leading position in domestic market achieved in previous years has proved its success in this business and the cooperation with major automakers will be further strengthened. The Group's automotive leather manufacturing division was granted high-tech enterprise status and received a series of quality management system accreditations. Such status and accreditations have given its customers strong confidence in the quality of its products.

Leveraging on its advantage in upholstered furniture production as a reputable OEM partner, the Group will put more emphasis on the product design to meet the demand from overseas retailers and PRC domestic customers. In order to generate more profit from the traditional manufacturing business, the Group will continue to implement initiatives such as cost-saving, management optimization, efficiency improvement and business model reconstruction.

Retail Business

The Group currently operates five furniture retail stores in major cities trading under the brand name of "Kasen Home Furnishings" in China. In these stores, the Group provides domestic customers with quality in-door and out-door furniture at affordable prices. Facing intense competitions in the furniture market, the Group will focus on the innovation of sales model. The Group aims to develop a customer base that includes individuals, property developers and also government procurement agencies. To expand its distribution channels, the Group is developing a sales program aimed to bring in more franchisers.

For the business in the UK, it is still in the deficit position as a result of the high operation cost and weak demand from UK individual customers. In the future, the Company will take active measures, such as consolidation of outlets, design of new products, and improvement of management efficiency to improve the performance and profitability of the Group's UK business.

Property Development

During the period under review, the PRC government issued some new regulatory policies on the real estate industry. Despite of the uncertain market situation, the Group's property development business still showed a strong performance in the first half of 2010. Going forward, the Group will continue to expand in this new business segment.

The Group's long term objective is to become a leading tourism property developer in China. Owing to the rapid economic growth, increase in the income of residents and the strong domestic tourism demand, the tourism-related industry in China is enjoying a new wave of rapid development. It is also a good opportunity for the tourism property developers. At present, tourism property market in China is still at a preliminary stage and there are not many experienced developers in this segment. Therefore, the Group believes that there is immense potential in this industry. The Hainan Project has given the Group a successful start into this new industry while accumulating resources, talents, customers and experiences. In the future, the Group will actively look for investment opportunities in other famous tourism resorts, such as Zhejiang Province, Yunnan Province and also the Northeastern regions of China.

BUSINESS REVIEW AND PROSPECTS (cont'd)

FUTURE PLANS AND PROSPECTS (cont'd)

Property Development (cont'd)

The Group's largest property development projects are in Hainan Province. According to 《關於推進海南國際旅遊島建設發展的若干意見》("Certain Opinions in Relation to Promoting the Development of Hainan International Tourists Island") promulgated by the State Council of the PRC in January 2010, it is the PRC's national strategy to develop Hainan Province into an international tourist island. Despite of the tightened regulatory environment, the residential property prices in Hainan Province still maintain at high level, mainly attributable to the island's unique geographical location and huge base of potential buyers from all over the world.

The Asia Bay Project in Boao, Hainan is currently under development with a total construction area of approximately 600,000 square meters. The pre-sale of the first phase will be launched in the second half of 2010.

In Sanya, the Group has a land reserve of more than 1,000,000 square meters for residential and commercial real estate development. At present, these projects are at the stage of development planning and design.

More commercial units of Qianjiang Continent in Jiangsu Province will be delivered in the second half of 2010 and it is expected that more revenue will be recognized. The Group is confident that steady income and profit will be realized in the following years upon sales delivery in the next phases.

The Group will also allocate more resources to its property development business in Haining of Zhejiang Province. Haining is a famous tourism city located between Shanghai and Hangzhou and enjoys a convenient transport system. It is well-known by its unique resort of tide viewing. In the first half of 2010, the Group has acquired 7 parcels of land with total site area of approximately 169,000 square meters for residential property development. In the second half of 2010, the Group will continue to increase its land bank in this area.

DISCLOSURE OF INTERESTS

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

As at June 30, 2010, 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

Name of Director	Number of shares held, capacity and nature of interest			Percentage of the Company's issued share capital
	Directly Beneficially owned	Through Controlled corporation	Total number of shares interested	
Zhu Zhangjin	11,769,000	503,292,635 (Note)	515,061,635	44.44%
Zhou Xiaosong	8,173,912	–	8,173,912	0.71%
Zhang Mingfa, Michael	1,980,000	–	1,980,000	0.17%

Note: 503,292,635 shares are beneficially owned by Joyview Enterprises Limited ("Joyview"), a company wholly and beneficially owned by Mr. Zhu.

(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, 2010.

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, May 5, 2008, May 13, 2009 and October 12, 2009 respectively, during the six months ended June 30, 2010 were as follows:

Name of Director	Exercise price HK\$	Number of share options					Outstanding as at June 30, 2010	Percentage of total issued share capital	Exercisable period	Notes
		Outstanding as at January 1, 2010	Granted from January 1, 2010 to June 30, 2010	Lapsed from January 1, 2010 to June 30, 2010	Exercised from January 1, 2010 to June 30, 2010	Outstanding as at June 30, 2010				
Zhu Zhangjin	2.38	1,000,000	-	-	-	1,000,000	0.09%	1/1/2007 to 8/3/2016	1,9,10	
	2.38	1,000,000	-	-	-	1,000,000	0.09%	1/1/2008 to 8/3/2016	2,9,10	
Zhou Xiaosong	2.38	1,000,000	-	-	-	1,000,000	0.09%	1/1/2007 to 8/3/2016	1,9,10	
	2.38	1,000,000	-	-	-	1,000,000	0.09%	1/1/2008 to 8/3/2016	2,9,10	
	1.18	500,000	-	-	-	500,000	0.04%	1/1/2009 to 4/5/2018	3,9,10	
	1.18	500,000	-	-	-	500,000	0.04%	1/1/2010 to 4/5/2018	4,9,10	
Zhang Mingfa, Michael	2.38	500,000	-	-	-	500,000	0.04%	1/1/2007 to 8/3/2016	1,9,10	
	2.38	500,000	-	-	-	500,000	0.04%	1/1/2008 to 8/3/2016	2,9,10	
	1.18	250,000	-	-	-	250,000	0.02%	1/1/2009 to 4/5/2018	3,9,10	
	1.18	250,000	-	-	-	250,000	0.02%	1/1/2010 to 4/5/2018	4,9,10	
Chow Joseph	2.38	200,000	-	-	-	200,000	0.02%	1/1/2007 to 8/3/2016	1,9,10	
	2.38	200,000	-	-	-	200,000	0.02%	1/1/2008 to 8/3/2016	2,9,10	
	1.18	300,000	-	-	-	300,000	0.03%	1/1/2009 to 4/5/2018	3,9,10	
	1.18	300,000	-	-	-	300,000	0.03%	1/1/2010 to 4/5/2018	4,9,10	

DISCLOSURE OF INTERESTS (cont'd)

SHARE OPTIONS (cont'd)

Name of Director	Exercise price HK\$	Number of share options					Outstanding as at June 30, 2010	Percentage of total issued share capital	Exercisable period	Notes
		Granted from January 1, 2010 to June 30, 2010	Lapsed from January 1, 2010 to June 30, 2010	Exercised from January 1, 2010 to June 30, 2010	Outstanding as at June 30, 2010	Outstanding as at June 30, 2010				
		Outstanding as at January 1, 2010	Outstanding as at January 1, 2010	Outstanding as at January 1, 2010	Outstanding as at June 30, 2010	Outstanding as at June 30, 2010				
Gu Mingchao	1.60	500,000	-	-	-	500,000	0.04%	1/10/2010 to 11/10/2019	7,9,10	
	1.60	500,000	-	-	-	500,000	0.04%	1/10/2011 to 11/10/2019	8,9,10	
Li Qingyuan	1.60	500,000	-	-	-	500,000	0.04%	1/10/2010 to 11/10/2019	7,9,10	
	1.60	500,000	-	-	-	500,000	0.04%	1/10/2011 to 11/10/2019	8,9,10	
		9,500,000	-	-	-	9,500,000	0.82%			
Other employees in aggregate	2.38	7,200,000	-	(100,000)	-	7,100,000	0.61%	1/1/2007 to 8/3/2016	1,9,10	
	2.38	7,200,000	-	(100,000)	-	7,100,000	0.61%	1/1/2008 to 8/3/2016	2,9,10	
	1.18	2,900,000	-	-	-	2,900,000	0.25%	1/1/2009 to 4/5/2018	3,9,10	
	1.18	2,900,000	-	-	-	2,900,000	0.25%	1/1/2010 to 4/5/2018	4,9,10	
One consultant	0.53	5,000,000	-	-	(5,000,000)	-	-	1/1/2010 to 12/5/2019	5,9,10	
	0.53	5,000,000	-	-	-	5,000,000	0.43%	1/1/2011 to 12/5/2019	6,9,10	
		39,700,000	-	(200,000)	(5,000,000)	34,500,000	2.97%			

Notes:

- 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.
- 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.
- 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.
- 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.
- 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.
- 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.
- These share options were granted pursuant to the Scheme on October 12, 2009 and are exercisable at HK\$1.60 per Share from October 1, 2010 to October 11, 2019.
- These share options were granted pursuant to the Scheme on October 12, 2009 and are exercisable at HK\$1.60 per Share from October 1, 2011 to October 11, 2019.
- These share options represent personal interest held by the relevant participants as beneficial owner.
- Except the lapsed and exercised share option stated above, up to June 30, 2010, none of these share options were cancelled.

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, 2010, 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	43.42%
Warburg Pincus & Co. ²	Interest of controlled corporation	–	135,989,966	135,989,966	11.73%
Warburg Pincus Partners LLC ²	Interest of controlled corporation	–	135,989,966	135,989,966	11.73%
Warburg Pincus Private Equity VIII L. P. ²	Beneficial owner	–	65,893,488	65,893,488	5.68%
Warburg Pincus International Partners L.P. ²	Beneficial owner	–	65,174,811	65,174,811	5.62%

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 by 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, 2010.

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, 2010, 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, Dr. Li Qingyuan and Mr. Gu Mingchao are not appointed for specific terms, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Articles 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, 2010.

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 Company’s financial reporting and internal control procedures and to make recommendations to improve the Company’s internal control, and to ensure that management has discharged its duty to have an effective internal control system during the six months ended June 30, 2010.

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 has resolved not to declare any interim dividend for the six months ended June 30, 2010.

SUBSEQUENT EVENT

Pursuant to the general mandate granted by the shareholders of the Company, the Board of Directors resolved on July 5, 2010 to repurchase the Company's shares of up to 10% of the issued shares of the Company as at the date of May 31, 2010. The Company had repurchased 2,330,000 ordinary shares on the Stock Exchange at an aggregate consideration of HK\$4,205,240 and such shares have been subsequently cancelled on July 28, 2010.

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

Pursuant to the general mandate granted by the shareholders of the Company, the Board of Directors resolved on December 27, 2009 and May 6, 2010 to repurchase the Company's shares of up to 10% of the issued shares of the Company as at the date of May 29, 2009. As at June 30, 2010, the Company had repurchased 8,174,000 ordinary shares in total on the Stock Exchange at an aggregate consideration of HK\$16,014,990 and such shares were cancelled in January, May and June 2010. Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the first six months ended June 30, 2010.

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, 2010.

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

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

PRC, August 30, 2010

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



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 20 to 35 which comprises the condensed consolidated statement of financial position of Kasen International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") as of June 30, 2010 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 require 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" ("IAS 34") issued by the International Accounting Standards Board. 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

August 30, 2010

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2010

	NOTES	Six months ended June 30, 2010 RMB'000 (unaudited)	Six months ended June 30, 2009 RMB'000 (unaudited)
Turnover	3	1,121,200	1,256,005
Cost of sales		(859,923)	(1,109,050)
Gross profit		261,277	146,955
Other income		41,519	20,695
Distribution costs		(129,332)	(73,976)
Administrative expenses		(65,178)	(58,215)
Other expenses		(29,365)	(45,212)
Gain on fair value change on derivative financial instruments		2,305	672
Impairment loss recognized in respect of trade and other receivables		(4,481)	(6,005)
Share of profits (losses) of associates		216	(1,230)
Share of profit of a jointly controlled entity		197	–
Finance costs		(30,209)	(40,903)
Profit (loss) before tax	4	46,949	(57,219)
Income tax expenses	5	(25,699)	(29,311)
Profit (loss) for the period		21,250	(86,530)
Other comprehensive income (expense)			
Fair value gain on available-for-sale investments		102,018	–
Deferred tax liability on fair value change of available-for-sale investments		(25,505)	–
Exchange differences arising on translation		8,672	(9,699)
Total comprehensive income (expense) for the period		106,435	(96,229)
Profit (loss) for the period attributable to:			
Owners of the Company		22,420	(85,711)
Non-controlling interests		(1,170)	(819)
		21,250	(86,530)
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		107,605	(95,410)
Non-controlling interests		(1,170)	(819)
		106,435	(96,229)
Earnings (loss) per share	7		
Basic		RMB2 cents	RMB(7) cents
Diluted		RMB2 cents	RMB(7) cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT JUNE 30, 2010

	NOTES	June 30, 2010 RMB'000 (unaudited)	December 31, 2009 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	8	472,456	498,268
Prepaid lease payments – non-current portion		59,315	60,028
Properties for development	9	526,887	519,780
Intangible assets		3,242	3,469
Interests in associates		54,634	50,426
Investment in a jointly controlled entity		2,932	2,735
Available-for-sale investments		241,931	139,913
Deferred tax assets		7,634	7,761
Deposit paid for acquisition of a subsidiary	10	193,778	70,000
Advance for acquisition of land for development	10	302,633	165,060
		1,865,442	1,517,440
CURRENT ASSETS			
Inventories		490,141	409,167
Properties under development and held for sale		947,791	593,702
Trade, bills and other receivables	11	745,782	763,726
Receivable from disposal of assets		357,636	486,774
Prepaid lease payments – current portion		1,406	1,406
Prepaid land appreciation tax		2,244	244
Derivative financial instruments		1,522	–
Tax recoverable		11,794	9,441
Pledged bank deposits		29,868	76,092
Bank balances and cash		436,460	461,882
		3,024,644	2,802,434
CURRENT LIABILITIES			
Trade, bills and other payables	12	723,962	576,674
Deposits received in respect of pre-sale of properties		378,857	289,232
Derivative financial instruments		–	537
Bank and other borrowings – due within one year	13	1,331,027	1,083,528
Tax payable		18,133	18,361
Other current liabilities		4,025	4,973
		2,456,004	1,973,305
NET CURRENT ASSETS		568,640	829,129
TOTAL ASSETS LESS CURRENT LIABILITIES		2,434,082	2,346,569
NON-CURRENT LIABILITIES			
Deferred tax liabilities		80,566	55,156
Bank and other borrowings – due after one year	13	157,695	198,404
Other long-term liabilities		35,704	37,814
		273,965	291,374
NET ASSETS		2,160,117	2,055,195
CAPITAL AND RESERVES			
Share capital	14	1,397	1,404
Reserves		2,138,496	2,050,885
Equity attributable to owners of the Company		2,139,893	2,052,289
Non-controlling interests		20,224	2,906
Total equity		2,160,117	2,055,195

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2010

	Attributable to owners of the Company												
	Share capital RMB'000	Share premium RMB'000	Statutory reserve RMB'000	Special reserve RMB'000	Share option reserve RMB'000	Reserve on acquisition RMB'000	Reserve on acquisition/ disposal of interests in subsidiaries without change of control RMB'000 (Note a)	Available- for-sale investments revaluation reserve RMB'000	Translation reserve RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Non- controlling interests RMB'000	Total RMB'000
At January 1, 2009 (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 expense for the period	-	-	-	-	-	-	-	-	(9,699)	(85,711)	(95,410)	(819)	(96,229)
Acquisition of additional interests in subsidiaries from non-controlling interests	-	-	-	-	-	(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 non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(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
Profit for the period	-	-	-	-	-	-	-	-	-	218,386	218,386	2,768	221,154
Fair value gain on available-for-sale investments	-	-	-	-	-	-	-	96,635	-	-	96,635	-	96,635
Deferred tax liability on fair value change of available-for-sales investments	-	-	-	-	-	-	-	(24,159)	-	-	(24,159)	-	(24,159)
Exchange difference arising on translation	-	-	-	-	-	-	-	-	1,547	-	1,547	-	1,547
Total comprehensive income for the period	-	-	-	-	-	-	-	72,476	1,547	218,386	292,409	2,768	295,177
Recognition of equity-settled share-based payments	-	-	-	-	2,078	-	-	-	-	-	2,078	-	2,078
Issue of shares under share option scheme	-	416	-	-	(104)	-	-	-	-	-	312	-	312
Return of share capital to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(77,890)	(77,890)
Release upon lapse of share options	-	-	-	-	(812)	-	-	-	-	812	-	-	-
Acquisition of additional interests in subsidiaries from non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(101)	(101)
At December 31, 2009 (audited)	1,404	1,330,256	191,693	168,659	18,949	(32,941)	-	72,476	(8,152)	309,945	2,052,289	2,906	2,055,195

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (cont'd)

FOR THE SIX MONTHS ENDED JUNE 30, 2010

	Attributable to owners of the Company												Total RMB'000
	Share capital RMB'000	Share premium RMB'000	Statutory reserve RMB'000	Special reserve RMB'000	Share option reserve RMB'000	Reserve on acquisition RMB'000	Reserve on acquisition/ disposal of interests in subsidiaries without change of control RMB'000 (Note a)	Available-for-sale investments revaluation reserve RMB'000	Translation reserve RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Non- controlling interests RMB'000	
At January 1, 2010 (audited)	1,404	1,330,256	191,693	168,659	18,949	(32,941)	-	72,476	(8,152)	309,945	2,052,289	2,906	2,055,195
Profit for the period	-	-	-	-	-	-	-	-	-	22,420	22,420	(1,170)	21,250
Fair value gain on available-for-sale investments	-	-	-	-	-	-	-	102,018	-	-	102,018	-	102,018
Deferred tax liability on fair value change of available-for-sales investments	-	-	-	-	-	-	-	(25,505)	-	-	(25,505)	-	(25,505)
Exchange difference arising on translation	-	-	-	-	-	-	-	-	8,672	-	8,672	-	8,672
Total comprehensive income (expense) for the period	-	-	-	-	-	-	-	76,513	8,672	22,420	107,605	(1,170)	106,435
Recognition of equity-settled share-based payments	-	-	-	-	1,107	-	-	-	-	-	1,107	-	1,107
Issue of shares under share option scheme	5	3,481	-	-	(1,156)	-	-	-	-	-	2,330	-	2,330
Release upon lapse of share options	-	-	-	-	(142)	-	-	-	-	142	-	-	-
Shares repurchased and cancelled	(12)	(16,764)	-	-	-	-	-	-	-	-	(16,776)	-	(16,776)
Acquisition of additional interests in subsidiaries from non-controlling interests	-	-	-	-	-	-	43	-	-	-	43	(3,043)	(3,000)
Disposal of partial interests in subsidiaries to non-controlling interests	-	-	-	-	-	-	(6,705)	-	-	-	(6,705)	14,705	8,000
Capital contribution from non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	6,826	6,826
At June 30, 2010 (unaudited)	1,397	1,316,973	191,693	168,659	18,758	(32,941)	(6,662)	148,989	520	332,507	2,139,893	20,224	2,160,117

Note a: The reserve on acquisition/disposal of interests in subsidiaries without change of control represents the difference between the consideration paid/received and the carrying amount of the share of net assets acquired/disposed of.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2010

	Six months ended June 30, 2010 RMB'000 (unaudited)	Six months ended June 30, 2009 RMB'000 (unaudited)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(26,308)	99,056
INVESTING ACTIVITIES		
Increase in properties for development	(156,412)	–
Advance for acquisition of land for development	(137,573)	–
Deposit paid for acquisition of a subsidiary	(123,778)	–
Purchase of property, plant and equipment	(21,028)	(11,095)
Investment in an associate	(3,992)	–
Proceeds from disposal of assets classified as held for sale	135,000	–
Refund of deposit paid for acquisition of land use rights	62,744	–
Decrease (increase) in pledged bank deposits	46,224	(24,476)
Proceeds from disposal of properties for development	–	285,143
Acquisition of a subsidiary	–	8,875
Other investing cash flows	26,513	27,591
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(172,302)	286,038
FINANCING ACTIVITIES		
Bank and other borrowings raised	1,194,027	1,191,521
Proceeds for disposal of partial interests in a subsidiary	8,000	–
Capital contribution from non-controlling interests	6,826	–
Proceeds from issue of shares	2,330	–
Repayment of bank and other borrowings	(987,237)	(1,356,672)
Shares repurchased	(16,776)	–
Payment for acquisition of additional interests in a subsidiary	(3,000)	–
Dividends paid to non-controlling interests	–	(300)
Other financing cash flows	(30,982)	(37,077)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	173,188	(202,528)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(25,422)	182,566
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	461,882	389,647
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by bank balances and cash	436,460	572,213

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2010

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 Standards 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, 2009 except as detailed below.

In the current interim period, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations (“new and revised IFRSs”) issued by the IASB, which are effective for the Group’s financial year beginning on January 1, 2010.

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

IAS 27 (Revised 2008) Consolidated and Separate Financial Statements

The application of IAS 27 (Revised 2008) has resulted in changes in the Group’s accounting policies regarding increases or decreases in ownership interests in subsidiaries of the Group. In prior years, in the absence of specific requirements in IFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognized where appropriate. The impact of decreases in interests in subsidiaries that did not involve loss of control (being the difference between the consideration received and the carrying amount of the share of net assets disposed of) was recognized in profit or loss. Under IAS 27 (Revised 2008), all increases or decreases in such interests are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised Standard requires that the Group derecognizes all assets, liabilities and non-controlling interests at their carrying amount. Any retained interest in the former subsidiary is recognized at its fair value at the date the control is lost. A gain or loss on loss of control is recognized in profit or loss as the difference between the proceeds, if any, and these adjustments.

During the current period, the Group had disposed of partial interest in Hainan Boao Kasen Property Development Co., Ltd. without losing control. The difference of RMB6,705,000 between the consideration received and the increase in the carrying amount of the non-controlling interests has been recognized directly in equity. Had the previous accounting policy been applied, this amount would have been recognized as a loss on partial disposal of a subsidiary in profit or loss. Therefore, the change in accounting policy has resulted in an increase in the profit for the period of RMB6,705,000 and the increase in basic and diluted earnings per share from RMB1 cent to RMB2 cents. In addition, cash consideration of RMB8,000,000 received from the non-controlling interests is presented as cash flow from financing activities instead of investing activities.

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

FOR THE SIX MONTHS ENDED JUNE 30, 2010

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

During the period, the Group acquired further interest in Haining Gaosheng Industrial Co., Ltd. The difference of RMB43,000 between the consideration paid and the decrease in carrying amount of the non-controlling interests has been recognized directly in equity. Had the previous accounting policy been applied, the Group would measure the fair value of the net assets of the relevant interests in Haining Gaosheng Industrial Co., Ltd. and recognize the difference between consideration paid and fair value of net assets of relevant interests acquired as goodwill or discount.

The Group has not early applied the new and revised IFRSs that have been issued but are not yet effective.

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

The directors of the Company anticipate that the application of other new and revised IFRSs that have been issued but not yet effective will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

The Group's operating segments, based on information reported to the chief operating decision maker for the purpose of resource allocation and performance assessment, are as follows:

- Manufacturing of upholstered furniture, furniture leather and automotive leather ("Manufacturing");
- Properties development;
- Retailing of furniture ("Retail"); and
- Others, comprising mainly provision of property management service ("Others").

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

FOR THE SIX MONTHS ENDED JUNE 30, 2010

3. SEGMENT INFORMATION (cont'd)

Segment revenue and results

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

Revenue

Six months ended June 30, 2010

	Manufacturing RMB'000	Properties development RMB'000	Retail RMB'000	Others RMB'000	Segment total RMB'000	Eliminations RMB'000	Total RMB'000
TURNOVER							
External sales	913,113	98,566	107,845	1,676	1,121,200	-	1,121,200
Inter-segment sales	44,418	-	-	-	44,418	(44,418)	-
Total	957,531	98,566	107,845	1,676	1,165,618	(44,418)	1,121,200

Six months ended June 30, 2009

	Manufacturing RMB'000	Properties development RMB'000	Retail RMB'000	Others RMB'000	Segment total RMB'000	Eliminations RMB'000	Total RMB'000
TURNOVER							
External sales	677,453	523,633	54,206	713	1,256,005	-	1,256,005
Inter-segment sales	21,702	-	-	-	21,702	(21,702)	-
Total	699,155	523,633	54,206	713	1,277,707	(21,702)	1,256,005

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

FOR THE SIX MONTHS ENDED JUNE 30, 2010

3. SEGMENT INFORMATION (cont'd)

Results

	Six months ended June 30, 2010 RMB'000	Six months ended June 30, 2009 RMB'000
Segment results		
– Manufacturing	85,079	(5,171)
– Properties development	(28,506)	(52,608)
– Retail	(29,938)	(20,809)
– Others	(161)	922
	26,474	(77,666)
Unallocated corporate expenses	(5,224)	(8,864)
	21,250	(86,530)

Segment profit (loss) represents the profit earned by (loss from) each segment without allocation of central administration costs and directors' salaries. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

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

	June 30, 2010 RMB'000	December 31, 2009 RMB'000
Manufacturing	4,887,199	4,750,753
Properties development	2,215,905	1,503,892
Retail	109,547	126,363
Others	42,622	1,785
	7,255,273	6,382,793
Total segment assets		
Unallocated	17,560	11,704
Elimination (Note)	(2,382,747)	(2,074,623)
	4,890,086	4,319,874
Consolidated assets		

Note: Segment assets are measured based on the aggregate assets of individual subsidiaries before any consolidation adjustments. Elimination comprises consolidation adjustments including mainly the elimination of intra-group current accounts.

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

FOR THE SIX MONTHS ENDED JUNE 30, 2010

4. PROFIT (LOSS) BEFORE TAX

	Six months ended June 30, 2010 RMB'000	Six months ended June 30, 2009 RMB'000
Profit (loss) before tax has been arrived at after charging (crediting):		
Amortization of intangible assets (included in administrative expenses)	363	295
Amortization of properties for development (included in other expenses)	4,107	3,114
Depreciation of property, plant and equipment	23,054	37,308
Total depreciation and amortization	27,524	40,717
Release of prepaid lease payments	713	1,019
Interest on bank and other borrowings wholly repayable within five years	36,157	43,157
Less: amount capitalized in respect of property under development	(5,948)	(2,254)
	30,209	40,903
Impairment loss recognized in respect of trade and other receivables	4,481	6,005
Interest income	(929)	(3,207)
Net gain on disposal of property, plant and equipment	(3,473)	(2,962)
Compensation for cancellation of grant of land	(15,418)	-
Refund of other tax	(4,824)	(679)
Dividend income	(3,098)	-
Net foreign exchange losses (gain)	8,462	(5,057)

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

FOR THE SIX MONTHS ENDED JUNE 30, 2010

5. INCOME TAX EXPENSES

	Six months ended June 30, 2010 RMB'000	Six months ended June 30, 2009 RMB'000
Land appreciation tax – current period	<u>2,013</u>	5,532
People's Republic of China (“PRC”) enterprise income tax		
– Current period	22,521	17,955
– Under(over) provision of income tax in previous periods	<u>1,132</u>	(92)
	23,653	17,863
Deferred tax charged	<u>33</u>	5,916
	<u>25,699</u>	29,311

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.

6. DIVIDENDS

No dividend was paid, declared or proposed during the current period. The directors do not recommend the payment of an interim dividend.

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

FOR THE SIX MONTHS ENDED JUNE 30, 2010

7. EARNINGS (LOSS) PER SHARE

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

Earnings (loss)

	Six months ended June 30, 2010 RMB'000	Six months ended June 30, 2009 RMB'000
Profit (loss) for the period for the purposes of basic and diluted earnings (loss) per share, being profit (loss) attributable to owners of the Company	22,420	(85,711)

Number of shares

Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	1,161,667,902	1,163,656,985
Effect of dilutive potential ordinary shares – share options	9,927,744	–
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	1,171,595,646	1,163,656,985

The computation 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 during the period.

8. PROPERTY, PLANT AND EQUIPMENT

During the current period, the Group incurred expenditure of approximately RMB21,028,000 (six months ended June 30, 2009: RMB11,095,000) 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 RMB22,247,000 (six months ended June 30, 2009: RMB21,267,000).

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

FOR THE SIX MONTHS ENDED JUNE 30, 2010

9. PROPERTIES FOR DEVELOPMENT

RMB'000

CARRYING AMOUNT

At January 1, 2010	519,780
Additions	156,412
Transfer to properties under development and held for sale	(145,198)
Amortization made for the period	(4,107)
	<hr/>
At June 30, 2010	526,887

10. DEPOSIT PAID FOR ACQUISITION OF A SUBSIDIARY/ADVANCE FOR ACQUISITION OF LAND FOR DEVELOPMENT

On November 12, 2009, the Group entered into an agreement to acquire 51% equity interest in Hainan Hejia Property Development Co., Ltd. (海南合甲置業有限公司) ("Hainan Hejia"), for a consideration of RMB140,801,000. During the year ended December 31, 2009, the Group has paid RMB70,000,000 to the vendor for the acquisition and remaining RMB70,801,000 was paid during the six months ended June 30, 2010.

On February 24, 2010, the Group entered into an agreement to acquire further 26% equity interest in Hainan Hejia, for a consideration of RMB71,780,000. During the six months ended June 30, 2010, the Group has paid RMB52,977,000 to the vendor for the acquisition and remaining RMB18,803,000 is disclosed in note 15 as commitment.

The principal activity of Hainan Hejia is property development in Hainan Province of the PRC. Hainan Hejia has signed an agreement for acquisition of a piece of land in Hainan Province of the PRC ("Acquisition") and no other material assets and liabilities was owned by Hainan Hejia. Accordingly, the transaction will be accounted for as the acquisition of assets through the acquisition of a subsidiary. In prior year, the Group had advanced to Hainan Hejia an amount of approximately RMB165,060,000 for the land acquisition purpose and Hainan Hejia had paid approximately RMB185,000,000 to the local government as a deposit for the land acquisition. During the current period, the Group had further advanced to Hainan Hejia an amount of approximately RMB113,573,000 for the land acquisition purpose. The advance is unsecured, interest-free and will be included in the initial carrying amount of the land acquired upon acquisition of Hainan Hejia.

According to the agreement for acquisition of Hainan Hejia, the consideration is refundable if Hainan Hejia does not proceed with the Acquisition. At the end of the reporting period, the Acquisition had not yet completed and accordingly, the payment of RMB193,778,000 paid to vendor for the acquisition and RMB278,633,000 paid for land acquisition purpose are presented as "Deposit paid for acquisition of a subsidiary" and "Advance for acquisition of land for development" respectively.

During the current period, Haining Gaosheng Industry Co., Ltd. ("Haining Gaosheng"), one of the subsidiaries of the Company, has signed an agreement for acquisition of a piece of land in Zhejiang Province of the PRC. Haining Gaosheng had advanced to local government an amount of approximately RMB24,000,000 for the land acquisition purpose.

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

FOR THE SIX MONTHS ENDED JUNE 30, 2010

11. TRADE, BILLS AND OTHER RECEIVABLES

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

	June 30, 2010 RMB'000 (unaudited)	December 31, 2009 RMB'000 (audited)
Aged:		
Within 60 days	300,204	289,222
61 – 90 days	100,939	69,390
91 – 180 days	51,362	37,042
181 – 365 days	40,293	16,109
Over 1 year	6,447	8,058
	499,245	419,821

12. TRADE, BILLS AND OTHER PAYABLES

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

	June 30, 2010 RMB'000 (unaudited)	December 31, 2009 RMB'000 (audited)
Aged:		
Within 60 days	375,776	290,868
61 – 90 days	28,543	12,061
91 – 180 days	6,214	6,196
181 – 365 days	3,758	2,784
1 – 2 years	1,700	4,108
Over 2 years	4,968	3,832
	420,959	319,849

13. BANK AND OTHER BORROWINGS

During the current period, the Group obtained additional bank and other loans of approximately RMB1,194,027,000 (six months ended June 30, 2009: RMB1,191,521,000) and made repayments of approximately RMB987,237,000 (six months ended June 30, 2009: RMB1,356,672,000).

Included in unsecured bank borrowings are borrowings of RMB120,000,000 (December 31, 2009: RMB120,000,000) guaranteed by a related company in which Mr. Zhu Zhangjin, the chief executive officer of the Company, has significant influence and beneficial interests. In addition, borrowings of RMB31,895,000 (December 31, 2009: RMB26,305,000) were guaranteed by certain independent third parties.

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

FOR THE SIX MONTHS ENDED JUNE 30, 2010

14. SHARE CAPITAL

	Number of ordinary shares	US\$	Equivalent to RMB'000
Issued and fully paid ordinary shares of the Company			
At January 1, 2009 and June 30, 2009	1,163,656,985	174,548	1,404
Exercise of share options	300,000	45	–
At December 31, 2009	1,163,956,985	174,593	1,404
Exercise of share options	5,000,000	750	5
Share cancelled (<i>Note</i>)	(9,904,000)	(1,486)	(12)
At June 30, 2010	1,159,052,985	173,857	1,397

Note: 9,904,000 cancelled shares included 1,730,000 shares repurchased in December 2009 and 8,174,000 shares repurchased during the period ended June 30, 2010.

15. CAPITAL AND OTHER COMMITMENTS

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

	June 30, 2010	December 31, 2009
	RMB'000	RMB'000
	(unaudited)	(audited)
Expenditure contracted for but not provided in the condensed consolidated financial statements in respect of		
– Properties under development	350,409	303,051
– Acquisition of a subsidiary	18,803	70,801
– Acquisition of property, plant and equipment	15,389	16,644
– Construction of certain infrastructure and public facilities in the PRC on behalf of the government	12,253	12,541
	396,854	403,037

16. CONTINGENT LIABILITIES

The Group provided guarantees of RMB135,413,000 (December 31, 2009: RMB73,832,000) at June 30, 2010 to banks in favour of its customers in respect of the mortgage loans provided by the banks to those customers for the purchase of the Group's properties. These guarantees provided by the Group to the banks will be released upon receiving the building ownership certificate of the respective properties by the banks from the customers as a pledge for security to the mortgage loans granted.