Interim Report 2011

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

CONTENTS

BUSINESS REVIEW AND PROSPECTS

RESULTS OVERVIEW

For the six months ended June 30, 2011, the Group recorded a consolidated turnover of RMB1,156.6 million (six months ended June 30, 2010: RMB1,121.2 million), representing an increase of 3.2%.

The Group's gross profit for the six months ended June 30, 2011 was RMB213.3 million (six months ended June 30, 2010: RMB261.3 million) with an average gross profit margin of 18.4% (six months ended June 30, 2010: 23.3%).

The net profit attributable to owners of the Company for the first half of 2011 was approximately RMB104.0 million (six months ended June 30, 2010: RMB22.4 million), representing an increase of 364.2% when compared with the corresponding period in 2010.

Review by Business Segments

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

The table below shows the total turnover by business segment for the six months ended June 30, 2011, together with the comparative figures for the corresponding period of year 2010:

	Six Months Ended June 30,				
	2011		2010		Change
	RMB'Million	**%**	*RMB'Million*	%	%
Manufacturing	**738.6**	**63.9**	913.2	81.5	-19.1
Upholstered Furniture	**270.4**	**23.4**	456.4	40.7	-40.7
Furniture Leather	**133.8**	**11.6**	142.0	12.7	-5.8
Automotive Leather	**334.4**	**28.9**	314.8	28.1	6.2
Property Development	**377.5**	**32.6**	98.6	8.8	282.8
Retail	**38.0**	**3.3**	107.8	9.6	-64.7
Others	**2.5**	**0.2**	1.6	0.1	56.3
Total	**1,156.6**	**100.0**	1,121.2	100.0	3.2

Manufacturing Business

During the six months ended June 30, 2011, the Group's manufacturing business, comprising of upholstered furniture, furniture leather and automotive leather divisions, recorded a total turnover of RMB738.6 million (six months ended June 30, 2010: RMB913.2 million), representing a decrease of 19.1%. This segment recorded a loss of RMB14.2 million, compared to an operating profit of RMB85.1 million for the corresponding period in 2010. 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 recorded a turnover of RMB270.4 million in the first half of 2011 as compared to RMB456.4 million for the corresponding period in 2010. The decrease of turnover was mainly attributable to the reduction in export orders. During the six months ended June 30, 2011, major customers in U.S and Europe were experiencing difficulties in their operations, resulting in reduced manufacturing orders.

BUSINESS REVIEW AND PROSPECTS (cont'd)

RESULTS OVERVIEW (cont'd)

Review by Business Segments (cont'd)

Manufacturing Business (cont'd)

Furniture Leather

The Group's priority in furniture leather production is to meet the internal leather requirement of its upholstered furniture division. The Group's sales of furniture leather recorded sales of RMB133.8 million in the first half of 2011 (six months ended June 30, 2010: RMB142.0 million), representing a slight decrease of 5.8%.

Automotive Leather

During the six months ended June 30, 2011, the turnover from automotive leather division exceeded the turnover from upholstered furniture and accounted for 45.3% of the Group's manufacturing business. The Group, as one of the largest domestic automotive seat leather suppliers in China, successfully strengthened its relationships with major automakers in China. Revenue generated from this division was RMB334.4 million in the first half of 2011, representing an increase of 6.2% as compared to the corresponding period in 2010 (six months ended June 30, 2010: RMB314.8 million).

During the six months ended June 30, 2011, the prices of raw cowhides and wet-blues, which are the principal raw materials of leather business, increased significantly to a historical high level. In addition, prices of other raw materials, such as chemicals also increased, adversely impacting the profit margin of the automotive leather business.

Property Development Business

As of June 30, 2011, the Group has five property development projects at various stages of development and the turnover from the property development segment amounted to RMB377.5 million during the six months ended June 30, 2011.

Group's Property Project Portfolio as at June 30, 2011

No.	Project Name	Location	Interests Attributable to the Group	Total Site Area (sq.m)	Status
1	Asia Bay	Boao, Hainan	92%	590,165	Under development
2	Sanya Project	Sanya, Hainan	77%	1,424,692	For development
3	Qianjiang Continent	Yancheng, Jiangsu	100%	331,040	Under development
4	Haining Project	Haining, Zhejiang	100%	430,319	Under development
5	Changbai Paradise	Changbai Mountain, Jilin	89%	157,004	Under development
Total				2,933,220	

During the six months ended June 30, 2011, the Group acquired several parcels of land in Haining and Changbai Mountain, respectively and the total site area for property development rose to 2,933,220 square meters, representing an increase of 16.6% as compared to 2,514,697 square meters as at year ended December 31, 2010.

Projects Overview

Asia Bay in Boao of Hainan

As the Group's first and an anchor project in resort property development, Asia Bay attracted buyers from all around the country. During the six months ended June 30, 2011, 82 units of the Sentosa villas and Bali Island villas were successfully delivered and a revenue of RMB259.4 million was recognized with a net profit of RMB52.9 million. The recognized gross floor area ("GFA") sold was 9,547 square meters.

In the first half of 2011, the contracted sales from villas and apartments amounted to approximately RMB430.9 million.

BUSINESS REVIEW AND PROSPECTS (cont'd)

RESULTS OVERVIEW (cont'd)

Review by Business Segments (cont'd)

Property Development Business (cont'd)

Qianjiang Continent in Yancheng of Jiangsu

During the six months ended June 30, 2011, the recognized GFA sold in this project was 15,135 square meters and the recognized sales amounted to RMB118.1 million. A total of 113 units, including both commercial and residential units were delivered and the average selling price was RMB7,803 per square meter, as compared to RMB5,057 per square meter during the corresponding period in 2010.

Haining Project in Zhejiang

During the six months ended June 30, 2011, the Group expanded its land reserve in Haining, Zhejiang Province and the total site area for residential and commercial development amounted to approximately 430,000 square meters as of June 30, 2011.

Construction of the first phase of the project, including villas and high-rise apartments commenced in the first half of 2011 and the premises is expected to be ready for pre-sale in November, 2011.

Changbai Paradise in Changbai Mountain of Jilin

Located in southern part of Jilin Province, Changbai Mountain is one of China's best nature preservation zones, covering an area of over 200,000 hectares. It boosts an unique natural environment and ecosystem.

The local government has announced its plan in developing the Changbai Mountain district into an international tourist resort in the near future. Since 2009, a number of well-known property developers in China, such as Wanda, Lenovo and Oceanwide have commenced various property development projects in the area.

As one of the pioneers in resort property development in the Changbai Mountain resort area, the Group has secured a large parcel of land in one of the best spots. The first project, located in Chibei district, was named "Changbai Paradise". It includes one five-star hotspring hotel, a shopping plaza, a performance center and a large number of residential units. The Group will commence the construction in the second half of 2011.

Others

The Group's property project in Sanya of Hainan Province was still undeveloped as at June 30, 2011. No contribution was made from this project with respect to turnover and profit of the Group in the first half of 2011.

BUSINESS REVIEW AND PROSPECTS (cont'd)

RESULTS OVERVIEW (cont'd)

Operating Expenses, Taxation and Profit Attributable to Owners

The Group's selling and distribution costs during the six months ended June 30, 2011 decreased to approximately RMB71.8 million, as compared to approximately RMB129.3 million in the first half of 2010, mainly due to (1) the administration of Sofas UK Limited ("Sofas UK") which resulted in the loss of control of Sofas UK and consequently, the financial results of Sofas UK for the period from March 2011 to June 2011 had not been consolidated to the Group's results. The main selling and distribution expenses of Sofas UK, such as operating lease rentals and government rates, staff costs for sales persons, sales commission and marketing expenses, were significantly reduced in total by approximately RMB43.9 million as a result of such loss of control of Sofas UK, and (2) the decrease of transportation costs of approximately RMB12.9 million due to the reduction in sales to Europe. As a result, the selling and distribution costs to turnover in the first half of 2011 decreased to 6.2% as compared to 11.5% for the corresponding period in 2010.

The administrative costs for the six months ended June 30, 2011 was approximately RMB58.2 million, representing a decrease of approximately RMB7.0 million as compared to approximately RMB65.2 million during the corresponding period in 2010, mainly due to the loss of control of Sofas UK as mentioned above.

The Group's finance cost in the first half of 2011 was approximately RMB37.3 million, with an increase of approximately RMB7.1 million, as compared to approximately RMB30.2 million during the same period of 2010, due to the increase in both bank lending rates and the Group's borrowings during the six months ended June 30, 2011.

Other expenses for the six months ended June 30, 2011 were approximately RMB10.5 million, as compared to approximately RMB29.4 million in the first half of 2010. Such decrease mainly resulted from (1) a net loss of approximately RMB9.3 million suffered from the PRC warehouse fire accident happened in the corresponding period in 2010 while there was no such loss incurred in the period under review, and (2) a decrease of net exchange loss of RMB4.9 million during the period under review as compared to the corresponding period in 2010.

Other income for the six months ended June 30, 2011 was approximately RMB36.5 million, with a slight decrease of approximately RMB5.0 million as compared to approximately RMB41.5 million during the corresponding period in 2010.

BUSINESS REVIEW AND PROSPECTS (cont'd)

RESULTS OVERVIEW (cont'd)

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

The Group's income tax in the first half of 2011 was approximately RMB21.2 million, with a decrease of approximately RMB4.5 million, as compared to approximately RMB25.7 million in the corresponding period in 2010. The decrease resulted from (1) a decrease in PRC income tax of approximately RMB15.5 million as a result of the decrease in taxable profits generated by the manufacturing business from the reduced sales of manufacturing business at subsidiary level, (2) a reversal of deferred taxation recognized in prior years amounting to RMB11.7 million, offset by (3) an increase in PRC income tax of approximately RMB22.7 million as a result of an increase in taxable profits generated from increased delivery of some of the residential building units in Yancheng, Jiangsu Province and Boao, Hainan Province.

A gain on loss of control of Sofas UK as the Group's subsidiary amounting to RMB64.4 million was recorded during the six months ended June 30, 2011. For more details, please refer to note 16 to the Condensed Consolidated Financial Statements.

For reasons mentioned above, the net profit attributable to owners of the Company was approximately RMB104.0 million in the first half of 2011 (six months ended June 30, 2010: RMB22.4 million).

FINANCIAL RESOURCES AND LIQUIDITY

As at June 30, 2011, the Group had cash and cash equivalent of RMB389.4 million (as at December 31, 2010: RMB745.3 million) and a total borrowings of RMB1,564.4 million (as at December 31, 2010: RMB1,486.9 million). This represents a gearing ratio of 66.6% (as at December 31, 2010: 64.5%) and a net debt-to-equity ratio of 50.0% (as at December 31, 2010: 32.0%). 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, 2011, the Group's inventory which primarily represented leather crust, was RMB362.8 million, representing a decrease of RMB25.2 million as compared to RMB388.0 million as of December 31, 2010. During the six months ended June 30, 2011, the Group endeavoured to control inventory level and managed to maintain its inventory turnover period to 93 days as compared to 91 days as at December 31, 2010.

During the six months ended June 30, 2011, 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 88 days for the first half of 2011 (as at December 31, 2010: 84 days).

The accounts payable turnover days decreased to 49 days for the six months ended June 30, 2011 (as at December 31, 2010: 57 days).

BUSINESS REVIEW AND PROSPECTS (cont'd)

MATERIAL ACQUISITION AND DISPOSAL

During the six months ended June 30, 2011, the Group acquired four parcels of land located in Haining of Zhejiang Province in February 2011 and May 2011, respectively, with a total site area of 261,519 square meters for the purpose of property development. The Group also acquired 3 parcels of land located in Changbai Mountain of Jilin Province in May 2011 with a total site area of 133,684 square meters for the purpose of property development.

Pursuant to a sale and purchase agreement dated June 30, 2011, Haining Kareno Furniture Co., Ltd. ("Haining Kareno"), an indirect wholly-owned subsidiary of the Company, surrendered a parcel of land situated in Haining of Zhejiang Province, the PRC with an aggregate area of 205,978 square meters to an independent third party at a total compensation of RMB463,418,238. The compensation comprises a fixed amount of RMB380,137,680 as compensation of Haining Kareno surrendering the land and an additional incentive fee of up to RMB83,280,558.

PLEDGE OF ASSETS

During the six months ended June 30, 2011, 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 3.05%.

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 exchange rate fluctuation. During the six months ended June 30, 2011, the Group used forward contracts and some other financial instruments to hedge foreign exchange risk, and recorded a gain of approximately RMB130,000.

CONTINGENT LIABILITIES

As at June 30, 2011, the Group had certain contingent liabilities. For details, please refer to note 18 to the Condensed Consolidated Financial Statements.

EMPLOYEES AND EMOLUMENTS POLICIES

As at June 30, 2011, the Group employed a total of approximately 3,700 full time employees (as at June 30, 2010: approximately 4,600) including management staff, technicians, salespersons and workers. For the six months ended June 30, 2011, the Group's total expenses on the remuneration of employees were RMB62.5 million (six months ended June 30, 2010: RMB97.0 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 of the Company ("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

The prospect of the global furniture market is not optimistic and represents uncertainties. In this uncertain business environment, the Group will be focusing on key customers and product lines to ensure profitability.

The automotive leather business will continue to be the core element in the Group's leather production division. Due to a sharp increase in the prices of raw materials, the profit margin was negatively impacted in the first half of 2011. To overcome the challenges, the Group will implement an aggressive cost-saving plan involving flexible procurement policy and optimizing of resource allocation to improve the profit margin.

Properties Development

The Group's long term goal is to become a leading resort property developer in China. Owing to the fast growth of the domestic economy and the rapid increase in household disposable income, there has been a strong demand in the domestic tourism industry. To grasp the huge potential opportunities in this sector, the Group will extend its businesses to vacation tourist services. During the six months ended June 30, 2011, the Group established "Four Seas Vacation Club", specializing in vacation arrangements and services for property owners and other potential high-end customers. In cooperating with other developers in popular tourist resorts and by capitalizing on the resort projects developed by the Group, the objective of the Four Seas Vacation Club is to provide customers with unique leisure experience during their vacations.

To build reputable brand in the property development business, the Group is in pursuit of providing customers with the highest quality premises, beautiful landscape, energy-efficient technologies and personalized services. In the future, the Group will continue upgrading the quality of its products and improving its services to enhance its corporate image in domestic property market.

It is estimated that in the second half of 2011, the units from various projects in Boao, Yancheng, Haining and Changbai Mountain that are ready for pre-sales will be increasing, as compared to the first half of the year. In addition, more revenue will be recognized from Asia Bay and Qianjiang Continent in the second half of 2011. In conclusion, the Group is optimistic about the financial performance in its property development segment.

DISCLOSURE OF INTERESTS

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

As at June 30, 2011, 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	12,236,000	503,292,635 *(Note)*	515,528,635	44.38%
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 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 paragraph "Share Option" 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, 2011.

SHARE OPTIONS

A share option scheme was adopted by the Company pursuant to a board resolution of the Company 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, 2011 were as follows:

		Number of share options							
Name of Director	Exercise price HK$	Outstanding as at January 1, 2011	Granted from January 1, 2011 to June 30, 2011	Lapsed from January 1, 2011 to June 30, 2011	Exercised from January 1, 2011 to June 30, 2011	Outstanding as at June 30, 2011	Percentage of total issued share capital	Exercisable period	Notes
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 *(Note 8)*	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$	Outstanding as at January 1, 2011	Granted from January 1, 2011 to June 30, 2011	Lapsed from January 1, 2011 to June 30, 2011	Exercised from January 1, 2011 to June 30, 2011	Outstanding as at June 30, 2011	Percentage of total issued share capital	Exercisable period	Notes
		Number of share options							
Gu Mingchao	1.60	500,000	–	–	–	500,000	0.04%	1/10/2010 to 11/10/2019	6,9,10
(Note 8)	1.60	500,000	–	–	–	500,000	0.04%	1/10/2011 to 11/10/2019	7,9,10
Li Qingyuan	1.60	500,000	–	–	–	500,000	0.04%	1/10/2010 to 11/10/2019	6,9,10
	1.60	500,000	–	–	–	500,000	0.04%	1/10/2011 to 11/10/2019	7,9,10
		9,500,000	–	–	–	9,500,000	0.82%		
Other employees in aggregate	2.38	6,800,000	–	–	–	6,800,000	0.58%	1/1/2007 to 8/3/2016	1,9,10
	2.38	6,800,000	–	–	–	6,800,000	0.58%	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)	–	–	1/1/2011 to 12/5/2019	5,9,10
		33,900,000	–	–	(5,000,000)	28,900,000	2.48%		

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, 2011 to May 12, 2019.

6. 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.

7. 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.

8. Mr. Chow Joseph and Mr. Gu Mingchao were resigned on June 1, 2011.

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

10. Except the exercised share option stated above, up to June 30, 2011, none of these share options were lapsed nor 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 six months ended June 30, 2011 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, 2011, the following persons (other than Directors or chief executives of the Company stated in the above paragraph headed "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[1]	Beneficial owner	–	503,292,635	503,292,635	43.32%
Warburg Pincus & Co.[2]	Interest of controlled corporation	–	135,989,966	135,989,966	11.70%
Warburg Pincus Partners LLC[2]	Interest of controlled corporation	–	135,989,966	135,989,966	11.70%
Warburg Pincus Private Equity VIII L. P.[2]	Beneficial owner	–	65,893,488	65,893,488	5.67%
Warburg Pincus International Partners L.P.[2]	Beneficial owner	–	65,174,811	65,174,811	5.61%

Notes:

1. Joyview 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, 2011.

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, 2011, except for the following deviations to code provisions A.2.1 and A.4.1:

CODE PROVISION A.2.1

Under CG Code Provision A.2.1, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. The Company does not at present separate the roles of chairman and chief executive officer. Mr. Zhu Zhangjin is the chairman and chief executive officer of the Company responsible for overseeing the 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. Sun Steve Xiaodi, Dr. Li Qingyuan and Mr. Zhou Lingqiang 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 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 six months ended June 30, 2011, 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, 2011.

AUDIT COMMITTEE

The audit committee of the Company ("Audit Committee"), comprises all the three independent non-executive Directors namely, Mr. Sun Steve Xiaodi, Dr. Li Qingyuan and Mr. Zhou Lingqiang, has reviewed with management and the external auditors on the accounting principles and practices adopted by the Group. The Audit Committee has held meetings with the Company's senior management to review, supervise and 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, 2011, including the review of the unaudited interim results of the Group for the six months ended June 30, 2011.

REMUNERATION COMMITTEE

The Remuneration Committee comprises three members, the majority of which are independent non-executive Directors and an independent non-executive Director, Mr. Zhou Lingqiang 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 to declare an interim dividend of RMB2.46 cents (equivalent to approximately HK3.00 cents) per ordinary share for the six months ended June 30, 2011 (six months ended June 30, 2010: Nil), amounting to approximately RMB28,593,000 (six months ended June 30, 2010: Nil), to Shareholders whose names appear on the register of members of the Company on Friday, September 16, 2011, payable on or around Friday, September 30, 2011. The interim dividend will be payable in Hong Kong Dollars based on the official exchange rate of Renminbi against Hong Kong Dollars as quoted by the People's Bank of China on August 25, 2011.

CLOSURE OF REGISTER OF MEMBERS

The Company's register of members will be closed from Wednesday, September 14, 2011 to Friday, September 16, 2011 (both days inclusive), during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrars in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Monday, September 12, 2011.

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

During the six months ended June 30, 2011, the Company and any of its subsidiaries did not 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, 2011.

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. Sun Steve Xiaodi, Dr. Li Qingyuan and Mr. Zhou Lingqiang.

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

PRC, August 25, 2011

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)

We have reviewed the interim financial information set out on pages 16 to 30, 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, 2011 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
August 25, 2011

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2011

	NOTES	**Six months ended June 30, 2011** ***RMB'000*** **(unaudited)**	Six months ended June 30, 2010 *RMB'000* (unaudited)
Turnover	*3*	**1,156,592**	1,121,200
Cost of sales		**(943,249)**	(859,923)
Gross profit		**213,343**	261,277
Other income		**36,508**	41,519
Distribution costs		**(71,759)**	(129,332)
Administrative expenses		**(58,232)**	(65,178)
Other expenses		**(10,483)**	(29,365)
Gain on fair value change on derivative financial instruments		**130**	2,305
Impairment loss recognised in respect of trade and other receivables		**(825)**	(4,481)
Share of (losses) profits of associates		**(6,605)**	216
Share of profits of a jointly controlled entity		**–**	197
Gain on loss of control of a subsidiary	*16*	**64,371**	–
Finance costs		**(37,276)**	(30,209)
Profit before tax	*4*	**129,172**	46,949
Income tax expenses	*5*	**(21,212)**	(25,699)
Profit for the period		**107,960**	21,250
Other comprehensive (expense) income			
Fair value (loss) gain on available-for-sale investments		**(80,610)**	102,018
Deferred tax liability on fair value change of available-for-sale investments		**20,153**	(25,505)
Exchange differences arising on translation		**–**	8,672
Cumulative exchange differences in respect of the net liabilities of the subsidiary reclassified from equity to profit or loss on loss of control of the subsidiary		**(1,531)**	–
Total comprehensive income for the period		**45,972**	106,435
Profit for the period attributable to:			
Owners of the Company		**104,018**	22,420
Non-controlling interests		**3,942**	(1,170)
		107,960	21,250
Total comprehensive income attributable to:			
Owners of the Company		**42,030**	107,605
Non-controlling interests		**3,942**	(1,170)
		45,972	106,435
Earnings per share			
Basic and diluted	*7*	**RMB9 cents**	RMB2 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT JUNE 30, 2011

	NOTES	**June 30, 2011 RMB'000 (unaudited)**	December 31, 2010 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	8	**348,912**	467,301
Prepaid lease payments – non-current portion		**46,130**	58,681
Properties for development	9	**399,795**	600,938
Intangible assets		**1,017**	2,978
Interests in associates		**24,439**	35,037
Available-for-sale investments		**370,209**	452,820
Deferred tax assets		**17,073**	11,610
Deposit paid for acquisition of a subsidiary	10	**212,581**	212,581
Advances for acquisition of land for development	10	**279,430**	279,430
		1,699,586	2,121,376
CURRENT ASSETS			
Inventories		**362,817**	388,046
Properties under development		**2,104,573**	1,257,388
Properties held for sale		**311,543**	93,593
Trade, bills and other receivables	11	**749,426**	656,044
Receivable from disposal of assets	12	**–**	254,646
Prepaid lease payments – current portion		**1,327**	1,327
Derivative financial instruments		**–**	2,751
Tax recoverable		**19,224**	7,933
Pledged bank deposits		**124,890**	128,344
Bank balances and cash		**389,376**	745,347
		4,063,176	3,535,419
Assets classified as held for sale	13	**100,628**	–
		4,163,804	3,535,419
CURRENT LIABILITIES			
Trade, bills and other payables	14	**741,516**	906,007
Deposits received in respect of pre-sale of properties		**1,081,708**	750,303
Bank and other borrowings – due within one year	15	**1,557,655**	1,379,402
Tax payable		**–**	20,465
Other current liabilities		**–**	4,973
		3,380,879	3,061,150
NET CURRENT ASSETS		**782,925**	474,269
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,482,511**	2,595,645
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**110,630**	131,176
Bank and other borrowings – due after one year	15	**6,750**	107,459
Other long-term liabilities		**–**	37,220
		117,380	275,855
NET ASSETS		**2,365,131**	2,319,790
CAPITAL AND RESERVES			
Share capital		**1,400**	1,395
Reserves		**2,337,312**	2,292,792
Equity attributable to owners of the Company		**2,338,712**	2,294,187
Non-controlling interests		**26,419**	25,603
Total equity		**2,365,131**	2,319,790

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2011

	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	**Other reserve** RMB'000	**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, 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	–	–	–
Share 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 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	(39,603)	148,989	520	332,507	2,139,893	20,224	2,160,117
Profit for the period	–	–	–	–	–	–	–	–	12,958	12,958	(1,622)	11,336
Fair value gain on available-for-sale investments	–	–	–	–	–	–	190,889	–	–	190,889	–	190,889
Deferred tax liability on fair value change of available-for-sales investments	–	–	–	–	–	–	(47,723)	–	–	(47,723)	–	(47,723)
Exchange difference arising on translation	–	–	–	–	–	–	–	1,011	–	1,011	–	1,011
Total comprehensive income for the period	–	–	–	–	–	–	143,166	1,011	12,958	157,135	(1,622)	155,513
Recognition of equity-settled share-based payments	–	–	–	–	860	–	–	–	–	860	–	860
Release upon lapse of share options	–	–	–	–	(425)	–	–	–	425	–	–	–
Share repurchased and cancelled	(2)	(3,552)	–	–	–	–	–	–	–	(3,554)	–	(3,554)
Transaction costs attributable to share repurchased and cancelled	–	(147)	–	–	–	–	–	–	–	(147)	–	(147)
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	–	7,001	7,001
At December 31, 2010 (audited)	1,395	1,313,274	191,693	168,659	19,193	(39,603)	292,155	1,531	345,890	2,294,187	25,603	2,319,790

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

FOR THE SIX MONTHS ENDED JUNE 30, 2011

	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*	Other reserve *RMB'000*	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, 2011 (audited)	1,395	1,313,274	191,693	168,659	19,193	(39,603)	292,155	1,531	345,890	2,294,187	25,603	2,319,790
Profit for the period	–	–	–	–	–	–	–	–	104,018	104,018	3,942	107,960
Fair value loss on available-for-sale investments	–	–	–	–	–	–	(80,610)	–	–	(80,610)	–	(80,610)
Deferred tax liability on fair value change of available-for-sales investments	–	–	–	–	–	–	20,153	–	–	20,153	–	20,153
Cumulative exchange differences in respect of the net liabilities of the subsidiary reclassified from equity to profit or loss on loss of control of the subsidiary	–	–	–	–	–	–	–	(1,531)	–	(1,531)	–	(1,531)
Total comprehensive income for the period	–	–	–	–	–	–	(60,457)	(1,531)	104,018	42,030	3,942	45,972
Issue of shares under share option scheme	5	3,399	–	–	(1,149)	–	–	–	–	2,255	–	2,255
Recognition of equity-settled share-based payments	–	–	–	–	240	–	–	–	–	240	–	240
Dissolution of a subsidiary	–	–	–	–	–	–	–	–	–	–	(7,126)	(7,126)
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	–	4,000	4,000
At June 30, 2011 (Unaudited)	1,400	1,316,673	191,693	168,659	18,284	(39,603)	231,698	–	449,908	2,338,712	26,419	2,365,131

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2011

	NOTES	Six months ended June 30, 2011 RMB'000 (unaudited)	Six months ended June 30, 2010 RMB'000 (unaudited)
NET CASH USED IN OPERATING ACTIVITIES		**(641,813)**	(182,720)
INVESTING ACTIVITIES			
Proceeds from disposal of assets	12	**260,508**	–
Withdrawal of pledged bank deposits		**170,864**	168,290
Return on deposit paid for acquisition of land use rights		**5,000**	62,744
Proceeds from disposal of available for sale investments		**2,000**	–
Placement of pledged bank deposits		**(167,410)**	(122,066)
Purchase of property, plant and equipment		**(16,032)**	(21,028)
Loss of control of a subsidiary	16	**(11,686)**	–
Advance for acquisition of land for development		**–**	(137,573)
Deposit paid for acquisition of a subsidiary		**–**	(123,778)
Investment in an associate		**–**	(3,992)
Proceeds from disposal of assets classified as held for sale		**–**	135,000
Other investing cash flow		**28,330**	26,513
NET CASH FROM (USED IN) INVESTING ACTIVITIES		**271,574**	(15,890)
FINANCING ACTIVITIES			
Bank and other borrowings raised		**1,069,622**	1,194,027
Capital contribution from non-controlling interests		**4,000**	6,826
Proceeds from issue of shares		**2,255**	2,330
Repayment of bank and other borrowings		**(992,078)**	(987,237)
Refund of capital to non-controlling interests upon dissolution of a subsidiary		**(7,126)**	–
Proceeds for disposal of partial interests in a subsidiary		**–**	8,000
Shares repurchased		**–**	(16,776)
Payment for acquisition of additional interests in a subsidiary		**–**	(3,000)
Other financing cash flow		**(62,405)**	(30,982)
NET CASH FROM FINANCING ACTIVITIES		**14,268**	173,188
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(355,971)**	(25,422)
CASH AND CASH EQUIVALENTS AT JANUARY 1		**745,347**	461,882
CASH AND CASH EQUIVALENTS AT JUNE 30, represented by bank balances and cash		**389,376**	436,460

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2011

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, 2010.

In the current interim period, the Group has applied, for the first time, a number of new and revised standards and interpretations ("new and revised IFRSs") issued by the IASB, which are effective for the Group's financial year beginning on January 1, 2011.

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.

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 recognised 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 amortised 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.

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. Under IFRS 10, there is only one basis for consolidation, that is control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios. Overall, the application of IFRS 10 requires a lot of judgment.

The directors of the Company anticipate that the application of the 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.

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

FOR THE SIX MONTHS ENDED JUNE 30, 2011

3. SEGMENT INFORMATION

Segment revenues and results

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

Revenue

Six months ended June 30, 2011

	Manufacturing	Properties development	Retail	Others	Eliminations	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
TURNOVER						
External sales	**738,632**	**377,459**	**37,961**	**2,540**	**–**	**1,156,592**
Inter-segment sales	**10,492**	**–**	**–**	**3,000**	**(13,492)**	**–**
Segment revenue	**749,124**	**377,459**	**37,961**	**5,540**	**(13,492)**	**1,156,592**

Six months ended June 30, 2010

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

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

FOR THE SIX MONTHS ENDED JUNE 30, 2011

3. SEGMENT INFORMATION (cont'd)

Results

	Six months ended June 30, 2011 RMB'000	Six months ended June 30, 2010 RMB'000
Segment results		
– Manufacturing	**(14,178)**	85,079
– Properties development	**79,197**	(28,506)
– Retail	**(8,052)**	(29,938)
– Others	**(6,956)**	(161)
	50,011	26,474
Unallocated corporate expenses	**(6,422)**	(5,224)
Gain on loss of control of a subsidiary	**64,371**	–
Profit for the period	**107,960**	21,250

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 reportable and operating segment:

	June 30, 2011 RMB'000	December 31, 2010 RMB'000
Manufacturing	**5,137,592**	4,965,635
Properties development	**4,286,192**	2,845,364
Retail	**67,524**	79,497
Others	**79,406**	59,186
Total segment assets	**9,570,714**	7,949,682
Unallocated	**6,439**	6,803
Elimination	**(3,713,763)**	(2,299,690)
Consolidated assets	**5,863,390**	5,656,795

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

FOR THE SIX MONTHS ENDED JUNE 30, 2011

4. PROFIT BEFORE TAX

	Six months ended June 30, 2011 ***RMB'000***	Six months ended June 30, 2010 *RMB'000*
Profit before tax has been arrived at after charging (crediting):		
Amortisation of intangible assets (included in administrative expenses)	**224**	363
Amortisation of properties for development (included in other expenses)	**2,701**	4,107
Depreciation of property, plant and equipment	**20,880**	23,054
Total depreciation and amortisation	**23,805**	27,524
Release of prepaid lease payments	**713**	713
Interest on bank and other borrowings wholly repayable within five years	**62,404**	36,157
Less: amount capitalised in respect of property under development	**(25,128)**	(5,948)
	37,276	30,209
Loss (gain) on disposal of property, plant and equipment	**764**	(3,473)
Net exchange loss	**3,568**	8,462
Dividend income from listed available-for-sale investments	**(5,163)**	(3,098)
Government grants	**(5,243)**	(3,347)
Imputed interest in relation to receivable from disposal of assets *(note 12)*	**(5,862)**	(5,862)
Interest income	**(11,778)**	(929)

5. INCOME TAX EXPENSES

	Six months ended June 30, 2011 ***RMB'000***	Six months ended June 30, 2010 *RMB'000*
Land appreciation tax ("LAT") – current period	**11,588**	2,013
People's Republic of China ("PRC") enterprise income tax		
– Current period	**19,341**	22,521
– (Over)under provision of income tax in previous periods	**(3,861)**	1,132
	15,480	23,653
Deferred tax (credit) charged	**(5,856)**	33
	21,212	25,699

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.

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

FOR THE SIX MONTHS ENDED JUNE 30, 2011

6. DIVIDENDS

Subsequent to the end of the interim period, the directors have determined that an interim dividend of RMB2.46 cents (equivalent to approximately HK3.00 cents) per share (six months ended June 30, 2010: Nil) will be paid to the owners of the Company whose names appear in the Register of Members on September 16, 2011.

7. EARNINGS PER SHARE

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

Profit for the period

	Six months ended June 30, 2011 *RMB'000*	Six months ended June 30, 2010 *RMB'000*
Profit for the period for the purposes of basic and diluted earnings per share, being profit attributable to owners of the Company	**104,018**	22,420

Number of shares

Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,161,611,874**	1,161,667,902
Effect of dilutive potential ordinary shares – share options	**1,410,953**	9,927,744
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**1,163,022,827**	1,171,595,646

8. PROPERTY, PLANT AND EQUIPMENT

During the current period, the Group incurred expenditure of approximately RMB16,032,000 (six months ended June 30, 2010: RMB21,028,000) 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 RMB764,000 for cash proceeds of RMB nil (six months ended June 30, 2010: RMB25,720,000), resulting in a loss on disposal of RMB764,000 (six months ended June 30, 2010: gain on disposal of RMB3,473,000).

In addition, during the current period, the Group has transferred buildings included in property, plant and equipment with aggregated carrying amount of approximately RMB88,790,000 (six months ended June 30, 2010: Nil) to assets classified as held for sale. Details are set out in note 13.

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

FOR THE SIX MONTHS ENDED JUNE 30, 2011

9. PROPERTIES FOR DEVELOPMENT

	RMB'000
CARRYING AMOUNT	
At January 1, 2011	600,938
Additions	7,276
Transfer to property under development	(205,718)
Amortisation made for the period	(2,701)
At June 30, 2011	399,795

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

In prior periods, the Group entered into an agreement to acquire 77% equity interest in Hainan Hejia Property Development Co., Ltd. (海南合甲置業有限公司) ("Hainan Hejia"), for a total consideration of RMB212,581,000. The Group had paid the amount during the prior periods. 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 of Land") and no other material assets and liabilities was owned by Hainan Hejia.

In prior periods, the Group had advanced to Hainan Hejia an amount of approximately RMB279,430,000 for the land acquisition purpose and Hainan Hejia had paid approximately RMB375,621,000 to the local government as a deposit for the land acquisition. The advances will be included in the initial carrying amount of the land acquired upon acquisition of Hainan Hejia. As at June 30, 2011, the advances were unsecured and interest bearing at a fixed rate ranging from 5.81% to 6.31% (December 31, 2010: the advances were unsecured and interest bearing at a fixed rate ranging from 5.31% to 5.81%). It will also be included in the initial carrying amount of the land acquired upon acquisition of Hainan Hejia.

According to the agreements for acquisition of Hainan Hejia, the total consideration paid is refundable if Hainan Hejia does not proceed with the Acquisition of Land. At the end of the reporting period, the Acquisition of Land had not yet completed and accordingly, the payment of RMB212,581,000 paid to vendor for the acquisition and RMB279,430,000 paid for land acquisition purpose are presented as "Deposit paid for acquisition of a subsidiary" and "Advances for acquisition of land for development" respectively. The acquisition is expected to be completed in second half of 2011.

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

FOR THE SIX MONTHS ENDED JUNE 30, 2011

11. TRADE, BILLS AND OTHER RECEIVABLES

	June 30, 2011 *RMB'000* **(unaudited)**	December 31, 2010 *RMB'000* (audited)
Trade and bills receivables	**413,383**	461,480
Deposits paid for acquisition of land use rights for properties under development	**41,014**	46,014
Advance payment for purchase of inventory and construction projects for properties under development	**170,351**	58,034
Prepaid non-income tax and LAT	**81,781**	52,399
Others	**42,897**	38,117
	749,426	656,044

The Group grants a credit period ranging from 30 days to 120 days to its 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, 2011 *RMB'000* **(unaudited)**	December 31, 2010 *RMB'000* (audited)
Aged:		
Within 60 days	**213,674**	280,275
61 – 90 days	**36,740**	28,076
91 – 180 days	**52,294**	50,550
181 – 365 days	**104,937**	77,194
Over 1 year	**5,738**	25,385
	413,383	461,480

12. RECEIVABLE FROM DISPOSAL OF ASSETS

During the year ended December 31, 2009, the Group demolished the plant and returned all land use rights to the PRC government. The consideration of the disposal was RMB503,498,000. The fair value of the receivable at initial recognition with an effective interest rate of 3.22% per annum amounted to approximately RMB491,774,000. The consideration of RMB242,990,000 was received in previous periods, the remaining balance of RMB260,508,000 was received in current period.

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

FOR THE SIX MONTHS ENDED JUNE 30, 2011

13. ASSETS CLASSIFIED AS HELD FOR SALE

During the current period, Haining Kareno Furniture Co., Ltd. ("Haining Kareno"), a wholly-owned subsidiary of the Group, entered into an agreement with Haining Development Company, the nominee of Haining City People's Government, regarding the relocation of the manufacturing plant of Haining Kareno to fulfill the local government urban redevelopment plan requirements for a compensation is to be received from the local government. The total compensation is approximately RMB463,418,000 which comprises of a fixed amount of approximately RMB380,138,000 as compensation of Haining Kareno surrendering the land and an additional incentive fee of up to approximately RMB83,280,000. The incentive fee is payable provided that Haining Kareno surrenders the land to the local government on or before June 30, 2012 and agrees not to undergo any further new construction on the land since June 30, 2011.

The estimated net proceeds of the disposal has exceeded the carrying amount of the relevant prepaid lease payments and buildings as at June 30, 2011 and accordingly, no impairment loss has been recognised.

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

	June 30, 2011 ***RMB'000***
Building included in property, plant and equipment	88,790
Prepaid lease payments	11,838
Assets classified as held for sale	100,628

Up to the date of board authorisation for issue of the interim financial statements, this surrender had not been completed.

14. 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, 2011 ***RMB'000*** **(unaudited)**	December 31, 2010 *RMB'000* (audited)
Within 60 days	**526,913**	552,931
61 – 90 days	**11,375**	31,818
91 – 180 days	**10,998**	6,757
181 – 365 days	**17,723**	61,616
1-2 years	**3,394**	1,231
Over 2 years	**4,878**	4,146
	575,281	658,499

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

FOR THE SIX MONTHS ENDED JUNE 30, 2011

15. BANK AND OTHER BORROWINGS

During the current period, the Group obtained additional bank and other loans of approximately RMB1,069,622,000 (six months ended June 30, 2010: RMB1,194,027,000) and repaid bank and other borrowings of approximately RMB992,078,000 (six months ended June 30, 2010: RMB987,237,000).

Included in unsecured bank borrowings are borrowings of RMB390,000,000 (December 31, 2010: RMB40,000,000) 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 RMB230,000 (December 31, 2010: RMB300,000) were guaranteed by certain independent third parties.

16. LOSS OF CONTROL OF A SUBSIDIARY

Pursuant to a Board resolution dated on March 29, 2011, the resolution in respect of the administration of a wholly owned subsidiary, Sofas UK Limited ("Sofas UK"), which carried out retail sales of furniture was duly passed. Accordingly, the Group filed the necessary documentation with the High Court of Justice (Bristol District Registry) in England and the administrators were appointed in respect of the Administration. The administration became effective from March 30, 2011, on which date the control of Sofas UK was passed to the administrators. After consultation of a legal counsel for legal advice, the directors of the Company have a view that the Group has lost its control over Sofas UK since administration became effective.

Up to the date of board authorisation for issue of the interim financial statements, the administration has not been completed.

An analysis of the assets and liabilities of Sofas UK at the date when the Group lost control were as follows:

	RMB'000
Bank balances and cash	11,686
Inventories	32,149
Trade and other receivables	14,837
Other long term liabilities	(43,455)
Trade and other payables	(82,915)
Carrying amount of brandname (included in intangible assets of the Group)	1,796
Cumulative exchange differences in respect of net liabilities of Sofas UK reclassified from equity to profit or loss on loss of control of the subsidiary	1,531
Gain on loss of control of Sofas UK	64,371

The net cash outflow arising on loss of control of a subsidiary with amount RMB11,686,000 is disclosed as an investing activity in condensed consolidated statement of cash flows.

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

FOR THE SIX MONTHS ENDED JUNE 30, 2011

17. CAPITAL AND OTHER COMMITMENTS

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

	June 30, 2011 *RMB'000* **(unaudited)**	December 31, 2010 *RMB'000* (audited)
Expenditure contracted for but not provided in the consolidated financial statements in respect of		
– Properties under development	**471,126**	576,178
– Acquisition of property, plant and equipment	**17,830**	6,996
– Construction of certain infrastructure and public facilities in the PRC on behalf of the government	**12,253**	12,253
	501,209	595,427

18. CONTINGENT LIABILITIES

The Group provided guarantees of RMB173,867,000 (December 31, 2010: RMB138,683,000) at June 30, 2011 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.