



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)

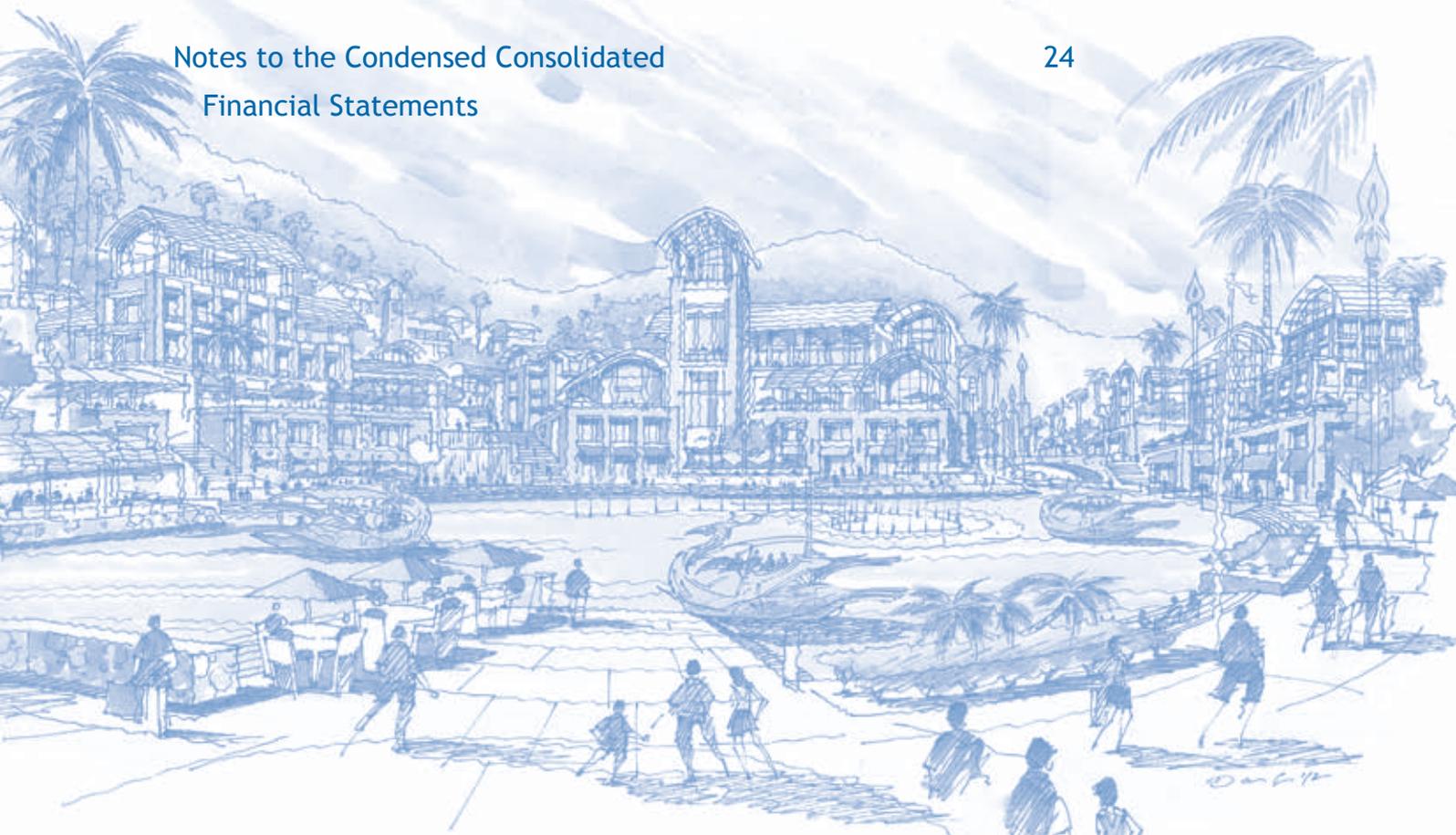
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Interim Report 2012



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BUSINESS REVIEW AND PROSPECTS

RESULTS OVERVIEW

For the six months ended June 30, 2012, Kasen International Holdings Limited (the “Company”) together with its subsidiaries (collectively, the “Group”) recorded a consolidated turnover of RMB1,216.2 million (six months ended June 30, 2011: RMB1,156.6 million), representing an increase of 5.2%.

The Group’s gross profit for the six months ended June 30, 2012 was RMB182.6 million (six months ended June 30, 2011: RMB213.3 million) with an average gross profit margin of 15.0% (six months ended June 30, 2011: 18.4%).

The net profit attributable to owners of the Company for the first half of 2012 was approximately RMB41.9 million (six months ended June 30, 2011: RMB104.0 million), representing a decrease of 59.7% when compared with the corresponding period in 2011. The decrease in net profit was mainly due to the reduction of the one-off gain by approximately RMB46.5 million from the loss of control of two subsidiaries of the Group, namely, Sofas UK Ltd. and Shanghai La Kassa Furniture Co. Ltd., in the first half of 2011 and 2012, respectively.

Review by Business Segments

The Group’s reportable business segments consist of mainly manufacturing, property development, retail business and others (comprising mainly provision of property management service business, hot spring resort operation, restaurant operation and provision of service to the residents and guests of the Group’s developed properties and travel-related service).

The table below shows the total turnover by business segment for the six months ended June 30, 2012, together with the comparative figures for the corresponding period of year 2011:

	2012		Six Months Ended June 30, 2011		Change
	RMB'Million	%	RMB'Million	%	
Manufacturing	855.9	70.4	738.6	63.9	15.9
Upholstered Furniture	274.8	22.6	270.4	23.4	1.6
Furniture Leather	105.5	8.7	133.8	11.6	-21.2
Automotive Leather	475.6	39.1	334.4	28.9	42.2
Property Development	317.7	26.1	377.5	32.6	-15.8
Retail	10.3	0.8	38.0	3.3	-72.9
Others	32.3	2.7	2.5	0.2	1,192.0
Total	1,216.2	100.0	1,156.6	100.0	5.2

Manufacturing Business

During the six months ended June 30, 2012, the Group’s manufacturing business, comprising of upholstered furniture, furniture leather and automotive leather divisions, recorded a total turnover of RMB855.9 million (six months ended June 30, 2011: RMB738.6 million), representing an increase of 15.9%. This segment recorded a loss of RMB12.2 million, compared to a loss of RMB14.2 million for the corresponding period in 2011. 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 RMB274.8 million in the first half of 2012 as compared to RMB270.4 million for the corresponding period in 2011. During the period under review, the Group rebuilt its management team and consolidated the relationship with major customers.

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 automotive leather and upholstered furniture division. The Group's sales of furniture leather recorded sales of RMB105.5 million in the first half of 2012 (six months ended June 30, 2011: RMB133.8 million), representing a decrease of 21.2%.

Automotive Leather

During the six months ended June 30, 2012, the turnover from automotive leather division exceeded the turnover from upholstered furniture and accounted for 55.6% 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 RMB475.6 million in the first half of 2012, representing an increase of 42.2% as compared to the corresponding period in 2011 (six months ended June 30, 2011: RMB334.4 million).

Property Development Business

As of June 30, 2012, the Group has five property development projects at various stages of development and the turnover from the property development segment amounted to RMB317.7 million for the six months ended June 30, 2012 (six months ended June 30, 2011: RMB377.5 million).

Group's Property Project Portfolio as at June 30, 2012

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	Pre-development
3	Qianjiang Continent	Yancheng, Jiangsu	100%	331,040	Under development
4	Kingdom Garden	Haining, Zhejiang	100%	449,189	Under development
5	Changbai Paradise	Changbai Mountain, Jilin	89%	157,004	Under development
Total				2,952,090	



BUSINESS REVIEW AND PROSPECTS (cont'd)

RESULTS OVERVIEW (cont'd)

Review by Business Segments (cont'd)

Property Development Business (cont'd)

Analysis of Properties Under Development

No.	Project Name	Total GFA (sq.m.)	GFA under development (sq.m.)	Total Saleable GFA (sq.m.)	GFA sold as at June 30, 2012 (sq.m.)	GFA delivered as at June 30, 2012 (sq.m.)	Average Selling Price (RMB/sq.m.)
1	Asia Bay	718,665	246,556	575,443	44,820	15,105	27,393
2	Qianjiang Continent	722,091	722,091	646,887	517,689	304,204	4,716
3	Kingdom Garden	998,108	274,224	662,620	24,882	–	–
4	Changbai Paradise	200,323	152,425	159,024	–	–	–
Total		2,639,187	1,395,296	2,043,974	587,391	319,309	

Projects Overview

Asia Bay in Boao of Hainan

As the Group's first flagship project in resort property development, Asia Bay achieved a steady sales performance despite of the overall downturn in Hainan property markets. During the period under review, 41 units of the Sentosa and Bali Island semi-detached houses were successfully delivered and a revenue of RMB134.0 million was recognized (six months ended June 30, 2011: RMB259.4 million). The recognized gross floor area ("GFA") sold during the six months ended June 30, 2012 was 4,828 square meters.

Qianjiang Continent in Yancheng of Jiangsu

During the six months ended June 30, 2012, the recognized GFA sold in this project was 27,123 square meters and the recognized sales amounted to RMB183.7 million (six months ended June 30, 2011: RMB118.1 million). A total of 201 units, including both commercial and residential units were delivered and the average selling price was RMB6,773 per square meter, as compared to RMB7,803 per square meter during the corresponding period in 2011.

Kingdom Garden in Haining of Zhejiang

During the six months ended June 30, 2012, two phases of this project, including townhouses and apartments are in pre-sale and the contracted sales was RMB216,900,000 and the average pre-sale price was RMB8,717 per square meter. The performance of sales is outstanding compared to other real estate projects in the local market.

Changbai Paradise in Changbai Mountain of Jilin

During the period under review, the five-star hotel and apartments are under construction and they will be ready for sale in the second half of 2012.

Other projects

The Group's property project in Sanya of Hainan Province was still undeveloped as at June 30, 2012. No contribution was made by this project with respect to turnover and profit of the Group in the first half of 2012.

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, 2012 decreased to approximately RMB51.0 million, as compared to approximately RMB71.8 million in the first half of 2011, mainly due to the reduction of selling and distribution cost of Sofas UK Ltd. as a result of the loss of control of Sofas UK Ltd. by the Group since March 2011. Consequentially, the selling and distribution costs to turnover in the first half of 2012 decreased to 4.2% as compared to 6.2% for the corresponding period in 2011.

The administrative costs for the six months ended June 30, 2012 were approximately RMB76.0 million, representing an increase of approximately RMB17.8 million as compared to approximately RMB58.2 million during the corresponding period in 2011, mainly due to the increase of administrative expenses of approximately RMB10.5 million incurred by the business segment of tourism-related property development and services.

The Group's finance cost in the first half of 2012 was approximately RMB43.7 million, with an increase of approximately RMB6.4 million, as compared to approximately RMB37.3 million during the same period of 2011, the increase was mainly due to the increase in bank lending rates during the six months ended June 30, 2012.

The Group's income tax in the first half of 2012 was approximately RMB15.4 million, with a decrease of approximately RMB5.8 million, as compared to approximately RMB21.2 million in the corresponding period in 2011. The decrease resulted from (1) the decrease in taxable profits generated by the manufacturing business from the reduced sales of manufacturing business at subsidiary level and (2) a reversal of deferred taxation recognized in prior years amounting to RMB4.2 million.

An one-off gain on disposal of Shanghai La Kassa Furniture Co. Ltd. as the Group's PRC subsidiary amounting to RMB17.9 million was recorded in the first half of 2012 while an one-off gain on loss of control of Sofas UK Ltd. as the Group's subsidiary amounting to RMB64.4 million was recorded during the six months ended June 30, 2011. As a result, there was a reduction of the one-off gain by approximately RMB46.5 million. For details, please refer to note 15 to the Condensed Consolidated Financial Statements.

For reasons mentioned above, the net profit attributable to owners of the Company was approximately RMB41.9 million in the first half of 2012 (six months ended June 30, 2011: RMB104.0 million).



BUSINESS REVIEW AND PROSPECTS (cont'd)

FINANCIAL RESOURCES AND LIQUIDITY

As at June 30, 2012, the Group had cash and cash equivalent of RMB493.3 million (as at December 31, 2011: RMB370.7 million) and a total borrowings of RMB1,293.1 million (as at December 31, 2011: RMB1,430.9 million). This represents a gearing ratio of 49.5% (as at December 31, 2011: 56.5%) and a net debt-to-equity ratio of 30.5% (as at December 31, 2011: 41.8%). 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, 2012, the Group's inventory which primarily represented leather crust, was RMB421.8 million, representing an increase of RMB64.2 million as compared to RMB357.6 million as of December 31, 2011. During the six months ended June 30, 2012, the Group endeavored to control inventory level and managed to maintain its inventory turnover period to 96 days as compared to 85 days as at December 31, 2011.

During the six months ended June 30, 2012, the Group continued to maintain a strict credit policy. The account receivable turnover days of the Group's manufacturing and retail segments decreased to 77 days for the first half of 2012 (as at December 31, 2011: 89 days).

The accounts payable turnover days of the Group's manufacturing and retail segments increased to 78 days for the six months ended June 30, 2012 (as at December 31, 2011: 52 days).

MATERIAL ACQUISITION AND DISPOSAL

During the period under review, the Group disposed a wholly owned subsidiary, Shanghai La Kassa Furniture Co. Ltd to an independent third party for the consideration of RMB41.0 million. The profit generated from the disposal is approximately RMB17.9 million. The disposal is part of the Group's reform measures in the consolidation of manufacturing business.

Save as disclosed above, the Group did not have any material acquisitions or disposals during the six months ended June 30, 2012.

PLEDGE OF ASSETS

During the six months ended June 30, 2012, 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 3.3%.

FOREIGN EXCHANGE EXPOSURE

The Group is principally engaged in export-related business, and transactions (including sales and procurements) are mainly denominated in US dollars, and most of the trade receivables are exposed to exchange rate fluctuation. During the six months ended June 30, 2012, the Group used forward contracts and some other financial instruments to hedge foreign exchange risk, and recorded a gain of approximately RMB282,000.

BUSINESS REVIEW AND PROSPECTS (cont'd)

CONTINGENT LIABILITIES

As at June 30, 2012, 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, 2012, the Group employed a total of approximately 3,800 full time employees (as at June 30, 2011: approximately 3,700) including management staff, technicians, salespersons and workers. For the six months ended June 30, 2012, the Group's total expenses on the remuneration of employees were RMB75.4 million (six months ended June 30, 2011: RMB62.5 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

In the leather production business, the new factory located in Jiangsu Province, PRC will go into operation in the second half of 2012. The new factory has the production capacity of processing 3,000 pieces of raw hide per day now and will help the Group to complete the growing orders from customers. The automotive leather business will continue to be the most promising division in the Group's manufacturing business. In the future, the Group will continue to enhance its leading position in the domestic automotive seat leather market by increasing investment in technology as well as research and development or through mergers and acquisitions.

The global furniture market will not recover soon in a short time due to the world-wide economic downturn. To get through the tough times, the Group will take reform measures in the furniture export division, including rebuilding the management teams, optimizing manufacturing process flow and adopt new incentives to salesman to consolidate the relationship with major customers and increase the profit margin.

Tourism-Related Property Development and Services

It is expected that regulatory measures in real estate will not be untied substantially in the short run. The Group will stick to the prudent strategy in the expansion of its property business and put more resources in the development of existing projects in Hainan, Changbai Mountain, Jiangsu and Zhejiang. More premises in Asia Bay of Hainan and Qianjiang Continent of Jiangsu will be delivered and it will make great contribution to the Group's financial performance. The construction of apartments in Changbai Paradise of Changbai Mountain will continue and get ready for pre-sale before the end of 2012. The sale performance of Kingdom Garden in Haining is good during the past half year and the next phases of this project will go into market as planned.

The central government of PRC has issued policies to stimulate the tourism industry in the first half of 2012 and it further enhanced the Group's confidence in the investment in the tourism-related services.

The Group has established the cooperation relationship with Gansu Shan Dan Horse Farm, the biggest Imperial Horse Farm in the World. Shan Dan Horse Farm located in Gansu Province, owns rich tourist resources, including lakes, snow mountain, grassland and thousands of horses. The Group will build boutique hotels in the farm and develop it into an attractive tourist destination to the travellers all over the world.

In Boao of Hainan Province, a modern performance center wholly owned and operated by the Group will be opened to the tourists in the second half of 2012. This performance center, located in the Asia Bay, will be the first and unique one in Boao.

The Group will launch the construction of a large-scale water park resort located in its project in Sanya of Hainan. This resort, named "Sanya Phoenix Dream Water World Resort" was designed by Forrec Limited, a global leader in the planning and design of themed attractions, entertainment facilities and themed environments. It will become one of the top water parks in the world when the construction is fully completed in the year of 2013.

DISCLOSURE OF INTERESTS

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

As at June 30, 2012, the interests of the directors of the Company (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 of Hong Kong Limited (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 ("Mr. Zhu")	12,360,000	514,798,635 <i>(Note)</i>	527,158,635	45.35%
Zhou Xiaosong	8,173,912	–	8,173,912	0.70%
Zhang Mingfa, Michael	1,980,000	–	1,980,000	0.17%

Note: 514,798,635 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, 2012.

DISCLOSURE OF INTERESTS (cont'd)

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).

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.



DISCLOSURE OF INTERESTS (cont'd)

SHARE OPTIONS (cont'd)

Details of the share options granted, pursuant to the Scheme on March 9, 2006, May 5, 2008 and October 12, 2009, respectively, during the six months ended June 30, 2012 were as follows:

Name of Director	Exercise price HK\$	Number of share options					Outstanding as at June 30, 2012	Percentage of total issued share capital	Exercisable period	Notes
		Granted from January 1, 2012 to June 30, 2012	Lapsed from January 1, 2012 to June 30, 2012	Exercised from January 1, 2012 to June 30, 2012	Percentage of total issued share capital					
		Outstanding as at January 1, 2012	Outstanding as at June 30, 2012	Outstanding as at June 30, 2012	as at January 1, 2012	as at June 30, 2012				
Zhu Zhangjin	2.38	1,000,000	-	-	-	1,000,000	0.09%	1/1/2007 to 8/3/2016	1,8,9	
	2.38	1,000,000	-	-	-	1,000,000	0.09%	1/1/2008 to 8/3/2016	2,8,9	
Zhou Xiaosong	2.38	1,000,000	-	-	-	1,000,000	0.09%	1/1/2007 to 8/3/2016	1,8,9	
	2.38	1,000,000	-	-	-	1,000,000	0.09%	1/1/2008 to 8/3/2016	2,8,9	
	1.18	500,000	-	-	-	500,000	0.04%	1/1/2009 to 4/5/2018	3,8,9	
	1.18	500,000	-	-	-	500,000	0.04%	1/1/2010 to 4/5/2018	4,8,9	
Zhang Mingfa, Michael	2.38	500,000	-	-	-	500,000	0.04%	1/1/2007 to 8/3/2016	1,8,9	
	2.38	500,000	-	-	-	500,000	0.04%	1/1/2008 to 8/3/2016	2,8,9	
	1.18	250,000	-	-	-	250,000	0.02%	1/1/2009 to 4/5/2018	3,8,9	
	1.18	250,000	-	-	-	250,000	0.02%	1/1/2010 to 4/5/2018	4,8,9	
Li Qingyuan	1.60	500,000	-	(500,000)	-	-	-	1/10/2010 to 11/10/2019	5,8,9	
	1.60	500,000	-	(500,000)	-	-	-	1/10/2011 to 11/10/2019	6,8,9	
		7,500,000	-	(1,000,000)	-	6,500,000	0.56%			
Other employees in aggregate	2.38	6,750,000	-	-	-	6,750,000	0.58%	1/1/2007 to 8/3/2016	1,8,9	
	2.38	6,750,000	-	-	-	6,750,000	0.58%	1/1/2008 to 8/3/2016	2,8,9	
	1.18	2,900,000	-	-	-	2,900,000	0.25%	1/1/2009 to 4/5/2018	3,8,9	
	1.18	2,900,000	-	-	-	2,900,000	0.25%	1/1/2010 to 4/5/2018	4,8,9	
		26,800,000	-	(1,000,000)	-	25,800,000	2.22%			

DISCLOSURE OF INTERESTS (cont'd)

SHARE OPTIONS (cont'd)

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 October 12, 2009 and are exercisable at HK\$1.60 per Share from October 1, 2010 to October 11, 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, 2011 to October 11, 2019.
7. Dr. Li Qingyuan were resigned on March 1, 2012.
8. These share options represent personal interest held by the relevant participants as beneficial owner.
9. Except the lapsed share option stated above, up to June 30, 2012, none of these share options were exercised nor cancelled.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Other than the Scheme disclosed above, at no time during the six months ended June 30, 2012 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.



DISCLOSURE OF INTERESTS (cont'd)

SUBSTANTIAL SHAREHOLDERS

As at June 30, 2012, 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	–	514,798,635	514,798,635	44.29%
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:

- Joyview is a company beneficially owned as to 100% by Mr. Zhu Zhangjin.
- 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, 2012.



CORPORATE GOVERNANCE

The Company has adopted the Code on Corporate Governance Practices (the “CG Code”) as set out in Appendix 14 of the Listing Rules as its corporate governance code of practices. For the six months ended June 30, 2012, the board of Directors (the “Board”) is of the view that, for the period from January 1, 2012 till March 31, 2012, the Company has complied with the code provisions as set out in the CG Code and in the revised CG Code from April 1, 2012 till June 30, 2012, except for the following deviation to code provisions A.2.1.

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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code 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, 2012, each of them has complied with the required standards as set out in the Model Code.

AUDIT COMMITTEE

The audit committee of the Company (“Audit Committee”), comprises all the three independent non-executive Directors namely, Mr. Sun Steve Xiaodi, Mr. Zhang Yuchuan 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 principles 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, 2012, including the review of the unaudited interim results of the Group for the six months ended June 30, 2012.

REMUNERATION COMMITTEE

The remuneration committee of the Company (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.

NOMINATION COMMITTEE

The Company has established a separate nomination committee (the “Nomination Committee”) on March 1, 2012. The Nomination Committee comprises of three members, the majority of which are independent non-executive Directors and an independent non-executive Director, Mr. Sun Steve Xiaodi is the chairman of the Nomination Committee. The Nomination Committee is responsible for nominating Directors, reviewing the structure and the composition of the Board regularly, then identifying and nominating qualified individuals to be appointed as new Directors of the Company.

OTHER INFORMATION

INTERIM DIVIDEND

The Board do not recommend the payment of any interim dividend for the six months ended June 30, 2012 (six months ended June 30, 2011: RMB2.46 cents (equivalent to approximately HK3.00 cents) per ordinary share).

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

During the six months ended June 30, 2012, 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, 2012.

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, Mr. Zhang Yuchuan and Mr. Zhou Lingqiang.

By Order of the Board

Kasen International Holdings Limited

Zhu Zhangjin

Chairman

PRC, August 29, 2012



REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 condensed consolidated financial statements of Kasen International Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 17 to 36, which comprise the condensed consolidated statement of financial position as of June 30, 2012 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 these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements 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 these condensed consolidated financial statements 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 condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

August 29, 2012

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2012

	NOTES	Six months ended June 30, 2012 RMB'000 (unaudited)	Six months ended June 30, 2011 RMB'000 (unaudited)
Turnover	3	1,216,225	1,156,592
Cost of sales		(1,033,625)	(943,249)
Gross profit		182,600	213,343
Other income		31,563	36,389
Selling and distribution costs		(50,963)	(71,759)
Administrative expenses		(75,959)	(58,232)
Other expenses		(6,048)	(6,032)
Other gains and losses		9,773	(5,027)
Share of losses of associates		(7,631)	(6,605)
Gain on disposal/loss of control of a subsidiary	15	17,871	64,371
Finance costs		(43,677)	(37,276)
Profit before tax	4	57,529	129,172
Income tax expenses	5	(15,407)	(21,212)
Profit for the period		42,122	107,960
Other comprehensive income (expense)			
Fair value gain (loss) on available-for-sale investments		54,933	(80,610)
Deferred tax liability on fair value change of available-for-sale investments		(13,733)	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)
Total comprehensive income for the period		83,322	45,972
Profit for the period attributable to:			
Owners of the Company		41,937	104,018
Non-controlling interests		185	3,942
		42,122	107,960
Total comprehensive income attributable to:			
Owners of the Company		83,137	42,030
Non-controlling interests		185	3,942
		83,322	45,972
Earnings per share			
Basic and diluted	7	RMB4 cents	RMB9 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT JUNE 30, 2012

	NOTES	June 30, 2012 RMB'000 (unaudited)	December 31, 2011 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	8	464,366	408,225
Prepaid lease payments – non-current portion		69,706	33,951
Properties for development		175,260	175,807
Intangible assets		758	702
Interests in associates		8,568	16,200
Available-for-sale investments		435,729	380,796
Deferred tax assets		35,087	25,080
Deposit paid for acquisition of a property		–	40,000
Deposit paid for acquisition of a subsidiary	9	212,581	212,581
Advances for acquisition of land for development	9	279,430	279,430
Deposit paid for acquisition of land use rights		26,000	17,068
		1,707,485	1,589,840
CURRENT ASSETS			
Inventories		423,434	357,584
Properties under development		3,210,936	2,906,761
Properties held for sale		427,058	412,814
Trade, bills and other receivables	10	878,680	810,617
Receivable from disposal of assets	11	219,735	270,948
Prepaid lease payments – current portion		1,668	806
Derivative financial instruments		497	497
Tax recoverable		67,310	30,522
Pledged bank deposits		245,203	185,180
Restricted bank deposit for property development business		8,663	9,192
Bank balances and cash		493,337	370,385
		5,976,521	5,355,306
Assets classified as held for sale	14	–	40,844
		5,976,521	5,396,150
CURRENT LIABILITIES			
Trade, bills and other payables	12	1,344,169	1,185,590
Deposits received in respect of pre-sale of properties		1,942,868	1,535,252
Bank and other borrowings – due within one year	13	1,287,326	1,424,376
Tax payable		69,054	36,194
		4,643,417	4,181,412
Liabilities classified as held for sale	14	–	1,690
		4,643,417	4,183,102
NET CURRENT ASSETS		1,333,104	1,213,048
TOTAL ASSETS LESS CURRENT LIABILITIES		3,040,589	2,802,888

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (cont'd)

AT JUNE 30, 2012

	NOTES	June 30, 2012 RMB'000 (unaudited)	December 31, 2011 RMB'000 (audited)
NON-CURRENT LIABILITIES			
Deferred tax liabilities		218,506	204,868
Bank and other borrowings – due after one year	13	5,804	6,513
Other long-term liabilities	16	141,450	–
		365,760	211,381
NET ASSETS			
		2,674,829	2,591,507
CAPITAL AND RESERVES			
Share capital		1,400	1,400
Reserves		2,600,724	2,517,587
Equity attributable to owners of the Company		2,602,124	2,518,987
Non-controlling interests		72,705	72,520
Total equity		2,674,829	2,591,507



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2012

	Attributable to owners of the Company											
	Share capital	Share premium	Statutory reserve	Special reserve	Share option reserve	Other reserve	Available-for-sale investments revaluation reserve	Translation reserve	Retained earnings	Sub-total	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	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 net liabilities of the subsidiary reclassified from equity to profit and 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 CHANGES IN EQUITY (cont'd)

FOR THE SIX MONTHS ENDED JUNE 30, 2012

	Attributable to owners of the Company											
	Share capital	Share premium	Statutory reserve	Special reserve	Share option reserve	Other reserve	Available- for-sale		Retained earnings	Sub-total	Non- controlling interests	Total
							revaluation reserve	Translation reserve				
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Profit for the period	-	-	-	-	-	-	-	-	196,473	196,473	(3,278)	193,195
Fair value gain on available- for-sale investments	-	-	-	-	-	-	18,586	-	-	18,586	-	18,586
Deferred tax liability on fair value change of available- for-sales investments	-	-	-	-	-	-	(4,647)	-	-	(4,647)	-	(4,647)
Total comprehensive income for the period	-	-	-	-	-	-	13,939	-	196,473	210,412	(3,278)	207,134
Dividend recognized as distribution	-	-	-	-	-	-	-	-	(28,565)	(28,565)	-	(28,565)
Issue of shares under share option scheme	-	814	-	-	(226)	-	-	-	-	588	-	588
Recognition of equity-settled share-based payments	-	-	-	-	(60)	-	-	-	-	(60)	-	(60)
Release upon lapse of share options	-	-	-	-	(1,158)	-	-	-	1,158	-	-	-
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	2,279	2,279
Capital contribution from non-controlling interests	-	-	-	-	-	-	-	-	-	-	45,000	45,000
Deemed disposal of partial interests in a subsidiary to non-controlling interests without change of control	-	-	-	-	-	(2,100)	-	-	-	(2,100)	2,100	-
At December 31, 2011 (audited)	1,400	1,317,487	191,693	168,659	16,840	(41,703)	245,637	-	618,974	2,518,987	72,520	2,591,507

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

FOR THE SIX MONTHS ENDED JUNE 30, 2012

	Attributable to owners of the Company										
	Share capital	Share premium	Statutory reserve	Special reserve	Share option reserve	Other reserve	Available-for-sale investments revaluation reserve	Retained earnings	Sub-total	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2012 (audited)	1,400	1,317,487	191,693	168,659	16,840	(41,703)	245,637	618,974	2,518,987	72,520	2,591,507
Profit for the period	-	-	-	-	-	-	-	41,937	41,937	185	42,122
Fair value gain on available-for-sale investments	-	-	-	-	-	-	54,933	-	54,933	-	54,933
Deferred tax liability on fair value change of available-for-sales investments	-	-	-	-	-	-	(13,733)	-	(13,733)	-	(13,733)
Total comprehensive income for the period	-	-	-	-	-	-	41,200	41,937	83,137	185	83,322
Release upon lapse of share options	-	-	-	-	(984)	-	-	984	-	-	-
Transfer upon disposal of a wholly-owned subsidiary	-	-	(2,384)	(676)	-	-	-	3,060	-	-	-
At June 30, 2012 (Unaudited)	1,400	1,317,487	189,309	167,983	15,856	(41,703)	286,837	664,955	2,602,124	72,705	2,674,829



CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2012

	NOTES	Six months ended June 30, 2012 RMB'000 (unaudited)	Six months ended June 30, 2011 RMB'000 (unaudited)
NET CASH FROM (USED IN) OPERATING ACTIVITIES		188,644	(641,813)
INVESTING ACTIVITIES			
Placement of pledged bank deposits		(271,121)	(167,410)
Purchase of property, plant and equipment		(53,178)	(16,032)
Withdrawal of pledged bank deposits		211,098	170,864
Proceeds from disposal of assets	11	50,383	260,508
Disposal/loss of control of a subsidiary	15	25,021	(11,686)
Other investing cash flow		5,182	35,330
NET CASH (USED IN) FROM INVESTING ACTIVITIES		(32,615)	271,574
FINANCING ACTIVITIES			
Repayment of bank and other borrowings		(1,504,515)	(992,078)
Underwriting fee paid in relation to issuance of corporate bonds by a subsidiary	16	(2,000)	–
Bank and other borrowings raised		1,366,756	1,069,622
Proceeds from issuance of corporate bonds by a subsidiary	16	150,000	–
Capital contribution from non-controlling interests		–	4,000
Proceeds from issue of shares		–	2,255
Refund of capital to non-controlling interests upon dissolution of a subsidiary		–	(7,126)
Other financing cash flow		(43,677)	(62,405)
NET CASH (USED IN) FROM FINANCING ACTIVITIES		(33,436)	14,268
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		122,593	(355,971)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		370,744	745,347
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by bank balances and cash		493,337	389,376

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2012

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.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2012 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended December 31, 2011.

In the current interim period, the Group has applied, for the first time, the following amendments to International Financial Reporting Standards (“IFRS”) issued by the IASB, which are effective for the Group’s financial year beginning on January 1, 2012:

IFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets
IAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets

The application of the above amendments to IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and disclosures set out in these condensed consolidated financial statements.



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

FOR THE SIX MONTHS ENDED JUNE 30, 2012

3. SEGMENT INFORMATION

During the period, the Group has engaged in a new restaurant operation and provision of service to the residents and guests of the Group's developed properties in the People's Republic of China ("PRC"). The financial information was included in Others segment when regularly report to the chief operating decision maker.

Segment revenues and results

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

Revenue

Six months ended June 30, 2012

	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	855,867	317,701	10,338	32,319	1,216,225	-	1,216,225
Inter-segment sales	2,476	-	-	50	2,526	(2,526)	-
Total	858,343	317,701	10,338	32,369	1,218,751	(2,526)	1,216,225

Six months ended June 30, 2011

	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	738,632	377,459	37,961	2,540	1,156,592	-	1,156,592
Inter-segment sales	10,492	-	-	3,000	13,492	(13,492)	-
Total	749,124	377,459	37,961	5,540	1,170,084	(13,492)	1,156,592

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

FOR THE SIX MONTHS ENDED JUNE 30, 2012

3. SEGMENT INFORMATION (cont'd)

Segment revenues and results (cont'd)

Results

	Six months ended June 30, 2012 <i>RMB'000</i>	Six months ended June 30, 2011 <i>RMB'000</i>
Segment results		
– Manufacturing	(12,226)	(14,178)
– Properties development	61,531	79,197
– Retail	(2,412)	(8,052)
– Others	(18,763)	(6,956)
	28,130	50,011
Unallocated corporate expenses	(4,811)	(2,854)
Unallocated other gains and losses	932	(3,568)
Gain on loss of control of a subsidiary	17,871	64,371
Profit for the period	42,122	107,960

Segment (loss) profit represents the (loss from) profit earned by each segment without allocation of central administration costs, directors' salaries and exchange gain (loss). 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, 2012 <i>RMB'000</i>	December 31, 2011 <i>RMB'000</i>
Manufacturing	6,723,442	6,141,335
Properties development	5,807,612	4,994,527
Retail	67,777	69,957
Others	228,356	234,138
Total segment assets	12,827,187	11,439,957
Unallocated	12,535	6,867
Elimination	(5,155,716)	(4,460,834)
Consolidated assets	7,684,006	6,985,990

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

FOR THE SIX MONTHS ENDED JUNE 30, 2012

4. PROFIT BEFORE TAX

	Six months ended June 30, 2012 RMB'000	Six months ended June 30, 2011 RMB'000
Profit before tax has been arrived at after charging (crediting):		
Amortization of intangible assets (included in administrative expenses)	205	224
Amortization of properties for development (included in other expenses)	547	2,701
Depreciation of property, plant and equipment	<u>20,183</u>	20,880
Total depreciation and amortization	<u>20,935</u>	23,805
Release of prepaid lease payments	403	713
Interest on bank and other borrowings wholly repayable within five years	84,102	62,404
Less: amount capitalised in respect of property under development	<u>(40,425)</u>	(25,128)
	43,677	37,276
(Gain) loss on disposal of property, plant and equipment (included in other gains and losses)	(104)	764
Net exchange (gain) loss (included in other gains and losses)	(932)	3,568
Dividend income from listed available-for-sale investments	(5,163)	(5,163)
Government grants	(3,545)	(5,243)
Reversal of (impairment loss) recognised in respect of trade and other receivables (included in other gains and losses)	4,897	(825)
Imputed interest of a receivable from disposal of assets (note 11)	(2,471)	(5,862)
Interest income	<u>(14,376)</u>	(11,778)

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

FOR THE SIX MONTHS ENDED JUNE 30, 2012

5. INCOME TAX EXPENSES

	Six months ended June 30, 2012 <i>RMB'000</i>	Six months ended June 30, 2011 <i>RMB'000</i>
Land appreciation tax ("LAT") – current period	<u>11,992</u>	11,588
PRC enterprise income tax		
– Current period	15,337	19,341
– Overprovision of income tax in previous periods	<u>(1,821)</u>	(3,861)
	13,516	15,480
Deferred tax credit	<u>(10,101)</u>	(5,856)
	<u>15,407</u>	21,212

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 dividends were paid, declared or proposed during the current period (six months ended June 30, 2011: RMB2.46 cents per share, equivalent to approximately HK3.00 cents per share).

The directors have determined that no dividend will be paid in respect of the current period.



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

FOR THE SIX MONTHS ENDED JUNE 30, 2012

7. EARNINGS PER SHARE

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

Profit for the period

	Six months ended June 30, 2012 RMB'000	Six months ended June 30, 2011 RMB'000
Profit for the period for the purposes of basic and diluted earnings per share, being profit attributable to owners of the Company	41,937	104,018

Number of shares

Weighted average number of ordinary shares for the purpose of basic earnings per share	1,161,972,300	1,161,611,874
Effect of dilutive potential ordinary shares – share options	–	1,410,953
Weighted average number of ordinary shares for the purposes of diluted earnings per share	1,161,972,300	1,163,022,827

No adjustment for diluted earnings per share for the six months ended June 30, 2012 as the exercise price of the Company's options was higher than the average market price per share during the period.

8. PROPERTY, PLANT AND EQUIPMENT

During the current period, the Group incurred expenditure of approximately RMB73,683,000 (six months ended June 30, 2011: approximately RMB16,032,000) 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 an aggregate carrying amount of approximately RMB917,000 (June 30, 2011: approximately RMB764,000) for cash proceeds of approximately RMB1,021,000 (six months ended June 30, 2011: nil), resulting in a gain on disposal of approximately RMB104,000 (six months ended June 30, 2011: loss on disposal of approximately RMB764,000).

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

FOR THE SIX MONTHS ENDED JUNE 30, 2012

9. 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, 2012, the advances were unsecured and interest bearing at a fixed rate ranging from 6.31% to 6.56% (December 31, 2011: the deposits and advances were unsecured and interest bearing at the People's Bank of China Standard Loan interest rate). 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 and acquisition of a subsidiary had not yet completed and is expected to complete in 2013.

10. TRADE, BILLS AND OTHER RECEIVABLES

	June 30, 2012	December 31, 2011
	RMB'000	RMB'000
	(unaudited)	(audited)
Trade and bills receivables	389,558	438,854
Deposits paid for acquisition of land use rights for properties development for sale	41,014	70,264
Advance payment for purchase of inventory and construction projects for properties under development	97,564	79,894
Prepaid non-income tax and LAT	179,503	109,704
Others	171,041	111,901
	878,680	810,617

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

FOR THE SIX MONTHS ENDED JUNE 30, 2012

10. TRADE, BILLS AND OTHER RECEIVABLES (cont'd)

The Group grants a credit period ranging from 30 days to 120 days to its trade customers. The aging analysis of trade and bills receivables (net of allowance for doubtful debts) presented based on the invoice date at the end of the reporting period is as follows:

	June 30, 2012 RMB'000 (unaudited)	December 31, 2011 RMB'000 (audited)
Aged:		
Within 60 days	320,009	287,871
61 – 90 days	35,357	92,781
91 – 180 days	13,050	42,772
181 – 365 days	18,254	12,884
Over 1 year	2,888	2,546
	389,558	438,854

11. RECEIVABLE FROM DISPOSAL OF ASSETS

During the year ended December 31, 2011, the Group demolished a plant and returned certain land use rights to the PRC government. The consideration of the disposal was RMB463,418,000. RMB190,000,000 and RMB50,383,000 of the consideration was received in 2011 and in the current period, respectively. The fair value of the remaining balance of the receivable at initial recognition was determined with effective interest rate of 3.05% per annum and amounted to approximately RMB219,735,000 at June 30, 2012. The remaining balance is expected to settle in second half of 2012.

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, 2012 RMB'000 (unaudited)	December 31, 2011 RMB'000 (audited)
Within 60 days	767,210	703,086
61 – 90 days	159,304	106,731
91 – 180 days	117,688	110,934
181 – 365 days	34,896	7,342
1 – 2 years	3,617	19,220
Over 2 years	8,747	9,179
	1,091,462	956,492

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

FOR THE SIX MONTHS ENDED JUNE 30, 2012

13. BANK AND OTHER BORROWINGS

During the current period, the Group obtained additional bank and other borrowings of approximately RMB1,366,756,000 (six months ended June 30, 2011: approximately RMB1,069,622,000) and repaid bank and other borrowings of approximately RMB1,504,515,000 (six months ended June 30, 2011: approximately RMB992,078,000).

Included in unsecured bank borrowings are borrowings of RMB415,000,000 (December 31, 2011: RMB370,000,000) guaranteed by Mr. Zhu Zhangjin ("Mr. Zhu"), the chief executive officer and a controlling shareholder of the Company, and a related company in which Mr. Zhu has significant influence and beneficial interests.

14. ASSETS/LIABILITIES CLASSIFIED AS HELD FOR SALE

In December 2011, the Group entered into an agreement with independent third parties to dispose of 100% interest of a subsidiary, Shanghai La Kassa Furniture Co., Ltd. ("La Kassa") for an aggregate consideration of approximately RMB41,000,000. The assets and liabilities attributable to the subsidiary, which was expected to be sold within twelve months, had been classified as a disposal group held for sale and were presented separately in the consolidated statement of financial position. The subsidiary was included in manufacturing segment for segment reporting purpose. The net proceeds of disposal exceed the net carrying amount of the relevant assets and liabilities and accordingly, no impairment loss had been recognized. The transaction had completed during the current period.

The major classes of assets and liabilities of the subsidiary at December 31, 2011 were as follows:

	<i>RMB'000</i>
Bank balance and cash	359
Other receivable	49
Building	27,844
Prepaid lease payments	12,592
	<u>40,844</u>
Trade and other payables	1,690
	<u>1,690</u>

The net assets set out above do not include intercompany balances owed to other group entities amounting to RMB15.2 million.

The disposal transaction had completed on March 22, 2012 and the related assets and liabilities at the date of the disposal are disclosed in note 15.

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

FOR THE SIX MONTHS ENDED JUNE 30, 2012

15. DISPOSAL/LOSS OF CONTROL OF A SUBSIDIARY

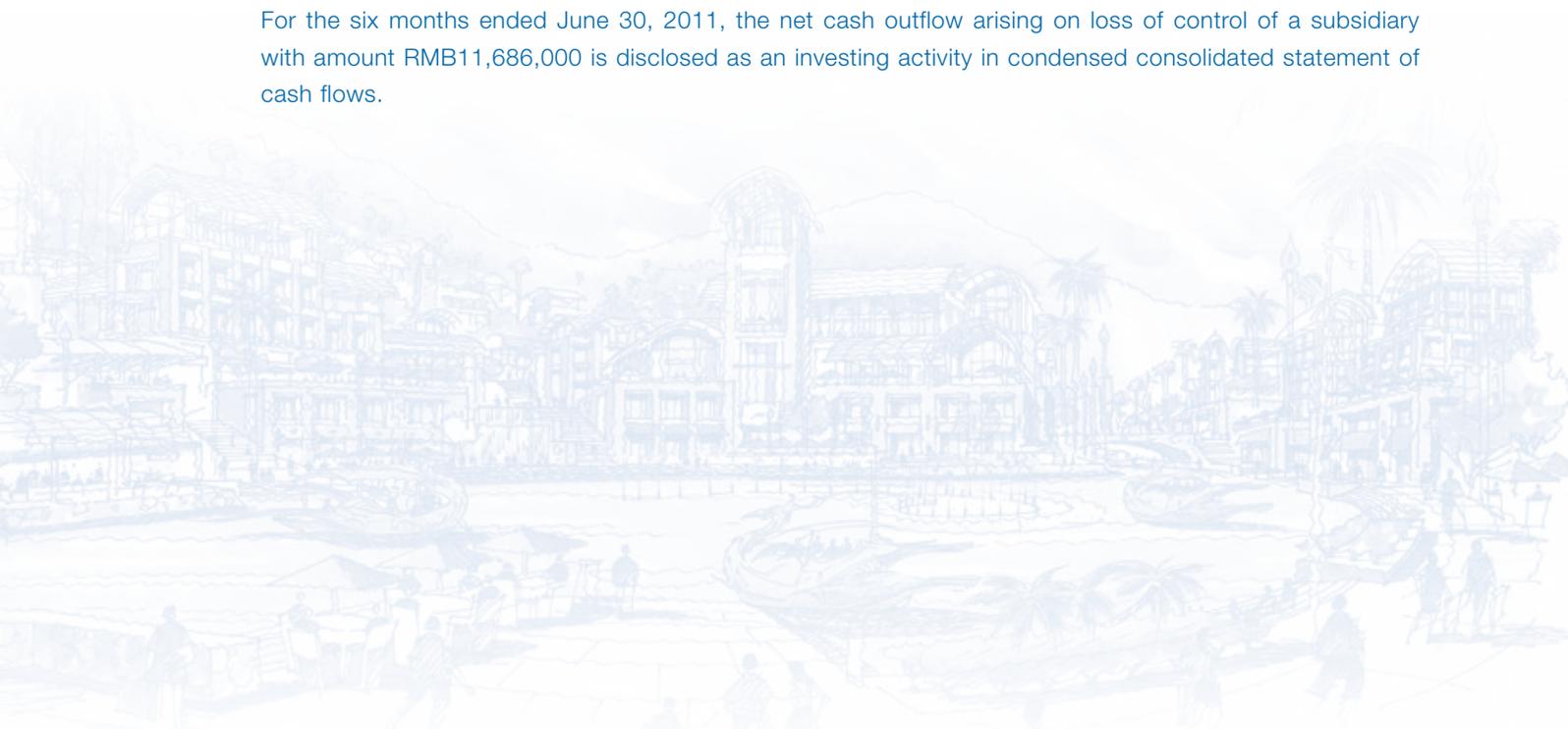
Pursuant to a Board resolution dated on March 29, 2011, the resolution in respect of the administration of a wholly owned subsidiary, Sofas UK Limited (“Sofas UK”), which carried out retail sales of furniture in the United Kingdom was duly passed. Accordingly, the Group filed the necessary documentation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

Up to the date of approval of these condensed consolidated financial statements, the administration has not completed.

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

	<i>RMB'000</i>
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

For the six months ended June 30, 2011, 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, 2012

15. DISPOSAL/LOSS OF CONTROL OF A SUBSIDIARY (cont'd)

In December 2011, the Group entered into an agreement with independent third parties to dispose of 100% interest of a subsidiary, Shanghai La Kassa Furniture Co., Ltd. ("La Kassa"), for an aggregate consideration of approximately RMB41,000,000. The disposal was completed on March 22, 2012, on which date the Group lost control of La Kassa.

The net assets of La Kassa at the date of disposal were as follows:

	June 30, 2012
	RMB'000
Bank balance and cash	359
Other receivable	49
Building	27,844
Prepaid lease payments	12,592
Trade and other payables	<u>(17,715)</u>
Net assets disposed of	<u>23,129</u>
Total consideration	
Satisfied by:	
Cash	35,380
Deferred cash consideration (<i>note b</i>)	<u>5,620</u>
	<u>41,000</u>
Gain on disposal	<u>17,871</u>
Net cash inflow arising on disposal:	
Total cash consideration received (<i>note a</i>)	25,380
Bank balance and cash disposed of	<u>(359)</u>
	<u>25,021</u>

Notes:

- a) An amount of RMB10,000,000 was received in prior year.
- b) The deferred consideration has been settled in cash before the date of approval of these condensed consolidated financial statements.

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

FOR THE SIX MONTHS ENDED JUNE 30, 2012

16. OTHER LONG-TERM LIABILITIES

Pursuant to an announcement of the Company dated on June 14, 2012, Haining Schinder Tanning Co., Ltd. (“Haining Schinder Tanning”), a wholly-owned subsidiary of the Company established in the PRC, issued and completed the registration of corporate bonds (the “Corporate Bonds”) with Shenzhen Stock Exchange on June 14, 2012. The principal amount of the Corporate Bonds was RMB150,000,000, with a term of three years. The coupon rate of the Corporate Bonds for the first two years is fixed at 8.10% per annum, and the coupon rate of the Corporate Bonds for the third year is subject to adjustment at the discretion of Haining Schinder Tanning which would not be lower than 1-year fixed deposit market interest rate and would not be higher than the regulation in PRC, which is three times of the lending rate published by the People’s Bank of China at the end of second year of the Corporate Bonds. The coupon interest of the Corporate Bonds is paid annually.

At the end of the second year from the issue of the Corporate Bonds, eligible investors have the right to sell the Corporate Bonds held by them, in whole or in part, back to Haining Schinder Tanning at a total consideration equivalent to the total face value of the corresponding Corporate Bonds to be sold.

The directors of the Company considered the fair value of the embedded derivatives embedded in the Corporate Bonds is insignificant because it is highly likely that the coupon rate of the Corporate Bonds for the third year will not significantly deviate from the market interest rate after the initial 2-year term.

The issue of the Corporate Bonds was guaranteed by the Company, Zhejiang Kasen Industrial Group Co., Limited, a wholly-owned subsidiary of the Company, and Mr. Zhu.

The underwriting fee amounted to RMB8,550,000, of which RMB2,000,000 was paid during the current period.



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

FOR THE SIX MONTHS ENDED JUNE 30, 2012

17. CAPITAL COMMITMENTS

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

	June 30, 2012	December 31, 2011
	RMB'000	RMB'000
	(unaudited)	(audited)
Expenditure contracted for but not provided in the condensed consolidated financial statements in respect of		
– Properties under development	579,774	696,727
– Acquisition of property, plant and equipment	49,686	43,176
	629,460	739,903

18. CONTINGENT LIABILITIES

The Group provided guarantees of RMB60,411,000 (December 31, 2011: RMB150,059,000) at June 30, 2012 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.

