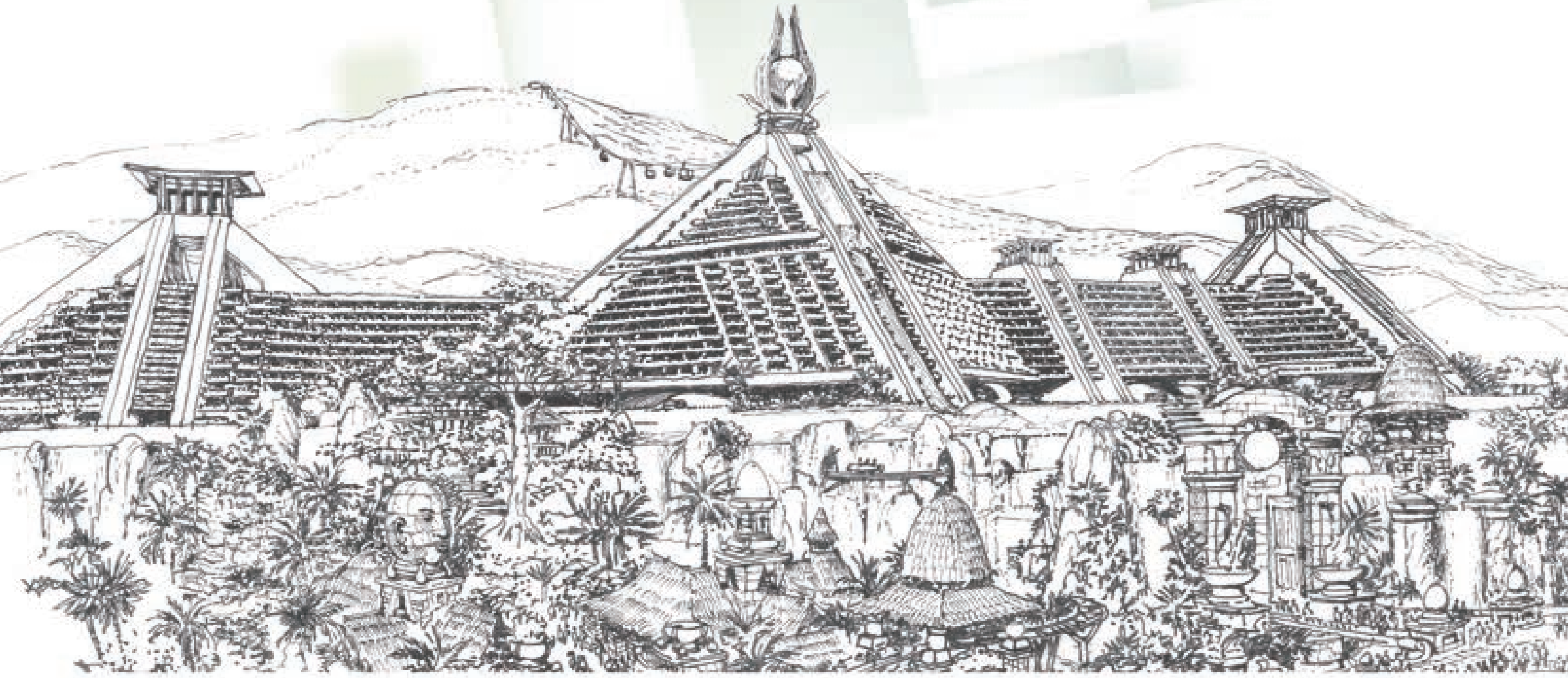
卡森國際控股有限公司

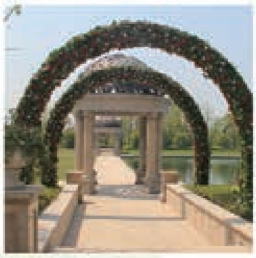
KASEN INTERNATIONAL HOLDINGS LIMITED

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

stock code : 496

Interim Report 2013





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BUSINESS REVIEW AND PROSPECTS

RESULTS OVERVIEW

For the six months ended June 30, 2013, Kasen International Holdings Limited (the "Company") together with its subsidiaries (collectively, the "Group") recorded a consolidated turnover of RMB1,871.4 million (six months ended June 30, 2012: RMB1,216.2 million), representing an increase of 53.9%.

The Group's gross profit for the six months ended June 30, 2013 was RMB408.1 million (six months ended June 30, 2012: RMB182.6 million) with an average gross profit margin of 21.8% (six months ended June 30, 2012: 15.0%).

The net profit attributable to owners of the Company for the first half of 2013 was approximately RMB90.6 million (six months ended June 30, 2012: RMB41.9 million), representing an increase of 116.2% when compared with the corresponding period in 2012. The remarkable increase in net profit was mainly due to the increase in the number of premises of the Group's property projects being delivered which in turn brought to an increased operating profit arised from this property development segment during the first half of 2013.

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 and provision of travel-related service).

The table below shows the total turnover by business segment for the six months ended June 30, 2013, together with the comparative figures for the corresponding period of year 2012:

	Six Months Ended June 30,				
	2013		2012		Change
	RMB'Million	**%**	*RMB'Million*	%	%
Manufacturing	**841.9**	**45.0**	855.9	70.4	-1.6
Automotive Leather	**502.4**	**26.9**	475.6	39.1	5.6
Upholstered Furniture	**219.5**	**11.7**	274.8	22.6	-20.1
Furniture Leather	**120.0**	**6.4**	105.5	8.7	13.7
Property Development	**972.0**	**51.9**	317.7	26.1	205.9
Retail	**8.6**	**0.5**	10.3	0.8	-16.5
Others	**48.9**	**2.6**	32.3	2.7	51.4
Total	**1,871.4**	**100.0**	1,216.2	100.0	53.9

Manufacturing Business

During the six months ended June 30, 2013, the Group's manufacturing business, comprising of automotive leather, upholstered furniture and furniture leather divisions recorded a total turnover of RMB841.9 million (six months ended June 30, 2012: RMB855.9 million). This segment recorded a loss of RMB22.3 million, as compared to a loss of RMB12.2 million for the corresponding period in 2012.

The business environment for the Group's manufacturing division is still unfavorable. As a major OEM exporter of upholstery furniture, the Group's financial performance in manufacturing business is significantly affected by the continuing appreciation of RMB and rising labor cost. During the first half of 2013, the exchange rates of RMB climbed to its historical highest level and as a result brought adverse impact to the Group's manufacturing division. Additionally, the labor cost in the mainland of China, especially in the Yangtze-River Triangle Zone which is the manufacturing base of the Group, has increased rapidly in the past few years. Further, the Group also faced labor shortage problem in particular during the production season. Moreover, the demand from the consumers in the U.S. and European countries is still depressed and the export price of the Group's products remained unchanged, despite of the rising manufacturing cost. Affected seriously by the adverse factors mentioned above, the manufacturing segment suffered a continuing and substantial loss during the past few years. As a result, the overall financial performance of the Group has been affected by the dissatisfactory operating result of this manufacturing segment.

A brief discussion of the performance of the three operating divisions are as follows:

Automotive Leather

According to the official statistical data published by China Association of Automobile Manufacturers, the automobile industry in the mainland of China recorded an increase of more than 10% in the sales for the first half of 2013 as compared to the first half of 2012. Thanks to the favorable business environment in the automobile industry, the Group's manufacturing of automotive leather maintained its good performance during the period under review. During the period under review, the turnover from automotive leather division contributed the largest portion of the total revenue of the Group's manufacturing business. Revenue generated from this division was RMB502.4 million in the first half of 2013, representing an increase of 5.6% as compared to the first half of 2012.

During the period under review and on January 28, 2013, the Group acquired the then entire issued share capital of MELX Co., Ltd. ("MELX"), a company established in Japan in 1911, which is a company principally engaged in the sale and manufacturing of automotive leather and furniture leather. The acquisition will further strengthen the Group's position as a leading automotive leather supplier in the PRC and create new platform for the Group to establish business relationship with Japanese-based automakers. It will also expand the Group's research and development capabilities, large-scale production capabilities and enhance its international presence. For further details, please refer to the announcement of the Company dated January 28, 2013.

BUSINESS REVIEW AND PROSPECTS (cont'd)
RESULTS OVERVIEW (cont'd)
Review by Business Segments (cont'd)
Manufacturing Business (cont'd)

Upholstered Furniture

Sales of upholstered furniture including finished sofa and sofa cut-and-sew. Turnover generated by this division was RMB219.5 million in the first half of 2013 as compared to RMB274.8 million for the corresponding period in 2012. The performance of upholstered furniture was affected by the ongoing pressure from manufacturing cost specially the increasing labor cost and appreciation of RMB. Also, the Group's major customers are in the United States and euro zone countries which are still under unfavorable environment. The Group will continue to expand its OEM customer base in addition to its existing customers.

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 RMB120.0 million in the first half of 2013 (six months ended June 30, 2012: RMB105.5 million), representing an increase of 13.7%.

Property Development Business

As of June 30, 2013, the Group has seven projects at various stages of development in the mainland of PRC. Due to more premises of Asia Bay and Qianjiang Continent being delivered by the Group during the first half of 2013, the turnover recorded from the property development segment was RMB972.0 million during the period under review, representing a substantial increase of 205.9% as compared to RMB317.7 million in the corresponding year of 2012.

Group's Property Project Portfolio as at June 30, 2013

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%	335,822	Under development
4	Kingdom Garden	Haining, Zhejiang	100%	449,189	Under development
5	Changbai Paradise	Changbai Mountain, Jilin	89%	268,071	Under development
6	Qianjiang Oasis	Yancheng, Jiangsu	60%	107,902	Pre-development
7	Jing Xiang Yuan	Haining, Zhejiang	100%	18,870	Under development
Total				3,194,711	

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, 2013 (sq.m.)	GFA delivered as at June 30, 2013 (sq.m.)	Average Selling Price (RMB/sq.m.)
1	Asia Bay	718,665	250,551	590,165	58,009	51,926	19,390
2	Qianjiang Continent	722,091	722,091	653,699	613,362	503,620	5,488
3	Kingdom Garden	1,041,493	531,531	689,476	57,384	–	–
4	Changbai Paradise	179,077	152,425	159,024	14,826	–	–
5	Jing Xiang Yuan	39,004	39,004	28,951	5,958	–	–
Total		2,700,330	1,695,602	2,121,315	749,539	555,546	

Projects Overview

Asia Bay in Boao of Hainan

During the period under review, a total of 130 units of semi-detached houses and apartments were successfully delivered and a revenue of RMB192.9 million was recognized, as compared to RMB134.0 million in the corresponding period of 2012. The recognized gross floor area ("GFA") sold during the first half of 2013 was 10,210 square meters.

The contracted sales in GFA was 6,897 square meters with the amount of RMB157.0 million during the period under review.

Qianjiang Continent in Yancheng of Jiangsu

During the six months ended June 30, 2013, the recognized GFA sold in this project was 120,474 square meters and the recognized sales amounted to RMB779.1 million (six months ended June 30, 2012: RMB183.7 million). A total of 797 units, including both commercial and residential units were delivered and the average selling price was RMB6,467 per square meter, as compared to RMB6,773 per square meter during the corresponding period in 2012.

The contracted sales in GFA was 52,338 square meters with the amount of RMB378.6 million during the period under review.

Kingdom Garden in Haining of Zhejiang

During the six months ended June 30, 2013, townhouses and apartments were in pre-sale and the contracted sales in GFA was 12,915 square meters with the amount of RMB92.7 million.

It is estimated that the first batch of premises will be delivered before the end of 2013 and it will bring more turnovers to the Group.

BUSINESS REVIEW AND PROSPECTS (cont'd)

RESULTS OVERVIEW (cont'd)

Review by Business Segments (cont'd)

Property Development Business (cont'd)

Projects Overview (cont'd)

Changbai Paradise in Changbai Mountain of Jilin

During the period under review, the five-star hotel and apartments were under construction and part of the apartments were in pre-sale stage. The contracted sales in GFA was 1,847 square meters with the amount of RMB5.1 million.

The hotel is expected to commence business in the second half of 2013 and it will attract more travelers to Changbai Paradise Tourism District and strengthen our market presence in the northeastern area of PRC.

Other projects

The Group's property project in Sanya of Hainan Province was still undeveloped as at June 30, 2013. No contribution was made by this project with respect to turnover and profit of the Group in the first half of 2013.

Operating Expenses, Taxation and Profit Attributable to Owners

The Group's selling and distribution costs during the six months ended June 30, 2013 increased to approximately RMB64.2 million, as compared to approximately RMB51.0 million in the first half of 2012, mainly due to (1) the increase of salary of approximately RMB5.0 million and RMB1.2 million incurred by the subsidiaries which operated hot spring resort, travel-related services (like hotels and restaurants) starting from the second half of 2012 and the newly acquired wholly owned subsidiary, MELX by the Group in the first half of 2013 respectively, and (2) the increase in sales commission by approximately RMB7.5 million mainly from the automotive leather business as the sales in this business operation were increased. The selling and distribution costs to turnover in the first half of 2013 decreased to 3.4% as compared to 4.2% for the corresponding period in 2012.

The administrative costs for the six months ended June 30, 2013 were approximately RMB91.9 million, representing an increase of approximately RMB15.9 million as compared to approximately RMB76.0 million during the corresponding period in 2012, mainly due to the increase of the subsidiaries which operated hot spring resort, travel-related services (like hotels and restaurants) starting from the second half of 2012 and the newly acquired wholly owned subsidiary, MELX by the Group in the first half of 2013.

The Group's finance cost in the first half of 2013 was approximately RMB33.3 million, with a decrease of approximately RMB10.4 million, as compared to approximately RMB43.7 million during the same period of 2012, the decrease was mainly due to (1) the decrease in bank borrowing interests by approximately RMB17.7 million because of the increase in capitalisation of interests charged in the bank loans used for financing the Group's property development projects during the first half of 2013, offset by (2) the increase of loan interests from the corporate bond newly issued in last June 2012 by approximately RMB7.3 million in the first half of 2013.

The Group's income tax in the first half of 2013 was approximately RMB136.1 million, with an increase of approximately RMB120.7 million, as compared to approximately RMB15.4 million in the corresponding period in 2012. The increase resulted from (1) an increase in PRC income tax of approximately RMB73.9 million mainly due to an increase in taxable profits generated by the property development business at subsidiary level, (2) an increase in PRC land appreciation tax of approximately RMB49.3 million from the property development projects, offset by (3) a decrease of deferred taxation charge of approximately RMB2.5 million.

BUSINESS REVIEW AND PROSPECTS (cont'd)

RESULTS OVERVIEW (cont'd)

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

During the first half of 2012 an one-off gain on disposal of Shanghai La Kassa Furniture Co. Ltd. (one of the then PRC subsidiaries of the Group) amounting to RMB17.9 million was recorded, while a negative goodwill from the acquisition of MELX of approximately RMB4.8 million was recognized during the six months ended June 30, 2013. As a result, there was a decrease of the one-off gain by approximately RMB13.1 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 RMB90.6 million in the first half of 2013 (six months ended June 30, 2012: RMB41.9 million).

FINANCIAL RESOURCES AND LIQUIDITY

As at June 30, 2013, the Group had cash and cash equivalent of RMB255.4 million (as at December 31, 2012: RMB560.9 million) and a total borrowings of RMB1,563.8 million (as at December 31, 2012: RMB1,286.5 million). This represents a gearing ratio of 49.9% (as at December 31, 2012: 45.5%) and a net debt-to-equity ratio of 41.7% (as at December 31, 2012: 25.6%). 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, 2013, the Group's inventory which primarily represented leather crust, was RMB483.9 million, representing an increase of RMB57.0 million as compared to RMB426.9 million as of December 31, 2012. During the six months ended June 30, 2013, the Group endeavored to control the inventory level and its inventory turnover period was 112 days as compared to 100 days as at December 31, 2012.

During the six months ended June 30, 2013, the Group continued to maintain a strict credit policy. The account receivable turnover days of the Group's manufacturing and retail segments was decreased to 74 days for the first half of 2013 (as at December 31, 2012: 88 days).

The accounts payable turnover days of the Group's manufacturing and retail segments was remained steady at 71 days for the six months ended June 30, 2013 (as at December 31, 2012: 71 days).

MATERIAL ACQUISITION AND DISPOSAL

During the period under review and on January 28, 2013, the Group acquired 100% interest in MELX for the consideration of ¥100,000,000 yen, pursuant to the terms of the reconstruction plan as part of its civil rehabilitation in Japan. For further detail regarding the acquisition of MELX, please refer to the announcement of the Company on January 28, 2013.

Save as disclosed above, the Group did not have any material acquisitions or disposals during the six months ended June 30, 2013.

PLEDGE OF ASSETS

During the six months ended June 30, 2013, 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) are mainly denominated in US dollars, and most of the trade receivables are exposed to exchange rate fluctuation.

CONTINGENT LIABILITIES

As at June 30, 2013, 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, 2013, the Group employed a total of approximately 4,300 full time employees (as at June 30, 2012: approximately 3,800) including management staff, technicians, salespersons and workers. For the six months ended June 30, 2013, the Group's total expenses on the remuneration of employees were RMB86.9 million (six months ended June 30, 2012: RMB76.2 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) 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 of Directors (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

Due to the unfavorable market conditions, the Group will hold a prudent strategy for the development of manufacturing business. The priority is to reduce loss and cost control. The Group will also seek chances in the restructuring of its manufacturing business.

The automotive leather business has proven to be the most promising division in the Group's manufacturing business. The Group has established its market presence in domestic market by cooperating with leading automakers. The acquisition of MELX in Japan will further help the Group to penetrate into the market of Japanese-based automakers, which are in the list of top players in Chinese automobile industry. The Group's long-term strategy is to become the biggest and best automotive leather supplier in the mainland of China via a combination of diversified product portfolio, reliable quality and advanced technology.

After several years of decline, the residential furniture market of U.S. is expected to experience a bounce back. The Group has a strong customer base, brand awareness and reputable presence in the U.S. market. The Group will continue to cooperate with major furniture retailers and constantly improve its services. For internal operations, the Group will maintain strict cost control measures and improve its operation efficiency. To enhance the profitability, the Group will put more resources into the production of medium-high end upholstered furniture.

Residential and Tourism Property Development and Services

It is expected that the existing control policies in the real estate market will not loosen in 2013. Based on the selling performance and construction schedule of the Group's projects spread out in the mainland of China, the Group is cautiously optimistic about the turnover and profit generated from the division of property development, including residential and tourism property. In the second half of 2013, the projects in Boao, Yancheng and Haining will bring substantial return to the Group due to the delivery of more premises than past years.

During the period under review, the resort hotels in Asia Bay of Boao, Shan Dan Imperial Horse Farm of Gansu and Xinanjiang Jade Hotspring Resort of Hangzhou have been successfully put into operation. The performance center located in Asia Bay was also opened during the lunar festival of 2013. In the second half of 2013, the new resort hotel in Changbai Paradise and water park in the project of Sanya will also welcome tourists from all over the world. These hotels and entertainment facilities are managed by Allblue Vacation Club, a wholly-owned subsidiary of the Group. It will help the Group to attract more attention from the middle-class travelers which are the Group's potential property buyers. As compared to the Group's competitors, the Group will provide its property owners not only the best-quality vacation premises, but also the unique living experiences.

DISCLOSURE OF INTERESTS

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

As at June 30, 2013, 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

	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 ("Mr. Zhu")	12,360,000	514,798,635 *(Note)*	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, 2013.

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 of 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, 2013 were as follows:

Name of Director	Exercise price *HK$*	Number of share options: Outstanding as at January 1, 2013	Granted from January 1, 2013 to June 30, 2013	Lapsed from January 1, 2013 to June 30, 2013	Exercised from January 1, 2013 to June 30, 2013	Outstanding as at June 30, 2013	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	1,5,6
	2.38	1,000,000	–	–	–	1,000,000	0.09%	1/1/2008 to 8/3/2016	2,5,6
Zhou Xiaosong	2.38	1,000,000	–	–	–	1,000,000	0.09%	1/1/2007 to 8/3/2016	1,5,6
	2.38	1,000,000	–	–	–	1,000,000	0.09%	1/1/2008 to 8/3/2016	2,5,6
	1.18	500,000	–	–	–	500,000	0.04%	1/1/2009 to 4/5/2018	3,5,6
	1.18	500,000	–	–	–	500,000	0.04%	1/1/2010 to 4/5/2018	4,5,6
Zhang Mingfa, Michael	2.38	500,000	–	–	–	500,000	0.04%	1/1/2007 to 8/3/2016	1,5,6
	2.38	500,000	–	–	–	500,000	0.04%	1/1/2008 to 8/3/2016	2,5,6
	1.18	250,000	–	–	–	250,000	0.02%	1/1/2009 to 4/5/2018	3,5,6
	1.18	250,000	–	–	–	250,000	0.02%	1/1/2010 to 4/5/2018	4,5,6
		6,500,000	–	–	–	6,500,000	0.56%		
Other employees in aggregate	2.38	5,600,000	–	–	–	5,600,000	0.48%	1/1/2007 to 8/3/2016	1,5,6
	2.38	5,600,000	–	–	–	5,600,000	0.48%	1/1/2008 to 8/3/2016	2,5,6
	1.18	2,650,000	–	–	–	2,650,000	0.23%	1/1/2009 to 4/5/2018	3,5,6
	1.18	2,650,000	–	–	–	2,650,000	0.23%	1/1/2010 to 4/5/2018	4,5,6
		23,000,000	–	–	–	23,000,000	1.98%		

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 represent personal interest held by the relevant participants as beneficial owner.

6. During the six months ended June 30, 2013, none of these share options were lapsed, 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, 2013 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, 2013, 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%
Hangzhou Great Star Industrial Co., Ltd.[2]	Interest of controlled corporation	–	235,134,057	235,134,057	20.23%
Hongkong Greatstar International Co., Ltd.[2]	Beneficial owner	–	235,134,057	235,134,057	20.23%

Notes:

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

2. Hongkong Greatstar International Co., Ltd. is a wholly-owned subsidiary of Hangzhou Great Star Industrial Co., Ltd., a company the shares of which are listed on the Shenzhen Stock Exchange.

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, 2013.

CORPORATE GOVERNANCE

The Company has adopted the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") as its corporate governance code of practices. For the six months ended June 30, 2013, the Board is of the view that the Company has complied with the code provisions as set out in the CG Code 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, 2013, 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 the 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, 2013, including the review of the unaudited interim results of the Group for the six months ended June 30, 2013.

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.

NOMINATION COMMITTEE

The nomination committee of the Company (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, 2013 (six months ended June 30, 2012: Nil).

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

During the six months ended June 30, 2013, 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, 2013.

SUBSEQUENT EVENT

There is an event occurred subsequent to June 30, 2013. Details are set out in note 20 to the Condensed Consolidated Financial Statements.

DIRECTORS

As at the date of this report, the executive Directors are Mr. Zhu Zhangjin, Mr. Zhou Xiaosong and Mr. Zhang Mingfa, Michael, the non-executive Director is Mr. Qiu Jian Ping, and 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 16, 2013

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, 2013 and the related condensed consolidated statement of profit or loss and other 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 16, 2013

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2013

	NOTES	Six months ended June 30, 2013 RMB'000 (unaudited)	Six months ended June 30, 2012 RMB'000 (unaudited)
Turnover	3	**1,871,447**	1,216,225
Cost of sales		**(1,463,329)**	(1,033,625)
Gross profit		**408,118**	182,600
Other income		**20,383**	31,563
Selling and distribution costs		**(64,219)**	(50,963)
Administrative expenses		**(91,908)**	(75,959)
Other expenses		**(13,056)**	(6,048)
Other gains and (losses)		**(1,210)**	9,773
Share of losses of associates		**(4,174)**	(7,631)
Gain on disposal of a subsidiary		**–**	17,871
Gain on acquisition of a subsidiary	15	**4,849**	–
Finance costs	4	**(33,263)**	(43,677)
Profit before tax	4	**225,520**	57,529
Income tax expenses	5	**(136,146)**	(15,407)
Profit for the period		**89,374**	42,122
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss:			
Fair value gain on available-for-sale investments		**295,240**	54,933
Income tax relating to fair value change of available-for-sale investments		**(73,810)**	(13,733)
Exchange difference arising on translation		**(627)**	–
Total comprehensive income for the period		**310,177**	83,322
Profit for the period attributable to:			
Owners of the Company		**90,604**	41,937
Non-controlling interests		**(1,230)**	185
		89,374	42,122
Total comprehensive income for the period attributable to:			
Owners of the Company		**311,407**	83,137
Non-controlling interests		**(1,230)**	185
		310,177	83,322
Earnings per share			
Basic and diluted	7	**RMB8 cents**	RMB4 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT JUNE 30, 2013

	NOTES	June 30, 2013 RMB'000 (unaudited)	December 31, 2012 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	8	**523,887**	512,794
Prepaid lease payments – non-current portion		**68,426**	70,052
Properties for development		**173,975**	174,715
Intangible assets		**1,370**	605
Interests in associates		**728**	4,253
Available-for-sale investments	9	**789,882**	494,366
Deferred tax assets	5	**66,563**	48,910
Deposit paid for acquisition of a subsidiary	10	**212,581**	212,581
Advances for acquisition of land use rights for development	10	**279,430**	279,430
Deposits paid for acquisition of land use rights		**20,000**	20,000
Other long term assets		**808**	–
		2,137,650	1,817,706
CURRENT ASSETS			
Inventories		**483,874**	426,905
Properties under development		**3,364,074**	3,687,351
Properties held for sale		**746,574**	519,735
Trade, bills and other receivables	11	**921,694**	895,671
Prepaid lease payments – current portion		**2,129**	1,568
Tax recoverable		**24,432**	44,032
Pledged bank deposits		**332,940**	240,815
Restricted bank deposit for property development business		**16,943**	6,257
Bank balances and cash		**255,382**	560,928
		6,148,042	6,383,262
Assets classified as held for sale	14	**1,753**	–
		6,149,795	6,383,262
CURRENT LIABILITIES			
Trade, bills and other payables	12	**1,620,326**	1,794,886
Deposits received in respect of pre-sale of properties		**1,124,120**	1,542,080
Bank and other borrowings – due within one year	13	**1,558,913**	1,280,978
Tax payable		**212,236**	172,347
Amounts due to non-controlling interests		**56,286**	103,001
		4,571,881	4,893,292
NET CURRENT ASSETS		**1,577,914**	1,489,970
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,715,564**	3,307,676

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (cont'd)

AT JUNE 30, 2013

	NOTES	**June 30, 2013 *RMB'000* (unaudited)**	December 31, 2012 *RMB'000* (audited)
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*5*	**326,411**	247,527
Bank and other borrowings – due after one year	*13*	**4,859**	5,568
Other long-term liabilities	*16*	**161,878**	142,842
		493,148	395,937
NET ASSETS		**3,222,416**	2,911,739
CAPITAL AND RESERVES			
Share capital		**1,400**	1,400
Reserves		**3,125,071**	2,813,664
Equity attributable to owners of the Company		**3,126,471**	2,815,064
Non-controlling interests		**95,945**	96,675
TOTAL EQUITY		**3,222,416**	2,911,739

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2013

	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, 2013 (audited)	1,400	1,317,487	189,309	167,983	14,038	(41,703)	338,315	–	828,235	2,815,064	96,675	2,911,739
Profit for the period	–	–	–	–	–	–	–	–	90,604	90,604	(1,230)	89,374
Exchange difference arising on translation	–	–	–	–	–	–	–	(627)	–	(627)	–	(627)
Fair value gain on available-for-sale investments	–	–	–	–	–	–	295,240	–	–	295,240	–	295,240
Income tax on fair value gain on available-for-sales investments	–	–	–	–	–	–	(73,810)	–	–	(73,810)	–	(73,810)
Total comprehensive income for the period	–	–	–	–	–	–	221,430	(627)	90,604	311,407	(1,230)	310,177
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	–	500	500
At June 30, 2013 (unaudited)	**1,400**	**1,317,487**	**189,309**	**167,983**	**14,038**	**(41,703)**	**559,745**	**(627)**	**918,839**	**3,126,471**	**95,945**	**3,222,416**
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 on fair value gain on 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	–	–	–
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
Profit for the period	–	–	–	–	–	–	–	–	161,462	161,462	23,970	185,432
Fair value gain on available-for-sale investments	–	–	–	–	–	–	68,637	–	–	68,637	–	68,637
Deferred tax on fair value gain on available-for-sales investments	–	–	–	–	–	–	(17,159)	–	–	(17,159)	–	(17,159)
Total comprehensive income for the period	–	–	–	–	–	–	51,478	–	161,462	212,940	23,970	236,910
Release upon lapse of share options	–	–	–	–	(1,818)	–	–	–	1,818	–	–	–
At December 31, 2012 (audited)	1,400	1,317,487	189,309	167,983	14,038	(41,703)	338,315	–	828,235	2,815,064	96,675	2,911,739

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2013

	NOTES	**Six months ended June 30, 2013** ***RMB'000*** **(unaudited)**	Six months ended June 30, 2012 *RMB'000* (unaudited)
NET CASH (USED IN) FROM OPERATING ACTIVITIES		**(409,667)**	188,644
INVESTING ACTIVITIES			
Placement of pledged bank deposits		**(168,655)**	(271,121)
Purchase of property, plant and equipment		**(34,545)**	(53,178)
Withdrawal of pledged bank deposits		**76,530**	211,098
Proceeds on disposal of property, plant and equipment		**304**	50,383
Disposal of a subsidiary		**–**	25,021
Acquisition of subsidiary, net with cash assumed	*15*	**(1,750)**	–
Other investing cash flows		**9,771**	5,182
NET CASH USED IN INVESTING ACTIVITIES		**(118,345)**	(32,615)
FINANCING ACTIVITIES			
Repayment of bank and other borrowings		**(1,415,988)**	(1,504,515)
Bank and other borrowings raised		**1,675,322**	1,366,756
Underwriting fee paid in relation to issuance of corporate bonds by a subsidiary		**(3,700)**	(2,000)
Proceeds from issuance of corporate bonds by a subsidiary	*16*	**–**	150,000
Other financing cash flows		**(31,903)**	(43,677)
NET CASH FROM (USED IN) FINANCING ACTIVITIES		**223,731**	(33,436)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(304,281)**	122,593
Effect of changes in exchange rates		**(1,265)**	–
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		**560,928**	370,744
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by bank balances and cash		**255,382**	493,337

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"). Certain amounts in prior year have been reclassified in order to be consistent with the presentation of the current period.

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 for the application of new or revised accounting standards as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2013 are the same as those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2012.

In the current interim period, the Group has applied, for the first time, the following standards and amendments that are relevant for the preparation of the Company's condensed consolidated financial statements:

Amendments to IFRSs	Annual Improvements to IFRSs 2009-2011 Cycle
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated Financial Statements, Joint arrangements and Disclosure of Interests in Other Entities: Transition Guidance
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
IAS 19 (Revised 2011)	Employee Benefits
IAS 28 (Revised 2011)	Investments in Associates and Joint Ventures
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income

The application of the above new or revised IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements except for the standards disclosed below:

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

IFRS 13 Fair Value Measurement

The Group has applied IFRS 13 for the first time in the current interim period. IFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements, and replaces those requirements previously included in various IFRSs. Consequential amendments have been made to IAS 34 to require certain disclosures to be made in the interim condensed consolidated financial statements. The scope of IFRS 13 is broad, and applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, subject to a few exceptions. IFRS 13 contains a new definition for 'fair value' and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements. In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement and disclosure requirements prospectively. Disclosures of fair value information are set out in note 19.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 introduce new terminology for the statement of comprehensive income and income statement. Under the amendment to IAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and an income statement is renamed as a statement of profit or loss. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements.

However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the existing option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

3. SEGMENT INFORMATION

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, 2013

	Manufacturing	Properties development	Retail	Others	Segment total	Eliminations	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
TURNOVER							
External sales	**841,922**	**972,025**	**8,621**	**48,879**	**1,871,447**	**–**	**1,871,447**
Inter-segment sales	**1,910**	**–**	**–**	**–**	**1,910**	**(1,910)**	**–**
Total	**843,832**	**972,025**	**8,621**	**48,879**	**1,873,357**	**(1,910)**	**1,871,447**

Six months ended June 30, 2012

	Manufacturing	Properties development	Retail	Others	Segment total	Eliminations	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*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

3. SEGMENT INFORMATION (cont'd)

Segment revenues and results (cont'd)

Results

	Six months ended June 30, 2013 *RMB'000*	Six months ended June 30, 2012 *RMB'000*
Segment results		
– Manufacturing	**(22,261)**	(12,226)
– Properties development	**144,669**	61,531
– Retail	**(9,840)**	(2,412)
– Others	**(18,380)**	(18,763)
	94,188	28,130
Unallocated corporate expenses	**(4,153)**	(4,811)
Unallocated other gains and losses	**(661)**	932
Gain on disposal of a subsidiary	**–**	17,871
Profit for the period	**89,374**	42,122

Segment profit (loss) represents the profit earned by (loss from) 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, 2013 *RMB'000*	December 31, 2012 *RMB'000*
Manufacturing	**7,599,324**	7,006,023
Properties development	**6,769,531**	6,663,870
Retail	**62,588**	65,345
Others	**290,612**	280,309
Total segment assets	**14,722,055**	14,015,547
Unallocated	**1,275,265**	16,254
Elimination *(Note)*	**(7,709,875)**	(5,830,833)
Consolidated assets	**8,287,445**	8,200,968

3. SEGMENT INFORMATION (cont'd)

Segment revenues and results (cont'd)

Results (cont'd)

For the purposes of monitoring segment performances and allocating resources between segment:

– all assets are allocated to operating segments other than head office assets

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

4. PROFIT BEFORE TAX

	Six months ended June 30, 2013	Six months ended June 30, 2012
	RMB'000	*RMB'000*
Profit before tax has been arrived at after charging (crediting):		
Amortization of intangible assets (included in administrative expenses)	**192**	205
Amortization of properties for development (included in other expenses)	**740**	547
Depreciation of property, plant and equipment	**26,364**	20,183
Total depreciation and amortization	**27,296**	20,935
Release of prepaid lease payments	**1,065**	403
Interest on bank and other borrowings wholly repayable within five years	**46,673**	84,102
Interest on other long term liability wholly repayable within five years	**7,266**	–
Less: amount capitalised in respect of property under development	**(20,676)**	(40,425)
	33,263	43,677
Gain on disposal of property, plant and equipment (included in other gains and losses)	**(55)**	(104)
Net exchange loss (gain) (included in other gains and losses)	**1,640**	(932)
Dividend income from listed available-for-sale investments	**(5,283)**	(5,163)
Government grants	**(3,615)**	(3,545)
Imputed interest of a receivable from disposal of assets	**–**	(2,471)
Reversal of (impairment loss) recognised in respect of trade and other receivables (included in other gains and losses)	**(6,413)**	(4,897)
Interest income	**(4,540)**	(14,376)

5. INCOME TAX EXPENSES

	Six months ended June 30, 2013 *RMB'000*	Six months ended June 30, 2012 *RMB'000*
Land appreciation tax ("LAT") – Current period	**61,322**	11,992
People's Republic of China ("PRC") enterprise income tax		
– Current period	**87,020**	15,337
– Underprovision/(Overprovision) of income tax in previous periods	**383**	(1,821)
	87,403	13,516
Deferred tax credit	**(12,579)**	(10,101)
	136,146	15,407

Deferred taxation

The followings are the major deferred tax (liabilities) and assets recognised and movements thereon during the current and preceding interim periods:

	Income on manufacturing plant *RMB'000*	**Unrealised profit on intra-group transaction** *RMB'000*	**Fair value on available-for-sale investments** *RMB'000*	**LAT provision** *RMB'000*	**Total** *RMB'000*
As at January 1, 2012 (audited)	(119,994)	19,228	(83,372)	4,350	(179,788)
Charge (credit) to profit or loss	–	12,322	–	(2,221)	10,101
Charge to other comprehensive income	–	–	(13,733)	–	(13,733)
As at June 30, 2012 (unaudited)	(119,994)	31,550	(97,105)	2,129	(183,420)
Charge (credit) to profit or loss	–	(10,550)	–	11,020	470
Charge to other comprehensive income	–	–	(17,159)	–	(17,159)
Acquisitions/disposals	–	–	1,492	–	1,492
As at December 31, 2012 (audited)	(119,994)	21,000	(112,772)	13,149	(198,617)
Charge (credit) to profit or loss	–	5,319	–	7,260	12,579
Charge to other comprehensive income	–	–	(73,810)	–	(73,810)
As at June 30, 2013 (unaudited)	**(119,994)**	**26,319**	**(186,582)**	**20,409**	**(259,848)**

5. INCOME TAX EXPENSES (cont'd)

Deferred taxation (cont'd)

For the purposes of presentation in the condensed consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	June 30, 2013 *RMB'000* **(unaudited)**	December 31, 2012 *RMB'000* (audited)
Deferred tax liabilities	**(326,411)**	(247,527)
Deferred tax assets	**66,563**	48,910
	(259,848)	(198,617)

6. DIVIDENDS

No dividends were paid, declared or proposed during the six months ended June 30, 2013 and June 30, 2012, respectively. The directors of the Company have determined that no dividend will be paid in respect of the interim period.

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:

Earnings

	Six months ended June 30, 2013 *RMB'000*	Six months ended June 30, 2012 *RMB'000*
Profit for the period for the purposes of basic and diluted earnings per share, being profit attributable to owners of the Company	**90,604**	41,937

Number of shares

Number of ordinary shares (2012: weighted average number of ordinary shares) for the purposes of basic earnings per share	**1,162,322,985**	1,161,972,300
Effect of dilutive potential ordinary shares – share options	**1,759,603**	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**1,164,082,588**	1,161,972,300

7. EARNINGS PER SHARE (cont'd)

The computation of diluted earnings per share does not assume the exercise of certain of the Company's options because the exercise prices of those Company's options are higher than the average market price per share during the period ended June 30, 2012 and 2013, respectively.

8. PROPERTY, PLANT AND EQUIPMENT

During the current period, the Group incurred expenditure of approximately RMB59,706,000 (six months ended June 30, 2012: approximately RMB73,683,000) 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 RMB249,000 (six months ended June 30, 2012: RMB917,000) for cash proceeds of approximately RMB304,000 (six months ended June 30, 2012: RMB1,021,000), resulting in a gain on disposal of approximately RMB55,000 (six months ended June 30, 2012: RMB104,000).

9. AVAILABLE-FOR-SALE INVESTMENTS

	June 30, 2013 *RMB'000* **(unaudited)**	December 31, 2012 *RMB'000* (audited)
Equity securities		
– 3.69% (2012: 3.69%) equity interest in Haining China Leather Market Co., Ltd. ("HCLM")	**789,296**	494,056
Unlisted debt securities	**310**	310
Others	**276**	–
	789,882	494,366

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

In late 2009, the Group entered into an agreement with two independent third parties (or "Selling Shareholders") to acquire 51% equity interest in Hainan Hejia Property Development Co., Ltd. (海南合甲置業有限公司) ("Hainan Hejia"), for a total consideration of RMB140,801,000, while Zhejiang Zhongyu Development Co., Ltd. (浙江中宇經貿發展有限公司) ("Zhongyu"), to acquire the remaining 49% equity interest in Hainan Hejia. In February 2010, the Group entered into an agreement with Zhongyu to acquire additional 26% equity interest in Hainan Hejia for a total consideration of RMB71,780,000, The Group had paid the amounts in full in 2010. 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 (the "Land") and no other material assets and liabilities was owned by Hainan Hejia.

According to the agreements for acquisition of Hainan Hejia, the total consideration paid is refundable together with damages by the Selling Shareholders if Hainan Hejia failed to obtain the land use right of the Land and the equity purchase agreement will be terminated automatically.

In prior periods, the Group had advanced to Hainan Hejia an amount of approximately RMB279,430,000 for the land acquisition purpose. As at June 30, 2013, Hainan Hejia has not obtained the title of the land.

11. TRADE, BILLS AND OTHER RECEIVABLES

	June 30, 2013	December 31, 2012
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade and bills receivables	**380,654**	441,363
Deposits paid for acquisition of land use rights for properties development for sale	**41,014**	41,014
Advance payment for purchase of inventory and construction projects for properties under development	**60,861**	12,807
Prepaid other taxes and LAT	**154,938**	139,500
Others	**284,227**	260,987
	921,694	895,671

11. 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, 2013	December 31, 2012
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Aged:		
Within 60 days	**282,625**	279,818
61 – 90 days	**68,818**	127,456
91 – 180 days	**21,482**	22,330
181 – 365 days	**5,248**	9,213
Over 1 year	**2,481**	2,546
	380,654	441,363

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, 2013	December 31, 2012
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 60 days	**1,036,890**	1,103,530
61 – 90 days	**146,391**	36,088
91 – 180 days	**99,328**	254,133
181 – 365 days	**31,108**	82,453
1 – 2 years	**38,991**	38,454
Over 2 years	**13,114**	14,433
	1,365,822	1,529,091

13. BANK AND OTHER BORROWINGS

During the current period, the Group obtained additional bank and other borrowings of approximately RMB1,675,322,000 (six months ended June 30, 2012: RMB1,366,756,000) and repaid bank and other borrowings of RMB1,415,988,000 (six months ended June 30, 2012: RMB1,504,515,000).

Included in unsecured bank borrowings are borrowings of RMB562,000,000 (December 31, 2012: RMB615,000,000) guaranteed by Mr. Zhu Zhangjin ("Mr. Zhu"), the chief executive officer of the Company, and a related company in which Mr. Zhu has significant influence and beneficial interests.

14. ASSETS CLASSIFIED AS HELD FOR SALE

After acquisition of MELX Co., Ltd. ("MELX") (see note 15 for details), the directors of the Company resolved to dispose of the land and building located in Japan, which is not indispensable in future business development and is expected to be sold within twelve months.

The land and building is available for immediate sale in their present condition. The management is committed to a plan to sell the assets within one year, and an active programme to locate a buyer and complete the plan has been initiated. Also, the assets are actively marketed for sale at a price that is reasonable in relation to their current fair value. Therefore, at the end of the current interim reporting period, the land and building has been classified as assets held for sale and are separately presented in the condensed consolidated statement of financial position.

15. ACQUISITION OF A SUBSIDIARY

On January 28, 2013, the Group acquired 100% interest in MELX through Cardina International Company Limited ("Cardina"), an indirect wholly owned subsidiary of the Group. MELX is a company established in Japan and it is principally engaged in the sale and manufacturing of leather products including shoe leather, furniture leather, car seat leather and other leather products.

MELX is a company whose shares were listed on the Tokyo Stock Exchange until June 2011. Subsequent to the delisting on June 11, 2012, MELX applied to the Tokyo District Court for the commencement of its civil rehabilitation pursuant to the Civil Rehabilitation Law of Japan. A rehabilitation plan was subsequently submitted to the Tokyo District Court on October 16, 2012 and the rehabilitation plan was approved by the Tokyo District Court on December 12, 2012. The rehabilitation plan became effective on January 9, 2013. As part of the rehabilitation plan of MELX, MELX will not be required to repay 90% of its debts and liabilities (including trade creditors and borrowings), being in the sum of approximately JPY1,820,117,891 (equivalent to RMB125,216,000), upon completion of its rehabilitation plan.

MELX has agreed to issue to Cardina and Cardina has agreed to subscribe from MELX, the issue share, representing a 100% interest in MELX, pursuant to the terms of the rehabilitation plan as part of its civil rehabilitation. Pursuant to the rehabilitation plan of MELX, MELX shall repurchase all of its existing shares in issue prior to the issue of the Issue Shares to Cardina in accordance with the terms of the subscription agreement. Upon completion of the acquisition, MELX will be wholly owned by Cardina and the financial results of MELX will be consolidated into the financial statements of the Group and MELX will be accounted for as an indirect wholly owned subsidiary of the Company.

15. ACQUISITION OF A SUBSIDIARY (cont'd)

It is expected that the Group will continue expanding its leather manufacturing. The directors also believe that the acquisition will further strengthen the Group's position as a leading automotive leather supplier in the PRC since the Group will be able to make use of the existing production facilities of MELX to increase its production capacity of automotive leather products. It will also create a new platform and business opportunities for the Group's existing operations, expand the Group's research and development capabilities, and large-scale production capabilities and enhance its international presence.

Consideration transferred

	RMB'000
Cash	6,880

Fair value of assets and liabilities recognised at the date of acquisition (determined on a provisional basis)

	RMB'000
CURRENT ASSETS	
Bank balances and cash	5,130
Trade, bills and other receivables	22,461
Inventory	49,561
Available-for-sale investments	470
NON-CURRENT ASSETS	
Assets classified as held for sale	1,927
Intangible assets	405
Interests in associates	1,031
Other long term assets	964
CURRENT LIABILITIES	
Trade and other payables	(24,126)
Bank and other borrowings – due within one year	(26,756)
Tax recoverable	462
NON-CURRENT LIABILITIES	
Other long term liabilities	(19,800)
	11,729

15. ACQUISITION OF A SUBSIDIARY (cont'd)

Gain on bargain purchase (determined on a provisional basis)

	RMB'000
Consideration transferred	6,880
Less: recognised amount of identifiable net assets acquired (100%)	(11,729)
Gain on bargain purchase arising on acquisition	(4,849)

Net cash outflow arising on acquisition

	RMB'000
Consideration paid in cash	6,880
Less: cash and cash equivalent balances acquired on acquisition	(5,130)
	1,750

Impact of acquisition on the results of the Group

Included in the profit for the interim period is a loss of RMB9,986,000 attributable to MELX. Revenue for the interim period includes RMB19,833,000 attributable to MELX.

Had the acquisition of MELX been effected at the beginning of the interim period, the total amount of the revenue and the profit of the Group for the six months ended June 30, 2013 would not have been materially different from the amounts as reported as the acquisition date is close to the beginning of the current interim period. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of the interim period, nor is it intended to be a projection of future results.

16. OTHER LONG-TERM LIABILITIES

Haining Schinder Tanning Co., Ltd. ("Haining Schinder Tanning"), a wholly-owned subsidiary of the Company incorporated in the PRC, issued and completed registration of corporate bonds with Shenzhen Stock Exchange on June 14, 2012 (the "Corporate Bonds"). 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.

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.

As of June 30, 2013, the present value of bond payable amounted to RMB144,082,000.

17. CAPITAL COMMITMENTS

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

	June 30, 2013 *RMB'000* **(unaudited)**	December 31, 2012 *RMB'000* (audited)
Expenditure contracted for but not provided in the condensed consolidated financial statements in respect of		
– Properties under development	**748,884**	1,012,040
– Acquisition of property, plant and equipment	**20,836**	12,635
Authorised but not contracted	**321,317**	–
	1,091,037	1,024,675

18. CONTINGENT LIABILITIES

The Group provided guarantees of approximately RMB395,226,000 (December 31, 2012: RMB295,248,000) at June 30, 2013 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.

19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis.

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (cont'd)

Financial assets	Fair value as at June 30, 2013	Fair value hierarchy
Available-for-sale investments	789,296	Level 1

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the condensed consolidated financial statements approximate their fair values.

There is no transfer between the different levels of the fair value hierarchy for the period.

20. SUBSEQUENT EVENT

On July 8, 2013, the Company and Kaj Development Sdn. Bhd. ("Kaj Development") entered into a letter of offer pursuant to which the Company has conditionally agreed that the Company or its subsidiaries will acquire a parcel of land in Malaysia from Kaj Development for a total consideration of Ringgit 71,874,000 (equivalent to approximately RMB138,135,000).