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
2014

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BUSINESS REVIEW AND PROSPECTS

RESULTS OVERVIEW

For the six months ended June 30, 2014, Kasen International Holdings Limited (the "Company") together with its subsidiaries (collectively, the "Group") recorded a consolidated turnover of RMB1,535.3 million (six months ended June 30, 2013: RMB1,871.4 million), representing a decrease of 18.0% when compared with the corresponding period in 2013.

The Group's gross profit for the six months ended June 30, 2014 was RMB227.2 million (six months ended June 30, 2013: RMB408.1 million) with an average gross profit margin of 14.8% (six months ended June 30, 2013: 21.8%).

The net profit attributable to owners of the Company for the first half of 2014 was approximately RMB116.6 million (six months ended June 30, 2013: RMB90.6 million), representing an increase of 28.7% when compared with the corresponding period in 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, 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, 2014, together with the comparative figures for the corresponding period in 2013:

	Six Months Ended June 30,				
	2014		2013		Change
	RMB'Million	**%**	*RMB'Million*	%	%
Manufacturing	**1,115.5**	**72.7**	841.9	45.0	32.5
Automotive Leather	**714.7**	**46.6**	502.4	26.9	42.3
Upholstered Furniture	**292.3**	**19.0**	219.5	11.7	33.2
Furniture Leather	**108.5**	**7.1**	120.0	6.4	-9.6
Property Development	**354.7**	**23.1**	972.0	51.9	-63.5
Retail	**6.4**	**0.4**	8.6	0.5	-25.6
Others	**58.7**	**3.8**	48.9	2.6	20.0
Total	**1,535.3**	**100.0**	1,871.4	100.0	-18.0

BUSINESS REVIEW AND PROSPECTS (cont'd)

RESULTS OVERVIEW (cont'd)

Review by Business Segments (cont'd)

Manufacturing Business

During the six months ended June 30, 2014, the Group's manufacturing business, comprising of automotive leather, upholstered furniture and furniture leather divisions recorded a total turnover of approximately RMB1,115.5 million (six months ended June 30, 2013: RMB841.9 million), representing an increase of 32.5%. This segment recorded a loss of approximately RMB24.1 million, as compared to a loss of approximately RMB27.5 million for the corresponding period in 2013.

The Group's major market is in the mainland of China and the US. During the period under review, the Chinese economy recorded a steady growth which created a favorable market condition to the Group. The Group was able to further enhance its business relationship with major customers in automotive leather industry and achieved satisfactory increase in sales.

In the US market, as the economy continues to recover, demands for furniture products have been improving. To leverage the Group's position as one of the major OEM business partners in the US furniture manufacturing industry, the Company has been working hard to expand its customer base, improve its core competitiveness and further strengthen its market presence.

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

Automotive Leather

According to the statistical data published by China Association of Automobile Manufacturers, the automobile industry in the mainland of China recorded an 11% year-on-year increase in sales for the first half of 2014 and total car sales volume climbed up to 9.6 million. Under the favorable market conditions, the Group's manufacturing of automotive leather maintains a robust performance. During the period under review, turnover from automotive leather division remained as the largest part in the Group's manufacturing business. Revenue generated from this division was approximately RMB714.7 million, representing an increase of 42.3% as compared to the first half of 2013.

During the period under review, the Group shut down its leather tannery plant in Foshan of Guangdong province and moved the production lines to the Haining facilities in Zhejiang province. This relocation is expected to help with lowering costs and improving production efficiency to meet the demands from new Japanese-based automakers. To consolidate the Group's leading advantages in automobile leather manufacturing, the Group continued its initiatives on production automation, new product development and cost reduction.

Upholstered Furniture

Sales of upholstered furniture included finished sofa and sofa cut-and-sew. Revenue generated by this division was RMB292.3 million in the first half of 2014 as compared to RMB219.5 million for the corresponding period in 2013, representing an increase of 33.2% as compared to the first half of 2013. The increase in sales was mainly attributed to effective cost control and expanded overseas customer base.

Furniture Leather

The Group's priority in furniture leather production is to meet the internal leather requirement of its upholstered furniture division. Also, the Group cooperated with some sizable and reputable international furniture makers in their procurement of furniture leather. The Group's sales of furniture leather recorded sales of approximately RMB108.5 million in the first half of 2014 (six months ended June 30, 2013: RMB120.0 million), representing a decrease of 9.6%.

BUSINESS REVIEW AND PROSPECTS (cont'd)

RESULTS OVERVIEW (cont'd)

Review by Business Segments (cont'd)

Property Development Business

As of June 30, 2014, the Group has six projects at various stages of development in Mainland China. Turnover recorded from the property development segment was approximately RMB354.7 million during the period under review, representing a decrease of 63.5% as compared to approximately RMB972.0 million in the corresponding year of 2013. The decrease in sales of property development business was mainly due to fewer premises of Qianjiang Continent being delivered by the Group during the first half of 2014.

Group's Property Project Portfolio as at June 30, 2014

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%	1,423,987	Under development
3	Qianjiang Continent	Yancheng, Jiangsu	100%	335,822	Under development
4	Kasen Star City (Including Kingdom Garden and Jing Xiang Yuan, etc.)	Haining, Zhejiang	100%	469,867	Under development
5	Changbai Paradise	Changbai Mountain, Jilin	89%	291,662	Under development
6	Qianjiang Oasis	Yancheng, Jiangsu	55%	108,138	Under development
Total				3,219,641	

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, 2014 (sq.m.)	GFA delivered as at June 30, 2014 (sq.m.)	Average Selling Price (RMB/sq.m.)
1	Asia Bay	718,665	245,917	590,165	72,689	63,687	19,942
2	Qianjiang Continent	775,292	775,292	672,213	640,755	586,112	5,614
3	Kasen Star City	1,060,635	595,171	716,557	117,680	10,401	6,156
4	Changbai Paradise	179,077	179,077	110,330	19,983	–	–
5	Qianjiang Oasis	335,301	55,556	266,206	11,478	–	–
Total		3,068,970	1,851,013	2,355,471	862,585	660,200	

Projects Overview

Asia Bay in Boao of Hainan

During the period under review, delivered GFA totaled 5,450 square meters and a revenue of approximately RMB125.8 million was recognized, as compared to a revenue of approximately RMB192.9 million in the corresponding period of 2013. Contracted sales in GFA was 5,087 square meters with the amount of approximately RMB158.9 million during the period under review.

The Boao Asia Bay Resort Hotel operated by the Group along with other entertainment facilities, such as water park and performance center have turned Asia Bay into a major tourism complex in Hainan province and will bring long term growth potential to the Group.

Qianjiang Continent in Yancheng of Jiangsu

During the six months ended June 30, 2014, recognized GFA sold in this project was 30,468 square meters and recognized sales amounted to approximately RMB203.1 million (six months ended June 30, 2013: RMB779.1 million). Contracted sales in GFA was 6,496 square meters with the amount of approximately RMB70.3 million during the period under review.

Kasen Star City in Haining of Zhejiang

To further build up the Kasen brand, the Group has consolidated its property portfolios in Haining, Zhejiang province into one project named as "Kasen Star City". As the largest property project in Haining, Kasen Star City includes Kingdom Garden, Jing Xiang Yuan, Ming Ting Yuan and other property portfolios. The Company believes that this project will be able to satisfy the customers' preferences with multiple choices of residential units.

During the six months ended June 30, 2014, recognized GFA sold in this project was 4,262 square meters and recognized sales amounted to approximately RMB25.8 million. Contracted sales in GFA was 15,642 square meters with the amount of approximately RMB88.1 million during the period under review.

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 apartments are under construction and parts of the premises are available for pre-sale. Contracted sales in GFA was 1,785 square meters with the amount of approximately RMB9.0 million.

The resort hotel operated by the Group is expected to open in the summer travel season of 2014. The Group will forge the project into a tourism destination in Northeast China and is confident of the prospect in the long run.

Qianjiang Oasis in Yancheng of Jiangsu

During the period under review, the apartments are under construction and parts of the premises are available for pre-sale. Contracted sales in GFA was 11,478 square meters with the amount of approximately RMB47.4 million.

Other property projects

The Group's Sanya project in Hainan province was under development as at June 30, 2014. No contribution was made by this project with respect to turnover and profit of the Group in the first half of 2014.

Operating Expenses, Taxation and Profit Attributable to Owners

The Group's selling and distribution costs during the six months ended June 30, 2014 increased to approximately RMB87.6 million, as compared to approximately RMB64.2 million in the first half of 2013, mainly due to (1) an increase of selling expenses (an increase in marketing, advertising, depreciation and related expenses) of approximately RMB8.7 million incurred by the subsidiaries for the operation of resorts and property projects, (2) an increase in sales commission of approximately RMB4.1 million mainly from the automotive leather business as the sales in this business operation increased, and (3) an increase in transportation costs of approximately RMB3.2 million due to increased export sales in manufacturing business. Apart from these main changes, other selling and distribution costs recorded moderate increases as five subsidiaries were newly set up starting from the second half of 2013. The selling and distribution costs to turnover in the first half of 2014 increased to 5.7% as compared to 3.4% for the corresponding period in 2013.

The administrative costs for the six months ended June 30, 2014 were approximately RMB102.2 million, representing an increase of approximately RMB10.3 million as compared to approximately RMB91.9 million during the corresponding period in 2013. This is mainly attributed to an increase of salary of approximately RMB4.5 million incurred by the manufacturing subsidiaries as a result of increased business activities, and also a moderate increase in other administrative expenses as five subsidiaries were newly set up starting from the second half of 2013.

The Group's finance cost in the first half of 2014 was approximately RMB18.5 million, with a decrease of approximately RMB14.8 million, as compared to approximately RMB33.3 million during the same period of 2013. The decrease was mainly due to the increase in capitalisation of interests made in the first half of 2014 by approximately RMB12.6 million for the bank loans used to finance the Group's property development projects as compared with the first half of 2013.

BUSINESS REVIEW AND PROSPECTS (cont'd)

RESULTS OVERVIEW (cont'd)

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

The Group's income tax in the first half of 2014 was approximately RMB88.3 million, with a decrease of approximately RMB47.8 million, as compared to approximately RMB136.1 million in the corresponding period in 2013. The decrease was resulted from (1) a decrease in PRC income tax of approximately RMB11.6 million mainly due to a decrease in taxable profits generated by the property development business at the subsidiary level, together with (2) a decrease in PRC land appreciation tax of approximately RMB41.1 million from the property development projects, which was offset by (3) a decrease in deferred taxation credit of approximately RMB6.2 million.

The Group's other gains and losses in the first half of 2014 included a net gain of approximately RMB187.7 million on disposal of 1.37% of equity securities in Haining China Leather Market Co., Ltd. ("HCLM"). HCLM operates department stores in the PRC and its shares are listed on the Shenzhen Stock Exchange. The Group disposed such 1.37% of equity securities in HCLM in the open trading market on the Shenzhen Stock Exchange. For details, please refer to note 10 to the Condensed Consolidated Financial Statements.

For reasons mentioned above, the net profit attributable to owners of the Company was approximately RMB116.6 million in the first half of 2014 (six months ended June 30, 2013: RMB90.6 million), representing an increase of 28.7%.

FINANCIAL RESOURCES AND LIQUIDITY

As at June 30, 2014, the Group had cash and cash equivalent of approximately RMB482.9 million (as at December 31, 2013: RMB560.1 million) and a total borrowings of approximately RMB2,486.2 million (as at December 31, 2013: RMB1,938.2 million). This represents a gearing ratio of 83.3% (as at December 31, 2013: 59.3%) and a net debt-to-equity ratio of 67.1% (as at December 31, 2013: 42.1%). 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, 2014, the Group's inventory which primarily represented leather crust, was approximately RMB578.7 million, representing an increase of approximately RMB119.2 million as compared to approximately RMB459.5 million as of December 31, 2013. During the six months ended June 30, 2014, the Group endeavored to control the inventory level and its inventory turnover period was 91 days as compared to 98 days as at December 31, 2013.

During the six months ended June 30, 2014, 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 71 days for the first half of 2014 (as at December 31, 2013: 78 days).

During the period under review, part of the accounts payables were converted into notes payable since the Group principally settled the accounts payables by issuing acceptance bills which were payable after six months. Therefore, the accounts payable turnover days of the Group's manufacturing and retail segments decreased to 45 days for the six months ended June 30, 2014 (as at December 31, 2013: 67 days).

MATERIAL ACQUISITION AND DISPOSAL

The Group did not have any material acquisitions or disposals during the six months ended June 30, 2014.

BUSINESS REVIEW AND PROSPECTS (cont'd)

PLEDGE OF ASSETS

During the six months ended June 30, 2014, 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, 2014, the Group had certain contingent liabilities. For details, please refer to note 16 to the Condensed Consolidated Financial Statements.

EMPLOYEES AND EMOLUMENTS POLICIES

As at June 30, 2014, the Group employed a total of approximately 4,700 full time employees (as at June 30, 2013: approximately 4,300) including management staff, technicians, salespersons and workers. For the six months ended June 30, 2014, the Group's total expenses on the remuneration of employees were approximately RMB110.3 million (six months ended June 30, 2013: RMB86.9 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.

FUTURE PLANS AND PROSPECTS

Manufacturing Business

The Group is confident and optimistic about the domestic market in automobile industry and furniture industry in the PRC in the long run as the central government will continue its policies on urbanization and stimulating domestic consumption.

The production capacity in the Group's automotive leather business is expected to be increased in order to meet the growing demand from automakers in China. The Group will have a monthly output of approximately 12 million square feet in automotive leather. The Group's vertically integrated production platform has always been a major competitive advantage, and the Group will continue its efforts on production efficiency improvement, cost control and technological innovation.

The export OEM business will benefit from the continuing recovery in the US housing sector and consumer confidence. As an OEM manufacturer, cost advantage is the key element to attract overseas procurement. Despite the unfavorable conditions in rising labor cost and material prices, the Group will further enhance its operating efficiency through optimizing production management, equipment upgrade and improvement in customer services.

BUSINESS REVIEW AND PROSPECTS (cont'd)

FUTURE PLANS AND PROSPECTS (cont'd)

Residential and Tourism Property Development and Services

In China, the tightening policies on property market are expected to continue and the housing prices have shown a downward trend. The Company believes that it will be a challenging time for all PRC property developers in the next few years. However, the implementation of urbanization policy and continued increase in household income also created a potential demand for housing improvement. With its project portfolio, the Group is still cautiously optimistic about the future performance of its property development division, supplemented by operations of hotels and tourism facilities. Meanwhile, the Group will also seek opportunities to cooperate with other property developers and optimize its product mix to diversify risk and enhance project return.

China's tourism industry maintains a robust growth trend under uncertain economic situations. After several years of exploration, the Group has acquired natural scenic resources in China's famous tourism destinations, such as Hainan, Zhejiang, Gansu, Changbai Mountain, etc. The Group will leverage on its existing resources and customer base to develop its resort businesses. In the second half of 2014, the Sanya water park, which will be the largest water park in Hainan, is expected to be opened. The Group will continue to expand its time share and room exchange program for the members of Allblue Vacation Club, a wholly-owned subsidiary of the Group.

DISCLOSURE OF INTERESTS

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

As at June 30, 2014, 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. This figure does not include the options granted to Mr. Zhu to subscribe for 2,000,000 shares under the Scheme (as defined in the section headed "Share Options" below) on March 9, 2006.

(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, 2014.

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 and May 5, 2008, respectively, during the six months ended June 30, 2014 were as follows:

Name of Director	Exercise price *HK$*	Number of share options: Outstanding as at January 1, 2014	Granted from January 1, 2014 to June 30, 2014	Lapsed from January 1, 2014 to June 30, 2014	Exercised from January 1, 2014 to June 30, 2014	Outstanding as at June 30, 2014	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	–	(100,000)	–	5,500,000	0.47%	1/1/2007 to 8/3/2016	1,5,6
	2.38	5,600,000	–	(100,000)	–	5,500,000	0.47%	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	–	(200,000)	–	22,800,000	1.96%		

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. Except the lapsed share option stated above, during the six months ended June 30, 2014, 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, 2014 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, 2014, 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, 2014.

CORPORATE GOVERNANCE

The Company has adopted the Corporate Governance Code (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, 2014, 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 to appoint 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, 2014, 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, 2014, including the review of the unaudited interim results of the Group for the six months ended June 30, 2014.

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 does not recommend the payment of any interim dividend for the six months ended June 30, 2014 (six months ended June 30, 2013: Nil).

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

During the six months ended June 30, 2014, 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, 2014.

DIRECTORS

As at the date of this report, the executive Directors are Mr. Zhu Zhangjin, Mr. Lee Lawrence 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 20, 2014

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 34, which comprise the condensed consolidated statement of financial position as of June 30, 2014 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 20, 2014

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2014

	NOTES	**Six months ended June 30, 2014 *RMB'000* (unaudited)**	Six months ended June 30, 2013 *RMB'000* (unaudited)
Turnover	*3*	**1,535,350**	1,871,447
Cost of sales		**(1,308,138)**	(1,463,329)
Gross profit		**227,212**	408,118
Other income		**4,125**	16,109
Selling and distribution costs		**(87,615)**	(64,219)
Administrative expenses		**(102,226)**	(91,908)
Other gains and losses	*4*	**176,550**	(5,143)
Share of losses of associates		**–**	(4,174)
Finance costs		**(18,510)**	(33,263)
Profit before tax	*5*	**199,536**	225,520
Income tax expenses	*6*	**(88,346)**	(136,146)
Profit for the period		**111,190**	89,374
Other comprehensive income (loss)			
Items that may be subsequently reclassified to profit or loss:			
Fair value gain (loss) on available-for-sale investments		**(320,160)**	295,240
Income tax relating to fair value change of available-for-sale investments		**80,040**	(73,810)
Exchange difference arising on translation		**(446)**	(627)
Reclassification from revaluation reserve to profit or loss on disposal of available-for-sale investments		**(197,972)**	–
Reclassification from revaluation reserve to profit or loss on income tax relating to disposal of available-for-sale investments		**49,493**	–
Total comprehensive income (loss) for the period		**(277,855)**	310,177
Profit (loss) for the period attributable to:			
Owners of the Company		**116,590**	90,604
Non-controlling interests		**(5,400)**	(1,230)
		111,190	89,374
Total comprehensive income (loss) for the period attributable to:			
Owners of the Company		**(272,455)**	311,407
Non-controlling interests		**(5,400)**	(1,230)
		(277,855)	310,177
Earnings per share			
Basic and diluted	*8*	**RMB10 cents**	RMB8 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT JUNE 30, 2014

	NOTES	June 30, 2014 RMB'000 (unaudited)	December 31, 2013 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	**831,542**	752,721
Prepaid lease payments – non-current portion		**66,640**	67,362
Intangible assets		**1,176**	1,162
Available-for-sale investments	10	**324,625**	859,213
Deferred tax assets	6	**105,257**	91,602
Deposits paid for acquisition of land use rights		**20,000**	20,000
Other long term assets		**653**	620
		1,349,893	1,792,680
CURRENT ASSETS			
Inventories		**578,715**	459,541
Properties under development		**3,623,715**	3,355,805
Properties held for sale		**968,441**	1,140,048
Trade, bills and other receivables	11	**1,663,526**	1,528,423
Amounts due from non-controlling interests		**3,196**	–
Prepaid lease payments – current portion		**2,129**	2,129
Tax recoverable		**11,058**	13,987
Prepaid land appreciation tax		**85,509**	52,491
Pledged bank deposits		**205,567**	199,028
Restricted bank deposit for property development business		**13,945**	29,615
Bank balances and cash		**482,927**	560,147
		7,638,728	7,341,214
CURRENT LIABILITIES			
Trade, bills and other payables	12	**1,697,973**	1,896,980
Deposits received in respect of pre-sale of properties		**1,072,594**	1,023,479
Bank and other borrowings – due within one year	13	**1,763,699**	1,480,098
Tax payable		**259,563**	253,849
Amounts due to non-controlling interests		**89,874**	114,374
Other long-term liabilities – current portion	14	**32,999**	145,345
		4,916,702	4,914,125
NET CURRENT ASSETS		**2,722,026**	2,427,089
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,071,919**	4,219,769

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (cont'd)

AT JUNE 30, 2014

	NOTES	**June 30, 2014** ***RMB'000*** **(unaudited)**	December 31, 2013 *RMB'000* (audited)
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*6*	**204,034**	326,289
Bank and other borrowings – due after one year	*13*	**722,492**	458,116
Other long-term liabilities	*14*	**11,771**	17,160
		938,297	801,565
NET ASSETS		**3,133,622**	3,418,204
CAPITAL AND RESERVES			
Share capital		**1,400**	1,400
Reserves		**2,978,434**	3,260,017
Equity attributable to owners of the Company		**2,979,834**	3,261,417
Non-controlling interests		**153,788**	156,787
TOTAL EQUITY		**3,133,622**	3,418,204

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2014

	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 (loss) for the period	–	–	–	–	–	–	–	–	90,604	90,604	(1,230)	89,374
Total other comprehensive income (loss)	–	–	–	–	–	–	221,430	(627)	–	220,803	–	220,803
Total comprehensive income (loss) 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
Profit (loss) for the period	–	–	–	–	–	–	–	–	82,818	82,818	(2,977)	79,841
Total other comprehensive income	–	–	–	–	–	–	51,732	396	–	52,128	–	52,128
Total comprehensive income (loss) for the period	–	–	–	–	–	–	51,732	396	82,818	134,946	(2,977)	131,969
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	–	63,499	63,499
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	–	320	320
At December 31, 2013 (audited)	1,400	1,317,487	189,309	167,983	14,038	(41,703)	611,477	(231)	1,001,657	3,261,417	156,787	3,418,204
Profit (loss) for the period	–	–	–	–	–	–	–	–	116,590	116,590	(5,400)	111,190
Total other comprehensive income (loss)	–	–	–	–	–	–	(388,599)	(446)	–	(389,045)	–	(389,045)
Total comprehensive income (loss) for the period	–	–	–	–	–	–	(388,599)	(446)	116,590	(272,455)	(5,400)	(277,855)
Dividend recognized as distribution *(Note 7)*	–	–	–	–	–	–	–	–	(9,227)	(9,227)	–	(9,227)
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	99	99	2,401	2,500
Release upon lapse of share options	–	–	–	–	(142)	–	–	–	142	–	–	–
At June 30, 2014 (unaudited)	**1,400**	**1,317,487**	**189,309**	**167,983**	**13,896**	**(41,703)**	**222,878**	**(677)**	**1,109,261**	**2,979,834**	**153,788**	**3,133,622**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2014

	Six months ended June 30, 2014 ***RMB'000*** **(unaudited)**	Six months ended June 30, 2013 *RMB'000* (unaudited)
NET CASH USED IN OPERATING ACTIVITIES	**(589,909)**	(409,667)
INVESTING ACTIVITIES		
Placement of pledged bank deposits	**(170,674)**	(168,655)
Purchases of property, plant and equipment	**(68,485)**	(34,545)
Withdrawal of pledged bank deposits	**164,135**	76,530
Proceeds on disposal of property, plant and equipment	**–**	304
Acquisition of subsidiary, net with cash assumed	**–**	(1,750)
Proceeds on disposal of available-for-sale investments	**207,296**	–
Other investing cash flows	**(28)**	9,771
NET CASH FROM (USED IN) INVESTING ACTIVITIES	**132,244**	(118,345)
FINANCING ACTIVITIES		
Repayments of bank and other borrowings	**(1,156,648)**	(1,415,988)
Bank and other borrowings raised	**1,704,624**	1,675,322
Underwriting fee paid in relation to issuance of corporate bonds by a subsidiary	**–**	(3,700)
Repayment of other long term liabilities	**(121,850)**	–
Other financing cash flows	**(45,220)**	(31,903)
NET CASH FROM FINANCING ACTIVITIES	**380,906**	223,731
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(76,759)**	(304,281)
Effect of changes in exchange rates	**(461)**	(1,265)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**560,147**	560,928
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by bank balances and cash	**482,927**	255,382

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, 2014 are the same as those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2013.

In the current interim period, the Group has applied, for the first time, the following new interpretation and amendments to International Financial Reporting Standards ("IFRS") that are relevant for the preparation of the Group's condensed consolidated financial statements:

Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting
IFRIC-21	Levies

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.

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, 2014

	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	**1,115,502**	**354,741**	**6,409**	**58,698**	**1,535,350**	**–**	**1,535,350**
Inter-segment sales	**604**	**–**	**–**	**–**	**604**	**(604)**	**–**
Total	**1,116,106**	**354,741**	**6,409**	**58,698**	**1,535,954**	**(604)**	**1,535,350**

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

3. SEGMENT INFORMATION (cont'd)

Segment revenues and results (cont'd)

Results

	Six months ended June 30, 2014 **RMB'000** **(unaudited)**	Six months ended June 30, 2013 RMB'000 (unaudited)
Segment results		
– Manufacturing	**(24,071)**	(27,544)
– Properties development	**16,216**	144,669
– Retail	**(1,538)**	(9,840)
– Others	**(22,181)**	(18,380)
	(31,574)	88,905
Unallocated corporate expenses	**(1,557)**	(4,153)
Unallocated other gains and losses	**144,321**	4,622
Profit for the period	**111,190**	89,374

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.

3. SEGMENT INFORMATION (cont'd)

Segment revenues and results (cont'd)

***Results** (cont'd)*

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

	June 30, 2014 *RMB'000* **(unaudited)**	December 31, 2013 *RMB'000* (audited)
Manufacturing	**2,085,146**	1,853,231
Properties development	**6,148,798**	6,050,348
Retail	**15,740**	10,929
Others	**356,257**	302,303
Total segment assets	**8,605,941**	8,216,811
Unallocated	**382,680**	917,083
Consolidated assets	**8,988,621**	9,133,894

For the purposes of monitoring segment performances and allocating resources between segment, all assets are allocated to operating segments other than head office assets and available-for-sale investments.

4. OTHER GAINS AND LOSSES

	Six months ended June 30, 2014 *RMB'000* **(unaudited)**	Six months ended June 30, 2013 *RMB'000* (unaudited)
Net foreign exchange loss	**(4,879)**	(1,640)
Gain on disposal of available for sale investments *(note 10)*	**190,820**	–
Gain on disposal of property, plant and equipment	**–**	55
Impairment loss recognised in respect of receivables	**(8,633)**	(6,038)
Reversal of impairment loss recognised in respect of trade and other receivables	**1,133**	6,413
Penalty	**–**	(7,800)
Gain on acquisition of a subsidiary	**–**	4,849
Others	**(1,891)**	(982)
	176,550	(5,143)

5. PROFIT BEFORE TAX

	Six months ended June 30, 2014 ***RMB'000*** **(unaudited)**	Six months ended June 30, 2013 *RMB'000* (unaudited)
Profit before tax has been arrived at after charging (crediting):		
Amortization of intangible assets (included in administrative expenses)	**217**	192
Depreciation of property, plant and equipment	**33,011**	26,364
Total depreciation and amortization	**33,228**	26,556
Release of prepaid lease payments	**1,050**	1,065
Interest on bank and other borrowings wholly repayable within five years	**43,651**	46,673
Interest on other long term liability wholly repayable within five years	**7,354**	7,266
Interest on notes discounted	**830**	–
Less: amount capitalised in respect of property under development	**(33,325)**	(20,676)
	18,510	33,263
Dividend income from listed available-for-sale investments	**(134)**	(5,283)
Government grants	**(1,729)**	(3,615)
Interest income	**(3,577)**	(4,540)

6. INCOME TAX EXPENSES

	Six months ended June 30, 2014 ***RMB'000*** **(unaudited)**	Six months ended June 30, 2013 *RMB'000* (unaudited)
Land appreciation tax ("LAT") – Current period	**20,234**	61,322
People's Republic of China ("PRC") enterprise income tax		
– Current period	**75,443**	87,020
– (Overprovision)/Underprovision of income tax in previous periods	**(954)**	383
	74,489	87,403
Deferred tax credit	**(6,377)**	(12,579)
	88,346	136,146

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 relocation of manufacturing plant *RMB'000*	**Unrealized profit on intra-group transaction** *RMB'000*	**Fair value on available-for-sale investment** *RMB'000*	**LAT provision** *RMB'000*	**Tax losses** *RMB'000*	**Total** *RMB'000*
As at January 1, 2013 (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)
Charge (credit) to profit or loss	29,114	415	–	5,397	7,479	42,405
Charge to other comprehensive income	–	–	(17,244)	–	–	(17,244)
As at December 31, 2013 (audited)	(90,880)	26,734	(203,826)	25,806	7,479	(234,687)
Charge (credit) to profit or loss	–	5,684	–	1,984	(1,291)	6,377
Charge to other comprehensive income	–	–	129,533	–	–	129,533
As at June 30, 2014 (unaudited)	**(90,880)**	**32,418**	**(74,293)**	**27,790**	**6,188**	**(98,777)**

6. 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, 2014	December 31, 2013
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Deferred tax liabilities	**(204,034)**	(326,289)
Deferred tax assets	**105,257**	91,602
	(98,777)	(234,687)

7. DIVIDENDS

During the current interim period, a final dividend of HK1.00 cent per share in respect of the year ended December 31, 2013 (2013: Nil) was declared to the owners of the Company. The aggregate amount of the final dividend declared in the interim period amounted to RMB9,227,000 (2013: Nil), which has been paid to the owners of the Company on July 8, 2014 whose names appear in the Register of Members on June 10, 2014.

8. 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, 2014 ***RMB'000*** **(unaudited)**	Six months ended June 30, 2013 *RMB'000* (unaudited)
Profit for the period for the purposes of basic and diluted earnings per share, being profit attributable to owners of the Company	**116,590**	90,604
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**1,162,322,985**	1,162,322,985
Effect of dilutive potential ordinary shares – share options	**1,725,719**	1,759,603
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**1,164,048,704**	1,164,082,588

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 options are higher than the average market price per share during the period ended June 30, 2014 and 2013, respectively.

9. PROPERTY, PLANT AND EQUIPMENT

During the current period, the Group incurred expenditure of approximately RMB103,111,000 (six months ended June 30, 2013: RMB59,706,000) on property, plant and equipment to expand and upgrade the Group's manufacturing facilities.

10. AVAILABLE-FOR-SALE INVESTMENTS

	June 30, 2014	December 31, 2013
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Equity securities		
– 2.32% (2013: 3.69%) equity interest in Haining China Leather Market Co., Ltd. ("HCLM")	**324,220**	858,272
Unlisted investments		
– Equity securities	**405**	941
	324,625	859,213

The principal activity of HCLM is the operation of department stores in the PRC. The shares of HCLM are listed in the Shenzhen Stock Exchange.

The equity securities RMB405,000 (2013: RMB941,000) do not have a quoted market price in an active market and whose fair value cannot be reliably measured and therefore has been measured at cost method.

During the current interim period, the Group disposed of certain listed equity securities and unlisted equity securities with carrying amount of RMB213,892,000 and RMB556,000, respectively. A gain on disposal of RMB187,747,000 and RMB3,073,000 have been recognised in profit or loss for the current interim period, respectively.

11. TRADE, BILLS AND OTHER RECEIVABLES

	June 30, 2014	December 31, 2013
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade and bills receivables	**512,934**	436,555
Deposits paid for acquisition of land use rights	**757,229**	756,861
Advance payment for purchase of inventory	**53,712**	28,017
Prepaid other taxes	**94,388**	77,076
Prepaid land demolishing expenses	**111,268**	111,268
Others	**133,995**	118,646
	1,663,526	1,528,423

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, 2014 *RMB'000* **(unaudited)**	December 31, 2013 *RMB'000* (audited)
Aged:		
Within 60 days	**400,720**	341,865
61 – 90 days	**87,079**	72,433
91 – 180 days	**16,197**	15,141
181 – 365 days	**5,185**	3,881
Over 1 year	**3,753**	3,235
	512,934	436,555

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, 2014 *RMB'000* **(unaudited)**	December 31, 2013 *RMB'000* (audited)
Within 60 days	**1,201,386**	1,287,422
61 – 90 days	**41,611**	131,351
91 – 180 days	**24,417**	38,332
181 – 365 days	**32,616**	39,184
1 – 2 years	**16,553**	43,345
Over 2 years	**39,575**	26,093
	1,356,158	1,565,727

13. BANK AND OTHER BORROWINGS

During the current period, the Group obtained additional bank and other borrowings of approximately RMB1,704,624,000 (six months ended June 30, 2013: RMB1,675,322,000) and repaid bank and other borrowings RMB1,156,648,000 (six months ended June 30, 2013: approximately RMB1,415,988,000).

Included in unsecured bank borrowings are borrowings of RMB471,000,000 (December 31, 2013: RMB654,500,000) 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. 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.

As of June 14, 2014, being the end of the second year from the issue of the Corporate Bonds, Haining Schinder Tanning has redeemed Corporate Bonds at total consideration equivalent to the total face value of the corresponding Corporate Bonds amounted to RMB120,000,000 and agreed with the Corporate Bond-holders that the coupon rate on the third year of the remaining Corporate Bonds with carrying value of RMB29,460,000 at 8.1% per annum.

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.

Other long term liabilities as of June 30, 2014 amounting to RMB11,771,000 (December 31, 2013: RMB17,160,000) are the provision for redundancy payments and other long term debts relating to the rehabilitation plan of Melx Co., Ltd, a wholly-owned subsidiary of the Company acquired in 2013.

15. CAPITAL COMMITMENTS

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

	June 30, 2014 *RMB'000* **(unaudited)**	December 31, 2013 *RMB'000* (audited)
Expenditure contracted for but not provided in the condensed consolidated financial statements in respect of		
– Properties under development	**1,239,030**	1,167,650
– Acquisition of property, plant and equipment	**83,538**	120,720
Authorized but not contracted	**35,689**	56,236
	1,358,257	1,344,606

16. CONTINGENT LIABILITIES

The Group provided guarantees of approximately RMB385,439,000 (December 31, 2013: RMB328,718,000) at June 30, 2014 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. The directors consider that the fair value of the above guarantees is insignificant on initial recognition and at the report dates as it is not probable that an outflow in settlement will be required.

17. 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 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 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).

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

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique and key input
	June 30, 2014	December 31, 2013		
	RMB'000	*RMB'000*		
Available-for-sale investments (AFS) listed in a stock exchange	**324,220**	858,272	Level 1	Quoted bid prices in an active market.

The directors of the Company consider that the carrying amounts of other 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.