



# 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  
2015

# CONTENTS

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Business Review and Prospects	2
Disclosure of Interests	9
Corporate Governance	13
Other Information	14
Report on Review of Condensed Consolidated Financial Statements	15
Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	16
Condensed Consolidated Statement of Financial Position	17
Condensed Consolidated Statement of Changes in Equity	19
Condensed Consolidated Statement of Cash Flows	20
Notes to the Condensed Consolidated Financial Statements	21

## BUSINESS REVIEW AND PROSPECTS

### RESULTS OVERVIEW

For the six months ended June 30, 2015, Kasen International Holdings Limited (the “Company”) together with its subsidiaries (collectively, the “Group”) recorded a consolidated turnover of RMB1,690.1 million (six months ended June 30, 2014: RMB1,535.3 million), representing an increase of approximately 10.1% when compared with the corresponding period in 2014.

The Group’s gross profit for the six months ended June 30, 2015 was RMB262.7 million (six months ended June 30, 2014: RMB227.2 million) with an average gross profit margin of 15.5% (six months ended June 30, 2014: 14.8%), representing an increase of approximately 15.6% when compared with the corresponding period in 2014.

The net profit attributable to owners of the Company for the first half of 2015 was approximately RMB128.5 million (six months ended June 30, 2014: RMB116.6 million), representing an increase of approximately 10.2% when compared with the corresponding period in 2014.

### Review by Business Segments

The Group’s reportable business segments consist of mainly (a) manufacturing, (b) property development, (c) retail business and (d) others (comprising mainly provisions of property management service business, tourism resort operation, restaurant, hotel operation and provision of travel-related services).

The table below shows the total turnover by business segment for the six months ended June 30, 2015, together with the comparative figures for the corresponding period in 2014:

	2015		Six Months Ended June 30,		Change
	RMB'Million	%	2014	%	
			RMB'Million		%
Manufacturing	<b>1,269.3</b>	<b>75.1</b>	1,115.5	72.7	13.8
<i>Automotive Leather</i>	<b>760.6</b>	<b>45.0</b>	714.7	46.6	6.4
<i>Upholstered Furniture</i>	<b>351.8</b>	<b>20.8</b>	292.3	19.0	20.4
<i>Furniture Leather</i>	<b>156.9</b>	<b>9.3</b>	108.5	7.1	44.6
Property Development	<b>338.8</b>	<b>20.0</b>	354.7	23.1	-4.5
Retail	<b>8.9</b>	<b>0.5</b>	6.4	0.4	39.1
Others	<b>73.1</b>	<b>4.4</b>	58.7	3.8	24.5
<b>Total</b>	<b>1,690.1</b>	<b>100.0</b>	1,535.3	100.0	10.1

## **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, 2015, the Group's manufacturing business, comprising of automotive leather, upholstered furniture and furniture leather divisions recorded a total turnover of approximately RMB1,269.3 million (six months ended June 30, 2014: RMB1,115.5 million), representing an increase of approximately 13.8%. This segment recorded a profit of approximately RMB162.2 million, as compared to approximately RMB119.2 million for the corresponding period in 2014 (such that both years' segment results included a gain on disposal of HCLM shares).

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

##### ***Automotive Leather***

As one of the pillar industries in Mainland China, the automotive industry has maintained rapid growth for several consecutive years, leading to booming development of the automotive component industry including automotive leather. Over the years, the Group has maintained its leading position in the domestic automotive leather industry with increased research and development and marketing efforts in the automotive leather business. During the period under review, due to a slowdown in sales growth of automobiles in China for the first half of 2015 as compared to the corresponding period in 2014, the segment recorded a revenue of approximately RMB760.6 million, representing an increase of approximately 6.4% as compared to approximately RMB714.7 million in the corresponding period of 2014.

During the period under review, while continuing to strengthen its relationship with existing customers, the Group enhanced communications with Japanese automotive manufacturers, with an aim to explore new drivers for sales growth by increasing sales to such manufacturers.

##### ***Upholstered Furniture***

Sales of upholstered furniture included finished sofa and sofa cut-and-sew, most of which are for export. Since the second half of 2013, the Group began to adopt several improvements, including enhancing production efficiency, bringing in sales talent, establishing performance-based appraisal and incentive mechanism, expanding overseas customer bases, which have progressively achieved positive results evidenced by stable recovery of its upholstered furniture business since the first half of 2014. The turnover from this segment amounted to approximately RMB351.8 million in the first half of 2015, representing an increase of approximately 20.4% as compared to RMB292.3 million in the corresponding period of 2014.

##### ***Furniture Leather***

The Group's priority in furniture leather production is to meet the internal leather requirement of its upholstered furniture division. Meanwhile, the Group also sells furniture leather to other furniture manufacturers. In the first half of 2015, due to increase in production and external orders of furniture leather, the Group's sales of furniture leather recorded sales of approximately RMB156.9 million (six months ended June 30, 2014: RMB108.5 million), representing an increase of approximately 44.6%.

## BUSINESS REVIEW AND PROSPECTS (cont'd)

### RESULTS OVERVIEW (cont'd)

#### Review by Business Segments (cont'd)

##### Property Development Business

As of June 30, 2015, the Group has six projects at various stages of development in Mainland China. Turnover recorded from the property development segment was approximately RMB338.8 million during the period under review, representing a decrease of approximately 4.5% as compared to approximately RMB354.7 million in the corresponding period of 2014. The decrease in sales of property development business was mainly due to the fact that most of the Group's projects were under development with few properties being delivered during the six months ended June 30, 2015. During the period under review, the Group has no new development project.

##### Group's Property Project Portfolio as at June 30, 2015

No.	Project Name	Location	Interests		Status	Usage
			Attributable to the Group	Total Site Area (sq.m)		
1	Asia Bay	Boao, Hainan	92%	590,165	Under development	Residential and tourism resort
2	Sanya Project	Sanya, Hainan	80.5%	1,423,987	Under development	Hotel and tourism resort
3	Qianjiang Continent	Yancheng, Jiangsu	100%	335,822	Under development	Residential and commercial
4	Kasen Star City (Including Kingdom Garden and Jing Xiang Yuan, etc.)	Haining, Zhejiang	100%	469,867	Under development	Residential and commercial
5	Changbai Paradise	Changbai Mountain, Jilin	89%	291,662	Under development	Residential and hotel
6	Qianjiang Oasis	Yancheng, Jiangsu	55%	108,138	Under development	Residential
Total				3,219,641		

##### 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, 2015 (sq.m.)	GFA delivered as at June 30, 2015 (sq.m.)	Average Selling Price (RMB/sq.m.)
2	Qianjiang Continent	775,292	775,292	670,065	650,390	604,178	5,654
3	Kasen Star City	1,042,588	595,171	709,009	158,974	82,771	6,750
4	Changbai Paradise	179,077	179,077	110,330	22,929	–	–
5	Qianjiang Oasis	335,301	55,556	266,206	26,123	–	–
Total		3,050,923	1,947,531	2,345,775	938,545	753,434	

## **BUSINESS REVIEW AND PROSPECTS (cont'd)**

### **RESULTS OVERVIEW (cont'd)**

#### **Review by Business Segments (cont'd)**

##### ***Retail Business***

Leveraging on its production capability, integrated platform and experience in technological development accumulated in furniture manufacturing over the years, the Group has gradually stepped up its efforts in expansion into the furniture retail industry in Mainland China in recent years. Currently, the Group owns several established brands including “Kasen Helpdeco”, “Kasen Home” and “Emporio Home”, under which medium to high-end quality furniture products are being sold to domestic consumers at reasonable price through different distribution channels. Among such brands, “Kasen Helpdeco” implements an industry-leading O2O model, offering its consumers four core values through on-site experience at the design centre and online product selection and purchase, namely design for free, high price-to-performance ratio, one-stop shopping and comfortableness. During the period under review, the total turnover from retail business was approximately RMB8.9 million, representing a significant increase of approximately 39.1% as compared to RMB6.4 million in the corresponding period of 2014.

#### **Operating Expenses, Taxation and Profit Attributable to Owners**

The Group's selling and distribution costs during the six months ended June 30, 2015 increased slightly to approximately RMB88.4 million, as compared to approximately RMB87.6 million in the first half of 2014. All selling and distribution costs were kept stable during the period under review. The selling and distribution costs to turnover in the first half of 2015 decreased to 5.2% as compared to 5.7% for the corresponding period in 2014.

The administrative costs for the six months ended June 30, 2015 were approximately RMB115.6 million, representing an increase of approximately RMB13.4 million as compared to approximately RMB102.2 million during the corresponding period in 2014. This is mainly attributed to an increase of staff costs and entertainment expenses of approximately RMB5.8 million and RMB4.5 million incurred respectively and also a moderate increase in other administrative expenses as five subsidiaries were newly set up since the second half of 2014.

The Group's finance cost in the first half of 2015 was approximately RMB44.0 million, representing an increase of approximately RMB25.5 million as compared to approximately RMB18.5 million for the same period of 2014. The increase was mainly due to (1) the increase of loan interests of approximately RMB32.5 million since the increase in bank loans made during the period under review, and offset by (2) the decrease of loan interests from the corporate bond issued in June 2012 by approximately RMB6.0 million upon the corporate bonds being fully redeemed in June 2015.

## **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 2015 was approximately RMB82.1 million, with a decrease of approximately RMB6.2 million as compared to approximately RMB88.3 million in the corresponding period in 2014. The decrease was resulted from a decrease in PRC land appreciation tax of approximately RMB11.8 million from the property development projects, which was offset by an increase in PRC income tax of approximately RMB7.5 million mainly due to an increase in taxable profits generated by the property development business at the subsidiary level.

The Group's other gains and losses in the first half of 2015 included a net gain of approximately RMB218.5 million on disposal of 0.89% (first half of 2014: 1.37%) of equity securities in Haining China Leather Market Co., Ltd. ("HCLM") (first half of 2014: RMB187.7 million). HCLM operates department stores in the PRC and its shares are listed on the Shenzhen Stock Exchange. The Group disposed such 0.89% of equity securities in HCLM in the open trading market as well as through the block trade platform of the Shenzhen Stock Exchange. For details, please refer to notes 4 and 10 to the Condensed Consolidated Financial Statements.

For reasons mentioned above, the net profit attributable to owners of the Company was approximately RMB128.5 million in the first half of 2015 (six months ended June 30, 2014: RMB116.6 million), representing an increase of 10.2%.

### **FINANCIAL RESOURCES AND LIQUIDITY**

As at June 30, 2015, the Group had cash and cash equivalent of approximately RMB125.5 million (as at December 31, 2014: RMB324.4 million) and a total borrowings of approximately RMB2,005.8 million (as at December 31, 2014: RMB2,346.6 million). This represents a gearing ratio of 66.2% (as at December 31, 2014: 77.4%) and a net debt-to-equity ratio of 62.0% (as at December 31, 2014: 66.4%). 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, 2015, the Group's inventory which primarily represented leather crust, was approximately RMB621.5 million, representing an increase of approximately RMB19.6 million as compared to approximately RMB601.9 million as of December 31, 2014. During the six months ended June 30, 2015, the Group endeavored to control the inventory level and its inventory turnover period was 97 days as compared to 99 days as at December 31, 2014.

During the six months ended June 30, 2015, 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 80 days for the first half of 2015 (as at December 31, 2014: 84 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 77 days for the six months ended June 30, 2015 (as at December 31, 2014: 81 days).

### **MATERIAL ACQUISITION AND DISPOSAL**

The Group did not have any material acquisitions or disposals during the six months ended June 30, 2015.

## **BUSINESS REVIEW AND PROSPECTS (cont'd)**

### **PLEDGE OF ASSETS**

During the six months ended June 30, 2015, 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%.

### **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, 2015, 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, 2015, the Group employed a total of approximately 4,900 full time employees (as at June 30, 2014: approximately 4,700) including management staff, technicians, salespersons and workers. For the six months ended June 30, 2015, the Group's total expenses on the remuneration of employees were approximately RMB133.5 million (six months ended June 30, 2014: RMB110.3 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.

The Group has also adopted share option scheme for the purpose of providing incentives to Directors, eligible employees and third party service providers. Further details in relation to the scheme are set out in the section headed "Disclosure of Interests – Share Options" of this report.



## **BUSINESS REVIEW AND PROSPECTS (cont'd)**

### **FUTURE PLANS AND PROSPECTS**

Chinese economy has now entered into a stage of steady development after several years' rapid growth. The Group's businesses, including leather manufacturing, furniture manufacturing and property development, will also be affected by decelerated growth of the automotive industry and the real estate industry, with many challenges ahead. The Group will proactively take various measures to improve its operating conditions and explore new businesses in due time, with a view to delivering greater returns to shareholders.

For the manufacturing business, it is expected that the leather manufacturing plant in Hebei Province will be put into operation in the second half of 2015, which can effectively increase production capacity to meet the increased orders from customers. Internally, the Group will focus on increasing the application of automated machines, improving production process, enhancing internal management efficiency and reducing cost. In addition, the Group will engage experts in leather manufacturing from Japan as consultants, aiming to improve efficiency through lean management and scientific production. Meanwhile, the Group will devote greater efforts to further increase sales and strengthen cooperation with automobile manufacturers and OEM customers of upholstered furniture.

For the furniture retailing business, it is expected that the "Internet +" policy implemented by the PRC government will effectively promote the development of e-commerce for traditional industries. The Group will capitalize on this favourable opportunity to increase its efforts in e-commerce sales of furniture products and promptly extend its existing business model of "experience centre + online sales" to more areas in China, so as to achieve rapid growth in turnover.

For property development, as the volatility of the domestic real estate market swelled with aggravating regional differentiation, the Group will focus on the development and operation of existing projects, and will apply more flexible development and sales models according to the conditions of the real estate markets where such projects are located, so as to accelerate the pace of sales and maintain sound cash flows.

The Group's tourism resort operation and hotel operation, though still at its preliminary stage, are in good condition. However, it is expected that such operations will not make substantial contribution to the Group's operating results in the near future. Tourism resort is a strategic emerging industry with great development potential in Mainland China. The Group has completed the deployment of projects in popular tourist destinations, including Hainan, Changbai Mountain and Hangzhou. In future, the Group will promptly increase its investment in due course based on market conditions and explore more suitable operation models to achieve sustainable growth in tourism resort-related businesses.

## DISCLOSURE OF INTERESTS

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

As at June 30, 2015, the interests of the directors of the Company (the "Directors") and chief executives of the Company in the shares of the Company (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as contained in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") are as follows:

#### (1) Long positions in shares of the Company

Name of Director	Number of shares held, capacity and nature of interest			Percentage of the Company's issued share capital
	Directly beneficially owned	Through controlled corporation	Total number of shares interested	
Zhu Zhangjin ("Mr. Zhu")	12,360,000	514,798,635 (Note)	527,158,635	45.35%
Lee Lawrence	205,000	–	205,000	0.02%
Zhang Mingfa, Michael	1,980,000	–	1,980,000	0.17%

Note: Mr. Zhu Zhangjin, the chairman of the Company, as settlor, and together with persons acting in concert with him as beneficiaries of a family trust (a trust set up to hold interest of family of Mr. Zhu Zhangjin (excluding Mr. Zhu Zhangjin) in the Company), being the substantial shareholders of the Company, are collectively holding 527,158,635 Shares or approximately 45.35% of the total number of issued Shares (including the 514,798,635 Shares or approximately 44.29% of the issued Shares held by Joyview Enterprises Limited ("Joyview") which in turn is wholly owned by the trustee of such family trust). This figure does not include the options granted to Mr. Zhu to subscribe for 3,000,000 shares under the share option scheme (the "Existing Scheme") adopted by a resolution of the Shareholders on September 24, 2005 and adopted by a resolution of the Board on September 26, 2005.

#### (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, 2015.

## **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 “Old Scheme”) for the primary purpose of providing incentives to Directors, eligible employees and third party services providers. The Old Scheme became effective on October 20, 2005 and the options issued pursuant to the Old Scheme will expire no later than 10 years from the date of grant of the option. Under the Old Scheme, the Board may grant options to any employees of the Company or any of its subsidiaries to subscribe shares of the Company. The Old Scheme was terminated on May 29, 2015. As at the date of this report, the Company had 49,800,000 outstanding options granted pursuant to the Old Scheme.

On the same date of the termination of the Old Scheme, a new share option scheme was adopted by the Company pursuant to a shareholders resolution passed on May 29, 2015 (the “New Scheme”) for the primary purpose of providing incentives to Directors and eligible employees. The New Scheme became effective on May 29, 2015 and the options issued pursuant to the New Scheme will expire no later than 10 years from the date of grant of the option. As at the date of this report, no options have been granted by the Company under the New Scheme.

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 respectively under the Old 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) and under the New Scheme is not permitted to exceed 10% of the shares of the Company on May 29, 2015 (representing 116,232,298 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 both the Old Scheme and the New 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.

Both the Old Scheme and the New Scheme do 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 New Scheme, the New Scheme shall be valid and effective for a period of 10 years from the date on which it becomes unconditional which was May 29, 2015, 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 New Scheme.

As at June 30, 2015, the total numbers of shares available for issue under the Old Scheme and the New Scheme were 49,800,000 shares and 116,232,298 shares respectively, which represented 4.3% and 10.0% of the shares in issue respectively as at the date of this interim report.

## DISCLOSURE OF INTERESTS (cont'd)

### SHARE OPTIONS (cont'd)

Details of the share options granted, pursuant to the Old Scheme on March 9, 2006, May 5, 2008 and May 26, 2015, respectively, during the six months ended June 30, 2015 were as follows:

Name of Director	Exercise price HK\$	Number of share options			Outstanding as at June 30, 2015	Percentage of total issued share capital	Exercisable period	Notes
		Granted from January 1, 2015 to June 30, 2015	Lapsed from January 1, 2015 to June 30, 2015	Exercised from January 1, 2015 to June 30, 2015				
		Outstanding as at January 1, 2015	Outstanding as at June 30, 2015	Outstanding as at June 30, 2015				
Zhu Zhangjin	2.38	1,000,000	-	-	1,000,000	0.09%	1/1/2007 to 8/3/2016	1,6,7
	2.38	1,000,000	-	-	1,000,000	0.09%	1/1/2008 to 8/3/2016	2,6,7
	1.37	-	1,000,000	-	1,000,000	0.09%	1/1/2016 to 25/5/2025	5,6,7
Zhou Xiaosong (resigned on August 8, 2014)	2.38	1,000,000	-	-	1,000,000	0.09%	1/1/2007 to 8/3/2016	1,6,7
	2.38	1,000,000	-	-	1,000,000	0.09%	1/1/2008 to 8/3/2016	2,6,7
	1.18	500,000	-	-	500,000	0.04%	1/1/2009 to 4/5/2018	3,6,7
	1.18	500,000	-	-	500,000	0.04%	1/1/2010 to 4/5/2018	4,6,7
Lee Lawrence	1.37	-	3,000,000	-	3,000,000	0.26%	1/1/2016 to 25/5/2025	5,6,7
Zhang Mingfa, Michael	2.38	500,000	-	-	500,000	0.04%	1/1/2007 to 8/3/2016	1,6,7
	2.38	500,000	-	-	500,000	0.04%	1/1/2008 to 8/3/2016	2,6,7
	1.18	250,000	-	-	250,000	0.02%	1/1/2009 to 4/5/2018	3,6,7
	1.18	250,000	-	-	250,000	0.02%	1/1/2010 to 4/5/2018	4,6,7
	1.37	-	3,000,000	-	3,000,000	0.26%	1/1/2016 to 25/5/2025	5,6,7
		6,500,000	7,000,000	-	13,500,000	1.17%		
Other employees in aggregate	2.38	5,500,000	-	-	5,500,000	0.47%	1/1/2007 to 8/3/2016	1,6,7
	2.38	5,500,000	-	-	5,500,000	0.47%	1/1/2008 to 8/3/2016	2,6,7
	1.18	1,150,000	-	-	1,150,000	0.10%	1/1/2009 to 4/5/2018	3,6,7
	1.18	1,150,000	-	-	1,150,000	0.10%	1/1/2010 to 4/5/2018	4,6,7
	1.37	-	23,000,000	-	23,000,000	1.98%	1/1/2016 to 25/5/2025	5,6,7
		19,800,000	30,000,000	-	49,800,000	4.29%		

## DISCLOSURE OF INTERESTS (cont'd)

### SHARE OPTIONS (cont'd)

Notes:

- Pursuant to the Old 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. The closing price of shares of the Company immediately before the date of grant of share options was HK\$2.30.
- These share options were granted pursuant to the Old Scheme on March 9, 2006 and are exercisable at HK\$2.38 per Share from January 1, 2008 to March 8, 2016. The closing price of shares of the Company immediately before the date of grant of share options was HK\$2.30.
- These share options were granted pursuant to the Old Scheme on May 5, 2008 and are exercisable at HK\$1.18 per Share from January 1, 2009 to May 4, 2018. The closing price of shares of the Company immediately before the date of grant of share options was HK\$1.18.
- These share options were granted pursuant to the Old Scheme on May 5, 2008 and are exercisable at HK\$1.18 per Share from January 1, 2010 to May 4, 2018. The closing price of shares of the Company immediately before the date of grant of share options was HK\$1.18.
- These share options were granted pursuant to the Old Scheme on May 26, 2015 and are exercisable at HK\$1.37 per Share from January 1, 2016 to May 25, 2025. The closing price of shares of the Company immediately before the date of grant of share options was HK\$1.38.
- These share options represent personal interest held by the relevant participants as beneficial owner.
- During the six months ended June 30, 2015, none of these share options were lapsed, exercised nor cancelled.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Other than the schemes disclosed in the paragraph headed "Share Options" above, at no time during the six months ended June 30, 2015 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, 2015, 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 <sup>1</sup>	Beneficial owner	–	514,798,635	514,798,635	44.29%
Hangzhou Great Star Industrial Co., Ltd. <sup>2</sup>	Interest of controlled corporation	–	235,134,057	235,134,057	20.23%
Hongkong Greatstar International Co., Ltd. <sup>2</sup>	Beneficial owner	–	235,134,057	235,134,057	20.23%

Notes:

- Mr. Zhu Zhangjin, the chairman of the Company, as settlor, and together with persons acting in concert with him as beneficiaries of a family trust (a trust set up to hold interest of family of Mr. Zhu Zhangjin (excluding Mr. Zhu Zhangjin) in the Company), being the substantial shareholders of the Company, are collectively holding 527,158,635 Shares or approximately 45.35% of the total number of issued Shares (including the 514,798,635 Shares or approximately 44.29% of the issued Shares held by Joyview Enterprises Limited ("Joyview") which in turn is wholly owned by the trustee of such family trust). This figure does not include the options granted to Mr. Zhu to subscribe for 3,000,000 shares under the share option scheme (the "Existing Scheme") adopted by a resolution of the Shareholders on September 24, 2005 and adopted by a resolution of the Board on September 26, 2005.
- 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, 2015.

## **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, 2015, 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, throughout the six months ended June 30, 2015, 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 during the six months ended June 30, 2015. 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, 2015, including the review of the unaudited interim results of the Group for the six months ended June 30, 2015.

## **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, 2015 (six months ended June 30, 2014: Nil).

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

During the six months ended June 30, 2015, 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, 2015.

### **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 18, 2015

# 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 16 to 36, which comprise the condensed consolidated statement of financial position as of June 30, 2015 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 18, 2015



# CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2015

	NOTES	Six months ended June 30, 2015 RMB'000 (unaudited)	Six months ended June 30, 2014 RMB'000 (unaudited)
Turnover	3	<b>1,690,086</b>	1,535,350
Cost of sales		<b>(1,427,370)</b>	(1,308,138)
Gross profit		<b>262,716</b>	227,212
Other income		<b>7,850</b>	4,125
Selling and distribution costs		<b>(88,405)</b>	(87,615)
Administrative expenses		<b>(115,648)</b>	(102,226)
Other gains and losses	4	<b>174,951</b>	176,550
Share of losses of associates		<b>(33)</b>	–
Finance costs		<b>(44,018)</b>	(18,510)
Profit before tax	5	<b>197,413</b>	199,536
Income tax expenses	6	<b>(82,059)</b>	(88,346)
Profit for the period		<b>115,354</b>	111,190
Other comprehensive income (loss)			
Items that may be subsequently reclassified to profit or loss:			
Fair value gain (loss) on available-for-sale investments		<b>162,263</b>	(320,160)
Income tax relating to fair value change of available-for-sale investments		<b>(40,566)</b>	80,040
Exchange difference arising on translation		<b>683</b>	(446)
Reclassification from revaluation reserve to profit or loss on disposal of available-for-sale investments		<b>(251,440)</b>	(197,972)
Reclassification from revaluation reserve to profit or loss on income tax relating to disposal of available-for-sale investments		<b>62,860</b>	49,493
Total comprehensive income (loss) for the period		<b>49,154</b>	(277,855)
Profit (loss) for the period attributable to:			
Owners of the Company		<b>128,517</b>	116,590
Non-controlling interests		<b>(13,163)</b>	(5,400)
		<b>115,354</b>	111,190
Total comprehensive income (loss) for the period attributable to:			
Owners of the Company		<b>62,317</b>	(272,455)
Non-controlling interests		<b>(13,163)</b>	(5,400)
		<b>49,154</b>	(277,855)
Earnings per share			
Basic and diluted	8	<b>RMB11 cents</b>	RMB10 cents

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT JUNE 30, 2015

	NOTES	June 30, 2015 RMB'000 (unaudited)	December 31, 2014 RMB'000 (audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	9	949,861	923,774
Prepaid lease payments – non-current portion		72,767	73,704
Intangible assets		609	938
Interests in an associate		367	–
Available-for-sale investments – non-current portion	10	-	223,056
Deferred tax assets	6	83,371	82,456
Deposits paid for acquisition of land use rights		48,420	68,458
		<b>1,155,395</b>	<b>1,372,386</b>
<b>CURRENT ASSETS</b>			
Available-for-sale investments – current portion	10	314,080	190,920
Inventories		621,544	601,911
Properties under development		3,498,840	3,249,721
Properties held for sale		1,169,686	1,426,793
Amounts due from non-controlling interests		3,000	4,769
Trade, bills and other receivables	11	1,676,451	1,655,427
Prepaid lease payments – current portion		2,345	2,581
Tax recoverable		25,948	13,790
Prepaid land appreciation tax		41,741	41,050
Pledged bank deposits		280,377	244,495
Restricted bank deposit for property development business		1,846	9,101
Bank balances and cash		125,540	324,388
		<b>7,761,398</b>	<b>7,764,946</b>
<b>CURRENT LIABILITIES</b>			
Trade, bills and other payables	12	1,847,576	1,856,171
Deposits received in respect of pre-sale of properties		1,089,309	1,044,265
Bank and other borrowings – due within one year	13	1,245,243	1,666,765
Exchangeable bonds	14	255,636	216,000
Tax payable		197,377	166,909
Amounts due to non-controlling interests		166,705	127,474
Other long-term liabilities – current portion	15	–	33,222
		<b>4,801,846</b>	<b>5,110,806</b>
<b>NET CURRENT ASSETS</b>		<b>2,959,552</b>	<b>2,654,140</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>4,114,947</b>	<b>4,026,526</b>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (cont'd)

AT JUNE 30, 2015

	NOTES	June 30, 2015 RMB'000 (unaudited)	December 31, 2014 RMB'000 (audited)
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities	6	205,928	228,369
Bank and other borrowings – due after one year	13	760,570	679,865
Other long-term liabilities – non-current portion	15	–	10,984
		<u>966,498</u>	<u>919,218</u>
<b>NET ASSETS</b>		<b>3,148,449</b>	3,107,308
<b>CAPITAL AND RESERVES</b>			
Share capital		1,400	1,400
Reserves		<u>3,024,863</u>	<u>2,961,307</u>
Equity attributable to owners of the Company		<b>3,026,263</b>	2,962,707
Non-controlling interests		<u>122,186</u>	144,601
<b>TOTAL EQUITY</b>		<b>3,148,449</b>	3,107,308

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2015

	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, 2014 (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	2,402	2,501
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	153,789	3,133,623
Profit (loss) for the period	-	-	-	-	-	-	-	-	(84,172)	(84,172)	(9,188)	(93,360)
Total other comprehensive income	-	-	-	-	-	-	67,080	(35)	-	67,045	-	67,045
Total comprehensive income (loss) for the period	-	-	-	-	-	-	67,080	(35)	(84,172)	(17,127)	(9,188)	(26,315)
Release upon lapse of share options	-	-	-	-	(1,129)	-	-	-	1,129	-	-	-
At December 31, 2014 (audited)	1,400	1,317,487	189,309	167,983	12,767	(41,703)	289,958	(712)	1,026,218	2,962,707	144,601	3,107,308
Profit (loss) for the period	-	-	-	-	-	-	-	-	128,517	128,517	(13,163)	115,354
Total other comprehensive income (loss)	-	-	-	-	-	-	(66,883)	683	-	(66,200)	-	(66,200)
Total comprehensive income (loss) for the period	-	-	-	-	-	-	(66,883)	683	128,517	62,317	(13,163)	49,154
Acquisition of additional interests in a subsidiary	-	-	-	-	-	-	-	-	(748)	(748)	(9,252)	(10,000)
Share based compensation	-	-	-	-	1,987	-	-	-	-	1,987	-	1,987
<b>At June 30, 2015 (unaudited)</b>	<b>1,400</b>	<b>1,317,487</b>	<b>189,309</b>	<b>167,983</b>	<b>14,754</b>	<b>(41,703)</b>	<b>223,075</b>	<b>(29)</b>	<b>1,153,987</b>	<b>3,026,263</b>	<b>122,186</b>	<b>3,148,449</b>

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2015

	Six months ended June 30, 2015 RMB'000 (unaudited)	Six months ended June 30, 2014 RMB'000 (unaudited)
<b>NET CASH GENERATED FROM (USED IN)</b>		
<b>OPERATING ACTIVITIES</b>	<b>104,265</b>	<b>(589,909)</b>
<b>INVESTING ACTIVITIES</b>		
Placement of pledged bank deposits	(405,445)	(170,674)
Purchases of property, plant and equipment	(57,643)	(68,485)
Withdrawal of pledged bank deposits	369,563	164,135
Proceeds on disposal of available-for-sale investments	240,149	207,296
Acquisition of additional interest in a subsidiary	(10,000)	–
Acquisition of investment in an associate	(400)	–
Increase (decrease) in amounts due from non-controlling interests of subsidiaries	1,769	(3,196)
Interest received	2,403	3,577
Other investing cash flows	365	(409)
<b>NET CASH GENERATED FROM INVESTING ACTIVITIES</b>	<b>140,761</b>	<b>132,244</b>
<b>FINANCING ACTIVITIES</b>		
Repayments of bank and other borrowings	(1,437,989)	(1,156,648)
Bank and other borrowings raised	1,108,747	1,704,624
Repayment of other long term liabilities	(30,000)	(121,850)
Interest paid	(83,822)	(47,720)
Other financing cash flows	(1,493)	2,500
<b>NET CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES</b>	<b>(444,557)</b>	<b>380,906</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(199,531)</b>	<b>(76,759)</b>
Effect of changes in exchange rates	683	(461)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>	<b>324,388</b>	<b>560,147</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD,</b> represented by bank balances and cash	<b>125,540</b>	<b>482,927</b>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2015

## 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, 2015 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended December 31, 2014.

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 IAS 19	Defined Benefit Plans: Employee Contributions
Amendments to IFRSs	Annual Improvements to IFRSs 2010-2012 Cycle
Amendments to IFRSs	Annual Improvements to IFRSs 2011-2013 Cycle

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.

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

FOR THE SIX MONTHS ENDED JUNE 30, 2015

### 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, 2015

	Manufacturing RMB'000	Properties development RMB'000	Retail RMB'000	Others RMB'000	Segment total RMB'000	Eliminations RMB'000	Total RMB'000
TURNOVER							
External sales	1,269,273	338,798	8,862	73,153	1,690,086	-	1,690,086
Inter-segment sales	283	-	-	-	283	(283)	-
Total	1,269,556	338,798	8,862	73,153	1,690,369	(283)	1,690,086

##### Six months ended June 30, 2014

	Manufacturing RMB'000	Properties development RMB'000	Retail RMB'000	Others RMB'000	Segment total RMB'000	Eliminations RMB'000	Total RMB'000
TURNOVER							
External sales	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

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

FOR THE SIX MONTHS ENDED JUNE 30, 2015

### 3. SEGMENT INFORMATION (cont'd)

#### Segment revenues and results (cont'd)

##### Results

	<b>Six months ended June 30, 2015 RMB'000 (unaudited)</b>	Six months ended June 30, 2014 RMB'000 (unaudited)
Segment results		
– Manufacturing (note)	<b>162,212</b>	119,178
– Properties development	<b>(25,930)</b>	16,216
– Retail	<b>(2,050)</b>	(1,538)
– Others	<b>(15,756)</b>	(22,181)
	<b>118,476</b>	111,675
Unallocated corporate expenses	<b>(2,397)</b>	(1,557)
Unallocated other gains and losses	<b>(725)</b>	1,072
Profit for the period	<b>115,354</b>	111,190

Note: Included in the result of manufacturing segment was a gain on disposal of available-for-sale investments amounting to RMB218,533,000 (six months ended June 30, 2014: RMB190,820,000). The available-for-sale investments were invested and managed under the manufacturing segment.

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.



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

FOR THE SIX MONTHS ENDED JUNE 30, 2015

### 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:

	<b>June 30, 2015</b>	December 31, 2014
	<b>RMB'000</b>	RMB'000
	<b>(unaudited)</b>	(audited)
Manufacturing	<b>2,460,837</b>	2,547,622
Properties development	<b>6,129,929</b>	6,252,332
Retail	<b>23,061</b>	20,382
Others	<b>257,484</b>	264,508
Total segment assets	<b>8,871,311</b>	9,084,844
Unallocated	<b>45,482</b>	52,488
Consolidated assets	<b>8,916,793</b>	9,137,332

### 4. OTHER GAINS AND LOSSES

	<b>Six months ended June 30, 2015</b>	Six months ended June 30, 2014
	<b>RMB'000</b>	RMB'000
	<b>(unaudited)</b>	(unaudited)
Net foreign exchange loss	<b>(4,249)</b>	(4,879)
Gain on disposal of available-for-sale investments (note 10)	<b>218,533</b>	190,820
Impairment loss recognised in respect of trade and other receivables	<b>(5,752)</b>	(8,633)
Reversal of impairment loss recognised in respect of trade and other receivables	<b>2,907</b>	1,133
Gain on loss control of subsidiaries (note 15)	<b>22,556</b>	–
Loss on change in fair value of exchangeable bonds	<b>(41,129)</b>	–
Impairment loss recognized in respect of property under development	<b>(16,246)</b>	–
Others	<b>(1,669)</b>	(1,891)
	<b>174,951</b>	176,550

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

FOR THE SIX MONTHS ENDED JUNE 30, 2015

### 5. PROFIT BEFORE TAX

	<b>Six months ended June 30, 2015 RMB'000 (unaudited)</b>	Six months ended June 30, 2014 RMB'000 (unaudited)
Profit before tax has been arrived at after charging (crediting):		
Amortization of intangible assets (included in administrative expenses)	<b>329</b>	217
Depreciation of property, plant and equipment	<b>35,049</b>	33,011
Total depreciation and amortization	<b>35,378</b>	33,228
Release of prepaid lease payments	<b>1,173</b>	1,050
Interest on bank and other borrowings wholly repayable within five years	<b>78,475</b>	43,651
Interest on other long term liability wholly repayable within five years	<b>1,331</b>	7,354
Interest on notes discounted	<b>2,917</b>	830
Less: amount capitalised in respect of property under development	<b>(38,705)</b>	(33,325)
	<b>44,018</b>	18,510
Dividends income from available-for-sale investments	<b>(1,920)</b>	(134)
Government grants	<b>(2,223)</b>	(1,729)
Interest income	<b>(2,403)</b>	(3,577)

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

FOR THE SIX MONTHS ENDED JUNE 30, 2015

### 6. INCOME TAX EXPENSES

	Six months ended June 30, 2015 RMB'000 (unaudited)	Six months ended June 30, 2014 RMB'000 (unaudited)
Land appreciation tax ("LAT") – Current period	8,424	20,234
People's Republic of China ("PRC") enterprise income tax		
– Current period	82,901	75,443
– Overprovision of income tax in previous periods	(8,204)	(954)
	74,697	74,489
Deferred tax credit	(1,062)	(6,377)
	82,059	88,346

#### 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	Fair value on exchangeable bonds RMB'000	LAT provision RMB'000	Tax losses RMB'000	Total RMB'000
As at January 1, 2014 (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)
Charge (credit) to profit or loss	–	(6,227)	–	–	(14,560)	(3,989)	(24,776)
Charge to other comprehensive income	–	–	(22,360)	–	–	–	(22,360)
As at December 31, 2014 (audited)	(90,880)	26,191	(96,653)	–	13,230	2,199	(145,913)
Charge (credit) to profit or loss	–	499	–	10,282	(9,719)	–	1,062
Charge to other comprehensive income	–	–	22,294	–	–	–	22,294
<b>As at June 30, 2015 (unaudited)</b>	<b>(90,880)</b>	<b>26,690</b>	<b>(74,359)</b>	<b>10,282</b>	<b>3,511</b>	<b>2,199</b>	<b>(122,557)</b>

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

FOR THE SIX MONTHS ENDED JUNE 30, 2015

### 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:

	<b>June 30, 2015</b>	December 31, 2014
	<b>RMB'000</b>	RMB'000
	<b>(unaudited)</b>	(audited)
Deferred tax assets	<b>83,371</b>	82,456
Deferred tax liabilities	<b>(205,928)</b>	(228,369)
	<b>(122,557)</b>	(145,913)

### 7. DIVIDENDS

No dividends were paid, declared or proposed during the current interim period. The directors of the Company have determined that no dividend will be paid in respect of the interim period.

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

FOR THE SIX MONTHS ENDED JUNE 30, 2015

### 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

	<b>Six months ended June 30, 2015 RMB'000 (unaudited)</b>	Six months ended June 30, 2014 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	<u>128,517</u>	116,590
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of basic earnings per share	<b>1,162,322,985</b>	1,162,322,985
Effect of dilutive potential ordinary shares – share options	–	1,725,719
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u><b>1,162,322,985</b></u>	1,164,048,704

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, 2015 and 2014, respectively.

### 9. PROPERTY, PLANT AND EQUIPMENT

During the current period, the Group incurred expenditure of approximately RMB57,643,000 (six months ended June 30, 2014: RMB103,111,000) on property, plant and equipment to expand and upgrade the Group's manufacturing facilities.

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

FOR THE SIX MONTHS ENDED JUNE 30, 2015

### 10. AVAILABLE-FOR-SALE INVESTMENTS

	<b>June 30, 2015 RMB'000 (unaudited)</b>	December 31, 2014 RMB'000 (audited)
Equity securities		
– Listed	<b>314,080</b>	413,660
– Unlisted	–	316
	<b>314,080</b>	413,976
Analysed for reporting purpose as:		
– Current assets	<b>314,080</b>	190,920
– Non-current assets	–	223,056
	<b>314,080</b>	413,976

The listed securities represent 16,000,000 shares (1.43% equity interest) (2014: 26,000,000 shares (2.32% equity interest)) in Haining China Leather Market Co., Ltd (“HCLM”). 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.

During the current period, the Group disposed of certain listed securities with carrying amount of RMB228,936,000, resulting a gain on disposal of RMB218,533,000 being recognised in profit or loss for the current period (six months ended June 30, 2014: RMB187,747,000).

As detailed in note 14, 12,000,000 shares of HCLM have been provided as collateral to the issuance of exchangeable bonds of the Group. The exchangeable bond holders have a conversion option exercisable from June 29, 2015 to December 28, 2016 to convert to the HCLM shares at an initial price of RMB18, adjusted to RMB17.88 due to the cash dividends RMB0.12 per share paid at June 30, 2015. As such, the 12,000,000 HCLM shares are presented as current assets from the issuance day.

At May 20, 2015, the board of directors announced that they had the intention to dispose all the HCLM shares within one year. Therefore, all the 16,000,000 HCLM shares held by the Group as at June 30, 2015 are presented as current assets.

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

FOR THE SIX MONTHS ENDED JUNE 30, 2015

### 11. TRADE, BILLS AND OTHER RECEIVABLES

	<b>June 30, 2015</b>	December 31, 2014
	<b>RMB'000</b>	RMB'000
	<b>(unaudited)</b>	(audited)
Trade and bills receivables	<b>581,269</b>	556,503
Deposits paid for acquisition of land use rights	<b>718,275</b>	724,007
Advance payment for purchase of inventory	<b>132,938</b>	63,956
Prepaid other taxes	<b>81,370</b>	87,841
Prepaid land demolishing expenses	<b>29,000</b>	100,268
Others	<b>133,599</b>	122,852
	<b>1,676,451</b>	1,655,427

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:

	<b>June 30, 2015</b>	December 31, 2014
	<b>RMB'000</b>	RMB'000
	<b>(unaudited)</b>	(audited)
Aged:		
Within 60 days	<b>417,826</b>	439,594
61 – 90 days	<b>108,518</b>	92,944
91 – 180 days	<b>41,444</b>	19,576
181 – 365 days	<b>12,244</b>	3,154
Over 1 year	<b>1,237</b>	1,235
	<b>581,269</b>	556,503

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

FOR THE SIX MONTHS ENDED JUNE 30, 2015

### 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:

	<b>June 30, 2015 RMB'000 (unaudited)</b>	December 31, 2014 RMB'000 (audited)
Within 60 days	<b>1,016,412</b>	1,155,932
61 – 90 days	<b>104,687</b>	64,710
91 – 180 days	<b>176,481</b>	261,314
181 – 365 days	<b>137,025</b>	39,856
1 – 2 years	<b>16,208</b>	27,885
Over 2 years	<b>25,046</b>	26,316
	<b>1,475,859</b>	1,576,013

### 13. BANK AND OTHER BORROWINGS

During the current period, the Group obtained additional bank and other borrowings of approximately RMB1,108,747,000 (six months ended June 30, 2014: RMB1,704,624,000) and repaid bank and other borrowings RMB1,437,989,000 (six months ended June 30, 2014: approximately RMB1,156,648,000). In addition, bank borrowings amounted to RMB11,575,000 were exempted by a bank due to the termination of the civil rehabilitation plan of a subsidiary of the Company (Note 15).

The bank borrowings included unsecured bank borrowings of RMB445,000,000 (December 31, 2014: RMB673,500,000), which were 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.



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

FOR THE SIX MONTHS ENDED JUNE 30, 2015

### 14. EXCHANGEABLE BONDS

Zhejiang Kasen Industrial Group Co., Limited ("Zhejiang Kasen"), a wholly-owned subsidiary of the Company incorporated in the PRC, issued RMB216,000,000 exchangeable bonds ("Exchangeable Bonds") on December 29, 2014 with a term of two years. The Exchangeable Bonds are exchangeable at the option of the Bondholders for a portion of the HCLM shares currently held by Zhejiang Kasen. The initial coupon rate is fixed at 7.5% per annum.

The issuance of the Exchangeable Bonds is guaranteed by the Company. In addition, Zhejiang Kasen also provided an aggregate of 12,000,000 HCLM shares (available-for-sale investments) as collateral, pursuant to which the Bondholders may exercise their rights to exchange for HCLM shares during the exercise period based on the face value of the Exchangeable Bonds as subscribed by the Bondholders and the total number of HCLM shares as provided by Zhejiang Kasen, on a pro rata basis, upon the market price of the HCLM shares reaching a level exceeding an initial exercise price. The initial exercise price was set at RMB18 per HCLM share. The Bondholders will have a right to exchange the Exchangeable Bonds for HCLM shares during the exercise period.

During the period from 15 trading days and 6 trading days prior to the commencement of the exercise period; or during the exercise period, for a consecutive period of 10 trading days, in the event that for at least 5 trading days thereof, the closing price of the HCLM shares is equal to or more than 120% of the exercise price of the Exchangeable Bonds, or the carrying value of the Exchangeable Bonds is less than RMB10,000,000, the board of directors of Zhejiang Kasen may elect to redeem all or part of the outstanding Exchangeable Bonds. Further, during the exercise period, in the event that in any 20 consecutive trading days, the closing price of the HCLM shares for at least 10 trading days is lower than 90% of the initial exercise price, the board of directors of Zhejiang Kasen may exercise its discretion to lower the exercise price under the terms of the Exchangeable Bonds. The Bondholders have the right to back sale the Exchangeable Bonds to the Company at a price equal to the face value of the bond plus accrued interest.

The Exchangeable Bonds is a financial liability, and the management has decided to measure the entire instrument as a whole based its fair value through profit and loss.

The movement of the fair value of the Exchangeable Bonds was set out below:

	<i><b>RMB'000</b></i>
Carrying amount at January 1, 2015	<b>216,000</b>
Redemption part of principal	<b>(1,493)</b>
Fair value change recognised in profit or loss	<b>41,129</b>
Carrying amount at June 30, 2015	<b>255,636</b>

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

FOR THE SIX MONTHS ENDED JUNE 30, 2015

### 14. EXCHANGEABLE BONDS (cont'd)

As of June 30, 2015, the board of directors of Zhejiang Kasen paid RMB1,493,000 to the Bondholders to redeem part of Exchangeable Bonds due to the cash dividends paid on HCLM shares. The conversion price was then adjusted to RMB17.88. The fair value of the Exchangeable Bonds as of June 30, 2015 was determined according to the valuation techniques using the Binomial pricing model. The inputs into the model were as follows:

Share price of HCLM	RMB19.63
Exercise price of HCLM	RMB17.88
Expected volatility of HCLM	43.66%
Dividend yield of HCLM	0.91%
Expected life	1.50 years
Risk-free interest rate	2.03%

The risk-free interest rates were based on yield of China government bonds at the date of valuation. Expected volatility of HCLM was determined by using the historical volatility of the HCLM's share prices over the previous years. Changes in variables and assumptions may result in changes in the fair value of the Exchangeable Bonds.

### 15. OTHER LONG-TERM LIABILITIES

Included in the other long-term liabilities as of December 31, 2014 were corporate bonds of RMB29,747,000, which were issued by Haining Schinder Tanning Co., Ltd. ("Haining Schinder Tanning"), a wholly-owned subsidiary of the Company incorporated in the PRC. The corporate bonds were fully repaid during the current period.

In addition, the long-term liabilities as of December 31, 2014 also included the provision for retirement benefits and other long term debts from the rehabilitation plan of Melx Co., Ltd ("Melx") amounting to RMB14,459,000. Melx was a wholly-owned subsidiary of the Company acquired in 2013, which was approved by the Tokyo District Court on March 3, 2015 to terminate the civil rehabilitation plan and appointed an administrator to take control over the assets and liabilities. Accordingly, the Company has deconsolidated Melx and its subsidiary, Foshan Melx Leather Co., Ltd ("FMC"), from March 3, 2015. A gain from deconsolidation amounting to RMB22,556,000 was recognized in this current period as Melx and FMC were in net liability position.

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

FOR THE SIX MONTHS ENDED JUNE 30, 2015

### 16. SHARE OPTION

A share option scheme was adopted by the Company pursuant to a board resolution passed on September 26, 2005 (the "Old Scheme") for the primary purpose of providing incentives to directors, eligible employees and third party service providers of the Company. The Old Scheme became effective on October 20, 2005 and the option issued pursuant to the Old Scheme will expire with no later than 10 years from the date of grant of the option, under which 30,000,000 share options were granted on May 26, 2015. As at the date of this report, the Company had 49,800,000 outstanding options granted pursuant to the Old Scheme.

A new share option scheme was adopted by the Company pursuant to a shareholders resolution passed on May 29, 2015 (the "New Scheme") for the primary purpose of providing incentive to directors and eligible employees, thus, the Old Scheme was terminated on the same day. The New Scheme became effective on May 29, 2015 and the options issued pursuant to the New Scheme will expire no later than 10 years from the date of grant of the option. As at the date of this report, no options have been granted by the Company under the New Scheme.

The table below discloses movement of the Company's share options granted under the Old Scheme held by the Group's directors and employees:

	<b>Number of share options</b>
Outstanding as at January 1, 2015	<b>19,800,000</b>
Granted during the current period	<b>30,000,000</b>
Outstanding as at June 30, 2015	<b>49,800,000</b>

The fair value of the options granted on May 26, 2015 determined at the date of grant using the Black-Scholes option pricing model were RMB12,142,000 (equivalent to HK\$15,387,000). The following assumptions were used to calculate the fair value of share options:

Grant date share price	HK\$1.37
Exercise price	HK\$1.37
Expected life	10 years
Expected volatility	53.57%
Dividend yield	0.34%
Risk-free interest rate	1.41%

The Black-Scholes option pricing model has been used to estimate the fair value of the options, the variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Changes in variables and assumptions may result in the fair value of the options.

The Group recognised the total expense of approximately RMB1,987,000 (six months ended June 30, 2014: nil) for the six months ended June 30, 2015 in relation to options granted by the Company.

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

FOR THE SIX MONTHS ENDED JUNE 30, 2015

### 17. CAPITAL COMMITMENTS

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

	<b>June 30, 2015 RMB'000 (unaudited)</b>	December 31, 2014 RMB'000 (audited)
Expenditure contracted for but not provided in the condensed consolidated financial statements in respect of		
– Properties under development	<b>893,911</b>	997,106
– Acquisition of property, plant and equipment	<b>45,851</b>	52,861
Expenditure authorized but not contracted in respect of		
– Acquisition of land use rights	–	32,405
	<b>939,762</b>	1,082,372

### 18. CONTINGENT LIABILITIES

The Group provided guarantees of approximately RMB492,072,000 (December 31, 2014: RMB450,465,000) at June 30, 2015 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.

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

FOR THE SIX MONTHS ENDED JUNE 30, 2015

### 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).
- 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).

<b>Financial assets/liabilities</b>	<b>Fair value as at June 30, 2015 RMB'000</b>	<b>Fair value as at December 31, 2014 RMB'000</b>	<b>Fair value hierarchy</b>	<b>Valuation technique and key input</b>
Available-for-sale investments listed in a stock exchange	<b>314,080</b>	413,660	Level 1	Quoted bid prices in an active market
Exchangeable Bonds	<b>255,636</b>	216,000	Level 3	Derived from valuation techniques

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.