



2016
Interim Report



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

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BUSINESS REVIEW AND PROSPECTS

RESULTS OVERVIEW

On February 1, 2016, Kasen International Holdings Limited (the “Company”), Cardina International Company Limited, a wholly-owned subsidiary of the Company, 浙江卡森實業集團有限公司 (Zhejiang Kasen Industrial Group Company Limited), a wholly-owned subsidiary of the Company and Mr. Zhu Zhangjin entered into the sale and purchase agreement (the “Sale and Purchase Agreement”) with Ms. Zhu Jiayun and Ms. Zhu Lingren (daughters of Mr. Zhu Zhangjin) to dispose seven subsidiaries (collectively the “Disposal Group”) engaging in automotive leather and furniture leather manufacturing businesses (the “Disposal”), which are presented as “discontinued operation” in this interim report, details of which are set out in Note 7 to the Condensed Consolidated Financial Statements. As at May 23, 2016, the transfer of control of one subsidiary namely Haining Home Direct Furniture Company Limited (“Haining Home Direct”) which is principally engaged in the production of furniture leather of the Disposal Group was completed and therefore its results were de-consolidated from the Group’s financial statements since that date. As at June 30, 2016, the disposal for the remaining six subsidiaries of the Disposal Group has not been completed. For further details relating to the Disposal, please refer to the announcement and circular of the Company dated February 1, 2016 and April 29, 2016, respectively.

For the six months ended June 30, 2016, the Company together with its subsidiaries (the “Group”) recorded a consolidated turnover of RMB1,103.8 million from its continuing operations, i.e. operations of the Group other than the Disposal Group, (six months ended June 30, 2015: RMB632.6 million), representing an increase of approximately 74.5% when compared with the corresponding period in 2015. On the other hand, the revenue generated from the discontinued operation amounted to RMB763.6 million for the six months ended June 30, 2016 (six months ended June 30, 2015: RMB1,055.0 million), representing a decrease of 27.6%.

The Group’s gross profit from its continuing operations for the six months ended June 30, 2016 was RMB156.2 million (six months ended June 30, 2015: RMB189.7 million) with an average gross profit margin of 14.2% (six months ended June 30, 2015: 30.0%), representing a decrease of approximately 17.7% when compared with the corresponding period in 2015. On the other hand, the gross profit from the discontinued operation amounted to RMB73.5 million for the six months ended June 30, 2016 (six months ended June 30, 2015: RMB73.0 million) with an average gross profit margin of 9.6% (six months ended June 30, 2015: 6.9%).

The net loss attributable to owners of the Company from continuing operations was approximately RMB14.5 million in the first half of 2016 (six months ended June 30, 2015: a net profit of RMB121.4 million). The decrease was mainly due to the absence of the gain on disposal of shares of Haining China Leather Market Co., Ltd., a domestic company incorporated in the PRC and the shares of which are listed on the Shenzhen Stock Exchange (“HCLM”) (six months ended June 30, 2015: RMB218.5 million) arising during the six months ended June 30, 2016. Income attributable to owners of the Company from the discontinued operation for the first half of 2016 was approximately RMB34.1 million (six months ended June 30, 2015: RMB7.1 million) comprised of a gain on disposal of Haining Home Direct amounted to approximately RMB28.6 million (six months ended June 30, 2015: Nil) and the net profit arising from the discontinued operation of approximately RMB5.5 million (six months ended June 30, 2015: a net profit of RMB7.1 million). As a result, the net profit attributable to owners of the Company (including continuing operations and the discontinued operation) for the first half of 2016 was approximately RMB19.6 million (six months ended June 30, 2015: RMB128.5 million), representing a decrease of approximately 84.7% when compared with the corresponding period in 2015.

BUSINESS REVIEW AND PROSPECTS (cont'd)

RESULTS OVERVIEW (cont'd)

Review by Business Segments of Continuing Operations

The Group's reportable business segments of continuing operations consist of mainly manufacturing, property development, tourism resort-related business (comprising mainly tourism resort-related operation, operation of restaurant, hotel and provision of travel-related services).

The table below shows the total turnover by business segment of continuing operations for the six months ended June 30, 2016, together with the comparative figures for the corresponding period in 2015:

	2016		Six Months Ended June 30,		Change
	RMB'Million	%	2015	%	
Manufacturing of					
upholstered furniture	295.2	26.7	211.8	33.5	39.4
Property development	740.5	67.1	338.8	53.6	118.6
Retail (Note)	-	-	8.9	1.4	-100.0
Others	68.1	6.2	73.1	11.5	-6.8
Total	1,103.8	100.0	632.6	100.0	74.5

Note: The retail business has been ceased during the period under review.

Manufacturing Business

During the six months ended June 30, 2016, the Group's manufacturing business (which is a continuing operation) was upholstered furniture division. Sales of upholstered furniture included finished sofa and sofa cut-and-sew, most of which were for exporting to customers in the U.S. market. During the period under review, the Group reshuffled its product mix and concentrated its production resources on production of sofa while reducing sofa cut-and-sew. The upholstered furniture division recorded a turnover of approximately RMB295.2 million (six months ended June 30, 2015: RMB211.8 million), representing an increase of approximately 39.4%. This segment recorded a profit of approximately RMB19.4 million, as compared to approximately a profit of RMB155.2 million for the corresponding period in 2015 (segment results for the same period of 2015 included a gain on disposal of HCLM shares of approximately RMB218.5 million).

Property Development Business

As of June 30, 2016, the Group had six projects at various stages of development in different geographical locations in the PRC. Turnover recorded from the property development segment was approximately RMB740.5 million during the period under review, representing a significant increase of approximately 118.6% as compared to approximately RMB338.8 million in the corresponding period of 2015. The substantial increase in sales was mainly due to delivery of properties of the Group's property development projects located at Haining in Zhejiang Province and Boao in Hainan Province.

BUSINESS REVIEW AND PROSPECTS (cont'd)

RESULTS OVERVIEW (cont'd)

Review by Business Segments of Continuing Operations (cont'd)

Property Development Business (cont'd)

Group's Property Project Portfolio as at June 30, 2016

No.	Project Name	Location	Interests Attributable to the Group	Total Site Area (sq.m)	Status	Usage
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	Completed	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	Completed	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, 2016 (sq.m.)	GFA delivered as at June 30, 2016 (sq.m.)	Average Selling Price (RMB/sq.m.)
1	Asia Bay	718,665	342,435	590,165	126,171	93,602	10,702
2	Qianjiang Continent	775,292	775,292	670,065	651,374	629,515	6,223
3	Kasen Star City	1,042,588	581,896	709,009	209,148	146,045	6,990
4	Changbai Paradise	179,077	179,077	120,743	24,737	22,851	3,031
5	Qianjiang Oasis	335,301	106,235	266,206	53,351	32,709	4,247
Total		3,050,923	1,984,935	2,356,188	1,064,781	924,722	

BUSINESS REVIEW AND PROSPECTS (cont'd)

RESULTS OVERVIEW (cont'd)

Review of Discontinued Operation

A brief discussion of the performance of the Group's two divisions of the discontinued operation is as follows:

Automotive Leather (Discontinued Operation)

The automobile industry in the mainland China which maintained rapid growth for several consecutive years started to slow down since 2015, and car manufacturers compete in an increasingly fierce manner with a greater control over costs. The automotive leather manufactured by the Group is high and middle-grade leather, the business of which has suffered from a reduction of purchase orders placed by car manufacturers for highly-priced real leather, resulting in a decrease in sales revenue from the automotive leather business since the second half of 2015.

Furniture Leather (Discontinued Operation)

During the period under review, a subsidiary of the Disposal Group, namely Haining Home Direct, which was primarily engaged in production of furniture leather was de-consolidated from the Group's financial statements as the Group transferred the control of such subsidiary to the purchaser in accordance with the sale and purchase agreement dated February 1, 2016 entered into by the Group.

Due to the above reasons, in the first half of 2016, sales revenue from the two divisions of the discontinued operation recorded a total revenue of approximately RMB763.6 million, representing a decrease of approximately 27.6% as compared to approximately RMB1,055.0 million in the corresponding period of 2015.

Operating Expenses, Taxation and Profit Attributable to Owners

The Group's selling and distribution costs from its continuing operations during the six months ended June 30, 2016 decreased slightly to approximately RMB59.2 million, as compared to approximately RMB62.2 million in the first half of 2015. All selling and distribution costs were maintained at a relatively stable level during the period under review. The selling and distribution costs to turnover in the first half of 2016 decreased to 5.4% as compared to 9.8% for the corresponding period in 2015.

The administrative costs from its continuing operations for the six months ended June 30, 2016 were approximately RMB88.7 million, representing a slight decrease of approximately RMB3.1 million as compared to approximately RMB91.8 million during the corresponding period in 2015.

The Group's finance cost from its continuing operations in the first half of 2016 was approximately RMB6.9 million, representing a slight decrease of approximately RMB2.6 million as compared to approximately RMB9.5 million for the same period of 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 from its continuing operations in the first half of 2016 was approximately RMB38.1 million, with a decrease of approximately RMB41.3 million as compared to approximately RMB79.4 million in the corresponding period in 2015. The decrease was resulted from a decrease in PRC income tax of approximately RMB50.3 million mainly due to a decrease in taxable profits generated at the subsidiary level, which was offset by an increase in PRC land appreciation tax of approximately RMB7.5 million from the property development projects.

The Group's other gains and losses from its continuing operations in the first half of 2016 was approximately a net gain of RMB9.0 million, with a significant decrease of gain of approximately RMB166.8 million, as compared to approximately a net gain of RMB175.8 million during the same period of 2015. The decrease was mainly due to the absence of the gain on disposal of HCLM shares of RMB218.5 million arising in the six months ended June 30, 2015. HCLM operates department stores in the PRC and its shares are listed on the Shenzhen Stock Exchange. For details of the other gains and losses, please refer to note 4 to the Condensed Consolidated Financial Statements.

For reasons mentioned above, the net loss attributable to owners of the Company from continuing operations was approximately RMB14.5 million in the first half of 2016 (six months ended June 30, 2015: a net profit of RMB121.4 million).

Income attributable to owners of the Company from the discontinued operation for the first half of 2016 was approximately RMB34.1 million (six months ended June 30, 2015: RMB7.1 million) comprised of a gain on disposal of Haining Home Direct amounted to approximately RMB28.6 million (six months ended June 30, 2015: Nil) and the net profit arised from the discontinued operation of approximately RMB5.5 million (six months ended June 30, 2015: a net profit of RMB7.1 million).

Based on the aforesaid factors, the total net profit attributable to owners of the Company from both continuing operations and the discontinued operation for the first half of 2016 was approximately RMB19.6 million (six months ended June 30, 2015: RMB128.5 million), representing a decrease of approximately 84.7% when compared with the corresponding period in 2015.

BUSINESS REVIEW AND PROSPECTS (cont'd)

FINANCIAL RESOURCES AND LIQUIDITY

As at June 30, 2016, from both continuing operations and the discontinued operation, the Group had cash and cash equivalent available for utilisation totalling approximately RMB154.7 million (as at December 31, 2015: RMB215.6 million) and a total borrowings of approximately RMB1,391.4 million (as at December 31, 2015: RMB1,900.8 million). This represents a gearing ratio of 39.6% (as at December 31, 2015: 53.3%) and a net debt-to-equity ratio of 34.7% (as at December 31, 2015: 46.5%). 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, 2016, the Group's inventory was approximately RMB430.1 million from both continuing operations and the discontinued operation, representing a decrease of approximately RMB104.0 million as compared to approximately RMB534.1 million as of December 31, 2015. During the six months ended June 30, 2016, the Group endeavored to control the inventory level and its inventory turnover period was 84 days as compared to 93 days as at December 31, 2015.

During the six months ended June 30, 2016, the Group continued to maintain a strict credit policy. The account and bills receivable turnover days of the Group's manufacturing and retail segments from both continuing operations and the discontinued operation was increased to 104 days for the first half of 2016 (as at December 31, 2015: 83 days).

During the period under review, the accounts and bills payable turnover days of the Group's manufacturing and retail segments from both continuing operations and the discontinued operation increased to 78 days for the six months ended June 30, 2016 (as at December 31, 2015: 67 days).

MATERIAL ACQUISITION AND DISPOSAL

As set out in the aforesaid discussion, on February 1, 2016, the Group entered into the Sale and Purchase Agreement, pursuant to which the Group agreed to dispose the Disposal Group engaging in automotive leather and furniture leather manufacturing businesses. The Group entered into the Disposal with a view to streamline its business, increase its overall performance and prospects as well as to focus its resources in pursuing business opportunities on its other existing businesses. During the period under review, the disposal of one subsidiary of the Disposal Group primarily engaged in production of furniture leather was completed, and as a result of which its financial results were de-consolidated from the Group's financial statements as the Group transferred the control of the subsidiary to the purchaser in accordance with the sale and purchase agreement entered into by the Group on February 1, 2016. For further details, please refer to the announcement and circular of the Company dated February 1, 2016 and April 29, 2016, respectively.

Save as otherwise, the Group did not have any material acquisitions or disposal during the six months ended June 30, 2016.

BUSINESS REVIEW AND PROSPECTS (cont'd)

PLEDGE OF ASSETS

During the six months ended June 30, 2016, 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 1.55%.

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 the trade receivables may be exposed to exchange rate fluctuation. During the period under review, the Group did not enter into any hedging activities but will continue to monitor the situation and make necessary arrangement as and when appropriate.

CONTINGENT LIABILITIES

As at June 30, 2016, the Group had certain contingent liabilities. For details, please refer to note 19 to the Condensed Consolidated Financial Statements.

EMPLOYEES AND EMOLUMENTS POLICIES

As at June 30, 2016, from both continuing operations and the discontinued operation, the Group employed a total of approximately 4,800 full time employees (as at June 30, 2015: approximately 4,900) including management staff, technicians, salespersons and workers. For the six months ended June 30, 2016, the Group's total expenses on the remuneration of employees were approximately RMB123.6 million (six months ended June 30, 2015: RMB133.5 million). The Group's emolument policies for employees are formulated on the performance of individual employees, which are reviewed regularly every year. Apart from the provident fund scheme (according to the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees), state-managed retirement pension scheme (for the PRC employees) 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 (the "Board") of directors (the "Directors") of the Company 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 (the "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)

ENVIRONMENTAL PROTECTION AND SOCIAL RESPONSIBILITY

The Group is committed to becoming a green manufacturer and pioneer in environmental protection. In its production of leather and furniture, while strictly abiding the applicable national laws and regulations on environmental protection, the Group also strives to reduce energy consumption and improve product quality by employing advanced production technology. The Group has established a dedicated environmental protection division to strictly supervise the entire production process. The Group has an established technology centre to research and develop environmental protection technology for the production of leather and furniture, with an effort to strictly align its enterprise development with environmental protection.

The Group also pursues a philosophy of corporate culture development known as “people oriented, caring for employees”, thereby establishing a harmonious and stable labour relationship between the Company and its employees. In addition, the Group adheres to the employment policy of equality to promote equal employment opportunities, advocates gender equality in employment and equal treatment, respects and upholds international human rights conventions and labour standards, and eliminates the employment of child labour and forced labour.

The Group has proactively participated in social welfare undertakings by setting up a number of charitable funds and establishing a team of employee volunteers, so as to forge a good image of corporate citizenship.

FUTURE PLANS AND PROSPECTS

The Group has carried out ongoing assessment on its current business strategy to streamline its operations and improve its overall performance and attractiveness to investors in the market. Based on the Company's communication with its potential investors from time to time, the Group is of the view that the existing leather business seems unattractive to Hong Kong investors. In addition, in recent years, the Group's leather manufacturing business in China has been challenged by intensified market competition, fluctuations in operating costs and raw material price and increasing labour costs and manufacturing overheads, bringing about a number of uncertainties to the prospect of such business. As such, in February 2016, the Group entered into a sale and purchase agreement to dispose a number of subsidiaries which were engaged in the leather manufacturing business. The Group believes that such disposal has provided a good opportunity for the Group to restructure its strategic business position and to focus its resources in pursuing development opportunities on, including but not limited to, the existing businesses such as the tourism resorts, hotel operation and property development.

Looking ahead, the Group will focus on the development of tourism resort industry and cultural industry. Despite the generally lackluster growth in various industries in China, the tourism industry has maintained a rapid growth. According to the statistics released by the National Tourism Administration, from January to June 2016, investment in national tourism projects increased by approximately 30.5% as compared with that of the corresponding period of the previous year. Transformation and upgrade trends of tourism products are evident as holiday products, rural tourism, cultural tourism, etc. have become investment hot spots. The Group will focus on continuously developing and improving its Asia Bay Project in Boao, Hainan and water park resort in Sanya, and explore new tourism development projects in due course. On June 7, 2016, the Company entered into a non-legally binding letter of intent in relation to a potential acquisition of 51% equity interest in a project company which is principally engaged in provision of electronic market and online trading platform services for the collection of coins, banknotes, stamps and cards in China. Through such acquisition, if materialized, the Group will expand into the field of cultural products trading to open up a new business segment and secure a new profit driver, with a view to deliver more returns to its Shareholders. As at the date of this report, no binding agreement in relation to such potential acquisition has been entered into by the Company.

DISCLOSURE OF INTERESTS

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

As at June 30, 2016, the interests of the Directors and chief executives of the Company in the shares of the Company (within the meaning of Part XV of the Securities and Futures Ordinance (the "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 Directors	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") (Note 1)	12,360,000	514,798,635	527,158,635	34.89%
Zhang Mingfa, Michael (Note 2)	1,980,000	–	1,980,000	0.13%

Notes:

- (i) 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 34.89% of the total number of issued Shares (including the 514,798,635 Shares or approximately 34.07% 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 1,000,000 shares as at June 30, 2016 under the share option scheme adopted by a resolution of the Shareholders on September 24, 2005 and passed by a resolution of the Board on September 26, 2005 (the "2005 Share Option Scheme"), in which share option grant was approved by the Board on May 26, 2015.
- (2) This figure does not include the options granted to Mr. Zhang Mingfa to subscribe for 3,500,000 shares as at June 30, 2016 under the 2005 Share Option Scheme and approved by the Board on May 5, 2008 and May 26, 2015 for the share option grant.

(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, 2016.

DISCLOSURE OF INTERESTS (cont'd)

SHARE OPTIONS

On October 20, 2005, the Company adopted a share option scheme (the “2005 Share Option Scheme”) for the primary purpose of providing incentives to Directors, eligible employees and third party services providers. The 2005 Share Option Scheme became effective on October 20, 2005 and the options issued pursuant to the 2005 Share Option Scheme will expire no later than 10 years from the date of grant of the option. Under the 2005 Share Option Scheme, the Board may grant options to any employees of the Company or any of its subsidiaries to subscribe shares of the Company. The 2005 Share Option Scheme was terminated on May 29, 2015. As at June 30, 2016, the Company had 27,600,000 outstanding options granted pursuant to the 2005 Share Option Scheme.

On the same date of the termination of the 2005 Share Option Scheme (i.e. May 29, 2015), a new share option scheme was adopted by the Company pursuant to a shareholders resolution passed on May 29, 2015 (the “2015 Share Option Scheme”) for the primary purpose of providing incentives to Directors and eligible employees. The 2015 Share Option Scheme became effective on May 29, 2015 and the options issued pursuant to the 2015 Share Option 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 2015 Share Option 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 2005 Share Option 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 2015 Share Option 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 2005 Share Option Scheme and the 2015 Share Option 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. Each grantee shall pay a consideration of HK\$1.00 at the time the option is granted.

Both the 2005 Share Option Scheme and the 2015 Share Option 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 2015 Share Option Scheme, the 2015 Share Option 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 2015 Share Option 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 2015 Share Option Scheme.

DISCLOSURE OF INTERESTS (cont'd)

SHARE OPTIONS (cont'd)

As at June 30, 2016, the total numbers of shares available for issue under the 2005 Share Option Scheme and the 2015 Share Option Scheme were 27,600,000 shares and 116,232,298 shares, respectively, which represented 1.8% and 7.7% of the shares in issue respectively as at the date of this interim report.

Details of movement of the share options during the six months ended June 30, 2016, being share options granted pursuant to the 2005 Share Option Scheme on March 9, 2006, May 5, 2008 and May 26, 2015, respectively, were as follows:

Name of Director	Exercise price HK\$	Number of share options					Percentage		Notes
		Outstanding	Granted	Forfeited	Lapsed	Outstanding	of total		
		as at January 1, 2016	from January 1, 2016 to June 30, 2016	from January 1, 2016 to June 30, 2016	from January 1, 2016 to June 30, 2016	as at June 30, 2016	share	Exercisable period	
Zhu Zhangjin	2.38	1,000,000	-	-	(1,000,000)	-	-	1/1/2007 to 8/3/2016	1,6,7
	2.38	1,000,000	-	-	(1,000,000)	-	-	1/1/2008 to 8/3/2016	2,6,7
	1.37	1,000,000	-	-	-	1,000,000	0.06%	1/1/2016 to 25/5/2025	5,6,7
Zhang Mingfa, Michael	2.38	500,000	-	-	(500,000)	-	-	1/1/2007 to 8/3/2016	1,6,7
	2.38	500,000	-	-	(500,000)	-	-	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	0.20%	1/1/2016 to 25/5/2025	5,6,7
		7,500,000	-	-	(3,000,000)	4,500,000	0.30%		
Other employees in aggregate	2.38	6,500,000	-	(100,000)	(6,400,000)	-	-	1/1/2007 to 8/3/2016	1,6,7
	2.38	6,500,000	-	(100,000)	(6,400,000)	-	-	1/1/2008 to 8/3/2016	2,6,7
	1.18	1,650,000	-	(100,000)	-	1,550,000	0.10%	1/1/2009 to 4/5/2018	3,6,7
	1.18	1,650,000	-	(100,000)	-	1,550,000	0.10%	1/1/2010 to 4/5/2018	4,6,7
	1.37	23,000,000	-	(3,000,000)	-	20,000,000	1.32%	1/1/2016 to 25/5/2025	5,6,7
		46,800,000	-	(3,400,000)	(15,800,000)	27,600,000	1.82%		

DISCLOSURE OF INTERESTS (cont'd)

SHARE OPTIONS (cont'd)

Notes:

1. Pursuant to the 2005 Share Option Scheme, these share options were granted on March 9, 2006 and were 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.
2. These share options were granted pursuant to the 2005 Share Option Scheme on March 9, 2006 and were 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.
3. These share options were granted pursuant to the 2005 Share Option 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.
4. These share options were granted pursuant to the 2005 Share Option 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.
5. These share options were granted pursuant to the 2005 Share Option 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.
6. These share options represent personal interest held by the relevant participants as beneficial owner.
7. Save for the forfeited or lapsed share options stated above, as at June 30, 2016, none of these share options were exercised.

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, 2016 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

DISCLOSURE OF INTERESTS (cont'd) SUBSTANTIAL SHAREHOLDERS

As at June 30, 2016, 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	34.07%
Hangzhou Great Star Industrial Co., Ltd. ²	Interest of controlled corporation	–	235,134,057	235,134,057	15.56%
Hongkong Greatstar International Co., Ltd. ²	Beneficial owner	–	235,134,057	235,134,057	15.56%

Notes:

1. 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 34.89% of the total number of issued Shares (including the 514,798,635 Shares or approximately 34.07% of the issued Shares held by Joyview Enterprises Limited (“Joyview”) which in turn is wholly owned by the trustee of such family trust).
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, 2016.

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, 2016, 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, 2016, 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. Du Haibo, 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, 2016. 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 risk management effectiveness and to make recommendations to improve the Company’s internal control and risk management effectiveness, and to ensure that management has discharged its duty to have an effective internal control system during the six months ended June 30, 2016, including the review of the unaudited interim results of the Group for the six months ended June 30, 2016.

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. Du Haibo 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, 2016 (six months ended June 30, 2015: Nil).

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

During the six months ended June 30, 2016, 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, 2016.

DIRECTORS

As at the date of this report, the executive Directors are Mr. Zhu Zhangjin, Mr. Sun Hongyang and Mr. Zhang Mingfa, Michael, and the independent non-executive Directors are Mr. Du Haibo, Mr. Zhang Yuchuan and Mr. Zhou Lingqiang.

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

PRC, August 31, 2016

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



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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 18 to 42, which comprise the condensed consolidated statement of financial position as of June 30, 2016 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. This report is made 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 is not prepared, in all material respects, in accordance with IAS 34.

BDO Limited

Certified Public Accountants

Ng Wai Man

Practising Certificate Number P05309

Hong Kong, August 31, 2016

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2016

	NOTES	Six months ended June 30, 2016 RMB'000 (unaudited)	Six months ended June 30, 2015 RMB'000 (unaudited and represented)
Continuing operations			
Revenue	3	1,103,797	632,600
Cost of sales		(947,645)	(442,862)
Gross profit		156,152	189,738
Other income		3,877	(14,307)
Selling and distribution costs		(59,225)	(62,219)
Administrative expenses		(88,703)	(91,750)
Other gains and losses	4	8,990	175,765
Share of losses of associates		-	(33)
Finance costs		(6,888)	(9,477)
Profit before tax	5	14,203	187,717
Income tax expenses	6	(38,068)	(79,423)
(Loss)/profit for the period from continuing operations		(23,865)	108,294
Discontinued operation			
Profit for the period from discontinued operation	7	5,543	7,060
Gain on disposal of a subsidiary	7(c)	28,560	-
Income from discontinued operation		34,103	7,060
Profit for the period		10,238	115,354
Other comprehensive (loss)/income			
Items that may be subsequently reclassified to profit or loss:			
Fair value (loss)/gain on available-for-sale investments		(64,596)	162,263
Income tax relating to fair value change of available-for-sale investments		16,149	(40,566)
Exchange difference arising on translation		(414)	683
Reclassification from revaluation reserve to profit or loss on disposal of available-for-sale investments		-	(251,440)
Reclassification from revaluation reserve to profit or loss on income tax relating to disposal of available-for-sale investments		-	62,860
Total comprehensive (loss)/income for the period		(38,623)	49,154

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (cont'd)

FOR THE SIX MONTHS ENDED JUNE 30, 2016

	NOTES	Six months ended June 30, 2016 RMB'000 (unaudited)	Six months ended June 30, 2015 RMB'000 (unaudited and represented)
Profit for the period attributable to:			
Owners of the Company			
– (Loss)/profit from continuing operations		(14,499)	121,457
– Income from discontinued operation		34,103	7,060
		19,604	128,517
Non-controlling interests – loss from continuing operations			
		(9,366)	(13,163)
		10,238	115,354
Total comprehensive (loss)/income for the period attributable to:			
– Owners of the Company		(29,257)	62,317
– Non-controlling interests		(9,366)	(13,163)
		(38,623)	49,154
Basic and diluted (losses)/earnings per share			
– Continuing operations	9	RMB(1.0) cents	RMB10.4 cents
– Discontinued operation		RMB2.3 cents	RMB0.6 cents
		RMB1.3 cents	RMB11.0 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT JUNE 30, 2016

	NOTES	June 30, 2016 RMB'000 (unaudited)	December 31, 2015 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	11	884,134	961,216
Prepaid lease payments – non-current portion		46,695	71,667
Intangible assets		424	563
Deferred tax assets	6	64,919	73,930
Deposits paid for acquisition of land use rights		43,962	48,420
		1,040,134	1,155,796
CURRENT ASSETS			
Available-for-sale investments	12	113,667	177,262
Inventories		69,147	534,052
Properties under development		2,789,065	3,189,256
Properties held for sale		1,389,564	1,289,901
Amount due from non-controlling interests of a subsidiary		20,000	10,000
Trade, bills and other receivables	13	1,070,372	1,517,615
Prepaid lease payments – current portion		1,271	2,309
Tax recoverable		8,401	6,987
Prepaid land appreciation tax		9,659	18,623
Pledged bank deposits		27,331	104,308
Restricted bank deposit for property development business		1,869	1,867
Bank balances and cash		128,086	215,629
		5,628,432	7,067,809
Assets of a disposal group classified as held for sale	10	1,411,188	–
		7,039,620	7,067,809
CURRENT LIABILITIES			
Trade, bills and other payables	14	1,577,842	1,359,849
Deposits received in respect of pre-sale of properties		889,052	1,111,880
Bank and other borrowings – due within one year	15	575,649	1,583,869
Exchangeable bonds	16	136,346	137,439
Tax payable		65,309	111,323
Amounts due to non-controlling interests of subsidiaries		151,174	149,405
		3,395,372	4,453,765
Liabilities of a disposal group classified as held for sale	10	994,542	–
		4,389,914	4,453,765
NET CURRENT ASSETS		2,649,706	2,614,044
TOTAL ASSETS LESS CURRENT LIABILITIES		3,689,840	3,769,840

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(cont'd)

AT JUNE 30, 2016

	NOTES	June 30, 2016 RMB'000 (unaudited)	December 31, 2015 RMB'000 (audited)
NON-CURRENT LIABILITIES			
Deferred tax liabilities	6	153,239	172,852
Bank and other borrowings – due after one year	15	295,127	316,891
		448,366	489,743
NET ASSETS			
		3,241,474	3,280,097
CAPITAL AND RESERVES			
Share capital		1,735	1,735
Reserves		3,136,342	3,165,599
Equity attributable to owners of the Company		3,138,077	3,167,334
Non-controlling interests		103,397	112,763
TOTAL EQUITY			
		3,241,474	3,280,097

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2016

	Attributable to owners of the Company											Total RMB'000
	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	
At January 1, 2015 (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 (loss)/income	-	-	-	-	-	-	(66,883)	683	-	(66,200)	-	(66,200)
Total comprehensive (loss)/income 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
At June 30, 2015 (unaudited)	1,400	1,317,487	189,309	167,983	14,754	(41,703)	223,075	(29)	1,153,987	3,026,263	122,186	3,148,449
Profit/(loss) for the period	-	-	-	-	-	-	-	-	61,941	61,941	(11,925)	50,016
Total other comprehensive (loss)/income	-	-	-	-	-	-	(99,146)	99	-	(99,047)	-	(99,047)
Total comprehensive (loss)/income for the period	-	-	-	-	-	-	(99,146)	99	61,941	(37,106)	(11,925)	(49,031)
Issue of share capital	335	172,333	-	-	-	-	-	-	-	172,668	-	172,668
Share issue expenses	-	(3,494)	-	-	-	-	-	-	-	(3,494)	-	(3,494)
Disposal of a subsidiary	-	-	-	-	-	-	-	-	-	-	2,502	2,502
Share based compensation	-	-	-	-	9,003	-	-	-	-	9,003	-	9,003
At December 31, 2015 (audited)	1,735	1,486,326	189,309	167,983	23,757	(41,703)	123,929	70	1,215,928	3,167,334	112,763	3,280,097
Profit/(loss) for the period	-	-	-	-	-	-	-	-	19,604	19,604	(9,366)	10,238
Total other comprehensive loss	-	-	-	-	-	-	(48,447)	(414)	-	(48,861)	-	(48,861)
Total comprehensive (loss)/income for the period	-	-	-	-	-	-	(48,447)	(414)	19,604	(29,257)	(9,366)	(38,623)
Release upon lapse of share options	-	-	-	-	(11,364)	-	-	-	11,364	-	-	-
Release upon share options being forfeited	-	-	-	-	(1,231)	-	-	-	1,231	-	-	-
At June 30, 2016 (unaudited)	1,735	1,486,326	189,309	167,983	11,162	(41,703)	75,482	(344)	1,248,127	3,138,077	103,397	3,241,474

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2016

	NOTES	Six months ended June 30, 2016 RMB'000 (unaudited)	Six months ended June 30, 2015 RMB'000 (unaudited)
NET CASH GENERATED FROM OPERATING ACTIVITIES		491,027	104,265
INVESTING ACTIVITIES			
Placement of pledged bank deposits		(219,076)	(405,445)
Purchases of property, plant and equipment		(187,900)	(57,643)
Withdrawal of pledged bank deposits		76,824	369,563
Proceeds on disposal of available-for-sale investments		-	240,149
Acquisition of additional interest in a subsidiary		-	(10,000)
Acquisition of investment in an associate		-	(400)
(Decrease)/increase in amounts due from/to non-controlling interests of subsidiaries		(8,231)	1,769
Net cash outflow from disposal of a subsidiary	7(c)	(18,734)	-
Interest received		741	2,403
Proceeds from disposal of property, plant and equipment		3,035	-
Acquisition of available-for-sale investment		(1,000)	-
Purchase of intangible assets		(24)	-
Other investing cash flows		-	365
NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES		(354,365)	140,761
FINANCING ACTIVITIES			
Repayments of bank and other borrowings		(1,391,410)	(1,437,989)
Bank and other borrowings raised		1,222,071	1,108,747
Repayment of other long term liabilities		-	(30,000)
Interest paid		(27,845)	(83,822)
Other financing cash flows		-	(1,493)
NET CASH USED IN FINANCING ACTIVITIES		(197,184)	(444,557)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(60,522)	(199,531)
Effect of changes in exchange rates		(414)	683
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		215,629	324,388
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD			
represented by bank balances and cash		154,693	125,540
Analysis of cash and cash equivalents			
- Continuing operations		128,086	125,540
- Assets of a disposal group held for sale	10	26,607	-
		154,693	125,540

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2016

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 (“the Listing Rules”) and with International Accounting Standard 34 “Interim Financial Reporting” issued by the International Accounting Standards Board (“IASB”). The comparative condensed consolidated statement of comprehensive income has been represented as if the operation discontinued during the period had been discontinued at the beginning of the comparative 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 condensed consolidated financial statements for the six months ended June 30, 2016 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended December 31, 2015.

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

IFRSs (Amendments)	Annual Improvements to IFRSs 2012-2014 Cycle
Amendments to IAS 1	Presentation of financial statements: Disclosure initiative
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation

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, 2016

3. SEGMENT INFORMATION

The Group has five reportable segments. The segments are managed separately as each business offers different products and requires different business strategies. During the period, the manufacturing – leather segment, was intended to be disposed of and were presented as discontinued operation which details were set out in note 7 to the financial statements. The following summary describes the operations in each of the Group's reportable segments:

Continuing operations:

- Manufacturing of upholstered furniture (“Manufacturing – Furniture”);
- Property development;
- Retailing of furniture (“Retail”); and
- Others, comprising mainly provision of property management service and tourism resort-related services (“Others”)

Discontinued operation:

- Manufacturing of furniture leather and automotive leather (“Manufacturing – Leather”)

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, 2016 (unaudited)

	Manufacturing – Furniture RMB'000	Property development RMB'000	Continuing operations			Total RMB'000
			Retail RMB'000	Others RMB'000	Elimination RMB'000	
TURNOVER						
External sales	295,222	740,479	27	68,069	-	1,103,797
Inter-segment sales	-	-	-	1,547	(1,547)	-
Total	295,222	740,479	27	69,616	(1,547)	1,103,797

Six months ended June 30, 2015 (unaudited and represented)

	Manufacturing – Furniture RMB'000	Property development RMB'000	Continuing operations			Total RMB'000
			Retail RMB'000	Others RMB'000	Elimination RMB'000	
TURNOVER						
External sales	211,787	338,798	8,862	73,153	-	632,600
Inter-segment sales	283	-	-	-	(283)	-
Total	212,070	338,798	8,862	73,153	(283)	632,600

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

FOR THE SIX MONTHS ENDED JUNE 30, 2016

3. SEGMENT INFORMATION (cont'd)

Segment revenues and results (cont'd)

Results

	Six months ended June 30, 2016 RMB'000 (unaudited)	Six months ended June 30, 2015 RMB'000 (unaudited and represented)
Segment results from continuing operations		
– Manufacturing – Furniture (note)	19,417	155,152
– Property development	(19,170)	(25,930)
– Retail	(177)	(2,050)
– Others	(20,682)	(15,756)
	(20,612)	111,416
Unallocated corporate expenses	(6,628)	(2,397)
Unallocated other gains and losses	3,375	(725)
(Loss)/profit for the period from continuing operations	(23,865)	108,294

Note: Included in the result of manufacturing segment was a gain on disposal of available-for-sale investments amounting to RMB218,533,000 for the six months ended June 30, 2015. The available-for-sale investments were invested and managed under the manufacturing – furniture segment.

Segment (loss)/profit represents the (loss from)/profit earned by each segment without allocation of central administration costs, directors' salaries and exchange gain/(loss). This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

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

FOR THE SIX MONTHS ENDED JUNE 30, 2016

3. SEGMENT INFORMATION (cont'd)

Segment assets

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

		June 30, 2016 RMB'000	December 31, 2015 RMB'000 (audited and represented)
	<i>Note</i>	(unaudited)	
Manufacturing – Furniture		617,260	638,382
Property development		5,647,427	5,900,937
Retail		2,142	2,327
Others		346,185	262,853
		6,613,014	6,804,499
Manufacturing – Leather (classified as held for sale)	10	1,411,188	1,371,299
Unallocated:			
– Other receivables (Note)		53,648	42,701
– Bank balances and cash		1,586	4,798
– Others		318	308
Consolidated assets		8,079,754	8,223,605

Note: Included in other receivables are (i) deposits paid to acquisition of land use right amounting to RMB43,605,000, and (ii) amount due from a related company amounting to RMB10,043,000.

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

FOR THE SIX MONTHS ENDED JUNE 30, 2016

4. OTHER GAINS AND LOSSES (FROM CONTINUING OPERATIONS)

	Six months ended June 30, 2016 RMB'000 (unaudited)	Six months ended June 30, 2015 RMB'000 (unaudited and represented)
Net foreign exchange gain	4,839	2,868
Gain on disposal of available-for-sale investments	-	218,533
Net of impairment loss recognised in respect of trade and other receivables	(2,329)	(1,552)
Gain on loss control of subsidiaries	-	22,556
Gain/(loss) on change in fair value of exchangeable bonds	1,093	(41,129)
Reversal of impairment loss/(impairment loss) recognised in respect of property under development	6,232	(16,246)
Others	(845)	(9,265)
	8,990	175,765

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

FOR THE SIX MONTHS ENDED JUNE 30, 2016

5. PROFIT BEFORE TAX (FROM CONTINUING OPERATIONS)

Profit before tax from continuing operations is arrived at after charging/(crediting):

	Six months ended June 30, 2016 RMB'000 (unaudited)	Six months ended June 30, 2015 RMB'000 (unaudited and represented)
Amortisation of intangible assets (included in administrative expenses)	142	329
Depreciation of property, plant and equipment	28,139	33,300
Total depreciation and amortisation	28,281	33,629
Release of prepaid lease payments	1,413	1,173
Costs of inventories recognised as expenses (including reversal for net allowance of inventories of RMB2,480,000 (June 30, 2015: RMB18,453,000))	225,263	263,330
Interest on bank and other borrowings wholly repayable within five years	8,161	48,182
Interest on other long term liability wholly repayable within five years	330	-
Less: amount capitalised in respect of property under development	(1,603)	(38,705)
	6,888	9,477
Dividends income from available-for-sale investments	-	(1,920)
Government grants	(1,360)	(268)
Interest income	(184)	(474)

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

FOR THE SIX MONTHS ENDED JUNE 30, 2016

6. INCOME TAX EXPENSES (FROM CONTINUING OPERATIONS)

	Six months ended June 30, 2016 RMB'000 (unaudited)	Six months ended June 30, 2015 RMB'000 (unaudited and represented)
Land appreciation tax ("LAT") – Current period	15,891	8,424
People's Republic of China ("PRC") enterprise income tax		
– Current period	21,759	79,349
– Overprovision of income tax in previous periods	–	(7,288)
	21,759	72,061
Deferred tax expenses/(credit)	418	(1,062)
	38,068	79,423

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

FOR THE SIX MONTHS ENDED JUNE 30, 2016

6. INCOME TAX EXPENSES (FROM CONTINUING OPERATIONS) (cont'd)

Deferred taxation

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

	Note	Income on relocation of manufacturing plant RMB'000	Unrealised 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, 2015 (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
As at June 30, 2015 (unaudited)		(90,880)	26,690	(74,359)	10,282	3,511	2,199	(122,557)
Charge (credit) to profit or loss		-	869	-	(10,282)	-	-	(9,413)
Charge to other comprehensive income		-	-	33,048	-	-	-	33,048
As at December 31, 2015 (audited)		(90,880)	27,559	(41,311)	-	3,511	2,199	(98,922)
Charge (credit) to profit or loss		-	65	-	-	(483)	-	(418)
Charge to other comprehensive income		-	-	16,149	-	-	-	16,149
Disposal of a subsidiary		-	(1,737)	-	-	-	-	(1,737)
Transfer to assets and liabilities held for sale	10	-	(3,392)	-	-	-	-	(3,392)
As at June 30, 2016 (unaudited)		(90,880)	22,495	(25,162)	-	3,028	2,199	(88,320)

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, 2016 RMB'000 (unaudited)	December 31, 2015 RMB'000 (audited)
Deferred tax assets	64,919	73,930
Deferred tax liabilities	(153,239)	(172,852)
	(88,320)	(98,922)

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

FOR THE SIX MONTHS ENDED JUNE 30, 2016

7. DISCONTINUED OPERATION

On February 1, 2016, the Group entered into a conditional sales and purchase agreement to sell its entire manufacturing – leather division (the “Disposal”), which was resolved in the Company’s Extraordinary General Meeting held on May 18, 2016. Details please refer to announcement and circular of the Company dated on February 1, 2016 and April 29, 2016, respectively.

Manufacturing – leather division represents a separate major line of business and has been presented as discontinued operation in the condensed consolidated statement of comprehensive income for the period ended June 30, 2016.

The comparative condensed consolidated statement of comprehensive income has been represented as if the operation discontinued during the period had been discontinued at the beginning of the comparative period.

a. Results of discontinued operation

	Six months ended June 30, 2016 RMB'000 (unaudited)	Six months ended June 30, 2015 RMB'000 (unaudited and represented)
Revenue	763,586	1,054,951
Cost of sales	(690,129)	(981,973)
Gross profit	73,457	72,978
Other income	4,911	20,200
Selling and distribution costs	(18,422)	(26,186)
Administrative expenses	(25,661)	(23,898)
Other gains and losses	(1,595)	1,143
Finance costs	(22,561)	(34,541)
Profit before tax	10,129	9,696
Income tax expense	(4,586)	(2,636)
Profit for the period	5,543	7,060

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

FOR THE SIX MONTHS ENDED JUNE 30, 2016

7. DISCONTINUED OPERATION (cont'd)

b. Cash flows generated from discontinued operation

	Six months ended June 30, 2016 RMB'000 (unaudited)	Six months ended June 30, 2015 RMB'000 (unaudited and represented)
Net cash generated from operating activities	85,955	227,890
Net cash generated from/(used in) investing activities	28,212	(31,003)
Net cash generated from/(used in) financing activities	64,555	(178,736)
Net cash flow for the period	178,722	18,151

c. Gain on disposal of a subsidiary

On May 23, 2016, the Group disposed of its 100% equity interest in Haining Home Direct Furniture Co., Limited ("Haining Home Direct"), one of the companies in the Disposal, for a consideration of RMB143,510,000. No cash received from the disposal since the consideration has been satisfied by the waiver of amount due from Zhejiang Kasen Industrial Group Co., Limited and Cardina International Co., Limited, the wholly owned subsidiaries of the Group, to Haining Home Direct. A gain on disposal of a subsidiary of RMB28,560,000 was recognised in profit or loss for the period ended June 30, 2016 with net cash outflow of RMB18,734,000 and cash and cash equivalent was result from the disposal.

8. 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, 2016

9. 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, 2016 RMB'000 (unaudited)	Six months ended June 30, 2015 RMB'000 (unaudited and represented)
(Loss)/profit for the period for the purposes of basic and diluted earnings per share, being profit attributable to owners of the Company:		
– Continuing operations	(14,499)	121,457
– Discontinued operation	34,103	7,060
	19,604	128,517

Number of shares

Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	1,511,019,881	1,162,322,985
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The computation of diluted earnings per share does not assume the exercise 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, 2016 and 2015, respectively.

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

FOR THE SIX MONTHS ENDED JUNE 30, 2016

10. ASSETS AND LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

As disclosed in Note 7, except for Haining Home Direct which was disposed of on May 23, 2016, the remaining companies in the manufacturing – leather division were to be disposed of to Ms. Zhu Jiayun and Ms. Zhu Lingren.

Accordingly, all the assets and liabilities are presented as “Assets and liabilities of a disposal group classified as held for sale” and set out below.

	30 June 2016
	RMB'000
	(unaudited)
	<i>Note</i>
Property, plant and equipment	206,367
Prepaid lease payments – non-current portion	21,903
Prepaid lease payments – current portion	942
Deposits paid for acquisition of land use rights	4,458
Inventories	360,910
Trade, bills and other receivables	567,380
Pledged bank deposits	219,229
Bank balance and cash	26,607
Deferred tax assets	6 <u>3,392</u>
Assets of a disposal group classified as held for sale	<u>1,411,188</u>
Trade, bills and other payable	470,340
Bank and other borrowings – due within one year	520,631
Bank and other borrowings – due after one year	17
Tax payable	<u>3,554</u>
Liabilities of a disposal group classified as held for sale	<u>994,542</u>

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

FOR THE SIX MONTHS ENDED JUNE 30, 2016

11. PROPERTY, PLANT AND EQUIPMENT

During the current period, the Group incurred expenditure of approximately RMB187,900,000 (six months ended June 30, 2015: RMB57,643,000) on property, plant and equipment to expand and upgrade the Group's manufacturing facilities.

12. AVAILABLE-FOR-SALE INVESTMENTS

	June 30, 2016 RMB'000 (unaudited)	December 31, 2015 RMB'000 (audited)
Listed equity securities – Note	112,667	177,262
Unlisted – short term investment	1,000	–
	113,667	177,262

Note: The listed securities represent 11,555,554 shares (1.03% equity interest) (2015: 11,555,554 shares (1.03% 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, no listed securities were disposed of.

As detailed in note 16, 7,555,554 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 to convert to the HCLM shares at an adjusted price of RMB17.88 before December 28, 2016 (see note 16). As such, the 7,555,554 HCLM shares are presented as current assets from the issuance day.

The management has the intention to dispose of all the HCLM shares within one year. Therefore, the remaining 4,000,000 HCLM shares held by the Group as at June 30, 2016 are presented as current assets. These 4,000,000 HCLM shares (December 31, 2015: 4,000,000 HCLM shares) have also been pledged to secure for the Group's bank borrowings.

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

FOR THE SIX MONTHS ENDED JUNE 30, 2016

13. TRADE, BILLS AND OTHER RECEIVABLES

	June 30, 2016	December 31, 2015
	RMB'000	RMB'000
	(unaudited)	(audited)
Trade and bills receivables, net	136,778	545,996
Deposits paid for acquisition of land use rights	707,260	707,260
Advance payment for purchase of inventory	18,149	80,605
Prepaid other taxes	49,290	67,772
Deposit and prepayments	73,069	67,606
Other receivables, net	85,826	48,376
	1,070,372	1,517,615

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, 2016	December 31, 2015
	RMB'000	RMB'000
	(unaudited)	(audited)
Aged:		
Within 60 days	78,493	420,344
61 – 90 days	19,619	66,485
91 – 180 days	20,211	22,593
181 – 365 days	6,497	32,874
Over 1 year	11,958	3,700
	136,778	545,996

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

FOR THE SIX MONTHS ENDED JUNE 30, 2016

14. TRADE, BILLS AND OTHER PAYABLES

The aging analysis of trade and bills payables presented based on the invoice date at the end of the reporting period is as follows:

	June 30, 2016 RMB'000 (unaudited)	December 31, 2015 RMB'000 (audited)
Within 60 days	823,009	785,054
61 – 90 days	72,642	35,855
91 – 180 days	62,142	124,209
181 – 365 days	66,828	41,442
1 – 2 years	48,395	54,473
Over 2 years	14,296	17,026
	1,087,312	1,058,059

15. BANK AND OTHER BORROWINGS

During the current period, the Group obtained additional bank and other borrowings of approximately RMB1,222,071,000 (six months ended June 30, 2015: RMB1,108,747,000) and repaid bank and other borrowings of RMB1,391,410,000 (six months ended June 30, 2015: approximately RMB1,437,989,000).

The bank borrowings included unsecured bank borrowings of RMB581,329,000 (December 31, 2015: RMB694,500,000), 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.

16. 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.

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

FOR THE SIX MONTHS ENDED JUNE 30, 2016

16. EXCHANGEABLE BONDS (cont'd)

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.

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.

On July 22, 2015, bondholders have exercised its right to exchange principal amount of RMB79,467,000 Exchangeable Bonds for 4,444,446 units of HCLM shares on conversion price of RMB17.88. As at June 30, 2016, Zhejiang Kasen provided an aggregate of 7,555,554 units of HCLM shares (available-for-sale investments) as collateral.

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:

	RMB'000
Carrying amount at January 1, 2016	137,439
Fair value change recognised in profit or loss	(1,093)
Carrying amount at June 30, 2016	136,346

The fair value of the Exchangeable Bonds as of June 30, 2016 was determined according to the valuation techniques using the Binomial pricing model. The inputs into the model were as follows:

Share price of HCLM	RMB9.75
Exercise price of HCLM	RMB17.88
Expected volatility of HCLM	49.84%
Dividend yield of HCLM	0.36%
Expected life	0.5 years
Risk-free interest rate	2.33%

The risk-free interest rates were based on yield of China government bonds at the date of valuation. Expected volatility 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.

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

FOR THE SIX MONTHS ENDED JUNE 30, 2016

17. SHARE OPTION

A share option scheme was adopted by the Company pursuant to a board resolution passed on September 26, 2005 (the "2005 Share Option Scheme") for the primary purpose of providing incentives to directors and eligible employees of the Company. The 2005 Share Option Scheme became effective on October 20, 2005 and the option issued pursuant to the 2005 Share Option 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 27,600,000 outstanding options granted pursuant to the 2005 Share Option Scheme.

A new share option scheme was adopted by the Company pursuant to a shareholders resolution passed on May 29, 2015 (the "2015 Share Option Scheme") for the primary purpose of providing incentive to Directors and eligible employees, thus, the 2005 Share Option Scheme was terminated on the same day. The 2015 Share Option Scheme became effective on May 29, 2015 and the options issued pursuant to the 2015 Share Option 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 2015 Share Option Scheme.

The table below discloses movement of the Company's share options held by the Group's employees:

	Number of share options
Outstanding as at January 1, 2016	46,800,000
Forfeited during the current period	(3,400,000)
Lapsed during the current period	(15,800,000)
Outstanding as at June 30, 2016	27,600,000

The fair value of the options granted on May 26, 2015 determined at the date of grant using the Binomial 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 variables and assumptions used in computing the fair value of the share options under the Binomial model are based on the directors' best estimate. Changes in variables and assumptions may result in the fair value of the options.

No share based payment expenses have been recognised during the six months ended June 30, 2016. The Group recognised the total expense of approximately RMB1,987,000 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, 2016

18. CAPITAL COMMITMENTS

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

	June 30, 2016 RMB'000 (unaudited)	December 31, 2015 RMB'000 (audited)
Commitments for acquisition/addition of:		
– Properties under development	37,882	43,171
– Property, plant and equipment	974,878	1,018,390
– Land use rights	–	32,405
	1,012,760	1,093,966

19. CONTINGENT LIABILITIES

The Group provided guarantees of approximately RMB625,729,000 at June 30, 2016 (December 31, 2015: RMB335,469,000) 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 certificates 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.

20. 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).

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

FOR THE SIX MONTHS ENDED JUNE 30, 2016

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

Financial assets/liabilities	Fair value as at	Fair value as at	Fair value hierarchy	Valuation technique and key input
	June 30, 2016	December 31, 2015		
	RMB'000	RMB'000		
Available-for-sale investments listed in a stock exchange	112,667	177,262	Level 1	Quoted bid prices in an active market
Exchangeable Bonds	136,346	137,439	Level 3	Based on valuation techniques with unobservable inputs

The directors of the Company consider that the carrying amounts of other financial assets and financial liabilities recorded at amortised 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.