KASEN INTERNATIONAL HOLDINGS LIMITED

卡森國際控股有限公司

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

(Stock Code: 496)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2013

The board (the "Board") of directors (the "Directors") of Kasen International Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended June 30, 2013. These interim results have been reviewed by the audit committee of the Company ("Audit Committee"), comprising all the independent non-executive Directors.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2013

	NOTES	**Six months ended June 30, 2013 *RMB'000* (unaudited)**	Six months ended June 30, 2012 *RMB'000* (unaudited)
Turnover	*3*	**1,871,447**	1,216,225
Cost of sales		**(1,463,329)**	(1,033,625)
Gross profit		**408,118**	182,600
Other income		**20,383**	31,563
Selling and distribution costs		**(64,219)**	(50,963)
Administrative expenses		**(91,908)**	(75,959)
Other expenses		**(13,056)**	(6,048)
Other gains and (losses)		**(1,210)**	9,773
Share of losses of associates		**(4,174)**	(7,631)
Gain on disposal of a subsidiary		**–**	17,871
Gain on acquisition of a subsidiary		**4,849**	–
Finance costs	*4*	**(33,263)**	(43,677)
Profit before tax	*4*	**225,520**	57,529
Income tax expenses	*5*	**(136,146)**	(15,407)
Profit for the period		**89,374**	42,122

	NOTES	Six months ended June 30, 2013 RMB'000 (unaudited)	Six months ended June 30, 2012 RMB'000 (unaudited)
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss:			
Fair value gain on available-for-sale investments		**295,240**	54,933
Income tax relating to fair value change of available-for-sale investments		**(73,810)**	(13,733)
Exchange difference arising on translation		**(627)**	–
Total comprehensive income for the period		**310,177**	83,322
Profit for the period attributable to:			
Owners of the Company		**90,604**	41,937
Non-controlling interests		**(1,230)**	185
		89,374	42,122
Total comprehensive income for the period attributable to:			
Owners of the Company		**311,407**	83,137
Non-controlling interests		**(1,230)**	185
		310,177	83,322
Earnings per share			
Basic and diluted	*7*	**RMB8 cents**	RMB4 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT JUNE 30, 2013

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

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

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standards Board ("IASB"). Certain amounts in prior year have been reclassified in order to be consistent with the presentation of the current period.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values.

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

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

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

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

IFRS 13 Fair Value Measurement

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

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

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

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

3. SEGMENT INFORMATION

Segment revenues and results

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

Revenue

Six months ended June 30, 2013

	Manufacturing *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	**841,922**	**972,025**	**8,621**	**48,879**	**1,871,447**	**–**	**1,871,447**
Inter-segment sales	**1,910**	**–**	**–**	**–**	**1,910**	**(1,910)**	**–**
Total	**843,832**	**972,025**	**8,621**	**48,879**	**1,873,357**	**(1,910)**	**1,871,447**

Six months ended June 30, 2012

	Manufacturing *RMB'000*	Properties development *RMB'000*	Retail *RMB'000*	Others *RMB'000*	Segment total *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
TURNOVER							
External sales	855,867	317,701	10,338	32,319	1,216,225	–	1,216,225
Inter-segment sales	2,476	–	–	50	2,526	(2,526)	–
Total	858,343	317,701	10,338	32,369	1,218,751	(2,526)	1,216,225

Results

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

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

Inter-segment sales are charged at prevailing market rates.

4. PROFIT BEFORE TAX

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

5. INCOME TAX EXPENSES

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

6. DIVIDENDS

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

7. EARNINGS PER SHARE

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

Earnings

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

Number of shares

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

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

8. TRADE AND BILLS RECEIVABLES

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 reporting period is as follows:

	June 30, 2013 *RMB'000* **(unaudited)**	December 31, 2012 *RMB'000* (audited)
Aged:		
Within 60 days	**282,625**	279,818
61-90 days	**68,818**	127,456
91-180 days	**21,482**	22,330
181-365 days	**5,248**	9,213
Over 1 year	**2,481**	2,546
	380,654	441,363

9. TRADE AND BILLS PAYABLES

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

	June 30, 2013 *RMB'000* **(unaudited)**	December 31, 2012 *RMB'000* (audited)
Aged:		
Within 60 days	**1,036,890**	1,103,530
61-90 days	**146,391**	36,088
91-180 days	**99,328**	254,133
181-365 days	**31,108**	82,453
1-2 years	**38,991**	38,454
Over 2 years	**13,114**	14,433
	1,365,822	1,529,091

10. CAPITAL COMMITMENTS

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

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

11. CONTINGENT LIABILITIES

The Group provided guarantees of approximately RMB395,226,000 (December 31, 2012: RMB295,248,000) at June 30, 2013 to banks in favour of its customers in respect of the mortgage loans provided by the banks to those customers for the purchase of the Group's properties. These guarantees provided by the Group to the banks will be released upon receiving the building ownership certificate of the respective properties by the banks from the customers as a pledge for security to the mortgage loans granted.

12. SUBSEQUENT EVENT

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

BUSINESS REVIEW AND PROSPECTS

RESULTS OVERVIEW

For the six months ended June 30, 2013, the Group recorded a consolidated turnover of RMB1,871.4 million (six months ended June 30, 2012: RMB1,216.2 million), representing an increase of 53.9%.

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

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

Review by Business Segments

The Group's reportable business segments consist of mainly manufacturing, property development, retail business and others (comprising mainly provision of property management service business, hot spring resort operation and provision of travel-related service).

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

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

Manufacturing Business

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

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

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

Automotive Leather

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

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

Upholstered Furniture

Sales of upholstered furniture including finished sofa and sofa cut-and-sew. Turnover generated by this division was RMB219.5 million in the first half of 2013 as compared to RMB274.8 million for the corresponding period in 2012. The performance of upholstered furniture was affected by the ongoing pressure from manufacturing cost specially the increasing labor cost and appreciation of

RMB. Also, the Group's major customers are in the United States and euro zone countries which are still under unfavorable environment. The Group will continue to expand its OEM customer base in addition to its existing customers.

Furniture Leather

The Group's priority in furniture leather production is to meet the internal leather requirement of its upholstered furniture division. The Group's sales of furniture leather recorded sales of RMB120.0 million in the first half of 2013 (six months ended June 30, 2012: RMB105.5 million), representing an increase of 13.7%.

Property Development Business

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

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

No.	Project Name	Location	Interests Attributable to the Group	Total Site Area (sq.m)	Status
1	Asia Bay	Boao, Hainan	92%	590,165	Under development
2	Sanya Project	Sanya, Hainan	77%	1,424,692	Pre-development
3	Qianjiang Continent	Yancheng, Jiangsu	100%	335,822	Under development
4	Kingdom Garden	Haining, Zhejiang	100%	449,189	Under development
5	Changbai Paradise	Changbai Mountain, Jilin	89%	268,071	Under development
6	Qianjiang Oasis	Yancheng, Jiangsu	60%	107,902	Pre-development
7	Jing Xiang Yuan	Haining, Zhejiang	100%	18,870	Under development
Total				3,194,711	

Analysis of Properties Under Development

No.	Project Name	Total GFA (sq.m.)	GFA under development (sq.m.)	Total Saleable GFA (sq.m.)	GFA sold as at June 30, 2013 (sq.m.)	GFA delivered as at June 30, 2013 (sq.m.)	Average Selling Price (RMB/sq.m.)
1	Asia Bay	718,665	250,551	590,165	58,009	51,926	19,390
2	Qianjiang Continent	722,091	722,091	653,699	613,362	503,620	5,488
3	Kingdom Garden	1,041,493	531,531	689,476	57,384	–	–
4	Changbai Paradise	179,077	152,425	159,024	14,826	–	–
5	Jing Xiang Yuan	39,004	39,004	28,951	5,958	–	–
Total		2,700,330	1,695,602	2,121,315	749,539	555,546	

Projects Overview

Asia Bay in Boao of Hainan

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

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

Qianjiang Continent in Yancheng of Jiangsu

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

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

Kingdom Garden in Haining of Zhejiang

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

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

Changbai Paradise in Changbai Mountain of Jilin

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

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

Other projects

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

Operating Expenses, Taxation and Profit Attributable to Owners

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

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

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

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

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

For reasons mentioned above, the net profit attributable to owners of the Company was approximately RMB90.6 million in the first half of 2013 (six months ended June 30, 2012: RMB41.9 million).

FINANCIAL RESOURCES AND LIQUIDITY

As at June 30, 2013, the Group had cash and cash equivalent of RMB255.4 million (as at December 31, 2012: RMB560.9 million) and a total borrowings of RMB1,563.8 million (as at December 31, 2012: RMB1,286.5 million). This represents a gearing ratio of 49.9% (as at December 31, 2012: 45.5%) and a net debt-to-equity ratio of 41.7% (as at December 31, 2012: 25.6%). The gearing ratio is based on bank borrowings to shareholders' equity and the net debt-to-equity ratio is based on bank borrowings net of cash and cash equivalent to shareholders' equity.

As at June 30, 2013, the Group's inventory which primarily represented leather crust, was RMB483.9 million, representing an increase of RMB57.0 million as compared to RMB426.9 million as of December 31, 2012. During the six months ended June 30, 2013, the Group endeavored to control the inventory level and its inventory turnover period was 112 days as compared to 100 days as at December 31, 2012.

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

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

MATERIAL ACQUISITION AND DISPOSAL

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

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

PLEDGE OF ASSETS

During the six months ended June 30, 2013, the Group pledged deposits, property, plant and equipment to banks to secure the bills payable issued by the Group and the bank facilities granted to the Group. The deposits carry an average interest rate of 3.05%.

FOREIGN EXCHANGE EXPOSURE

The Group is principally engaged in export-related business, and transactions (including sales and procurements) are mainly denominated in US dollars, and most of the trade receivables are exposed to exchange rate fluctuation.

CONTINGENT LIABILITIES

As at June 30, 2013, the Group had certain contingent liabilities. For details, please refer to note 11 to the Condensed Consolidated Financial Statements.

EMPLOYEES AND EMOLUMENTS POLICIES

As at June 30, 2013, the Group employed a total of approximately 4,300 full time employees (as at June 30, 2012: approximately 3,800) including management staff, technicians, salespersons and workers. For the six months ended June 30, 2013, the Group's total expenses on the remuneration of employees were RMB86.9 million (six months ended June 30, 2012: RMB76.2 million). The Group's emolument policies for employees are formulated on the performance of individual employees, which are reviewed regularly every year. Apart from the provident fund scheme (according to the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees), state-managed retirement pension scheme (for the PRC employees) and medical insurance, discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance.

The Group's emolument policies of the employees are formulated by the Board with reference to their respective qualification and experience, responsibilities undertaken, contribution to the Group, and the prevailing market level of remuneration for executives of similar position. The emoluments of the Directors are decided by the Board and the remuneration committee of the Company ("Remuneration Committee"), who are authorized by the shareholders of the Company (the "Shareholders") in the annual general meeting, having regard to the Group's operating results, individual performance and comparable market statistics.

FUTURE PLANS AND PROSPECTS

Manufacturing Business

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

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

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

Residential and Tourism Property Development and Services

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

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

CORPORATE GOVERNANCE

The Company has adopted the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") as its corporate governance code of practices. For the six months ended June 30, 2013, the Board is of the view that the Company has complied with the code provisions as set out in the CG Code except for the following deviation to code provisions A.2.1.

CODE PROVISION A.2.1

Under CG Code Provision A.2.1, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. The Company does not at present separate the roles of chairman and chief executive officer. Mr. Zhu Zhangjin is the chairman and chief executive officer of the Company responsible for overseeing the operations of the Group. The Company is still considering appointing a new chief executive officer to replace Mr. Zhu if a candidate with suitable leadership, knowledge, skills and experience can be identified within or outside the Group. However, due to the nature and extent of the Group's operations, in particular in Mainland China and the in-depth knowledge and experience in the leather and upholstery furniture market required for the position of chief executive officer, the Company is unable to determine as to when the appointment of a chief executive officer for the Company can be effected.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Specific enquiries have been made with all Directors, who have confirmed that, during the six months ended June 30, 2013, each of them has complied with the required standards as set out in the Model Code.

AUDIT COMMITTEE

The Audit Committee, comprises all the three independent non-executive Directors namely, Mr. Sun Steve Xiaodi, Mr. Zhang Yuchuan and Mr. Zhou Lingqiang, has reviewed with the management and the external auditors on the accounting principles and practices adopted by the Group. The Audit Committee has held meetings with the Company's senior management to review, supervise and discuss the Company's financial reporting and internal control principles and to make recommendations to improve the Company's internal control, and to ensure that management has discharged its duty to have an effective internal control system during the six months ended June 30, 2013, including the review of the unaudited interim results of the Group for the six months ended June 30, 2013.

REMUNERATION COMMITTEE

The Remuneration Committee comprises three members, the majority of which are independent non-executive Directors and an independent non-executive Director, Mr. Zhou Lingqiang is the chairman of the Remuneration Committee. The Remuneration Committee is responsible for establishing policies in respect of remuneration structure for all Directors and senior management of the Company, reviewing and determining the remuneration of all Directors and senior management of the Company.

NOMINATION COMMITTEE

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

INTERIM DIVIDEND

The Board do not recommend the payment of any interim dividend for the six months ended June 30, 2013 (six months ended June 30, 2012: Nil).

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

The Company and any of its subsidiaries did not purchase, sell or redeem any of the Company's listed securities during the six months ended June 30, 2013.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is available to the Company and within the knowledge of its Directors, the Company has maintained a sufficient public float as required under the Listing Rules throughout the six months ended June 30, 2013.

SUBSEQUENT EVENT

There is an event occurred subsequent to June 30, 2013. Details are set out in note 12 to the Condensed Consolidated Financial Statements.

PUBLICATION OF INFORMATION ON THE EXCHANGE'S WEBSITE

The interim report of the Company for the six months ended June 30, 2013 containing all the information required by the Listing Rules will be despatched to the Company's shareholders and published on the website of the Stock Exchange and the website of the Company at www.irasia.com/listco/hk/kasen/index.htm in due course.

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

PRC, August 16, 2013

As at the date of this announcement, the executive Directors are Mr. Zhu Zhangjin, Mr. Zhou Xiaosong and Mr. Zhang Mingfa, Michael, the non-executive Director is Mr. Qiu Jian Ping, and the independent non-executive Directors are Mr. Sun Steve Xiaodi, Mr. Zhang Yuchuan and Mr. Zhou Lingqiang.

Website: http://www.irasia.com/listco/hk/kasen/index.htm