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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, 2015

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, 2015. 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, 2015

	<i>NOTES</i>	Six months ended June 30, 2015 <i>RMB'000</i> (unaudited)	Six months ended June 30, 2014 <i>RMB'000</i> (unaudited)
Turnover	3	1,690,086	1,535,350
Cost of sales		<u>(1,427,370)</u>	<u>(1,308,138)</u>
Gross profit		262,716	227,212
Other income		7,850	4,125
Selling and distribution costs		(88,405)	(87,615)
Administrative expenses		(115,648)	(102,226)
Other gains and losses	4	174,951	176,550
Share of losses of associates		(33)	—
Finance costs		<u>(44,018)</u>	<u>(18,510)</u>
Profit before tax	5	197,413	199,536
Income tax expenses	6	<u>(82,059)</u>	<u>(88,346)</u>
Profit for the period		<u>115,354</u>	<u>111,190</u>

	Six months ended June 30, 2015 RMB'000 (unaudited)	Six months ended June 30, 2014 RMB'000 (unaudited)
Other comprehensive income (loss)		
Items that may be subsequently reclassified to profit or loss:		
Fair value gain (loss) on available-for-sale investments	162,263	(320,160)
Income tax relating to fair value change of available-for-sale investments	(40,566)	80,040
Exchange difference arising on translation	683	(446)
Reclassification from revaluation reserve to profit or loss on disposal of available-for-sale investments	(251,440)	(197,972)
Reclassification from revaluation reserve to profit or loss on income tax relating to disposal of available-for-sale investments	62,860	49,493
	<u>49,154</u>	<u>(277,855)</u>
Total comprehensive income (loss) for the period		
Profit (loss) for the period attributable to:		
Owners of the Company	128,517	116,590
Non-controlling interests	(13,163)	(5,400)
	<u>115,354</u>	<u>111,190</u>
Total comprehensive income (loss) for the period attributable to:		
Owners of the Company	62,317	(272,455)
Non-controlling interests	(13,163)	(5,400)
	<u>49,154</u>	<u>(277,855)</u>
Earnings per share		
Basic and diluted	8 <u>RMB11 cents</u>	<u>RMB10 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT JUNE 30, 2015

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2015

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

Except for the application of new or revised accounting standards as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2015 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended December 31, 2014.

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

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

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

3. SEGMENT INFORMATION

Segment revenues and results

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

Revenue

Six months ended June 30, 2015

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

Six months ended June 30, 2014

	Manufacturing RMB'000	Properties development RMB'000	Retail RMB'000	Others RMB'000	Segment total RMB'000	Eliminations RMB'000	Total RMB'000
TURNOVER							
External sales	1,115,502	354,741	6,409	58,698	1,535,350	-	1,535,350
Inter-segment sales	604	-	-	-	604	(604)	-
Total	<u>1,116,106</u>	<u>354,741</u>	<u>6,409</u>	<u>58,698</u>	<u>1,535,954</u>	<u>(604)</u>	<u>1,535,350</u>

Results

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

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

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

Inter-segment sales are charged at prevailing market rates.

4. OTHER GAINS AND LOSSES

	Six months ended June 30, 2015 <i>RMB'000</i> (unaudited)	Six months ended June 30, 2014 <i>RMB'000</i> (unaudited)
Net foreign exchange loss	(4,249)	(4,879)
Gain on disposal of available-for-sale investments (<i>note 9</i>)	218,533	190,820
Impairment loss recognised in respect of trade and other receivables	(5,752)	(8,633)
Reversal of impairment loss recognised in respect of trade and other receivables	2,907	1,133
Gain on loss control of subsidiaries	22,556	–
Loss on change in fair value of exchangeable bonds	(41,129)	–
Impairment loss recognized in respect of property under development	(16,246)	–
Others	(1,669)	(1,891)
	<u>174,951</u>	<u>176,550</u>

5. PROFIT BEFORE TAX

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

6. INCOME TAX EXPENSES

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

7. DIVIDENDS

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

8. EARNINGS PER SHARE

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

Earnings

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

The computation of diluted earnings per share does not assume the exercise of certain of the Company’s options, because the exercise prices of those options are higher than the average market price per share during the period ended June 30, 2015 and 2014, respectively.

9. AVAILABLE-FOR-SALE INVESTMENTS

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

The listed securities represent 16,000,000 shares (1.43% equity interest) (2014: 26,000,000 shares (2.32% equity interest)) in Haining China Leather Market Co., Ltd (“HCLM”). The principal activity of HCLM is the operation of department stores in the PRC. The shares of HCLM are listed in the Shenzhen Stock Exchange.

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

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

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

10. 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, 2015 RMB'000 (unaudited)	December 31, 2014 RMB'000 (audited)
Aged:		
Within 60 days	417,826	439,594
61-90 days	108,518	92,944
91-180 days	41,444	19,576
181-365 days	12,244	3,154
Over 1 year	1,237	1,235
	581,269	556,503

11. 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, 2015 RMB'000 (unaudited)	December 31, 2014 RMB'000 (audited)
Aged:		
Within 60 days	1,016,412	1,155,932
61-90 days	104,687	64,710
91-180 days	176,481	261,314
181-365 days	137,025	39,856
1-2 years	16,208	27,885
Over 2 years	25,046	26,316
	1,475,859	1,576,013

12. CAPITAL COMMITMENTS

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

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

13. CONTINGENT LIABILITIES

The Group provided guarantees of approximately RMB492,072,000 (December 31, 2014: RMB450,465,000) at June 30, 2015 to banks in favour of its customers in respect of the mortgage loans provided by the banks to those customers for the purchase of the Group's properties. These guarantees provided by the Group to the banks will be released upon receiving the building ownership certificate of the respective properties by the banks from the customers as a pledge for security to the mortgage loans granted. The directors consider that the fair value of the above guarantees is insignificant on initial recognition and at the report dates as it is not probable that an outflow in settlement will be required.

BUSINESS REVIEW AND PROSPECTS

RESULTS OVERVIEW

For the six months ended June 30, 2015, the Group recorded a consolidated turnover of RMB1,690.1 million (six months ended June 30, 2014: RMB1,535.3 million), representing an increase of approximately 10.1% when compared with the corresponding period in 2014.

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

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

Review by Business Segments

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

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

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

Manufacturing Business

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

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

Automotive Leather

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

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

Upholstered Furniture

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

Furniture Leather

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

Property Development Business

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

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

No.	Project Name	Location	Interests 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	Under development	Residential and commercial
4	Kasen Star City (Including Kingdom Garden and Jing Xiang Yuan, etc.)	Haining, Zhejiang	100%	469,867	Under development	Residential and commercial
5	Changbai Paradise	Changbai Mountain, Jilin	89%	291,662	Under development	Residential and hotel
6	Qianjiang Oasis	Yancheng, Jiangsu	55%	108,138	Under development	Residential
Total				<u>3,219,641</u>		

Analysis of Properties Under Development

No.	Project Name	Total GFA (sq.m.)	GFA under development (sq.m.)	Total Saleable GFA (sq.m.)	GFA sold as at June 30, 2015 (sq.m.)	GFA delivered as at June 30, 2015 (sq.m.)	Average Selling Price (RMB/sq.m.)
1	Asia Bay	718,665	342,435	590,165	80,129	66,485	20,315
2	Qianjiang Continent	775,292	775,292	670,065	650,390	604,178	5,654
3	Kasen Star City	1,042,588	595,171	709,009	158,974	82,771	6,750
4	Changbai Paradise	179,077	179,077	110,330	22,929	–	–
5	Qianjiang Oasis	335,301	55,556	266,206	26,123	–	–
Total		<u>3,050,923</u>	<u>1,947,531</u>	<u>2,345,775</u>	<u>938,545</u>	<u>753,434</u>	

Retail Business

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

Operating Expenses, Taxation and Profit Attributable to Owners

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

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

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

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

The Group's other gains and losses in the first half of 2015 included a net gain of approximately RMB218.5 million on disposal of 0.89% (first half of 2014: 1.37%) of equity securities in Haining China Leather Market Co., Ltd. ("HCLM") (first half of 2014: RMB187.7 million). HCLM operates department stores in the PRC and its shares are listed on the Shenzhen Stock Exchange. The Group disposed such 0.89% of equity securities in HCLM in the open trading market as well as through the block trade platform of the Shenzhen Stock Exchange. For details, please refer to notes 4 and 9 to the Condensed Consolidated Financial Statements.

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

FINANCIAL RESOURCES AND LIQUIDITY

As at June 30, 2015, the Group had cash and cash equivalent of approximately RMB125.5 million (as at December 31, 2014: RMB324.4 million) and a total borrowings of approximately RMB2,005.8 million (as at December 31, 2014: RMB2,346.6 million). This represents a gearing ratio of 66.2% (as at December 31, 2014: 77.4%) and a net debt-to-equity ratio of 62.0% (as at December 31, 2014: 66.4%). The gearing ratio is based on bank borrowings to shareholders' equity and the net debt-to-equity ratio is based on bank borrowings net of cash and cash equivalent to shareholders' equity.

As at June 30, 2015, the Group's inventory which primarily represented leather crust, was approximately RMB621.5 million, representing an increase of approximately RMB19.6 million as compared to approximately RMB601.9 million as of December 31, 2014. During the six months ended June 30, 2015, the Group endeavored to control the inventory level and its inventory turnover period was 97 days as compared to 99 days as at December 31, 2014.

During the six months ended June 30, 2015, the Group continued to maintain a strict credit policy. The account receivable turnover days of the Group's manufacturing and retail segments was decreased to 80 days for the first half of 2015 (as at December 31, 2014: 84 days).

During the period under review, part of the accounts payables were converted into notes payable since the Group principally settled the accounts payables by issuing acceptance bills which were payable after six months. Therefore, the accounts payable turnover days of the Group's manufacturing and retail segments decreased to 77 days for the six months ended June 30, 2015 (as at December 31, 2014: 81 days).

MATERIAL ACQUISITION AND DISPOSAL

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

PLEDGE OF ASSETS

During the six months ended June 30, 2015, the Group pledged deposits, property, plant and equipment to banks to secure the bills payable issued by the Group and the bank facilities granted to the Group. The deposits carry an average interest rate of 3%.

FOREIGN EXCHANGE EXPOSURE

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

CONTINGENT LIABILITIES

As at June 30, 2015, the Group had certain contingent liabilities. For details, please refer to note 13 to the Condensed Consolidated Financial Statements.

EMPLOYEES AND EMOLUMENTS POLICIES

As at June 30, 2015, the Group employed a total of approximately 4,900 full time employees (as at June 30, 2014: approximately 4,700) including management staff, technicians, salespersons and workers. For the six months ended June 30, 2015, the Group's total expenses on the remuneration of employees were approximately RMB133.5 million (six months ended June 30, 2014: RMB110.3 million). The Group's emolument policies for employees are formulated on the performance of individual employees, which are reviewed regularly every year. Apart from the provident fund scheme (according to the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees), state-managed retirement pension scheme (for the PRC employees) and medical insurance, discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance.

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

The Group has also adopted share option scheme for the purpose of providing incentives to Directors, eligible employees and third party service providers. Further details in relation to the scheme will be set out in the interim report of the Company.

FUTURE PLANS AND PROSPECTS

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

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

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

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

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

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, 2015, the Board is of the view that the Company has complied with the code provisions as set out in the CG Code except for the following deviation to code provisions A.2.1.

CODE PROVISION A.2.1

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code 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, 2015, 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 had held meetings with the Company’s senior management to review, supervise and discuss the Company’s financial reporting and internal control principles and to make recommendations to improve the Company’s internal control, and to ensure that management has discharged its duty to have an effective internal control system during the six months ended June 30, 2015, including the review of the unaudited interim results of the Group for the six months ended June 30, 2015.

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended June 30, 2015 (six months ended June 30, 2014: Nil).

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

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, 2015.

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, 2015.

PUBLICATION OF INFORMATION ON THE EXCHANGE'S WEBSITE

The interim report of the Company for the six months ended June 30, 2015 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 18, 2015

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

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