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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, 2016

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, 2016. 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, 2016

	<i>NOTES</i>	Six months ended June 30, 2016 <i>RMB'000</i> (unaudited)	Six months ended June 30, 2015 <i>RMB'000</i> (unaudited and represented)
Continuing operations			
Revenue	3	1,103,797	632,600
Cost of sales		<u>(947,645)</u>	<u>(442,862)</u>
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		<u>(6,888)</u>	<u>(9,477)</u>
Profit before tax	5	14,203	187,717
Income tax expenses	6	<u>(38,068)</u>	<u>(79,423)</u>
(Loss)/profit for the period from continuing operations		<u>(23,865)</u>	<u>108,294</u>

	<i>NOTES</i>	Six months ended June 30, 2016 RMB'000 (unaudited)	Six months ended June 30, 2015 RMB'000 (unaudited and represented)
Discontinued operation			
Profit for the period from discontinued operation	7	5,543	7,060
Gain on disposal of a subsidiary	7(b)	<u>28,560</u>	<u>—</u>
Income from discontinued operation		<u>34,103</u>	<u>7,060</u>
Profit for the period		<u>10,238</u>	<u>115,354</u>
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		<u>—</u>	<u>62,860</u>
Total comprehensive (loss)/income for the period		<u><u>(38,623)</u></u>	<u><u>49,154</u></u>

	<i>NOTES</i>	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	9		
– Continuing operations		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

	<i>NOTES</i>	June 30, 2016 RMB'000 (unaudited)	December 31, 2015 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		884,134	961,216
Prepaid lease payments – non-current portion		46,695	71,667
Intangible assets		424	563
Deferred tax assets		64,919	73,930
Deposits paid for acquisition of land use rights		43,962	48,420
		<u>1,040,134</u>	<u>1,155,796</u>
CURRENT ASSETS			
Available-for-sale investments		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	<i>10</i>	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
		<u>5,628,432</u>	<u>7,067,809</u>
Assets of a disposal group classified as held for sale	<i>12</i>	<u>1,411,188</u>	<u>–</u>
		<u>7,039,620</u>	<u>7,067,809</u>

	<i>NOTES</i>	June 30, 2016 RMB'000 (unaudited)	December 31, 2015 RMB'000 (audited)
CURRENT LIABILITIES			
Trade, bills and other payables	<i>11</i>	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		575,649	1,583,869
Exchangeable bonds		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	<i>12</i>	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
NON-CURRENT LIABILITIES			
Deferred tax liabilities		153,239	172,852
Bank and other borrowings – due after one year		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

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.

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	<u>295,222</u>	<u>740,479</u>	<u>27</u>	<u>69,616</u>	<u>(1,547)</u>	<u>1,103,797</u>

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	<u>212,070</u>	<u>338,798</u>	<u>8,862</u>	<u>73,153</u>	<u>(283)</u>	<u>632,600</u>

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 (<i>note</i>)	19,417	155,152
– Property development	(19,170)	(25,930)
– Retail	(177)	(2,050)
– Others	(20,682)	(15,756)
	<u>(20,612)</u>	<u>111,416</u>
Unallocated corporate expenses	(6,628)	(2,397)
Unallocated other gains and losses	3,375	(725)
(Loss)/profit for the period from continuing operations	<u>(23,865)</u>	<u>108,294</u>

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.

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)
	<u>8,990</u>	<u>175,765</u>

5. PROFIT BEFORE TAX (FROM CONTINUING OPERATIONS)

Profit before income 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	<u>28,139</u>	<u>33,300</u>
Total depreciation and amortisation	<u>28,281</u>	<u>33,629</u>
Release of prepaid lease payments	1,413	1,173
Cost 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	<u>(1,603)</u>	<u>(38,705)</u>
	6,888	9,477
Dividends income from available-for-sale investments	–	(1,920)
Government grants	(1,360)	(268)
Interest income	<u>(184)</u>	<u>(474)</u>

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	<u>15,891</u>	<u>8,424</u>
People's Republic of China ("PRC") enterprise income tax		
– Current period	21,759	79,349
– Overprovision of income tax in previous periods	<u>–</u>	<u>(7,288)</u>
	21,759	72,061
Deferred tax expenses/(credit)	<u>418</u>	<u>(1,062)</u>
	<u>38,068</u>	<u>79,423</u>

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

b. 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.

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
	<u>19,604</u>	<u>128,517</u>
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	<u>1,511,019,881</u>	<u>1,162,322,985</u>

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.

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, 2016 RMB'000 (unaudited)	December 31, 2015 RMB'000 (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
	<u>136,778</u>	<u>545,996</u>

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, 2016 RMB'000 (unaudited)	December 31, 2015 RMB'000 (audited)
Aged:		
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

12. 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)
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	3,392
Assets of a disposal group classified as held for sale	1,411,188
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	3,554
Liabilities of a disposal group classified as held for sale	994,542

13. CAPITAL COMMITMENTS

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

	June 30, 2016	December 31, 2015
	RMB'000	RMB'000
	(unaudited)	(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
	<hr/>	<hr/>
	1,012,760	1,093,966
	<hr/> <hr/>	<hr/> <hr/>

14. 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.

BUSINESS REVIEW AND PROSPECTS

RESULTS OVERVIEW

On February 1, 2016, 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, which are presented as “discontinued operation” in this announcement, 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 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.

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 RMB'Million	%	
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	<u>1,103.8</u>	<u>100.0</u>	<u>632.6</u>	<u>100.0</u>	<u>74.5</u>

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.

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				<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, 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		<u>3,050,923</u>	<u>1,984,935</u>	<u>2,356,188</u>	<u>1,064,781</u>	<u>924,722</u>	

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.

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.

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.

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 14 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 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.

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 announcement, no binding agreement in relation to such potential acquisition has been entered into by the Company.

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, 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 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, 2016, 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. 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. 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 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.

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

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, 2016.

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, 2016.

PUBLICATION OF INFORMATION ON THE EXCHANGE’S WEBSITE

The interim report of the Company for the six months ended June 30, 2016 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 31, 2016

As at the date of this announcement, 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.

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