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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, 2010

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 (the “Group”) for the six months ended June 30, 2010. These interim results have been reviewed by the Company’s Audit Committee, comprising solely the independent non-executive Directors, one of whom chairs the committee.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2010

		Six months ended June 30, 2010 RMB’000 (unaudited)	Six months ended June 30, 2009 RMB’000 (unaudited)
	<i>NOTES</i>		
Turnover	3	1,121,200	1,256,005
Cost of sales		(859,923)	(1,109,050)
Gross profit		261,277	146,955
Other income		41,519	20,695
Distribution costs		(129,332)	(73,976)
Administrative expenses		(65,178)	(58,215)
Other expenses		(29,365)	(45,212)
Gain on fair value change on derivative financial instruments		2,305	672
Impairment loss recognized in respect of trade and other receivables		(4,481)	(6,005)
Share of profits (losses) of associates		216	(1,230)
Share of profit of a jointly controlled entity		197	–
Finance costs		(30,209)	(40,903)
Profit (loss) before tax	4	46,949	(57,219)
Income tax expenses	5	(25,699)	(29,311)
Profit (loss) for the period		21,250	(86,530)

	<i>NOTES</i>	Six months ended June 30, 2010 RMB'000 (unaudited)	Six months ended June 30, 2009 RMB'000 (unaudited)
Other comprehensive income (expense)			
Fair value gain on available-for-sale investments		102,018	–
Deferred tax liability on fair value change of available-for-sale investments		(25,505)	–
Exchange differences arising on translation		8,672	(9,699)
		<hr/> 106,435 <hr/>	<hr/> (96,229) <hr/>
Total comprehensive income (expense) for the period			
Profit (loss) for the period attributable to:			
Owners of the Company		22,420	(85,711)
Non-controlling interests		(1,170)	(819)
		<hr/> 21,250 <hr/>	<hr/> (86,530) <hr/>
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		107,605	(95,410)
Non-controlling interests		(1,170)	(819)
		<hr/> 106,435 <hr/>	<hr/> (96,229) <hr/>
Earnings (loss) per share	7		
Basic		<hr/> RMB2 cents <hr/>	<hr/> RMB(7) cents <hr/>
Diluted		<hr/> RMB2 cents <hr/>	<hr/> RMB(7) cents <hr/>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT JUNE 30, 2010

	<i>NOTES</i>	June 30, 2010 RMB'000 (unaudited)	December 31, 2009 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		472,456	498,268
Prepaid lease payments – non-current portion		59,315	60,028
Properties for development		526,887	519,780
Intangible assets		3,242	3,469
Interests in associates		54,634	50,426
Investment in a jointly controlled entity		2,932	2,735
Available-for-sale investments		241,931	139,913
Deferred tax assets		7,634	7,761
Deposit paid for acquisition of a subsidiary		193,778	70,000
Advance for acquisition of land for development		302,633	165,060
		1,865,442	1,517,440
CURRENT ASSETS			
Inventories		490,141	409,167
Properties under development and held for sale		947,791	593,702
Trade, bills and other receivables	8	745,782	763,726
Receivable from disposal of assets		357,636	486,774
Prepaid lease payments – current portion		1,406	1,406
Prepaid land appreciation tax		2,244	244
Derivative financial instruments		1,522	–
Tax recoverable		11,794	9,441
Pledged bank deposits		29,868	76,092
Bank balances and cash		436,460	461,882
		3,024,644	2,802,434
CURRENT LIABILITIES			
Trade, bills and other payables	9	723,962	576,674
Deposits received in respect of pre-sale of properties		378,857	289,232
Derivative financial instruments		–	537
Bank and other borrowings – due within one year		1,331,027	1,083,528
Tax payable		18,133	18,361
Other current liabilities		4,025	4,973
		2,456,004	1,973,305
NET CURRENT ASSETS		568,640	829,129
TOTAL ASSETS LESS CURRENT LIABILITIES		2,434,082	2,346,569
NON-CURRENT LIABILITIES			
Deferred tax liabilities		80,566	55,156
Bank and other borrowings – due after one year		157,695	198,404
Other long-term liabilities		35,704	37,814
		273,965	291,374
NET ASSETS		2,160,117	2,055,195
CAPITAL AND RESERVES			
Share capital		1,397	1,404
Reserves		2,138,496	2,050,885
Equity attributable to owners of the Company		2,139,893	2,052,289
Non-controlling interests		20,224	2,906
Total equity		2,160,117	2,055,195

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2010

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”).

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.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended December 31, 2009 except as detailed below.

In the current interim period, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations (“new and revised IFRSs”) issued by the IASB, which are effective for the Group’s financial year beginning on January 1, 2010.

Except as described below, the application of these new and revised IFRSs had no material effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

IAS 27 (Revised 2008) Consolidated and Separate Financial Statements

The application of IAS 27 (Revised 2008) has resulted in changes in the Group’s accounting policies regarding increases or decreases in ownership interests in subsidiaries of the Group. In prior years, in the absence of specific requirements in IFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognized where appropriate. The impact of decreases in interests in subsidiaries that did not involve loss of control (being the difference between the consideration received and the carrying amount of the share of net assets disposed of) was recognized in profit or loss. Under IAS 27 (Revised 2008), all increases or decreases in such interests are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised Standard requires that the Group derecognizes all assets, liabilities and non-controlling interests at their carrying amount. Any retained interest in the former subsidiary is recognized at its fair value at the date the control is lost. A gain or loss on loss of control is recognized in profit or loss as the difference between the proceeds, if any, and these adjustments.

During the current period, the Group had disposed of partial interest in Hainan Boao Kasen Property Development Co., Ltd. without losing control. The difference of RMB6,705,000 between the consideration received and the increase in the carrying amount of the non-controlling interests has been recognized directly in equity. Had the previous accounting policy been applied, this amount would have been recognized as a loss on partial disposal of a subsidiary in profit or loss. Therefore, the change in accounting policy has resulted in an increase in the profit for the period of RMB6,705,000 and the increase in basic and diluted earnings per share from RMB1 cent to RMB2 cents. In addition, cash consideration of RMB8,000,000 received from the non-controlling interests is presented as cash flow from financing activities instead of investing activities.

During the period, the Group acquired further interest in Haining Gaosheng Industrial Co., Ltd. The difference of RMB43,000 between the consideration paid and the decrease in carrying amount of the non-controlling interests has been recognized directly in equity. Had the previous accounting policy been applied, the Group would measure the fair value of the net assets of the relevant interests in Haining Gaosheng Industrial Co., Ltd. and recognize the difference between consideration paid and fair value of net assets of relevant interests acquired as goodwill or discount.

The Group has not early applied the new and revised IFRSs that have been issued but are not yet effective.

IFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from January 1, 2013, with earlier application permitted. The Standard requires all recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortized cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost. All other debt investments and equity investments are measured at fair value. The application of IFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Company anticipate that the application of other new and revised IFRSs that have been issued but not yet effective will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

The Group's operating segments, based on information reported to the chief operating decision maker for the purpose of resource allocation and performance assessment, are as follows:

- Manufacturing of upholstered furniture, furniture leather and automotive leather (“Manufacturing”);
- Properties development;
- Retailing of furniture (“Retail”); and
- Others, comprising mainly provision of property management service (“Others”).

Segment revenue and results

The following is an analysis of the Group's revenue and results by operating segment for the period under review:

Revenue

Six months ended June 30, 2010

	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	913,113	98,566	107,845	1,676	1,121,200	–	1,121,200
Inter-segment sales	44,418	–	–	–	44,418	(44,418)	–
Total	<u>957,531</u>	<u>98,566</u>	<u>107,845</u>	<u>1,676</u>	<u>1,165,618</u>	<u>(44,418)</u>	<u>1,121,200</u>

Six months ended June 30, 2009

	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	677,453	523,633	54,206	713	1,256,005	–	1,256,005
Inter-segment sales	21,702	–	–	–	21,702	(21,702)	–
Total	<u>699,155</u>	<u>523,633</u>	<u>54,206</u>	<u>713</u>	<u>1,277,707</u>	<u>(21,702)</u>	<u>1,256,005</u>

Results

	Six months ended June 30, 2010 RMB'000	Six months ended June 30, 2009 RMB'000
Segment results		
– Manufacturing	85,079	(5,171)
– Properties development	(28,506)	(52,608)
– Retail	(29,938)	(20,809)
– Others	(161)	922
	26,474	(77,666)
Unallocated corporate expenses	(5,224)	(8,864)
Profit (loss) for the period	21,250	(86,530)

Segment profit (loss) represents the profit earned by (loss from) each segment without allocation of central administration costs and directors' salaries. 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.

The following is an analysis of the Group's assets by operating segment:

	June 30, 2010 RMB'000	December 31, 2009 RMB'000
Manufacturing	4,887,199	4,750,753
Properties development	2,215,905	1,503,892
Retail	109,547	126,363
Others	42,622	1,785
Total segment assets	7,255,273	6,382,793
Unallocated	17,560	11,704
Elimination (<i>Note</i>)	(2,382,747)	(2,074,623)
Consolidated assets	4,890,086	4,319,874

Note: Segment assets are measured based on the aggregate assets of individual subsidiaries before any consolidation adjustments. Elimination comprises consolidation adjustments including mainly the elimination of intra-group current accounts.

4. PROFIT (LOSS) BEFORE TAX

	Six months ended June 30, 2010 RMB'000	Six months ended June 30, 2009 RMB'000
Profit (loss) before tax has been arrived at after charging (crediting):		
Amortization of intangible assets (included in administrative expenses)	363	295
Amortization of properties for development (included in other expenses)	4,107	3,114
Depreciation of property, plant and equipment	23,054	37,308
Total depreciation and amortization	<u>27,524</u>	<u>40,717</u>
Release of prepaid lease payments	713	1,019
Interest on bank and other borrowings wholly repayable within five years	36,157	43,157
Less: amount capitalized in respect of property under development	(5,948)	(2,254)
	<u>30,209</u>	40,903
Impairment loss recognized in respect of trade and other receivables	4,481	6,005
Interest income	(929)	(3,207)
Net gain on disposal of property, plant and equipment	(3,473)	(2,962)
Compensation for cancellation of grant of land	(15,418)	–
Refund of other tax	(4,824)	(679)
Dividend income	(3,098)	–
Net foreign exchange losses (gain)	8,462	(5,057)

5. INCOME TAX EXPENSES

	Six months ended June 30, 2010 RMB'000	Six months ended June 30, 2009 RMB'000
Land appreciation tax – current period	<u>2,013</u>	<u>5,532</u>
People's Republic of China (“PRC”) enterprise income tax		
– Current period	22,521	17,955
– Under(over) provision of income tax in previous periods	1,132	(92)
	<u>23,653</u>	17,863
Deferred tax charged	33	5,916
	<u>25,699</u>	<u>29,311</u>

PRC enterprise income tax is calculated at the applicable rates to the PRC subsidiaries. Certain subsidiaries of the Company operating in the PRC are eligible for certain tax concessions for both periods.

6. DIVIDENDS

No dividend was paid, declared or proposed during the current period. The directors do not recommend the payment of an interim dividend.

7. EARNINGS (LOSS) PER SHARE

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

Earnings (loss)

	Six months ended June 30, 2010 RMB'000	Six months ended June 30, 2009 RMB'000
Profit (loss) for the period for the purposes of basic and diluted earnings (loss) per share, being profit (loss) attributable to owners of the Company	<u><u>22,420</u></u>	<u><u>(85,711)</u></u>

Number of shares

Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	<u>1,161,667,902</u>	1,163,656,985
Effect of dilutive potential ordinary shares – share options	<u>9,927,744</u>	–
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	<u><u>1,171,595,646</u></u>	<u><u>1,163,656,985</u></u>

The computation of diluted loss per share for the six months period June 30, 2009 has not assumed the exercise of the Company's share options because the exercise price of share options granted by the Company is higher than the Company's share price during the period.

8. TRADE, BILLS AND OTHER RECEIVABLES

The Group grants a credit period ranging from 30 days to 120 days to their trade customers in the manufacturing segment. The aging analysis of trade and bills receivables presented based on the invoice date at the end of reporting period is as follows:

	June 30, 2010 RMB'000 (unaudited)	December 31, 2009 RMB'000 (audited)
Aged:		
Within 60 days	300,204	289,222
61-90 days	100,939	69,390
91-180 days	51,362	37,042
181-365 days	40,293	16,109
Over 1 year	6,447	8,058
	<u><u>499,245</u></u>	<u><u>419,821</u></u>

9. TRADE, BILLS AND OTHER PAYABLES

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

	June 30, 2010 RMB'000 (unaudited)	December 31, 2009 RMB'000 (audited)
Aged:		
Within 60 days	375,776	290,868
61-90 days	28,543	12,061
91-180 days	6,214	6,196
181-365 days	3,758	2,784
1-2 years	1,700	4,108
Over 2 years	4,968	3,832
	<u>420,959</u>	<u>319,849</u>

10. CAPITAL AND OTHER COMMITMENTS

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

	June 30, 2010 RMB'000 (unaudited)	December 31, 2009 RMB'000 (audited)
Expenditure contracted for but not provided in the condensed consolidated financial statements in respect of		
– Properties under development	350,409	303,051
– Acquisition of a subsidiary	18,803	70,801
– Acquisition of property, plant and equipment	15,389	16,644
– Construction of certain infrastructure and public facilities in the PRC on behalf of the government	12,253	12,541
	<u>396,854</u>	<u>403,037</u>

11. CONTINGENT LIABILITIES

The Group provided guarantees of RMB135,413,000 (December 31, 2009: RMB73,832,000) at June 30, 2010 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.

BUSINESS REVIEW AND PROSPECTS

RESULTS OVERVIEW

For the six months ended June 30, 2010, the Group recorded a consolidated turnover of RMB1,121.2 million (six months ended June 30, 2009: RMB1,256.0 million), representing a decrease of 10.7%.

The Group's gross profit for the six months ended June 30, 2010 was RMB261.3 million (six months ended June 30, 2009: RMB147.0 million) with gross profit margin of 23.3% (six months ended June 30, 2009: 11.7%).

The net profit attributable to owners of the Company for the first half of 2010 was approximately RMB22.4 million, representing an increase of 126.1% turnaround profit over a net loss of approximately RMB85.7 million of the corresponding period in 2009.

Review by Business Segments

The Group's reportable segments are manufacturing, property development, retail business and others (comprising mainly property management service business).

The table below shows the total turnover by product category for the six months ended June 30, 2010, together with the comparative figures for the corresponding period of last year:

	2010		Six Months Ended June 30, 2009		Change %
	RMB'Million	%	RMB'Million	%	
Manufacturing	913.2	81.5	677.5	53.9	34.8
Upholstered Furniture	456.4	40.7	375.6	29.9	21.5
Furniture Leather	142.0	12.7	148.8	11.8	-4.6
Automotive Leather	314.8	28.1	153.1	12.2	105.6
Property Development	98.6	8.8	523.6	41.7	-81.2
Retail	107.8	9.6	54.2	4.3	98.9
Others	1.6	0.1	0.7	0.1	128.6
Total	<u>1,121.2</u>	<u>100.0</u>	<u>1,256.0</u>	<u>100.0</u>	<u>-10.7</u>

Manufacturing Business

During the period under review, manufacturing business showed a significant increase. This business segment, including three major operating divisions: upholstered furniture, furniture leather and automotive leather, recorded a total turnover of RMB913.2 million for the first half of 2010, representing an increase of 34.8% (six months ended June 30, 2009: RMB677.5 million). During the period under review, the segment gained an operating profit of RMB85.1 million, compared to the operating loss of RMB5.2 million for the corresponding period in 2009. A brief discussion of the performance of the three operating divisions are as follows:

Upholstered Furniture

Sales of upholstered furniture including finished sofa and sofa cut-and-sew accounted for 40.7% of the Group's total revenue. The Group completed a restructuring exercise at the end of 2009 to consolidate its manufacturing facilities. Through such initiative, excess capabilities were minimized and the Group was able to maintain its leading position as a major OEM partner with overseas customers during an uncertain economic environment. The Group's upholstered furniture sales was RMB456.4 million in the first half of 2010 (six months ended June 30, 2009: RMB375.6 million) and the gross profit margin was 19.0% (six months ended June 30, 2009: 19.9%).

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 performed steadily and recorded sales of RMB142.0 million in the first half of 2010 (six months ended June 30, 2009: RMB148.8 million).

Automotive Leather

The automobile industry in China is now one of the driving forces of China's national economy and maintained strong growth momentum in the first half of 2010. The Group, as one of the leading domestic automotive seat leather suppliers in China, successfully expanded its customer base and strengthened the relationships with major automakers in China. Revenue generated in automotive leather operating division was RMB314.8 million in the first half of 2010, representing a significant increase of 105.6% compared to the corresponding period in 2009 (six months ended June 30, 2009: RMB153.1 million). The gross profit margin was also increased to 31.3% for the six months ended June 30, 2010, compared to 15.6% of the corresponding period in 2009.

Property Development Business

Land Bank of the Group as at June 30, 2010

No.	Project Name	Location	Interests Contracted to the Group	Total Site Area (sq.m)
1	Asia Bay	Boao, Hainan	92%	590,165
2	Sanya Project (<i>Note a</i>)	Sanya, Hainan	51%	1,424,692
3	Qianjiang Continent	Yancheng, Jiangsu	100%	331,040
4	Jing Xiang Yuan	Haining, Zhejiang	100%	26,662
5	Xieqiao Project 1	Haining, Zhejiang	100%	93,578
6	Xieqiao Project 2 (<i>Note b</i>)	Haining, Zhejiang	100%	75,222
Grand Total				<u><u>2,541,359</u></u>

Notes:

- a. On November 12, 2009, the Group entered into an agreement to acquire 51% equity interest in Hainan Hejia Property Development Co., Ltd. ("Hainan Hejia"), such that Sanya Project will be undertaken by Hainan Hejia. As at June 30, 2010, the acquisition of Hainan Hejia was not completed.
- b. On June 21, 2010, the Group entered into an agreement to acquire a parcel of land which is located in the north side of Xiaxie Road, Haining City, Zhejiang Province for Xieqiao Project 2. As at June 30, 2010, the acquisition of the land was not completed.

Flagship Projects Overview

Hainan Asia Bay

Hainan Asia Bay is located at the east coast of Boao City, with a site area of approximately 600,000 square meters. The project features a beautiful beach and has facilities including a five-star seaview hotel, several luxurious club houses and one health club. The total gross floor area is approximately 600,000 square meters, including six groups of island villas, six buildings of wave-shape apartments and seaview villas. Hainan Asia Bay is targeted to become the “Landmark at the east coast” (東線海岸地標) to attract the customers from all over the world. During the period under review, the Group commenced the construction of the first phase of Hainan Asia Bay which includes two groups of villas, namely “Bali Islands” and “Sentosa” with the theme of southeast Asia style and two apartment buildings. The first phase will be launched for sale in the second half of 2010.

Honours and Awards

1. 2010 Top Five Best Properties of Living Environment in Hainan (2010海南五大最佳人居環境樓盤)
2. 2010 The Most Expected Property of Hainan (2010海南最值得期待樓盤)

Qianjiang Continent

Qianjiang Continent, with a site area of approximately 331,000 square meters, is located in Yancheng city of Jiangsu Province. This project is adjacent to the main road of Yancheng and surrounded by forest park, commercial center and cultural district. The total gross floor area is approximately 626,000 square meters and it is the biggest residential property in Yancheng. Since its expansion to Yancheng, the Group has become the leader of local property market with its unique value.

During the period under review, the recognized gross floor area sold in this project was 19,495 square meters and the recognized sales was amounted to RMB98.6 million. A total of 226 units, including commercial units and residential units were delivered and the average selling price was RMB5,057 per square meter, compared to RMB3,750 per square meter during the corresponding period in 2009.

Honors and Awards

National Demonstration Project (國家康居示範工程)

Others

The construction of the first phase of Jing Xiang Yuan in Haining of Zhejiang Province (“Haining Project”) was nearly completed in the first half of 2010. The total gross floor area is approximately 33,000 square meters. All units have been pre-sold with estimated revenue of RMB99.0 million. The average selling price was RMB3,000 per square meter.

The Group’s other property projects, including projects in Sanya of Hainan Province and Haining of Zhejiang Province, were still undeveloped during the period under review. No contribution was made from these projects with respect to turnover and profit of the Group in the first half of 2010.

Retail Business

The Group has entered into the furniture retail market in both China and the United Kingdom (“UK”). The total turnover from retail business recorded an increase of 98.9% from RMB54.2 million in the first half of 2009 to RMB107.8 million in the first half of 2010. During the period under review, a total operating loss of RMB29.9 million was recorded in this business segment (six months ended June 30, 2009: loss of RMB20.8 million).

At present, the Group operates five furniture stores in China’s major cities trading under the brand name of “Kasen Home Furnishings” among which, two are self-owned stores and the other three are franchisees. The domestic retail business performed satisfactory and recorded a turnover of RMB9.6 million during the period under review (six months ended June 30, 2009: RMB4.5 million).

The Group entered into the UK furniture retail market in March 2009 through the acquisition of all the existing shares of Sofas UK Plc, a UK based furniture retailer. As at June 30, 2010, the Group operated 26 stores in the UK trading under the brand name of “Easyliving Furniture”. Sales from the UK market was RMB98.2 million in the first half of 2010 (six months ended June 30, 2009: RMB49.7 million). The business in the UK is still in the deficit position because of the high operation cost and weak demand from UK individual customers.

Review by Region

The table below shows the total turnover by geographic market for the six months ended June 30, 2010, together with the comparative figures for the corresponding period of last year:

	Six Months Ended June 30,				Change
	2010		2009		
	RMB'Million	%	RMB'Million	%	%
USA	339.7	30.3	272.3	21.7	24.8
Europe	129.1	11.5	87.5	7.0	47.5
Australia	32.1	2.9	14.1	1.1	127.7
PRC (including Hong Kong)	619.0	55.2	882.1	70.2	-29.8
Others	1.3	0.1	–	–	N.M.
Total	<u>1,121.2</u>	<u>100.0</u>	<u>1,256.0</u>	<u>100.0</u>	<u>-10.7</u>

N.M. – Not meaningful.

During the period under review, the Group’s sales to the US market increased by 24.8% as compared to the corresponding period of last year and the percentage of US sales to the Group’s total turnover increased to 30.3%. By completing the restructuring of its upholstered furniture manufacturing operations at the end of 2009, the Group strengthened its cooperation with major overseas customers and consolidated its leading position in the US market. As the US economy started to pick up during the period under review, the Group’s sales to the US market increased.

The Group’s sales to the European market increased steadily. In the first half of 2010, this segment recorded a turnover of RMB129.1 million (six months ended June 30, 2009: RMB87.5 million) with an increase of 47.5% as compared to the corresponding period in 2009. The retail business in the UK will further help the Group to expand its business in Europe.

The Group's turnover from the PRC domestic market accounted for 55.2% of its total revenue in the first half of 2010. During the period under review, the Group's sales to the PRC domestic market showed a good performance, mainly attributable to the increased sales of automotive leather and also the sales from property development. However, total sales to the PRC domestic market was RMB619.0 million, representing a decrease of 29.8% as compared to RMB882.1 million for the first half of 2009 due to the reduced turnover resulting from a sharp decline in the delivery of property development during the period under review despite the significant increase in its sales of automotive seat leather.

Operating Expenses, Taxation and Profit Attributable to Owners

The Group's selling and distribution costs during the period under review increased to approximately RMB129.3 million, as compared to approximately RMB74.0 million in the first half of 2009, mainly due to (1) a net increase of approximately RMB10.0 million in operating lease rentals and government rates, attributed mainly by an increase of approximately RMB17.3 million from the UK operations as the number of stores increased and six months of expenses were recognized in the Group's results, offset by a reduction of RMB7.5 million for the reversal of PRC store lease rentals recognized in prior years and reduction of annual rentals as a result of alteration in PRC store leases, (2) an increase of approximately RMB8.2 million in staff costs for sales persons of the Group's UK stores, (3) an increase of approximately RMB11.8 million in transportation costs, and (4) an increase of approximately RMB19.8 million in payment of sales commission and marketing expenses, which included an increase of approximately RMB2.0 million and RMB8.6 million in marketing expenses incurred by the Group's UK stores and PRC property development projects respectively, and approximately RMB9.1 million increased sales commission due to increased sales in automotive leather division. As a result, the selling and distribution costs to turnover in the first half of 2010 increased to 11.5% as compared to 5.9% in the corresponding period in 2009.

The administrative costs for the six months ended June 30, 2010 was approximately RMB65.2 million, with an increase of approximately RMB7.0 million as compared to approximately RMB58.2 million during the corresponding period of last year, mainly due to an increase in staff costs.

The Group's finance cost in the first half of 2010 was approximately RMB30.2 million, with a decrease of approximately RMB10.7 million, as compared to approximately RMB40.9 million during the same period of 2009, due to the reduction of bank lending rate during the period under review.

Other expenses for the six months ended June 30, 2010 were approximately RMB29.4 million, as compared to approximately RMB45.2 million in the first half of 2009. Such decrease resulted from (1) a decrease of approximately RMB7.1 million in goodwill impairment arising from the acquisition of Sofas UK Plc, (2) a decrease of approximately RMB29.5 million of loss on disposal of obsolete raw materials in inventories, and offset by (3) the net foreign exchange loss of RMB8.4 million (net foreign exchange gain of approximately RMB5.0 million recorded as "Other income" in the corresponding period in 2009), together with (4) the net loss of approximately RMB9.3 million suffered from the PRC warehouse fire accident happened during the period under review.

Other income for the six months ended June 30, 2010 was approximately RMB41.5 million, as compared to approximately RMB20.7 million in the first half of 2009. The increase resulted from (1) a compensation of approximately RMB15.4 million received from the PRC Government in relation to the cancellation of grant of a small parcel of land in Yancheng, Jiangsu Province, and (2) dividend of approximately RMB3.1 million received from the investment in Haining China Leather Market, which was listed in the Shenzhen Stock Exchange.

The Group's income tax in the first half of 2010 was approximately RMB25.7 million, with a decrease of approximately RMB3.6 million, as compared to approximately RMB29.3 million in the corresponding period in 2009. The decrease resulted from (1) a decrease in PRC income tax of approximately RMB19.9 million as a result of a decrease in taxable profits generated from reduced delivery of some of the residential building units in Yancheng, Jiangsu Province, offset by (2) an increase in PRC income tax of approximately RMB16.3 million as a result of the increase in taxable profits generated from the increased sales of manufacturing business at subsidiary level.

For reasons mentioned above, the Group has made a successful turnaround in its business and become profitable in the first six months ended June 30, 2010. The net profit attributable to owners of the Company was approximately RMB22.4 million in the first half of 2010, as compared to a net loss of approximately RMB85.7 million in the corresponding period in 2009.

FINANCIAL RESOURCES AND LIQUIDITY

As at June 30, 2010, the Group had cash and cash equivalent of RMB436.5 million (as at December 31, 2009: RMB461.9 million) and a total borrowings of RMB1,488.7 million (as at December 31, 2009: RMB1,281.9 million). This represents a gearing ratio of 69.2% (as at December 31, 2009: 62.1%) and a net debt-to-equity ratio of 48.8% (as at December 31, 2009: 39.5%). 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, 2010, the Group's inventory now primarily represented leather crust, was RMB490.1 million, representing an increase of RMB80.9 million as compared to December 31, 2009. Inventory turnover days for the six months ended June 30, 2010 has increased to 117 days as compared to 110 days as at December 31, 2009. This increase was primarily due to the fact that the Group increased its purchase of leather crust to cope with rising purchase orders from its upholstered furniture and automotive leather businesses, leading to higher inventories at all major group companies.

In the six months ended June 30, 2010, the Group continued to maintain a strict credit policy. Longer credit terms were granted to customers in the automotive leather division, account receivable turnover days increased to 84 days for the first half of 2010 (as at December 31, 2009: 82 days).

The accounts payable turnover days decreased to 45 days for the six months ended June 30, 2010 (as at December 31, 2009: 51 days).

MATERIAL ACQUISITION AND DISPOSAL

During the period under review, the Group acquired two parcels of land located in Haining of Zhejiang Province in January and June 2010, respectively with a total site area of 168,800 square meters for the purpose of property development.

During the period under review, the Group entered into the sale and purchase agreements to further acquire 26% equity interest in Hainan Hejia Property Development Co., Ltd and to dispose of 2% equity interest in Hainan Boao Kasen Property Development Co., Ltd.

PLEDGE OF ASSETS

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 0.36%.

FOREIGN EXCHANGE EXPOSURE

The Group is principally engaged in export-related business, and transactions (including sales and procurements) were mainly denominated in US dollars, and most of the trade receivables were exposed to fluctuation. In the six months ended June 30, 2010, the Group used forward contracts and some other financial instruments to hedge foreign exchange risk, and recorded a gain of approximately RMB2,305,000.

On the other hand, the Group's exposure to foreign currency in retail segment has increased during the period under review. It was mainly due to the reason that the functional currency in respect of the acquisition of Sofas UK is in GBP while the majority of the purchase of Sofas UK is in USD. However, Sofas UK's foreign exchange risk of GBP against USD is minimised partly by reason of an arrangement reached between Sofas UK and a supplier to fix the settlement rate of payable in its own functional currency. The payable under such arrangement amounted to approximately RMB43.8 million as at June 30, 2010.

EMPLOYEES AND EMOLUMENTS POLICIES

As at June 30, 2010, the Group employed a total of approximately 4,600 full time employees (as at June 30, 2009: approximately 5,000) including management staff, technicians, salespersons and workers. For the six months ended June 30, 2010, the Group's total expenses on the remuneration of employees were RMB97.0 million (six months ended June 30, 2009: RMB77.6 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) or state National Insurance scheme (for the UK 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, 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

Production of leather products and upholstered furniture will still be an important segment of the Group's business. The Group aims to follow its principle of "Specialty, Excellence and Perfection" in manufacturing in order to further improve its profitability in this traditional segment.

The automotive leather business will be the core element in the Group's leather production division. The leading position in domestic market achieved in previous years has proved its success in this business and the cooperation with major automakers will be further strengthened. The Group's automotive leather manufacturing division was granted high-tech enterprise status and received a series of quality management system accreditations. Such status and accreditations have given its customers strong confidence in the quality of its products.

Leveraging on its advantage in upholstered furniture production as a reputable OEM partner, the Group will put more emphasis on the product design to meet the demand from overseas retailers and PRC domestic customers. In order to generate more profit from the traditional manufacturing business, the Group will continue to implement initiatives such as cost-saving, management optimization, efficiency improvement and business model reconstruction.

Retail Business

The Group currently operates five furniture retail stores in major cities trading under the brand name of "Kasen Home Furnishings" in China. In these stores, the Group provides domestic customers with quality in-door and out-door furniture at affordable prices. Facing intense competitions in the furniture market, the Group will focus on the innovation of sales model. The Group aims to develop a customer base that includes individuals, property developers and also government procurement agencies. To expand its distribution channels, the Group is developing a sales program aimed to bring in more franchisers.

For the business in the UK, it is still in the deficit position as a result of the high operation cost and weak demand from UK individual customers. In the future, the Company will take active measures, such as consolidation of outlets, design of new products, and improvement of management efficiency to improve the performance and profitability of the Group's UK business.

Property Development

During the period under review, the PRC government issued some new regulatory policies on the real estate industry. Despite of the uncertain market situation, the Group's property development business still showed a strong performance in the first half of 2010. Going forward, the Group will continue to expand in this new business segment.

The Group's long term objective is to become a leading tourism property developer in China. Owing to the rapid economic growth, increase in the income of residents and the strong domestic tourism demand, the tourism-related industry in China is enjoying a new wave of rapid development. It is also a good opportunity for the tourism property developers. At present, tourism property market in China is still at a preliminary stage and there are not many experienced developers in this segment. Therefore, the Group believes that there is immense potential in this industry. The Hainan Project has given the Group a successful start into this new industry while accumulating resources, talents, customers and experiences. In the future, the Group will actively look for investment opportunities in other famous tourism resorts, such as Zhejiang Province, Yunnan Province and also the Northeastern regions of China.

The Group's largest property development projects are in Hainan Province. According to 《關於推進海南國際旅遊島建設發展的若干意見》 (“Certain Opinions in Relation to Promoting the Development of Hainan International Tourists Island”) promulgated by the State Council of the PRC in January 2010, it is the PRC's national strategy to develop Hainan Province into an international tourist island. Despite of the tightened regulatory environment, the residential property prices in Hainan Province still maintain at high level, mainly attributable to the island's unique geographical location and huge base of potential buyers from all over the world.

The Asia Bay Project in Boao, Hainan is currently under development with a total construction area of approximately 600,000 square meters. The pre-sale of the first phase will be launched in the second half of 2010.

In Sanya, the Group has a land reserve of more than 1,000,000 square meters for residential and commercial real estate development. At present, these projects are at the stage of development planning and design.

More commercial units of Qianjiang Continent in Jiangsu Province will be delivered in the second half of 2010 and it is expected that more revenue will be recognized. The Group is confident that steady income and profit will be realized in the following years upon sales delivery in the next phases.

The Group will also allocate more resources to its property development business in Haining of Zhejiang Province. Haining is a famous tourism city located between Shanghai and Hangzhou and enjoys a convenient transport system. It is well-known by its unique resort of tide viewing. In the first half of 2010, the Group has acquired 7 parcels of land with total site area of approximately 169,000 square meters for residential property development. In the second half of 2010, the Group will continue to increase its land bank in this area.

CORPORATE GOVERNANCE

The Company has complied with the code provisions set out in Appendix 14 of Code on Corporate Governance Practices (“Code”) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) for the six months ended June 30, 2010, except for code provisions A.2.1 and A.4.1.

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, Kasen 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 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 is 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.

CODE PROVISION A.4.1

Under CG Code Provision A.4.1, non-executive Directors should be appointed for a specific term and subject to re-election. The current independent non-executive Directors, namely Mr. Chow Joseph, Dr. Li Qingyuan and Mr. Gu Mingchao are not appointed for specific terms, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the articles of association of the Company which has provided that at every annual general meeting, one-third of the Directors for the time being or, if their number is not a multiple of three, the number nearest to but not less than one-third, shall retire from office by rotation. Given that the provisions stipulated under the articles of association of the Company, the Company considers that appropriate measures have been taken by the Company regarding its corporate governance practices. The Board will keep these matters under review and will continue to monitor and revise the Company's corporate governance policies in order to ensure that such policies can meet the general rules and standards required by the Stock Exchange.

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") 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 period under review, they were in compliance with the provisions of the Model Code. All Directors declared that they have complied with the Model Code for the six months ended June 30, 2010.

AUDIT COMMITTEE

The Audit Committee, comprises all the three independent non-executive Directors, has reviewed with management and the external auditors the accounting principles and practices adopted by the Group. The Audit Committee has held meetings to discuss the auditing, internal controls and financial reporting matters including the review of the unaudited interim financial statements for the six months ended June 30, 2010. The Audit Committee of the Company reviewed, discussed and approved this 2010 unaudited interim information that had been reviewed by the auditors, Deloitte Touche Tohmatsu.

REMUNERATION COMMITTEE

A Remuneration Committee was established by the Company to establish policies, review and determine the remuneration of the directors and the senior management of the Company. The Remuneration Committee comprises two independent non-executive directors and an executive director.

Mr. Gu Mingchao is the chairman of the Remuneration Committee.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended June 30, 2010.

SUBSEQUENT EVENT

Pursuant to the general mandate granted by the shareholders of the Company, the Board of Directors resolved on July 5, 2010 to repurchase the Company's shares of up to 10% of the issued shares of the Company as at the date of May 31, 2010. The Company had repurchased 2,330,000 ordinary shares on the Stock Exchange at an aggregate consideration of HK\$4,205,240 and such shares have been subsequently cancelled on July 28, 2010.

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

Pursuant to the general mandate granted by the shareholders of the Company, the Board of Directors resolved on December 27, 2009 and May 6, 2010 to repurchase the Company's shares of up to 10% of the issued shares of the Company as at the date of May 29, 2009. As at June 30, 2010, the Company had repurchased 8,174,000 ordinary shares in total on the Stock Exchange at an aggregate consideration of HK\$16,014,990 and such shares were cancelled in January, May and June 2010. Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the first six months ended June 30, 2010.

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, 2010.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Article of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

PUBLICATION OF INFORMATION ON THE EXCHANGE'S WEBSITE

The interim report of the Company for the six months ended June 30, 2010 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 on or about September 3, 2010.

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

PRC, August 30, 2010

As at the date of this announcement, the executive directors of the Company are Mr. Zhu Zhangjin, Mr. Zhou Xiaosong and Mr. Zhang Mingfa, Michael; and the independent non-executive directors of the Company are Mr. Chow Joseph, Dr. Li Qingyuan and Mr. Gu Mingchao.

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