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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, 2012

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, 2012. 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 COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2012

|  | NOTES | Six months<br>ended<br>June 30, 2012<br>RMB'000<br>(unaudited) | Six months<br>ended<br>June 30, 2011<br>RMB'000<br>(unaudited) |
|--|-------|--|--|
| Turnover   | 3     | 1,216,225  | 1,156,592  |
| Cost of sales                                    |       | <u>(1,033,625)</u>   | <u>(943,249)</u>   |
| Gross profit                                     |       | 182,600  | 213,343  |
| Other income                                     |       | 31,563   | 36,389   |
| Selling and distribution costs                   |       | (50,963)   | (71,759)   |
| Administrative expenses                          |       | (75,959)   | (58,232)   |
| Other expenses                                   |       | (6,048)  | (6,032)  |
| Other gains and losses                           |       | 9,773  | (5,027)  |
| Share of losses of associates                    |       | (7,631)  | (6,605)  |
| Gain on disposal/loss of control of a subsidiary | 8     | 17,871   | 64,371   |
| Finance costs                                    |       | <u>(43,677)</u>  | <u>(37,276)</u>  |
| Profit before tax                                | 4     | 57,529   | 129,172  |
| Income tax expenses                              | 5     | <u>(15,407)</u>  | <u>(21,212)</u>  |
| Profit for the period                            |       | <u>42,122</u>  | <u>107,960</u>   |

|   | <i>NOTES</i> | <b>Six months<br/>ended<br/>June 30, 2012<br/>RMB'000<br/>(unaudited)</b> | Six months<br>ended<br>June 30, 2011<br>RMB'000<br>(unaudited) |
|---|--------------|---|--|
| Other comprehensive income (expense)  |              |   |  |
| Fair value gain (loss) on available-for-sale investments  |              | <b>54,933</b>   | (80,610)   |
| Deferred tax liability on fair value change of available-for-sale investments   |              | <b>(13,733)</b>   | 20,153   |
| Cumulative exchange differences in respect of the net liabilities of the subsidiary reclassified from equity to profit or loss on loss of control of the subsidiary |              | —   | (1,531)  |
|   |              | <u>83,322</u>   | <u>45,972</u>  |
| Total comprehensive income for the period   |              | <b>83,322</b>   | 45,972   |
| Profit for the period attributable to:  |              |   |  |
| Owners of the Company   |              | <b>41,937</b>   | 104,018  |
| Non-controlling interests   |              | <b>185</b>  | 3,942  |
|   |              | <u>42,122</u>   | <u>107,960</u>   |
| Total comprehensive income attributable to:   |              |   |  |
| Owners of the Company   |              | <b>83,137</b>   | 42,030   |
| Non-controlling interests   |              | <b>185</b>  | 3,942  |
|   |              | <u>83,322</u>   | <u>45,972</u>  |
| Earnings per share  |              |   |  |
| Basic and diluted   | 7            | <b>RMB4 cents</b>   | RMB9 cents   |

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AT JUNE 30, 2012**

|   | <i>NOTES</i> | <b>June 30,<br/>2012<br/>RMB'000<br/>(unaudited)</b> | December 31,<br>2011<br>RMB'000<br>(audited) |
|---|--------------|--|--|
| <b>NON-CURRENT ASSETS</b>                                 |              |  |  |
| Property, plant and equipment                             |              | 464,366  | 408,225                                      |
| Prepaid lease payments – non-current portion              |              | 69,706   | 33,951                                       |
| Properties for development                                |              | 175,260  | 175,807                                      |
| Intangible assets   |              | 758  | 702  |
| Interests in associates                                   |              | 8,568  | 16,200                                       |
| Available-for-sale investments                            |              | 435,729  | 380,796                                      |
| Deferred tax assets                                       |              | 35,087   | 25,080                                       |
| Deposit paid for acquisition of a property                |              | –  | 40,000                                       |
| Deposit paid for acquisition of a subsidiary              |              | 212,581  | 212,581                                      |
| Advances for acquisition of land for development          |              | 279,430  | 279,430                                      |
| Deposit paid for acquisition of land use rights           |              | 26,000   | 17,068                                       |
|   |              | <u>1,707,485</u>                                     | <u>1,589,840</u>                             |
| <b>CURRENT ASSETS</b>                                     |              |  |  |
| Inventories   |              | 423,434  | 357,584                                      |
| Properties under development                              |              | 3,210,936  | 2,906,761                                    |
| Properties held for sale                                  |              | 427,058  | 412,814                                      |
| Trade, bills and other receivables                        | 9            | 878,680  | 810,617                                      |
| Receivable from disposal of assets                        |              | 219,735  | 270,948                                      |
| Prepaid lease payments – current portion                  |              | 1,668  | 806  |
| Derivative financial instruments                          |              | 497  | 497  |
| Tax recoverable   |              | 67,310   | 30,522                                       |
| Pledged bank deposits                                     |              | 245,203  | 185,180                                      |
| Restricted bank deposit for property development business |              | 8,663  | 9,192  |
| Bank balances and cash                                    |              | 493,337  | 370,385                                      |
|   |              | <u>5,976,521</u>                                     | <u>5,355,306</u>                             |
| Assets classified as held for sale                        |              | –  | 40,844                                       |
|   |              | <u>5,976,521</u>                                     | <u>5,396,150</u>                             |
| <b>CURRENT LIABILITIES</b>                                |              |  |  |
| Trade, bills and other payables                           | 10           | 1,344,169  | 1,185,590                                    |
| Deposits received in respect of pre-sale of properties    |              | 1,942,868  | 1,535,252                                    |
| Bank and other borrowings – due within one year           |              | 1,287,326  | 1,424,376                                    |
| Tax payable   |              | 69,054   | 36,194                                       |
|   |              | <u>4,643,417</u>                                     | <u>4,181,412</u>                             |
| Liabilities classified as held for sale                   |              | –  | 1,690  |
|   |              | <u>4,643,417</u>                                     | <u>4,183,102</u>                             |
| <b>NET CURRENT ASSETS</b>                                 |              | <u>1,333,104</u>                                     | <u>1,213,048</u>                             |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>              |              | <u>3,040,589</u>                                     | <u>2,802,888</u>                             |

|  | <b>June 30,<br/>2012</b> | December 31,<br>2011  |
|--|--------------------------|-----------------------|
| <i>NOTES</i>                                   | <b><i>RMB'000</i></b>    | <b><i>RMB'000</i></b> |
|  | <b>(unaudited)</b>       | (audited)             |
| <b>NON-CURRENT LIABILITIES</b>                 |                          |                       |
| Deferred tax liabilities                       | <b>218,506</b>           | 204,868               |
| Bank and other borrowings – due after one year | <b>5,804</b>             | 6,513                 |
| Other long-term liabilities                    | <b>141,450</b>           | –                     |
|  | <u><b>365,760</b></u>    | <u>211,381</u>        |
| <b>NET ASSETS</b>                              | <u><b>2,674,829</b></u>  | <u>2,591,507</u>      |
| <b>CAPITAL AND RESERVES</b>                    |                          |                       |
| Share capital                                  | <b>1,400</b>             | 1,400                 |
| Reserves                                       | <b>2,600,724</b>         | 2,517,587             |
|  | <u><b>2,602,124</b></u>  | <u>2,518,987</u>      |
| Equity attributable to owners of the Company   | <b>2,602,124</b>         | 2,518,987             |
| Non-controlling interests                      | <b>72,705</b>            | 72,520                |
|  | <u><b>2,674,829</b></u>  | <u>2,591,507</u>      |
| <b>Total equity</b>                            | <u><b>2,674,829</b></u>  | <u>2,591,507</u>      |

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2012**

**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.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2012 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended December 31, 2011.

In the current interim period, the Group has applied, for the first time, the following amendments to International Financial Reporting Standards (“IFRS”) issued by the IASB, which are effective for the Group’s financial year beginning on January 1, 2012:

|                     |   |
|---------------------|---|
| IFRS 7 (Amendments) | Disclosures – Transfers of Financial Assets |
| IAS 12 (Amendments) | Deferred Tax: Recovery of Underlying Assets |

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

**3. SEGMENT INFORMATION**

During the period, the Group has engaged in a new restaurant operation and provision of service to the residents and guests of the Group’s developed properties in the People’s Republic of China (“PRC”). The financial information was included in Others segment when regularly report to the chief operating decision maker.

**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, 2012**

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

Six months ended June 30, 2011

|                     | Manufacturing<br><i>RMB'000</i> | Properties<br>development<br><i>RMB'000</i> | Retail<br><i>RMB'000</i> | Others<br><i>RMB'000</i> | Segment<br>total<br><i>RMB'000</i> | Eliminations<br><i>RMB'000</i> | Total<br><i>RMB'000</i> |
|---------------------|---------------------------------|---|--------------------------|--------------------------|------------------------------------|--------------------------------|-------------------------|
| TURNOVER            |                                 |   |                          |                          |                                    |                                |                         |
| External sales      | 738,632                         | 377,459                                     | 37,961                   | 2,540                    | 1,156,592                          | –                              | 1,156,592               |
| Inter-segment sales | 10,492                          | –   | –                        | 3,000                    | 13,492                             | (13,492)                       | –                       |
| Total               | <u>749,124</u>                  | <u>377,459</u>                              | <u>37,961</u>            | <u>5,540</u>             | <u>1,170,084</u>                   | <u>(13,492)</u>                | <u>1,156,592</u>        |

**Results**

|   | <b>Six months<br/>ended<br/>June 30, 2012<br/><i>RMB'000</i></b> | Six months<br>ended<br>June 30, 2011<br><i>RMB'000</i> |
|---|--|--|
| Segment results                         |  |  |
| – Manufacturing                         | (12,226)   | (14,178)   |
| – Properties development                | 61,531   | 79,197   |
| – Retail                                | (2,412)  | (8,052)  |
| – Others                                | <u>(18,763)</u>  | <u>(6,956)</u>   |
|   | 28,130   | 50,011   |
| Unallocated corporate expenses          | (4,811)  | (2,854)  |
| Unallocated other gains and losses      | 932  | (3,568)  |
| Gain on loss of control of a subsidiary | <u>17,871</u>  | <u>64,371</u>  |
| Profit for the period                   | <u>42,122</u>  | <u>107,960</u>   |

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. PROFIT BEFORE TAX

|  | Six months<br>ended<br>June 30, 2012<br><i>RMB'000</i> | Six months<br>ended<br>June 30, 2011<br><i>RMB'000</i> |
|--|--|--|
| Profit before tax has been arrived at after charging (crediting):  |  |  |
| Amortization of intangible assets (included in administrative expenses)  | 205  | 224  |
| Amortization of properties for development (included in other expenses)  | 547  | 2,701  |
| Depreciation of property, plant and equipment  | 20,183   | 20,880   |
|  | <hr/>  | <hr/>  |
| Total depreciation and amortization  | 20,935   | 23,805   |
|  | <hr/>  | <hr/>  |
| Release of prepaid lease payments  | 403  | 713  |
| Interest on bank and other borrowings wholly repayable within five years   | 84,102   | 62,404   |
| Less: amount capitalised in respect of property under development  | (40,425)   | (25,128)   |
|  | <hr/>  | <hr/>  |
|  | 43,677   | 37,276   |
| (Gain) loss on disposal of property, plant and equipment<br>(included in other gains and losses)                           | (104)  | 764  |
| Net exchange (gain) loss (included in other gains and losses)  | (932)  | 3,568  |
| Dividend income from listed available-for-sale investments   | (5,163)  | (5,163)  |
| Government grants  | (3,545)  | (5,243)  |
| Reversal of (impairment loss) recognised in respect of trade and<br>other receivables (included in other gains and losses) | 4,897  | (825)  |
| Imputed interest of a receivable from disposal of assets   | (2,471)  | (5,862)  |
| Interest income  | (14,376)   | (11,778)   |
|  | <hr/> <hr/>  | <hr/> <hr/>  |

#### 5. INCOME TAX EXPENSES

|   | Six months<br>ended<br>June 30, 2012<br><i>RMB'000</i> | Six months<br>ended<br>June 30, 2011<br><i>RMB'000</i> |
|---|--|--|
| Land appreciation tax ("LAT") – current period    | 11,992   | 11,588   |
|   | <hr/>  | <hr/>  |
| PRC enterprise income tax                         |  |  |
| – Current period                                  | 15,337   | 19,341   |
| – Overprovision of income tax in previous periods | (1,821)  | (3,861)  |
|   | <hr/>  | <hr/>  |
|   | 13,516   | 15,480   |
| Deferred tax credit                               | (10,101)   | (5,856)  |
|   | <hr/>  | <hr/>  |
|   | 15,407   | 21,212   |
|   | <hr/> <hr/>  | <hr/> <hr/>  |

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 dividends were paid, declared or proposed during the current period (six months ended June 30, 2011: RMB2.46 cents per share, equivalent to approximately HK3.00 cents per share).

The directors have determined that no dividend will be paid in respect of the current period.

## 7. EARNINGS PER SHARE

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

### Profit for the period

|  | <b>Six months<br/>ended<br/>June 30, 2012<br/>RMB'000</b> | Six months<br>ended<br>June 30, 2011<br>RMB'000 |
|--|---|---|
| Profit for the period for the purposes of basic and diluted earnings per share, being profit attributable to owners of the Company | <u><u>41,937</u></u>                                      | <u><u>104,018</u></u>                           |

### Number of shares

|   |                             |                             |
|---|-----------------------------|-----------------------------|
| Weighted average number of ordinary shares for the purpose of basic earnings per share    | <u>1,161,972,300</u>        | 1,161,611,874               |
| Effect of dilutive potential ordinary shares – share options                              | <u>–</u>                    | <u>1,410,953</u>            |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | <u><u>1,161,972,300</u></u> | <u><u>1,163,022,827</u></u> |

No adjustment for diluted earnings per share for the six months ended June 30, 2012 as the exercise price of the Company's options was higher than the average market price per share during the period.

## 8. DISPOSAL/LOSS OF CONTROL OF A SUBSIDIARY

Pursuant to a Board resolution dated on March 29, 2011, the resolution in respect of the administration of a wholly owned subsidiary, Sofas UK Limited (“Sofas UK”), which carried out retail sales of furniture in the United Kingdom was duly passed. Accordingly, the Group filed the necessary documentation with the High Court of Justice (Bristol District Registry) in United Kingdom and administrators were appointed. The administration became effective from March 30, 2011, on which date the control of Sofas UK was lost. After consultation of a legal counsel for legal advice, the directors of the Company were in the opinion that the Group had lost its control over Sofas UK since administration became effective.

Up to the date of approval of these condensed consolidated financial statements, the administration has not completed.

In December 2011, the Group entered into an agreement with independent third parties to dispose of 100% interest of a subsidiary, Shanghai La Kassa Furniture Co., Ltd. (“La Kassa”), for an aggregate consideration of approximately RMB41,000,000. The disposal was completed on March 22, 2012, on which date the Group lost control of La Kassa.



## 9. 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:

|                | <b>June 30,<br/>2012<br/>RMB'000<br/>(unaudited)</b> | December 31,<br>2011<br>RMB'000<br>(audited) |
|----------------|--|--|
| Aged:          |  |  |
| Within 60 days | <b>320,009</b>                                       | 287,871                                      |
| 61-90 days     | <b>35,357</b>  | 92,781                                       |
| 91-180 days    | <b>13,050</b>  | 42,772                                       |
| 181-365 days   | <b>18,254</b>  | 12,884                                       |
| Over 1 year    | <b>2,888</b>   | 2,546  |
|                | <hr/> <b>389,558</b> <hr/>                           | <hr/> 438,854 <hr/>                          |

## 10. 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:

|                | <b>June 30,<br/>2012<br/>RMB'000<br/>(unaudited)</b> | December 31,<br>2011<br>RMB'000<br>(audited) |
|----------------|--|--|
| Aged:          |  |  |
| Within 60 days | <b>767,210</b>                                       | 703,086                                      |
| 61-90 days     | <b>159,304</b>                                       | 106,731                                      |
| 91-180 days    | <b>117,688</b>                                       | 110,934                                      |
| 181-365 days   | <b>34,896</b>  | 7,342  |
| 1-2 years      | <b>3,617</b>   | 19,220                                       |
| Over 2 years   | <b>8,747</b>   | 9,179  |
|                | <hr/> <b>1,091,462</b> <hr/>                         | <hr/> 956,492 <hr/>                          |

## 11. CAPITAL COMMITMENTS

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

|  | <b>June 30,<br/>2012</b> | December 31,<br>2011 |
|--|--------------------------|----------------------|
|  | <b>RMB'000</b>           | RMB'000              |
|  | <b>(unaudited)</b>       | (audited)            |
| Expenditure contracted for but not provided in the condensed consolidated financial statements in respect of |                          |                      |
| – Properties under development   | 579,774                  | 696,727              |
| – Acquisition of property, plant and equipment   | 49,686                   | 43,176               |
|  | <u>629,460</u>           | <u>739,903</u>       |

## 12. CONTINGENT LIABILITIES

The Group provided guarantees of RMB60,411,000 (December 31, 2011: RMB150,059,000) at June 30, 2012 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, 2012, the Group recorded a consolidated turnover of RMB1,216.2 million (six months ended June 30, 2011: RMB1,156.6 million), representing an increase of 5.2%.

The Group's gross profit for the six months ended June 30, 2012 was RMB182.6 million (six months ended June 30, 2011: RMB213.3 million) with an average gross profit margin of 15.0% (six months ended June 30, 2011: 18.4%).

The net profit attributable to owners of the Company for the first half of 2012 was approximately RMB41.9 million (six months ended June 30, 2011: RMB104.0 million), representing a decrease of 59.7% when compared with the corresponding period in 2011. The decrease in net profit was mainly due to the reduction of the one-off gain by approximately RMB46.5 million from the loss of control of two subsidiaries of the Group, namely, Sofas UK Ltd. and Shanghai La Kassa Furniture Co. Ltd., in the first half of 2011 and 2012, respectively.

## Review by Business Segments

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

The table below shows the total turnover by business segment for the six months ended June 30, 2012, together with the comparative figures for the corresponding period of year 2011:

|                       | 2012                  |                     | Six Months Ended June 30,<br>2011 |              | Change<br>% |
|-----------------------|-----------------------|---------------------|-----------------------------------|--------------|-------------|
|                       | RMB'Million           | %                   | RMB'Million                       | %            |             |
| Manufacturing         | <b>855.9</b>          | <b>70.4</b>         | 738.6                             | 63.9         | 15.9        |
| Upholstered Furniture | <b>274.8</b>          | <b>22.6</b>         | 270.4                             | 23.4         | 1.6         |
| Furniture Leather     | <b>105.5</b>          | <b>8.7</b>          | 133.8                             | 11.6         | -21.2       |
| Automotive Leather    | <b>475.6</b>          | <b>39.1</b>         | 334.4                             | 28.9         | 42.2        |
| Property Development  | <b>317.7</b>          | <b>26.1</b>         | 377.5                             | 32.6         | -15.8       |
| Retail                | <b>10.3</b>           | <b>0.8</b>          | 38.0                              | 3.3          | -72.9       |
| Others                | <b>32.3</b>           | <b>2.7</b>          | 2.5                               | 0.2          | 1,192.0     |
| Total                 | <b><u>1,216.2</u></b> | <b><u>100.0</u></b> | <u>1,156.6</u>                    | <u>100.0</u> | <u>5.2</u>  |

### *Manufacturing Business*

During the six months ended June 30, 2012, the Group's manufacturing business, comprising of upholstered furniture, furniture leather and automotive leather divisions, recorded a total turnover of RMB855.9 million (six months ended June 30, 2011: RMB738.6 million), representing an increase of 15.9%. This segment recorded a loss of RMB12.2 million, compared to a loss of RMB14.2 million for the corresponding period in 2011. 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 recorded a turnover of RMB274.8 million in the first half of 2012 as compared to RMB270.4 million for the corresponding period in 2011. During the period under review, the Group rebuilt its management team and consolidated the relationship with major customers.

#### *Furniture Leather*

The Group's priority in furniture leather production is to meet the internal leather requirement of its automotive leather and upholstered furniture division. The Group's sales of furniture leather recorded sales of RMB105.5 million in the first half of 2012 (six months ended June 30, 2011: RMB133.8 million), representing a decrease of 21.2%.

## *Automotive Leather*

During the six months ended June 30, 2012, the turnover from automotive leather division exceeded the turnover from upholstered furniture and accounted for 55.6% of the Group's manufacturing business. The Group, as one of the largest domestic automotive seat leather suppliers in China, successfully strengthened its relationships with major automakers in China. Revenue generated from this division was RMB475.6 million in the first half of 2012, representing an increase of 42.2% as compared to the corresponding period in 2011 (six months ended June 30, 2011: RMB334.4 million).

## *Property Development Business*

As of June 30, 2012, the Group has five property development projects at various stages of development and the turnover from the property development segment amounted to RMB317.7 million for the six months ended June 30, 2012 (six months ended June 30, 2011: RMB377.5 million).

### *Group's Property Project Portfolio as at June 30, 2012*

| No.   | Project Name        | Location                 | Interests<br>Attributable to<br>the Group | Total Site<br>Area (sq.m) | Status            |
|-------|---------------------|--------------------------|---|---------------------------|-------------------|
| 1     | Asia Bay            | Boao, Hainan             | 92%                                       | 590,165                   | Under development |
| 2     | Sanya Project       | Sanya, Hainan            | 77%                                       | 1,424,692                 | Pre-development   |
| 3     | Qianjiang Continent | Yancheng, Jiangsu        | 100%                                      | 331,040                   | Under development |
| 4     | Kingdom Garden      | Haining, Zhejiang        | 100%                                      | 449,189                   | Under development |
| 5     | Changbai Paradise   | Changbai Mountain, Jilin | 89%                                       | 157,004                   | Under development |
| Total |                     |                          |   | <u>2,952,090</u>          |                   |

### *Analysis of Properties Under Development*

| No.   | Project Name        | Total GFA<br>(sq.m.) | GFA under<br>development<br>(sq.m.) | Total<br>Saleable<br>GFA<br>(sq.m.) | GFA sold<br>as at<br>June 30, 2012<br>(sq.m.) | GFA delivered<br>as at<br>June 30, 2012<br>(sq.m.) | Average<br>Selling<br>Price<br>(RMB/sq.m.) |
|-------|---------------------|----------------------|-------------------------------------|-------------------------------------|---|--|--|
| 1     | Asia Bay            | 718,665              | 246,556                             | 575,443                             | 44,820  | 15,105   | 27,393                                     |
| 2     | Qianjiang Continent | 722,091              | 722,091                             | 646,887                             | 517,689                                       | 304,204  | 4,716                                      |
| 3     | Kingdom Garden      | 998,108              | 274,224                             | 662,620                             | 24,882  | -  | -  |
| 4     | Changbai Paradise   | 200,323              | 152,425                             | 159,024                             | -   | -  | -  |
| Total |                     | <u>2,639,187</u>     | <u>1,395,296</u>                    | <u>2,043,974</u>                    | <u>587,391</u>                                | <u>319,309</u>                                     |  |

## *Projects Overview*

### **Asia Bay in Boao of Hainan**

As the Group's first flagship project in resort property development, Asia Bay achieved a steady sales performance despite of the overall downturn in Hainan property markets. During the period under review, 41 units of the Sentosa and Bali Island semi-detached houses were successfully delivered and a revenue of RMB134.0 million was recognized (six months ended June 30, 2011: RMB259.4 million). The recognized gross floor area ("GFA") sold during the six months ended June 30, 2012 was 4,828 square meters.

### **Qianjiang Continent in Yancheng of Jiangsu**

During the six months ended June 30, 2012, the recognized GFA sold in this project was 27,123 square meters and the recognized sales amounted to RMB183.7 million (six months ended June 30, 2011: RMB118.1 million). A total of 201 units, including both commercial and residential units were delivered and the average selling price was RMB6,773 per square meter, as compared to RMB7,803 per square meter during the corresponding period in 2011.

### **Kingdom Garden in Haining of Zhejiang**

During the six months ended June 30, 2012, two phases of this project, including townhouses and apartments are in pre-sale and the contracted sales was RMB216,900,000 and the average pre-sale price was RMB8,717 per square meter. The performance of sales is outstanding compared to other real estate projects in the local market.

### **Changbai Paradise in Changbai Mountain of Jilin**

During the period under review, the five-star hotel and apartments are under construction and they will be ready for sale in the second half of 2012.

### **Other projects**

The Group's property project in Sanya of Hainan Province was still undeveloped as at June 30, 2012. No contribution was made by this project with respect to turnover and profit of the Group in the first half of 2012.

### **Operating Expenses, Taxation and Profit Attributable to Owners**

The Group's selling and distribution costs during the six months ended June 30, 2012 decreased to approximately RMB51.0 million, as compared to approximately RMB71.8 million in the first half of 2011, mainly due to the reduction of selling and distribution cost of Sofas UK Ltd. as a result of the loss of control of Sofas UK Ltd. by the Group since March 2011. Consequentially, the selling and distribution costs to turnover in the first half of 2012 decreased to 4.2% as compared to 6.2% for the corresponding period in 2011.

The administrative costs for the six months ended June 30, 2012 were approximately RMB76.0 million, representing an increase of approximately RMB17.8 million as compared to approximately RMB58.2 million during the corresponding period in 2011, mainly due to the increase of administrative expenses of approximately RMB10.5 million incurred by the business segment of tourism-related property development and services.

The Group's finance cost in the first half of 2012 was approximately RMB43.7 million, with an increase of approximately RMB6.4 million, as compared to approximately RMB37.3 million during the same period of 2011, the increase was mainly due to the increase in bank lending rates during the six months ended June 30, 2012.

The Group's income tax in the first half of 2012 was approximately RMB15.4 million, with a decrease of approximately RMB5.8 million, as compared to approximately RMB21.2 million in the corresponding period in 2011. The decrease resulted from (1) the decrease in taxable profits generated by the manufacturing business from the reduced sales of manufacturing business at subsidiary level and (2) a reversal of deferred taxation recognized in prior years amounting to RMB4.2 million.

An one-off gain on disposal of Shanghai La Kassa Furniture Co. Ltd. as the Group's PRC subsidiary amounting to RMB17.9 million was recorded in the first half of 2012 while an one-off gain on loss of control of Sofas UK Ltd. as the Group's subsidiary amounting to RMB64.4 million was recorded during the six months ended June 30, 2011. As a result, there was a reduction of the one-off gain by approximately RMB46.5 million. For details, please refer to note 8 to the Condensed Consolidated Financial Statements.

For reasons mentioned above, the net profit attributable to owners of the Company was approximately RMB41.9 million in the first half of 2012 (six months ended June 30, 2011: RMB104.0 million).

## **FINANCIAL RESOURCES AND LIQUIDITY**

As at June 30, 2012, the Group had cash and cash equivalent of RMB493.3 million (as at December 31, 2011: RMB370.7 million) and a total borrowings of RMB1,293.1 million (as at December 31, 2011: RMB1,430.9 million). This represents a gearing ratio of 49.5% (as at December 31, 2011: 56.5%) and a net debt-to-equity ratio of 30.5% (as at December 31, 2011: 41.8%). 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, 2012, the Group's inventory which primarily represented leather crust, was RMB421.8 million, representing an increase of RMB64.2 million as compared to RMB357.6 million as of December 31, 2011. During the six months ended June 30, 2012, the Group endeavored to control inventory level and managed to maintain its inventory turnover period to 96 days as compared to 85 days as at December 31, 2011.

During the six months ended June 30, 2012, the Group continued to maintain a strict credit policy. The account receivable turnover days of the Group's manufacturing and retail segments decreased to 77 days for the first half of 2012 (as at December 31, 2011: 89 days).

The accounts payable turnover days of the Group's manufacturing and retail segments increased to 78 days for the six months ended June 30, 2012 (as at December 31, 2011: 52 days).

## **MATERIAL ACQUISITION AND DISPOSAL**

During the period under review, the Group disposed a wholly owned subsidiary, Shanghai La Kassa Furniture Co. Ltd to an independent third party for the consideration of RMB41.0 million. The profit generated from the disposal is approximately RMB17.9 million. The disposal is part of the Group's reform measures in the consolidation of manufacturing business.

Save as disclosed above, the Group did not have any material acquisitions or disposals during the six months ended June 30, 2012.

## **PLEDGE OF ASSETS**

During the six months ended June 30, 2012, the Group pledged deposits, property, plant and equipment to banks to secure the bills payable issued by the Group and the bank facilities granted to the Group. The deposits carry an average interest rate of 3.3%.

## **FOREIGN EXCHANGE EXPOSURE**

The Group is principally engaged in export-related business, and transactions (including sales and procurements) are mainly denominated in US dollars, and most of the trade receivables are exposed to exchange rate fluctuation. During the six months ended June 30, 2012, the Group used forward contracts and some other financial instruments to hedge foreign exchange risk, and recorded a gain of approximately RMB282,000.

## **CONTINGENT LIABILITIES**

As at June 30, 2012, the Group had certain contingent liabilities. For details, please refer to note 12 to the Condensed Consolidated Financial Statements.

## **EMPLOYEES AND EMOLUMENTS POLICIES**

As at June 30, 2012, the Group employed a total of approximately 3,800 full time employees (as at June 30, 2011: approximately 3,700) including management staff, technicians, salespersons and workers. For the six months ended June 30, 2012, the Group's total expenses on the remuneration of employees were RMB75.4 million (six months ended June 30, 2011: RMB62.5 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) 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 of the Company ("Remuneration Committee"), who are authorized by the shareholders of the Company (the "Shareholders") in the annual general meeting, having regard to the Group's operating results, individual performance and comparable market statistics.

## **FUTURE PLANS AND PROSPECTS**

### **Manufacturing business**

In the leather production business, the new factory located in Jiangsu Province, PRC will go into operation in the second half of 2012. The new factory has the production capacity of processing 3,000 pieces of raw hide per day now and will help the Group to complete the growing orders from customers. The automotive leather business will continue to be the most promising division in the Group's manufacturing business. In the future, the Group will continue to enhance its leading position in the domestic automotive seat leather market by increasing investment in technology as well as research and development or through mergers and acquisitions.

The global furniture market will not recover soon in a short time due to the world-wide economic downturn. To get through the tough times, the Group will take reform measures in the furniture export division, including rebuilding the management teams, optimizing manufacturing process flow and adopt new incentives to salesman to consolidate the relationship with major customers and increase the profit margin.

### **Tourism-Related Property Development and Services**

It is expected that regulatory measures in real estate will not be untied substantially in the short run. The Group will stick to the prudent strategy in the expansion of its property business and put more resources in the development of existing projects in Hainan, Changbai Mountain, Jiangsu and Zhejiang. More premises in Asia Bay of Hainan and Qianjiang Continent of Jiangsu will be delivered and it will make great contribution to the Group's financial performance. The construction of apartments in Changbai Paradise of Changbai Mountain will continue and get ready for pre-sale before the end of 2012. The sale performance of Kingdom Garden in Haining is good during the past half year and the next phases of this project will go into market as planned.

The central government of PRC has issued policies to stimulate the tourism industry in the first half of 2012 and it further enhanced the Group's confidence in the investment in the tourism-related services.

The Group has established the cooperation relationship with Gansu Shan Dan Horse Farm, the biggest Imperial Horse Farm in the World. Shan Dan Horse Farm located in Gansu Province, owns rich tourist resources, including lakes, snow mountain, grassland and thousands of horses. The Group will build boutique hotels in the farm and develop it into an attractive tourist destination to the travellers all over the world.

In Boao of Hainan Province, a modern performance center wholly owned and operated by the Group will be opened to the tourists in the second half of 2012. This performance center, located in the Asia Bay, will be the first and unique one in Boao.

The Group will launch the construction of a large-scale water park resort located in its project in Sanya of Hainan. This resort, named "Sanya Phoenix Dream Water World Resort" was designed by Forrec Limited, a global leader in the planning and design of themed attractions, entertainment facilities and themed environments. It will become one of the top water parks in the world when the construction is fully completed in the year of 2013.



## **CORPORATE GOVERNANCE**

The Company has adopted the “Code on Corporate Governance Practices” (the “CG Code”) as set out in Appendix 14 of the Listing Rules as its corporate governance code of practices. For the six months ended June 30, 2012, the Board is of the view that, for the period from January 1, 2012 till March 31, 2012, the Company has complied with the code provisions as set out in the CG Code and in the revised CG Code from April 1, 2012 till June 30, 2012, except for the following deviation to code provisions A.2.1.

### **CODE PROVISION A.2.1**

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

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “Model Code”) as its own code of conduct regarding directors’ securities transactions. Specific enquiries have been made with all Directors, who have confirmed that, during the six months ended June 30, 2012, each of them has complied with the required standards as set out in the Model Code.

## **AUDIT COMMITTEE**

The Audit Committee comprises all the three independent non-executive Directors namely, Mr. Sun Steve Xiaodi, Mr. Zhang Yuchuan and Mr. Zhou Lingqiang, has reviewed with management and the external auditors on the accounting principles and practices adopted by the Group. The Audit Committee has held meetings with the Company’s senior management to review, supervise and discuss the Company’s financial reporting and internal control principles and to make recommendations to improve the Company’s internal control, and to ensure that management has discharged its duty to have an effective internal control system during the six months ended June 30, 2012, including the review of the unaudited interim results of the Group for the six months ended June 30, 2012.

## **REMUNERATION COMMITTEE**

The remuneration committee of the Company (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 Company has established a separate nomination committee (the “Nomination Committee”) on March 1, 2012. The Nomination Committee comprises of three members, the majority of which are independent non-executive Directors and an independent non-executive Director, Mr. Sun Steve Xiaodi is the chairman of the Nomination Committee. The Nomination Committee is responsible for nominating Directors, reviewing the structure and the composition of the Board regularly, then identifying and nominating qualified individuals to be appointed as new Directors of the Company.

## **INTERIM DIVIDEND**

The Board do not recommend the payment of any interim dividend for the six months ended June 30, 2012 (six months ended June 30, 2011: RMB2.46 cents (equivalent to approximately HK3.00 cents) per ordinary share).

## **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, 2012.

## **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, 2012.

## **PUBLICATION OF INFORMATION ON THE EXCHANGE’S WEBSITE**

The interim report of the Company for the six months ended June 30, 2012 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](http://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 29, 2012

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

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