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## **BUSINESS REVIEW AND PROSPECTS**

### **RESULTS OVERVIEW**

On February 1, 2016, Kasen International Holdings Limited (the “Company”), Cardina International Company Limited, a wholly-owned subsidiary of the Company, Zhejiang Kasen Industrial Group Company Limited, a wholly-owned subsidiary of the Company and Mr. Zhu Zhangjin entered into the sale and purchase agreement (the “Sale and Purchase Agreement”) with Ms. Zhu Jiayun and Ms. Zhu Lingren (daughters of Mr. Zhu Zhangjin) to dispose seven subsidiaries (collectively the “Disposal Group”) engaging in automotive leather and furniture leather manufacturing businesses (the “Disposal”), which are presented as “discontinued operation” in this interim report. During the year 2016, the transfer of control of the Disposal Group which are principally engaged in the production of automotive leather and furniture leather was completed and thereafter its results were de-consolidated from the Group’s financial statements. For further details relating to the Disposal, please refer to the announcements dated February 1, 2016 and November 25, 2016, respectively and circular of the Company dated April 29, 2016.

For the six months ended June 30, 2017, the Company together with its subsidiaries (the “Group”) recorded a consolidated turnover of approximately RMB774.7 million (six months ended June 30, 2016: RMB1,103.8 million) from its continuing operations, i.e. operations of the Group other than the Disposal Group, representing a decrease of approximately 29.8% when compared with the corresponding period in 2016.

The Group’s gross profit from its continuing operations for the six months ended June 30, 2017 was approximately RMB172.9 million (six months ended June 30, 2016: RMB156.2 million) with an average gross profit margin of approximately 22.3% (six months ended June 30, 2016: 14.2%), representing an increase of approximately 10.7% or RMB16.7 million when compared with the corresponding period in 2016.

The net loss attributable to owners of the Company from continuing operations was approximately RMB76.3 million in the first half of 2017 (six months ended June 30, 2016: a net loss of RMB14.5 million). The increase in such net loss was largely due to the sharp increase in the selling costs incurred during the first half of 2017 in relation to the substantially large number of pre-sale properties for the property development segment of the Group. Further detailed discussions on some other changes in the financial results were set out in the remaining parts of this section. Following the Disposal in 2016, there was no profit (six months ended June 30, 2016: RMB5.5 million) and gain on disposal of subsidiaries (six months ended June 30, 2016: RMB28.6 million) from discontinued operation recognised during the period under review. Taking into account of the aforesaid, no income attributable to owners of the Company from the discontinued operation was recognised for the six months ended June 30, 2017 (six months ended June 30, 2016: RMB34.1 million). As a result, the overall net loss attributable to owners of the Company for the first half of 2017 was approximately RMB76.3 million (six months ended June 30, 2016: overall net profit of RMB19.6 million).

## BUSINESS REVIEW AND PROSPECTS (cont'd)

### RESULTS OVERVIEW (cont'd)

#### Review by Business Segments of Continuing Operations

The Group's reportable business segments of continuing operations principally consist of manufacturing of upholstered furniture, property development and others (comprising mainly tourism resort-related business, operation of restaurant and hotel, and provision of travel-related services).

The table below shows the total turnover by business segment of continuing operations for the six months ended June 30, 2017, together with the comparative figures for the corresponding period in 2016:

	2017		Six Months Ended June 30, 2016		Change
	RMB'Million	%	RMB'Million	%	
Manufacturing of upholstered furniture	314.4	40.6	295.2	26.7	6.5
Property development	385.0	49.7	740.5	67.1	-48.0
Retail	0.2	-	-	-	-
Others	75.1	9.7	68.1	6.2	10.3
<b>Total</b>	<b>774.7</b>	<b>100.0</b>	<b>1,103.8</b>	<b>100.0</b>	<b>-29.8</b>

#### **Manufacturing Business**

During the period under review, the Group's manufacturing of upholstered furniture (continuing operation includes sofa and sofa cut-and-sew) realised a total turnover of approximately RMB314.4 million, representing an increase of approximately 6.5% as compared to the total turnover of approximately RMB295.2 million in the corresponding period of 2016. The Group's manufacturing of upholstered furniture is still export-oriented with main customers located in the U.S. market. Benefited from the Group's continuous efforts to develop the U.S. markets and enhance foreign customers' recognition on the products, the sales performance of the upholstered furniture division is stable. However, the increase in the cost of materials, and the effect of depreciation of USD against Renminbi on those USD denominated sales resulted in a profit drop in the segment. The segment recorded a profit of approximately RMB2.5 million, representing a decrease of approximately 87.1% as compared to the profit of approximately RMB19.4 million in the corresponding period of 2016.

#### **Property Development Business**

As at June 30, 2017, the Group had six projects at various stages of development in different geographical locations in the PRC. During the period under review, the Group had not commenced new property development project. During the six months ended June 30, 2017, the turnover recorded from the property development segment was approximately RMB385.0 million, representing a decrease of approximately 48.0% as compared to approximately RMB740.5 million in the corresponding period of 2016. The decrease in sales was mainly due to the decrease of delivery of properties from the Group's existing development projects.

On the other hand, the performance of pre-sale of the Group's property development projects is satisfactory. The contracted sales in gross floor area ("GFA") was 346,589 square meters with a sales amount of RMB2,750.3 million during the period under review.

**BUSINESS REVIEW AND PROSPECTS** (cont'd)  
**RESULTS OVERVIEW** (cont'd)  
**Review by Business Segments of Continuing Operations** (cont'd)

**Property Development Business** (cont'd)

Group's Property Project Portfolio as at June 30, 2017

No.	Project Name	Location	Interests Attributable to the Group	Total Site Area (sq.m)	Status	Usage
1	Asia Bay	Boao, Hainan	92%	590,165	Under development	Residential and tourism resort
2	Sanya Project	Sanya, Hainan	80.5%	1,423,987	Under development	Hotel and tourism resort
3	Qianjiang Continent	Yancheng, Jiangsu	100%	335,822	Completed	Residential and commercial
4	Kasen Star City (Including Kingdom Garden and Jing Xiang Yuan, etc.)	Haining, Zhejiang	100%	469,867	Under development	Residential and commercial
5	Changbai Paradise	Changbai Mountain, Jilin	89%	118,195	Completed	Residential and hotel
6	Qianjiang Oasis	Yancheng, Jiangsu	55%	108,138	Under development	Residential
Total				3,046,174		

*Analysis of Property Development Projects*

No.	Project Name	Total GFA (sq.m.)	GFA under development/ completed (sq.m.)	Total Saleable GFA (sq.m.)	Accumulated GFA sold as at June 30, 2017 (sq.m.)	Accumulated GFA delivered as at June 30, 2017 (sq.m.)	Average Selling Price (RMB/sq.m.)
1	Asia Bay	718,665	342,435	590,165	147,457	131,511	14,358
2	Qianjiang Continent	775,292	775,292	669,717	657,778	643,934	6,570
3	Kasen Star City	958,422	958,422	711,893	552,450	221,417	5,779
4	Changbai Paradise	129,567	129,567	102,241	28,137	22,851	-
5	Qianjiang Oasis	346,797	157,047	293,635	135,598	41,901	4,560
Total		2,928,743	2,362,763	2,367,651	1,521,420	1,061,614	

## **BUSINESS REVIEW AND PROSPECTS (cont'd)**

### **RESULTS OVERVIEW (cont'd)**

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

The Group's selling and distribution costs from its continuing operations during the six months ended June 30, 2017 increased to approximately RMB154.1 million, as compared to approximately RMB59.2 million in the first half of 2016, mainly due to the sharp increase of approximately RMB91.8 million in the selling costs incurred during the first half of 2017 in relation to the substantially large number of pre-sale properties for the property development segment of the Group. The selling and distribution costs to turnover in the first half of 2017 increased to 19.9% as compared to 5.4% for the corresponding period in 2016.

The administrative costs from its continuing operations for the six months ended June 30, 2017 were approximately RMB89.7 million, representing a slight increase of approximately RMB1.0 million as compared to approximately RMB88.7 million during the corresponding period in 2016. All administrative costs were maintained at a relatively stable level during the period under review.

The Group's finance cost from its continuing operations in the first half of 2017 was approximately RMB8.5 million, representing an increase of approximately RMB1.6 million as compared to approximately RMB6.9 million for the same period of 2016. The finance cost was mainly incurred in the Group's bank borrowings. During the period under review, the amount of interests charged in the bank borrowings used for financing the Group's property development projects which was capitalised decreased, leading to the increase in the finance costs as compared to the same period in 2016.

The Group's income tax from its continuing operations in the first half of 2017 was approximately RMB21.1 million, mainly representing a decrease of approximately RMB17.0 million as compared to approximately RMB38.1 million in the corresponding period in 2016. The decrease was mainly resulted from a decrease in PRC income tax of approximately RMB3.1 million mainly due to a decrease in taxable profits generated at the subsidiary level, and also a decrease in PRC land appreciation tax of approximately RMB7.3 million from the property development projects.

The Group recorded a net gain of approximately RMB13.1 million in other gains and losses from its continuing operations in the first half of 2017, while it recorded a net gain of approximately RMB9.0 million during the same period of 2016. The increase of approximately RMB4.1 million was mainly due to a gain on disposal of a subsidiary which was engaged in property development business of approximately RMB17.1 million being recognized during the first half of 2017, which was offset by the increase in net foreign exchange loss of approximately RMB10.9 million. For details of the other gains and losses, please refer to note 4 to the Condensed Consolidated Financial Statements.

For reasons mentioned above, the net loss attributable to owners of the Company from continuing operations was approximately RMB76.3 million in the first half of 2017 (six months ended June 30, 2016: a net loss of RMB14.5 million).

As the Disposal was completed in 2016, there were no income generated from the discontinued operation for the first half of 2017 (six months ended June 30, 2016: RMB34.1 million).

Based on the aforesaid factors, there was a turnaround from profit to loss, such that the overall net loss attributable to owners of the Company for the first half of 2017 was approximately RMB76.3 million (six months ended June 30, 2016: net profit of RMB19.6 million).

## **BUSINESS REVIEW AND PROSPECTS (cont'd)**

### **FINANCIAL RESOURCES AND LIQUIDITY**

As at June 30, 2017, the Group had cash and cash equivalent available for utilisation totalling approximately RMB794.1 million (as at December 31, 2016: RMB339.7 million) and a total borrowings of approximately RMB641.6 million (as at December 31, 2016: RMB780.9 million). This represents a gearing ratio of 20.0% (as at December 31, 2016 : 22.1%). The gearing ratio is based on bank borrowings to shareholders' equity. In the first half of 2017, the Group's credit facilities were renewed on an on-going basis, which provided sufficient cash to finance the Group's working capital requirement during the period under review.

As at June 30, 2017, the Group's inventory was approximately RMB81.2 million, representing an increase of approximately RMB16.3 million as compared to approximately RMB64.9 million as of December 31, 2016. During the six months ended June 30, 2017, the Group endeavored to control the inventory level and its inventory turnover period was 54 days as compared to 51 days as at December 31, 2016.

During the six months ended June 30, 2017, the Group continued to maintain a strict credit policy. The account and bills receivable turnover days of the Group's manufacturing and retail segments was decreased to 47 days for the first half of 2017 (as at December 31, 2016: 65 days).

During the period under review, the accounts and bills payable turnover days of the Group's manufacturing and retail segments increased to 94 days for the six months ended June 30, 2017 (as at December 31, 2016: 76 days).

### **MATERIAL ACQUISITION AND DISPOSAL**

During the period under review, in March 2017, the Group disposed of the land use right of a parcel of land in Haining of Zhejiang Province together with the immovable properties thereon with a total site area of 6,314.26 square meters to a connected party, namely Haining Kasen Home Furniture Materials Technology Co. Ltd. As at the date of this report, the disposal has not yet been completed.

Save as otherwise, the Group did not have any material acquisitions or disposal during the six months ended June 30, 2017.

### **PLEDGE OF ASSETS**

During the six months ended June 30, 2017, the Group pledged deposits, property, plant and equipment to banks to secure the bills payable issued by the Group and the bank facilities granted to the Group. The deposits carry an average interest rate of 1.55%.

### **FOREIGN EXCHANGE EXPOSURE**

The Group is principally engaged in manufacturing, property development and tourism resort-related business. Its manufacturing business is export-orientated, and transactions (including sales and procurements) are mainly denominated in US dollars, and the trade receivables may be exposed to exchange rate fluctuation. During the period under review, the Group did not take any hedging measures but will continue to monitor the situation and make necessary arrangement as and when appropriate.

### **CONTINGENT LIABILITIES**

As at June 30, 2017, the Group had certain contingent liabilities. For details, please refer to note 15 to the Condensed Consolidated Financial Statements.

## **BUSINESS REVIEW AND PROSPECTS (cont'd)**

### **EMPLOYEES AND EMOLUMENTS POLICIES**

As at June 30, 2017, the Group employed a total of approximately 3,400 full time employees (as at June 30, 2016: approximately 4,800) including management staff, technicians, salespersons and workers. For the six months ended June 30, 2017, the Group's total expenses on the remuneration of employees were approximately RMB88.3 million (six months ended June 30, 2016: RMB123.6 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) 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 (the "Board") of directors (the "Directors") of the Company with reference to their respective qualification and experience, responsibilities undertaken, contribution to the Group, and the prevailing market level of remuneration for executives of similar position. The emoluments of the Directors are decided by the Board and the remuneration committee of the Company (the "Remuneration Committee"), who are authorized by the shareholders of the Company (the "Shareholders") in the annual general meeting, having regard to the Group's operating results, individual performance and comparable market statistics.

The Group has also adopted share option scheme for the purpose of providing incentives to Directors, eligible employees and third party service providers. Further details in relation to the scheme are set out in the section headed "Disclosure of Interests – Share Options" of this report.

### **ENVIRONMENTAL PROTECTION AND SOCIAL RESPONSIBILITY**

In upholding the core values of "Harmonious Development Achieved Through Coordinating Our Employees and Corporation to Serve Social Benefits", the Group strongly commit itself to protecting the environment and fulfilling its corporate social responsibility during the course of the Group's development and growth.

The Group is committed to becoming a green manufacturer in its upholstered furniture manufacturing business and has carried out various measures, including green sourcing, supplier management, emission control and resource recycling which are aimed at reducing consumption and protecting the environment. The Group has since replicated its commitment when it expands its business into property development. The Group has placed great emphasis on energy conservation, environmental protection, green technology, reduction of carbon emissions in the design, construction and operation, and strives to build sustainable properties and seeks harmonious co-existence with the natural environment.

The Group strives to provide a decent working environment, attractive salary, benefits and career prospects for its employees. The Group establishes sound training policies and procedures to continuously improve the professional skills of its employees. The Group strictly complies with all labour and employment regulations, respects and upholds international human rights conventions and labour standards, and eliminates the employment of child labour and forced labour.

The Group has proactively participated in social welfare undertakings by establishing a team of employee volunteers to participate in various social services and contribute to the society.



## **BUSINESS REVIEW AND PROSPECTS (cont'd)**

### **FUTURE PLANS AND PROSPECTS**

The Group's property development business is subject to the macro-control policies promulgated by the local governments which the projects are located at. In light of these policies, the Group will take proactive measures, adjusting the relevant project planning and development progress, adopting a flexible marketing strategy and speeding up the sales of major property development projects. In order to promote the development of tourism resort-related business and improve the overall management efficiency, the Group has merged the tourism resorts management team with the property development management team to strengthen the operation and management of the tourism resorts in Hainan Boao, Hainan Sanya and Hangzhou.

The Group will focus on pursuing development opportunities on its existing businesses including tourism resorts, hotel operation and property development. As at June 30, 2017, the Group had six residential, commercial, hotel or tourism resort projects at various stages of development in different locations in the PRC. The Group had completed the development of two projects, while the development of the other four projects are ongoing. The performance of pre-sale of the Group's property development projects remains satisfactory.

The Group will strive to complete the acquisition of 51% equity interest in 湖南省中南郵票交易中心有限公司 (Hunan Province Zhongnan Stamp Trading Center Company Limited). Upon completion of the acquisition, the business of the Group will be expanded into cultural products trading, and it is expected that the acquisition will diversify the Group's business and enhance the long-term growth potential of the Company and Shareholders' value.

## DISCLOSURE OF INTERESTS DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at June 30, 2017, the interests of the Directors and chief executives of the Company in the shares of the Company (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as contained in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") are as follows:

### (1) Long positions in shares of the Company

Name of Directors	Number of shares held, capacity and nature of interest			Percentage of the Company's issued share capital
	Directly beneficially owned	Through controlled corporation	Total number of shares interested	
Zhu Zhangjin ("Mr. Zhu") (Note 1)	12,360,000	514,798,635	527,158,635	34.89%
Zhang Mingfa, Michael (Note 2) (resigned on February 20, 2017)	1,980,000	–	1,980,000	0.13%
Zhou Xiaohong (Note 2) (appointed on June 30, 2017)	9,214,561	–	9,214,561	0.61%

#### Notes:

- (i) Mr. Zhu Zhangjin, the chairman of the Company, as settlor, and together with persons acting in concert with him as beneficiaries of a family trust (a trust set up to hold interest of family of Mr. Zhu Zhangjin (excluding Mr. Zhu Zhangjin) in the Company), being the substantial shareholders of the Company, are collectively holding 527,158,635 Shares or approximately 34.89% of the total number of issued Shares (including the 514,798,635 Shares or approximately 34.07% of the issued Shares held by Joyview Enterprises Limited ("Joyview") which in turn is wholly owned by the trustee of such family trust). This figure does not include the options granted to Mr. Zhu to subscribe for 1,000,000 shares as at June 30, 2017 under the share option scheme adopted by a resolution of the Shareholders on September 24, 2005 and passed by a resolution of the Board on September 26, 2005 (the "2005 Share Option Scheme"), the grant of which was approved by the Board on May 26, 2015.
- (ii) This figure does not include the options granted to each of Mr. Zhang Mingfa and Ms. Zhou Xiaohong to subscribe for 3,500,000 shares respectively as at June 30, 2017 under the 2005 Share Option Scheme, the grants of which were approved by the Board on May 5, 2008 and May 26, 2015 for the share option grant.

### (2) Long positions in underlying shares of the Company

Long positions in underlying shares of the Company are separately disclosed in the paragraph "Share Option" below.

Save as disclosed herein, none of the Directors nor the chief executives of the Company has any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as at June 30, 2017.

## **DISCLOSURE OF INTERESTS (cont'd)**

### **SHARE OPTIONS**

On October 20, 2005, the Company adopted the 2005 Share Option Scheme for the primary purpose of providing incentives to Directors, eligible employees and third party services providers. The 2005 Share Option Scheme became effective on October 20, 2005 and the options issued pursuant to the 2005 Share Option Scheme will expire no later than 10 years from the date of grant of the option. Under the 2005 Share Option Scheme, the Board may grant options to any employees of the Company or any of its subsidiaries to subscribe shares of the Company. The 2005 Share Option Scheme was terminated on May 29, 2015. As at June 30, 2017, the Company had 27,600,000 outstanding options granted pursuant to the 2005 Share Option Scheme.

On the same date of the termination of the 2005 Share Option Scheme (i.e. May 29, 2015), a new share option scheme was adopted by the Company pursuant to a shareholders resolution passed on May 29, 2015 (the “2015 Share Option Scheme”) for the primary purpose of providing incentives to Directors and eligible employees. The 2015 Share Option Scheme became effective on May 29, 2015 and the options issued pursuant to the 2015 Share Option Scheme will expire no later than 10 years from the date of grant of the option. As at the date of this report, no options have been granted by the Company under the 2015 Share Option Scheme.

For any options granted to Directors, chief executives or substantial shareholders of the Company, options to be granted shall be approved by the independent non-executive Directors of the Company (excluding any independent non-executive Director who is the proposed grantee of options).

The total number of shares in respect of which options may be granted respectively under the 2005 Share Option Scheme is not permitted to exceed 10% of the shares of the Company on October 20, 2005 (representing 101,404,536 shares of the Company) and under the 2015 Share Option Scheme is not permitted to exceed 10% of the shares of the Company on May 29, 2015 (representing 116,232,298 shares of the Company) without prior approval from the Shareholders. The number of shares issued and to be issued in respect of options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the total shares of the Company in issue at any point of time, without prior approval from the Shareholders.

The amount payable on acceptance of an option is HK\$1.00. In relation to any options granted under both the 2005 Share Option Scheme and the 2015 Share Option Scheme, the exercise price is determined by the Directors, and will not be less than the higher of (i) the closing price of the Company’s shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company’s share. Each grantee shall pay a consideration of HK\$1.00 at the time the option is granted.

Both the 2005 Share Option Scheme and the 2015 Share Option Scheme do not contain any minimum period(s) for which an option must be held before it can be exercised. However, at the time of granting of the options, the Company may specify any such minimum period(s).

Unless otherwise terminated by the Board or the Shareholders in general meeting in accordance with the terms of the 2015 Share Option Scheme, the 2015 Share Option Scheme shall be valid and effective for a period of 10 years from the date on which it becomes unconditional which was May 29, 2015, after which no further options will be granted or offered but the provisions of the 2015 Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting options granted prior to the expiry of the 10-years period or otherwise as may be required in accordance with the provisions of the 2015 Share Option Scheme.

## DISCLOSURE OF INTERESTS (cont'd)

### SHARE OPTIONS (cont'd)

As at June 30, 2017, the total numbers of shares available for issue under the 2005 Share Option Scheme and the 2015 Share Option Scheme were 27,600,000 shares and 116,232,298 shares, respectively, which represented 1.8% and 7.7% of the shares in issue respectively as at the date of this interim report.

Details of movement of the share options during the six months ended June 30, 2017, being share options granted pursuant to the 2005 Share Option Scheme on May 5, 2008 and May 26, 2015, respectively, were as follows:

Name of Director	Exercise price HK\$	Number of share options			Outstanding as at June 30, 2017	Percentage of total issued share capital	Exercisable period	Notes
		Outstanding as at January 1, 2017	Granted from January 1, 2017 to June 30, 2017	Forfeited from January 1, 2017 to June 30, 2017				
Zhu Zhangjin	1.37	1,000,000	-	-	1,000,000	0.06%	1/1/2016 to 25/5/2025	3,4,5
Zhang Mingfa, Michael (resigned on February 20, 2017)	1.18	250,000	-	-	250,000	0.02%	1/1/2009 to 4/5/2018	1,4,5
	1.18	250,000	-	-	250,000	0.02%	1/1/2010 to 4/5/2018	2,4,5
	1.37	3,000,000	-	-	3,000,000	0.20%	1/1/2016 to 25/5/2025	3,4,5
Zhou Xiaohong (appointed on June 30, 2017)	1.18	250,000	-	-	250,000	0.02%	1/1/2009 to 4/5/2018	1,4,5
	1.18	250,000	-	-	250,000	0.02%	1/1/2010 to 4/5/2018	2,4,5
	1.37	3,000,000	-	-	3,000,000	0.20%	1/1/2016 to 25/5/2025	3,4,5
		8,000,000	-	-	8,000,000	0.54%		
Other employees in aggregate	1.18	1,300,000	-	-	1,300,000	0.08%	1/1/2009 to 4/5/2018	1,4,5
	1.18	1,300,000	-	-	1,300,000	0.08%	1/1/2010 to 4/5/2018	2,4,5
	1.37	17,000,000	-	-	17,000,000	1.12%	1/1/2016 to 25/5/2025	3,4,5
		27,600,000	-	-	27,600,000	1.82%		

## DISCLOSURE OF INTERESTS (cont'd)

### SHARE OPTIONS (cont'd)

Notes:

1. These share options were granted pursuant to the 2005 Share Option Scheme on May 5, 2008 and are exercisable at HK\$1.18 per Share from January 1, 2009 to May 4, 2018. The closing price of shares of the Company immediately before the date of grant of share options was HK\$1.18.
2. These share options were granted pursuant to the 2005 Share Option Scheme on May 5, 2008 and are exercisable at HK\$1.18 per Share from January 1, 2010 to May 4, 2018. The closing price of shares of the Company immediately before the date of grant of share options was HK\$1.18.
3. These share options were granted pursuant to the 2005 Share Option Scheme on May 26, 2015 and are exercisable at HK\$1.37 per Share from January 1, 2016 to May 25, 2025. The closing price of shares of the Company immediately before the date of grant of share options was HK\$1.38.
4. These share options represent personal interest held by the relevant participants as beneficial owner.
5. During the six months ended June 30, 2017, none of these share options were exercised, forfeited nor cancelled.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Other than the schemes disclosed in the paragraph headed "Share Options" above, at no time during the six months ended June 30, 2017 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

## SUBSTANTIAL SHAREHOLDERS

As at June 30, 2017, the following persons (other than Directors or chief executives of the Company stated in the above paragraph headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures") had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Shareholder	Capacity	Short position	Long position	Number of issued shares held	Percentage
					of the Company's issued share capital
Joyview <sup>1</sup>	Beneficial owner	–	514,798,635	514,798,635	34.07%
Hangzhou Great Star Industrial Co., Ltd. <sup>2</sup>	Interest of controlled corporation	–	235,134,057	235,134,057	15.56%
Hongkong Greatstar International Co., Ltd. <sup>2</sup>	Beneficial owner	–	235,134,057	235,134,057	15.56%

## **DISCLOSURE OF INTERESTS (cont'd)**

### **SUBSTANTIAL SHAREHOLDERS (cont'd)**

*Notes:*

1. Mr. Zhu Zhangjin, the chairman of the Company, as settlor, and together with persons acting in concert with him as beneficiaries of a family trust (a trust set up to hold interest of family of Mr. Zhu Zhangjin (excluding Mr. Zhu Zhangjin) in the Company), being the substantial shareholders of the Company, are collectively holding 527,158,635 Shares or approximately 34.89% of the total number of issued Shares (including the 514,798,635 Shares or approximately 34.07% of the issued Shares held by Joyview Enterprises Limited ("Joyview") which in turn is wholly owned by the trustee of such family trust).
2. Hongkong Greatstar International Co., Ltd. ("Hongkong Greatstar") is a wholly-owned subsidiary of Hangzhou Great Star Industrial Co., Ltd., a company the shares of which are listed on the Shenzhen Stock Exchange. Subsequent to June 30, 2017, Hongkong Greatstar disposed all its shareholding in the Company.

Save as disclosed above, the Company has not been notified by any other person (other than a Director or a chief executive of the Company) who had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at June 30, 2017.

## **CORPORATE GOVERNANCE**

The Company has adopted the Corporate Governance Code (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, 2017, the Board is of the view that the Company has complied with the code provisions as set out in the CG Code except for the following deviation to code provisions A.2.1.

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

Under CG Code Provision A.2.1, the roles of chairman and chief executive 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. Mr. Zhu Zhangjin is the chairman and chief executive officer of the Company responsible for overseeing the operations of the Group. The Company is still considering to appoint a new chief executive officer to replace Mr. Zhu if a candidate with suitable leadership, knowledge, skills and experience can be identified within or outside the Group. However, due to the nature and extent of the Group’s operations, in particular in Mainland China and the in-depth knowledge and experience in the leather and upholstery furniture market required for the position of chief executive officer, the Company is unable to determine as to when the appointment of a chief executive officer for the Company can be effected.

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

The Company has adopted the Model Code as its own code of conduct regarding directors’ securities transactions. Specific enquiries have been made with all Directors, who have confirmed that, throughout the six months ended June 30, 2017, each of them has complied with the required standards as set out in the Model Code.

## **AUDIT COMMITTEE**

The audit committee of the Company (“Audit Committee”), comprises all the three independent non-executive Directors namely, Mr. Du Haibo, Mr. Zhang Yuchuan and Mr. Zhou Lingqiang, has reviewed with the management and the external auditors on the accounting principles and practices adopted by the Group during the six months ended June 30, 2017. 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 risk management effectiveness and to make recommendations to improve the Company’s internal control and risk management effectiveness, and to ensure that management has discharged its duty to have an effective internal control system during the six months ended June 30, 2017, including the review of the unaudited interim results of the Group for the six months ended June 30, 2017.

## **REMUNERATION COMMITTEE**

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

## **NOMINATION COMMITTEE**

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

## **OTHER INFORMATION INTERIM DIVIDEND**

The Board does not recommend the payment of any interim dividend for the six months ended June 30, 2017 (six months ended June 30, 2016: Nil).

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

During the six months ended June 30, 2017, the Company and any of its subsidiaries did not purchase, sell or redeem any of the Company's listed securities.

## **SUFFICIENCY OF PUBLIC FLOAT**

Based on information that is available to the Company and within the knowledge of its Directors, the Company has maintained sufficient public float as required under the Listing Rules throughout the six months ended June 30, 2017.

## **DIRECTORS**

As at the date of this report, the executive Directors are Mr. Zhu Zhangjin, Ms. Zhou Xiaohong and Ms. Shen Jianhong, and the independent non-executive Directors are Mr. Du Haibo, Mr. Zhang Yuchuan and Mr. Zhou Lingqiang.

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

PRC, August 31, 2017



# REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



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## TO THE BOARD OF DIRECTORS OF KASEN INTERNATIONAL HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

We have reviewed the condensed consolidated financial statements of Kasen International Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 17 to 34, which comprise the condensed consolidated statement of financial position as of June 30, 2017 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review. This report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements is not prepared, in all material respects, in accordance with IAS 34.

### **BDO Limited**

*Certified Public Accountants*

### **Ng Wai Man**

Practising Certificate Number P05309

Hong Kong, August 31, 2017

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2017

	NOTES	Six months ended June 30, 2017 RMB'000 (unaudited)	Six months ended June 30, 2016 RMB'000 (unaudited)
<b>Continuing operations</b>			
Revenue	3	774,708	1,103,797
Cost of sales		(601,823)	(947,645)
Gross profit		172,885	156,152
Other income		8,756	3,877
Selling and distribution costs		(154,121)	(59,225)
Administrative expenses		(89,732)	(88,703)
Other gains and losses	4	13,115	8,990
Finance costs		(8,529)	(6,888)
(Loss)/profit before tax	5	(57,626)	14,203
Income tax expenses	6	(21,139)	(38,068)
Loss for the period from continuing operations		(78,765)	(23,865)
<b>Discontinued operation</b>			
Profit for the period from discontinued operation		-	5,543
Gain on disposal of subsidiaries		-	28,560
Income from discontinued operation		-	34,103
(Loss)/profit for the period		(78,765)	10,238
Other comprehensive (loss)/income			
Items that may be subsequently reclassified to profit or loss:			
Fair value loss on available-for-sale investments		(12,002)	(64,596)
Income tax relating to fair value change of available-for-sale investments		3,001	16,149
Exchange difference arising on translation		(35)	(414)
Total comprehensive loss for the period		(87,801)	(38,623)

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (cont'd)

FOR THE SIX MONTHS ENDED JUNE 30, 2017

	<i>NOTES</i>	<b>Six months ended June 30, 2017 RMB'000 (unaudited)</b>	Six months ended June 30, 2016 RMB'000 (unaudited)
(Loss)/profit for the period attributable to:			
Owners of the Company			
– Loss from continuing operations		<b>(76,342)</b>	(14,499)
– Income from discontinued operation		–	34,103
		<b>(76,342)</b>	19,604
Non-controlling interests – loss from continuing operations		<b>(2,423)</b>	(9,366)
		<b>(78,765)</b>	10,238
Total comprehensive loss for the period attributable to:			
– Owners of the Company		<b>(85,378)</b>	(29,257)
– Non-controlling interests		<b>(2,423)</b>	(9,366)
		<b>(87,801)</b>	(38,623)
Basic and diluted (loss)/earnings per share			
	8		
– Continuing operations		<b>RMB(5.1) cents</b>	RMB(1.0) cents
– Discontinued operation		–	RMB2.3 cents
		<b>RMB(5.1) cents</b>	RMB1.3 cents

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT JUNE 30, 2017

	NOTES	June 30, 2017 RMB'000 (unaudited)	December 31, 2016 RMB'000 (audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	9	854,942	807,310
Prepaid lease payments – non-current portion		38,408	38,944
Intangible assets		283	337
Deferred tax assets		62,026	58,802
Deposits paid for acquisition of property, plant and equipment		56,679	56,679
		<b>1,012,338</b>	962,072
<b>CURRENT ASSETS</b>			
Available-for-sale investments	10	58,505	70,506
Inventories		81,152	64,864
Properties under development		2,937,998	2,615,891
Properties held for sale		1,182,708	1,182,308
Amounts due from non-controlling interests of subsidiaries		28,110	23,000
Trade, bills and other receivables	11	1,194,846	1,019,685
Prepaid lease payments – current portion		1,074	1,074
Tax recoverable		3,242	9
Prepaid land appreciation tax		40,878	13,491
Pledged bank deposits		7,757	5,506
Restricted bank deposit for property development business		426,641	3,723
Bank balances and cash		794,140	339,731
		<b>6,757,051</b>	5,339,788
<b>CURRENT LIABILITIES</b>			
Trade, bills and other payables	12	1,203,383	1,223,531
Deposits received in respect of pre-sale of properties		2,582,941	848,421
Bank and other borrowings – due within one year	13	481,328	462,002
Tax payable		146,114	149,709
Amounts due to non-controlling interests of subsidiaries		118,575	128,905
		<b>4,532,341</b>	2,812,568
<b>NET CURRENT ASSETS</b>		<b>2,224,710</b>	2,527,220
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>3,237,048</b>	3,489,292

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (cont'd)

AT JUNE 30, 2017

	<i>NOTES</i>	<b>June 30, 2017 RMB'000 (unaudited)</b>	December 31, 2016 RMB'000 (audited)
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		<b>40,170</b>	44,276
Bank and other borrowings – due after one year	<i>13</i>	<b>160,236</b>	318,945
		<b>200,406</b>	363,221
<b>NET ASSETS</b>			
		<b>3,036,642</b>	3,126,071
<b>CAPITAL AND RESERVES</b>			
Share capital		<b>1,735</b>	1,735
Reserves		<b>2,947,060</b>	3,032,438
Equity attributable to owners of the Company		<b>2,948,795</b>	3,034,173
Non-controlling interests		<b>87,847</b>	91,898
<b>TOTAL EQUITY</b>			
		<b>3,036,642</b>	3,126,071

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2017

	Attributable to owners of the Company											
	Share capital RMB '000	Share premium RMB '000	Statutory reserve RMB '000	Special reserve RMB '000	Share option reserve RMB '000	Other reserve RMB '000	Available-for-sale investments revaluation reserve RMB '000	Translation reserve RMB '000	Retained earnings RMB '000	Sub-total RMB '000	Non-controlling interests RMB '000	Total RMB '000
At January 1, 2016 (audited)	1,735	1,486,326	189,309	167,983	23,757	(41,703)	123,929	70	1,215,928	3,167,334	112,763	3,280,097
Profit/(loss) for the period	-	-	-	-	-	-	-	-	19,604	19,604	(9,366)	10,238
Total other comprehensive loss	-	-	-	-	-	-	(48,447)	(414)	-	(48,861)	-	(48,861)
Total comprehensive (loss)/income for the period	-	-	-	-	-	-	(48,447)	(414)	19,604	(29,257)	(9,366)	(38,623)
Release upon lapse of share options	-	-	-	-	(11,364)	-	-	-	11,364	-	-	-
Release upon share options being forfeited	-	-	-	-	(1,231)	-	-	-	1,231	-	-	-
At June 30, 2016 (unaudited)	1,735	1,486,326	189,309	167,983	11,162	(41,703)	75,482	(344)	1,248,127	3,138,077	103,397	3,241,474
At January 1, 2017 (audited)	1,735	1,486,326	171,276	167,983	11,162	(41,703)	30,842	(108)	1,206,660	3,034,173	91,898	3,126,071
Loss for the period	-	-	-	-	-	-	-	-	(76,342)	(76,342)	(2,423)	(78,765)
Total other comprehensive loss	-	-	-	-	-	-	(9,001)	(35)	-	(9,036)	-	(9,036)
Total comprehensive loss for the period	-	-	-	-	-	-	(9,001)	(35)	(76,342)	(85,378)	(2,423)	(87,801)
Disposal of a subsidiary	-	-	-	-	-	-	-	-	-	-	(2,118)	(2,118)
Capital contribution from non-controlling interests	-	-	-	-	-	-	-	-	-	-	490	490
At June 30, 2017 (unaudited)	1,735	1,486,326	171,276	167,983	11,162	(41,703)	21,841	(143)	1,130,318	2,948,795	87,847	3,036,642

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2017

<i>NOTES</i>	<b>Six months ended June 30, 2017 RMB'000 (unaudited)</b>	Six months ended June 30, 2016 RMB'000 (unaudited)
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>	<b>681,012</b>	491,027
<b>INVESTING ACTIVITIES</b>		
Placement of pledged bank deposits	<b>(3,741)</b>	(219,076)
Purchases of property, plant and equipment	<b>(76,538)</b>	(187,900)
Withdrawal of pledged bank deposits	<b>1,490</b>	76,824
Decrease in amounts due from/to non-controlling interests of subsidiaries	<b>(15,440)</b>	(8,231)
Net cash inflow/(outflow) from disposal of a subsidiary	<b>13,383</b>	(18,734)
Interest received	<b>1,165</b>	741
Proceeds from disposal of property, plant and equipment	<b>695</b>	3,035
Acquisition of available-for-sale investments	-	(1,000)
Purchase of intangible assets	-	(24)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(78,986)</b>	(354,365)
<b>FINANCING ACTIVITIES</b>		
Repayments of bank and other borrowings	<b>(398,003)</b>	(1,391,410)
Bank and other borrowings raised	<b>259,095</b>	1,222,071
Interest paid	<b>(8,529)</b>	(27,845)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(147,437)</b>	(197,184)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>454,589</b>	(60,522)
Effect of changes in exchange rates	<b>(180)</b>	(414)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>	<b>339,731</b>	215,629
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>		
represented by bank balances and cash	<b>794,140</b>	154,693
Analysis of cash and cash equivalents		
– Continuing operations	<b>794,140</b>	128,086
– Assets of a disposal group held for sale	-	26,607
	<b>794,140</b>	154,693

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2017

## 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“the Listing Rules”) and International Accounting Standard 34 “Interim Financial Reporting” issued by the International Accounting Standards Board.

## 2. PRINCIPAL ACCOUNTING POLICIES

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

Except for the application of new or revised accounting standards as described below, the accounting policies and methods of computation used in the reporting of the condensed consolidated financial statements for the six months ended June 30, 2017 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended December 31, 2016.

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

Amendments to IAS 7	Disclosure initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised losses

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

## 3. SEGMENT INFORMATION

The Group’s operating segments, based on information reported to the executive directors, who are the chief operating decision maker (the “CODM”) for the purpose of resource allocation and performance assessments, are as follows:

- Manufacturing of upholstered furniture (“Manufacturing”);
- Properties development;
- Retailing of furniture (“Retail”); and
- Others, comprising mainly provision of property management service and tourism resort-related services (“Others”)



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE SIX MONTHS ENDED JUNE 30, 2017

### 3. SEGMENT INFORMATION (cont'd)

#### Segment revenues and results

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

#### Revenue

##### Six months ended June 30, 2017 (unaudited)

	Manufacturing RMB'000	Properties development RMB'000	Retail RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
External sales	314,412	384,955	203	75,138	-	774,708
Inter-segment sales	-	-	-	3,039	(3,039)	-
Total	314,412	384,955	203	78,177	(3,039)	774,708

##### Six months ended June 30, 2016 (unaudited)

	Manufacturing RMB'000	Properties development RMB'000	Retail RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
External sales	295,222	740,479	27	68,069	-	1,103,797
Inter-segment sales	-	-	-	1,547	(1,547)	-
Total	295,222	740,479	27	69,616	(1,547)	1,103,797

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE SIX MONTHS ENDED JUNE 30, 2017

### 3. SEGMENT INFORMATION (cont'd)

#### Segment revenues and results (cont'd)

##### Results

	<b>Six months ended June 30, 2017 RMB'000 (unaudited)</b>	Six months ended June 30, 2016 RMB'000 (unaudited)
– Manufacturing	<b>2,487</b>	19,417
– Properties development	<b>(64,710)</b>	(19,170)
– Retail	<b>636</b>	(177)
– Others	<b>(21,116)</b>	(20,682)
	<b>(82,703)</b>	(20,612)
Unallocated corporate expenses	<b>(2,896)</b>	(6,628)
Unallocated other gains and losses	<b>6,834</b>	3,375
Loss for the period from continuing operations	<b>(78,765)</b>	(23,865)

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

Inter-segment sales are charged at prevailing market rates.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE SIX MONTHS ENDED JUNE 30, 2017

### 3. SEGMENT INFORMATION (cont'd)

#### Segment assets

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

	<b>June 30, 2017 RMB'000 (unaudited)</b>	December 31, 2016 RMB'000 (audited)
Manufacturing	560,412	616,358
Properties development	6,924,744	5,403,838
Retail	-	1,786
Others	255,869	251,033
	<b>7,741,025</b>	6,273,015
Unallocated	<b>28,364</b>	28,845
Consolidated assets	<b>7,769,389</b>	6,301,860

### 4. OTHER GAINS AND LOSSES

	<b>Six months ended June 30, 2017 RMB'000 (unaudited)</b>	Six months ended June 30, 2016 RMB'000 (unaudited)
Net foreign exchange (loss)/gain	(6,042)	4,839
Net impairment loss recognised in respect of trade and other receivables	(1,784)	(2,329)
Gain on disposal of subsidiaries	17,147	-
Gain on change in fair value of exchangeable bonds	-	1,093
Reversal of impairment loss recognised in respect of property under development	-	6,232
Loss on disposal of property, plant and equipment	(1,180)	-
Release of financial guarantees	5,367	-
Others	(393)	(845)
	<b>13,115</b>	8,990

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE SIX MONTHS ENDED JUNE 30, 2017

### 5. (LOSS)/PROFIT BEFORE TAX

(Loss)/profit before income tax is arrived at after charging/(crediting):

	<b>Six months ended June 30, 2017 RMB'000 (unaudited)</b>	Six months ended June 30, 2016 RMB'000 (unaudited)
Amortisation of intangible assets (included in administrative expenses)	<b>54</b>	142
Depreciation of property, plant and equipment	<b>26,936</b>	28,139
Total depreciation and amortisation	<b>26,990</b>	28,281
Release of prepaid lease payments	<b>536</b>	1,413
Costs of inventories recognised as expenses (including provision of net allowance of inventories of RMB1,630,000 (June 30, 2016: reversal for RMB2,480,000))	<b>257,451</b>	225,263
Interest on bank and other borrowings	<b>10,393</b>	8,161
Interest on other long term liability	–	330
Less: amount capitalised in respect of properties under development	<b>(1,864)</b>	(1,603)
	<b>8,529</b>	6,888
Government grants	<b>(2,010)</b>	(1,360)
Interest income	<b>(1,165)</b>	(184)

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE SIX MONTHS ENDED JUNE 30, 2017

### 6. INCOME TAX EXPENSES

	<b>Six months ended June 30, 2017 RMB'000 (unaudited)</b>	Six months ended June 30, 2016 RMB'000 (unaudited)
Land appreciation tax – Current period	<u>8,625</u>	15,891
People's Republic of China ("PRC") enterprise income tax		
– Current period	<b>18,677</b>	21,759
– Over provision of income tax in previous periods	<u>(1,834)</u>	–
	<b>16,843</b>	21,759
Deferred tax (credit)/expenses	<u>(4,329)</u>	418
	<u><b>21,139</b></u>	38,068

### 7. DIVIDENDS

No dividends were paid, declared or proposed during the current interim period and no dividend will be paid in respect of the current interim period.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE SIX MONTHS ENDED JUNE 30, 2017

### 8. (LOSS)/EARNINGS PER SHARE

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

#### (Loss)/profit for the period

	<b>Six months ended June 30, 2017 RMB'000 (unaudited)</b>	Six months ended June 30, 2016 RMB'000 (unaudited)
(Loss)/profit for the period for the purposes of basic and diluted (loss)/earnings per share, being (loss)/profit attributable to owners of the Company:		
– Continuing operations	<b>(76,342)</b>	(14,499)
– Discontinued operation	–	34,103
	<b>(76,342)</b>	19,604

#### Number of shares

	<b>Six months ended June 30, 2017 (unaudited)</b>	Six months ended June 30, 2016 (unaudited)
Weighted average number of ordinary shares for the purposes of basic and diluted (loss)/earnings per share	<b>1,511,019,881</b>	1,511,019,881

For the six months ended June 30, 2017, diluted loss per share was the same as basic loss per share as the effect of the Company's outstanding share options were anti-dilutive.

For the six months ended June 30, 2016, the computation of diluted (loss)/earnings per share does not assume the exercise of the Company's options, because the exercise prices of those options are higher than the average market price per share during the period.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE SIX MONTHS ENDED JUNE 30, 2017

### 9. PROPERTY, PLANT AND EQUIPMENT

During the current period, the Group incurred expenditure of approximately RMB76,538,000 (six months ended June 30, 2016: RMB187,900,000) on property, plant and equipment to expand and upgrade the Group's manufacturing facilities.

### 10. AVAILABLE-FOR-SALE INVESTMENTS

	<b>June 30, 2017 RMB'000 (unaudited)</b>	December 31, 2016 RMB'000 (audited)
Equity securities:		
– Listed (i)	<b>33,285</b>	45,286
– Unlisted (ii)	<b>25,220</b>	25,220
	<b>58,505</b>	70,506

- (i) The listed securities represent 4,000,554 shares (0.31% equity interest) (December 31, 2016: 4,000,554 shares (0.31% equity interest)) in Haining China Leather Market Co., Ltd ("HCLM"). The principal activity of HCLM is the operation of department stores in the PRC. The shares of HCLM are listed in the Shenzhen Stock Exchange.

During the current period, no listed securities were disposed of. These shares have also been pledged to secure for related parties' bank borrowings as disclosed in note 15(b). As the shares are not intended to be held for long term purpose, these shares are classified as current assets.

- (ii) In 2016, the Group entered into an equity investment agreement with an independent third party for formation of a new company with registered capital of RMB141,220,000. The Group injected a parcel of land classified as properties under development in exchange for 17.85% unlisted equity interest of the new company. The Group recognised the unlisted equity interest initially at fair value plus transaction cost of RMB25,220,000.

At June 30, 2017 and December 31, 2016, the 17.85% unlisted equity interest was stated at cost less impairment loss of RMB25,220,000 because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair value cannot be measured reliably.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE SIX MONTHS ENDED JUNE 30, 2017

### 11. TRADE, BILLS AND OTHER RECEIVABLES

	<b>June 30, 2017</b>	December 31, 2016
	<b>RMB'000</b>	RMB'000
	<b>(unaudited)</b>	(audited)
Trade and bills receivables	<b>128,319</b>	135,535
Less: Allowance for doubtful debts	<b>(20,401)</b>	(20,832)
	<b>107,918</b>	114,703
Deposits paid for acquisition of land for development	<b>756,845</b>	710,176
Advance payment for purchase of inventories	<b>60,042</b>	40,755
Deposit and prepayments	<b>119,807</b>	114,834
Prepaid other taxes	<b>171,239</b>	54,905
Other receivables	<b>62,562</b>	67,997
Less: allowance for doubtful debts for other receivables, deposit and prepayments, deposits paid for acquisition of land for development	<b>(83,567)</b>	(83,685)
	<b>1,194,846</b>	1,019,685

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 the reporting period is as follows:

	<b>June 30, 2017</b>	December 31, 2016
	<b>RMB'000</b>	RMB'000
	<b>(unaudited)</b>	(audited)
Aged:		
Within 60 days	<b>80,378</b>	76,566
61 – 90 days	<b>5,646</b>	9,993
91 – 180 days	<b>12,053</b>	16,179
181 – 365 days	<b>5,794</b>	8,863
Over 1 year	<b>4,047</b>	3,102
	<b>107,918</b>	114,703



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE SIX MONTHS ENDED JUNE 30, 2017

### 12. 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:

	<b>June 30, 2017</b>	December 31, 2016
	<b>RMB'000</b>	RMB'000
	<b>(unaudited)</b>	(audited)
Within 60 days	<b>740,890</b>	646,350
61 – 90 days	<b>23,192</b>	18,456
91 – 180 days	<b>26,468</b>	91,726
181 – 365 days	<b>25,266</b>	50,306
1 – 2 years	<b>36,755</b>	48,706
Over 2 years	<b>29,090</b>	28,564
	<b>881,661</b>	884,108

### 13. BANK AND OTHER BORROWINGS

During the current period, the Group obtained additional bank and other borrowings of approximately RMB259,095,000 (six months ended June 30, 2016: RMB1,222,071,000) and repaid bank and other borrowings of approximately RMB398,003,000 (six months ended June 30, 2016: approximately RMB1,391,410,000).

The bank borrowings included unsecured bank borrowings of RMB49,009,000 (December 31, 2016: RMB461,000,000), which were guaranteed by Mr. Zhu Zhangjin ("Mr. Zhu"), the chief executive officer of the Company, and a related company in which Mr. Zhu has significant influence and beneficial interests.

### 14. CAPITAL COMMITMENTS

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

	<b>June 30, 2017</b>	December 31, 2016
	<b>RMB'000</b>	RMB'000
	<b>(unaudited)</b>	(audited)
Commitments for acquisition/addition of:		
– Property, plant and equipment	<b>30,463</b>	51,766
– Properties under development	<b>1,351,843</b>	1,286,533
	<b>1,382,306</b>	1,338,299

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE SIX MONTHS ENDED JUNE 30, 2017

### 15. CONTINGENT LIABILITIES

**(a) Guarantee in respect of mortgage facilities for certain properties customers**

The Group provided guarantees of RMB1,694,328,000 at June 30, 2017 (December 31, 2016: RMB782,069,000) to banks in favour of its customers in respect of the mortgage loans provided by the banks to those customers for the purchase of the Group's properties. These guarantees provided by the Group to the banks will be released upon receiving the building ownership certificate of the respective properties by the banks from the customers as a pledge for security to the mortgage loans granted. The directors consider that the fair value of the above guarantees is insignificant on initial recognition and at the reporting dates as it is not probable that an outflow in settlement will be required.

**(b) Financial Guarantee issued**

Due to the disposal of discontinued operation in 2016, the Group recognised (i) financial guarantees to banks in respect of banking facilities granted to a former subsidiary; (ii) financial guarantees to banks in respect of banking facilities granted to related parties. The carrying amount of these financial guarantees recognised at June 30, 2017 is RMB16,103,000 (December 31, 2016: RMB21,470,000).

As at June 30, 2017, the directors consider that it is not probable that a claim will be made against the Group under these guarantees. The maximum liabilities of the Group as at June 30, 2017 in respect of the guarantees (i) and guarantees (ii) is RMB392,200,000 (December 31, 2016: RMB392,200,000) and RMB675,600,000 (December 31, 2016: RMB675,600,000) respectively.

### 16. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

FOR THE SIX MONTHS ENDED JUNE 30, 2017

### 16. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (cont'd)

<b>Financial assets</b>	<b>Fair value as at June 30, 2017 RMB'000</b>	<b>Fair value as at December 31, 2016 RMB'000</b>	<b>Fair value hierarchy</b>	<b>Valuation technique and key input</b>
Available-for-sale investments listed on a stock exchange	<b>33,285</b>	45,286	Level 1	Quoted bid prices in an active market

The directors of the Company consider that the carrying amounts of other financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

There is no transfer between the different levels of the fair value hierarchy during the period.