



To: Business Editor (For immediate release)

Kasen International Holdings Limited
(Stock Code: 496)

ANNOUNCES ITS INTERIM RESULTS FOR 6 MONTHS ENDED 30 JUNE 2006
TURNOVER UP 32% TO RMB 2, 044,773,000

REMARKABLE GROWTH IN CORE BUSINESS WITH ACTIVE MARKET EXPANSION

CAPITALIZING ON INCREASING OUTSOURCING TREND FOR LONG-TERM GROWTH

<u>Financial Highlights</u>	For 6 months ended 30 June (RMB'000)		
	2006	2005	Change (%)
Turnover	2,044,773	1,549,270	+32.0%
Gross profit	245,066	242,369	+1.1%
Profit Attributable to Equity Holders of the Group	77,931	126,404	-38.3%
Dividend per share	RMB 3.53 Cents (Equivalent to HK 3.45 cents)	nil	n/a

(Hong Kong, 18 September 2006) – **Kasen International Holdings Ltd.** (“Kasen” or the “Group”) (Stock Code: 496), a leading upholstered furniture and leather products manufacturer, announces its interim results for the 6 months ended 30 June, 2006 (the “Period”).

During the Period, Kasen achieved a turnover of RMB 2,044,773,000 (2005: RMB 1,549,270,000), representing an increase of 32.0% over the same period of last year. Gross profit for the Period amounted to RMB 245,066,000 (2005: RMB 242,369,000), representing an increase of 1.1% over the same period of last year, and the profit attributable to equity holders of the Group amounted to RMB 77,931,000 (2005: RMB 126,404,000), representing a decrease of 38.3% over the same period of last year. Gross margin and net margin for the Period were 12.0% and 3.8% respectively.

The Board of Directors has recommended an interim dividend of RMB 3.53 cents (equivalent to HK 3.45 cents) (2005: nil).

During the period, the Group has recorded significant increase in its core business, upholstered furniture, which increased 37.2% compared to the same period last year. The Group has also enlarged its existing strong client base through active market expansion, newly adopting renowned customers such as Ikea and Ashley, both well known home furnishing retailers.

The Group’s gross margin was adversely impacted by the unexpected increase in the prices of raw cowhides and wet-blues, as well as the appreciation of the RMB.

The net profit decrease was due to the increased administrative cost during the period that included relevant accounting provisions such as provisions for the granting of share options, exchange loss on the Group’s trade receivables, increased provision on trade receivables, etc. Meanwhile, the Group’s distribution costs increased along with the sales growth for the period.

Mr. Kasen Zhu, Chairman of Kasen, said, “We are pleased to announce that the Group’s core business,



upholstered furniture, continues to record remarkable growth during the period due to the increased outsourcing orders from the Group's major customers. As this outsourcing trend continues to rise, the Group will benefit from substantial business opportunities and prospective growth in its business."

Mr. Zhu added, "Looking forward, the Group will continue to focus on reducing the impact of increased cost of raw materials, and seeking the development of a high-margin product portfolio in order to strengthen its business performance. The Group keeps exploring higher-margin markets such as Europe, and seeking appropriate opportunities to adjust product prices. The Group also believes that there are huge potentials in terms of efficiency improvement. We have built up strong manufacturing capabilities and we are ready to tap into these resources for better performance".

Business Review

Product Focus

During the period, the Group has recorded significant increase in its upholstered furniture business which accounted for 81.1% of the total turnover (2005: 78.1%). The Group produced a total of 1,539,000 seats of finished sofas, representing an increase of 64.4% compared with last year. External sales of sofa cut-and-sew remained flat as the cut-and-sew factories were focusing on providing for increased in-house requirements.

The Group produces furniture leather for both in-house production and external sales. Compared with last year, total sales from this business unit grew by 39.5% while external sales grew by 15.3%.

Market Expansion

Despite the widely publicized slowing down in the US housing market, the Group's major customers have been increasing their outsourcing orders to leverage on the cost advantage. The Group has also been able to add new customers to its existing strong customer portfolio.

Overall, the US market now accounts for 75.2% of the Group's total sales, an increase of 7.1 percentage points compared to the same period of last year. Progress in the European market is promising with a growth of 27.5%, while sales to Australia experienced a slow start.

Future Prospect

Latest market intelligence still shows a robust demand for Chinese-made upholstered furniture products in the USA and Europe, and after a 37.2% year-on-year growth in our upholstered furniture sales, the Group remains optimistic on its momentum of sales growth.

The raw cowhide prices have not shown signs of declining over the last two months and the current level is still over 10% higher than the average level for 2005. Therefore, mounting pressure from rising material costs is still expected. The Group will closely monitor the hide prices and continue to quest for improvement in production efficiency to mitigate the impact from rising production costs. The Group will also evaluate the available options in terms of its product pricing.

In the past, the Group has been manufacturing its products primarily based on the designs of its customers. This has been an inevitable step and also a learning experience as the Group is relatively a newcomer in this industry. Going forward, the Group aims to strengthen its design and prototyping capabilities in order to improve its profitability and competitiveness.

As most investments by the Group to increase production capacity completed in previous years up to 2004, and current facilities are adequate to accommodate customers' expansion plans, the Group has no immediate plan to expand its production bases. The Group believes that increased plant utilization



will lead to higher operational efficiency.

About Kasen International Holdings Limited (Stock Code: 496)

Kasen is a leading upholstered furniture and leather products manufacturer based in China. It purchases and processes raw cowhides and wet blues into finished leather and fully assembled upholstered furniture. Kasen's principal products are leather and fabric sofas, sofa cut-and-sews, furniture leather, automotive leather, etc. As a producer featuring vertical integration, the Group's leading position in furniture and leather product industries allows it to win upholstered furniture customers' confidence with low costs, high quality and fast delivery schedule. The Group currently sustains markets in the US, Europe, Australia and Japan, and serves major customers of upholstered furniture including leading American furniture companies, such as Furniture Brands International, Berkline/Benchcraft, Ashley, Ikea, La-Z-Boy, Bernhardt Furniture, American Signature, Rooms To Go and other major international furniture companies.

— End —

Released by the **Elite Communications Group Limited** for and on behalf of **Kasen International Holdings Limited**. For further information, please contact:

Investor Relations

Ms. Michelle Fang
Tel.: 3183 0229
Fax: 2155 9165

Media Relations

Mr. Danny Cheng
Tel.: 3183 0233
Fax: 2155 9165