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, 2007

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, 2007. These interim results have been reviewed by the Company's Audit Committee, comprising solely the independent non-executive Directors, one of whom chairs the committee.

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED JUNE 30, 2007

		Six months ended June 30,	
		2007	2006
	NOTES	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited)
Turnover	*3*	**1,770,478**	2,044,773
Cost of sales		**(1,546,780)**	(1,799,707)
Gross profit		**223,698**	245,066
Other income		**8,623**	24,561
Distribution costs		**(57,168)**	(54,412)
Administrative expenses		**(74,944)**	(77,193)
Other expenses		**(2,468)**	(3,767)
Share of profits of associates		**435**	490
Gain on disposals of subsidiaries	*6*	**3,388**	8,838
Finance costs		**(43,252)**	(47,696)
Profit before taxation	*4*	**58,312**	95,887
Taxation	*5*	**(10,325)**	(8,800)
Profit for the period		**47,987**	87,087
Attributable to:			
Equity holders of the Company		**46,468**	77,931
Minority interests		**1,519**	9,156
		47,987	87,087
Dividend paid	*7*	**–**	79,575
Earnings per share	*9*		
Basic		**RMB5 cents**	RMB8 cents
Diluted		**RMB5 cents**	RMB8 cents

CONDENSED CONSOLIDATED BALANCE SHEET

AT JUNE 30, 2007

	June 30, 2007 *RMB'000* **(unaudited)**	December 31, 2006 *RMB'000* (audited)
NON-CURRENT ASSETS		
Goodwill	**157,958**	157,958
Property, plant and equipment	**1,143,002**	1,173,599
Prepaid lease payments – non-current portion	**375,113**	131,860
Intangible assets	**1,279**	1,485
Interests in associates	**27,163**	26,728
Interest in a jointly controlled entity	**2,614**	2,614
Available-for-sale investments	**310**	310
Investment properties	**34,582**	32,901
	1,742,021	1,527,455
CURRENT ASSETS		
Inventories	**1,442,337**	1,326,216
Trade and other receivables	**619,912**	568,931
Prepayments	**145,159**	64,917
Prepaid lease payments – current portion	**2,707**	2,904
Amounts due from related companies	**33,193**	36,596
Taxes recoverable	**562**	3,315
Pledged bank deposits	**123,017**	163,221
Bank balances and cash	**562,788**	380,973
	2,929,675	2,547,073
TOTAL ASSETS	**4,671,696**	4,074,528
CURRENT LIABILITIES		
Trade, bills and other payables	**811,192**	604,036
Amounts due to related companies	**12,080**	19,467
Bank and other borrowings – due within one year	**1,598,016**	1,246,689
Taxes payable	**8,168**	10,959
	2,429,456	1,881,151
NET CURRENT ASSETS	**500,219**	665,922
TOTAL ASSETS LESS CURRENT LIABILITIES	**2,242,240**	2,193,377
NON-CURRENT LIABILITIES		
Bank and other borrowings – due after one year	**10,400**	10,400
NET ASSETS	**2,231,840**	2,182,977
CAPITAL AND RESERVES		
Share capital	**1,227**	1,227
Reserves	**2,155,642**	2,107,638
Equity attributable to equity holders of the Company	**2,156,869**	2,108,865
Minority interests	**74,971**	74,112
Total equity	**2,231,840**	2,182,977

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The condensed consolidated financial statements of Kasen International Holdings Limited (the "Company") 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 (IAS 34) "Interim Financial Reporting".

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost basis except for investment properties which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the consolidated annual financial statements of the Company and its subsidiaries (the "Group") for the year ended December 31, 2006.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new IFRSs") issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB, which are effective for the Group's financial year beginning January 1, 2007. The adoption of the new IFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

The Group has not early applied the new or revised standards or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

The Group's primary format for reporting segment information is business segment.

	Upholstered furniture	**Furniture leather**	**Automotive leather**	**Others**	**Eliminations**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Six months ended June 30, 2007						
Turnover						
External sales	**1,405,393**	**208,484**	**122,672**	**33,929**	**–**	**1,770,478**
Inter-segment sales	**283,547**	**765,815**	**–**	**65,352**	**(1,114,714)**	**–**
Six months ended June 30, 2006						
Turnover						
External sales	1,661,302	310,164	53,710	19,597	–	2,044,773
Inter-segment sales	329,812	1,070,658	–	65,946	(1,466,416)	–

	Six months ended June 30,	
	2007	2006
	RMB'000	*RMB'000*
Results		
Segment results		
– Upholstered furniture	**70,878**	130,544
– Furniture leather	**24,970**	7,763
– Automotive leather	**(636)**	(4,369)
– Others	**2,535**	(748)
	97,747	133,190
Unallocated corporate income	**7,880**	15,651
Unallocated corporate expenses	**(4,498)**	(5,748)
Share of profits of associates	**435**	490
Finance costs	**(43,252)**	(47,696)
Profit before taxation	**58,312**	95,887
Taxation	**(10,325)**	(8,800)
Profit for the period	**47,987**	87,087

4. PROFIT BEFORE TAXATION

	Six months ended June 30,	
	2007	2006
	RMB'000	*RMB'000*
Profit before taxation has been arrived at after charging (crediting):		
Amortization of intangible assets	**268**	143
Amortization of prepaid lease payment	**1,388**	1,551
Depreciation of property, plant and equipment	**48,007**	48,534
Total depreciation and amortization	**49,663**	50,228
(Write-back of) impairment loss recognized in respect of trade and other receivables	**(1,010)**	7,603
Write-back of allowances for inventories	**(541)**	(3,705)
Loss on disposal of property, plant and equipment	**303**	1,468
Foreign exchange losses	**26,064**	11,487
Foreign exchange gain	**(11,700)**	(4,312)
Staff costs (including directors' remuneration)	**138,882**	130,201
Discounts on acquisition of an additional interest of a subsidiary	**–**	(10,279)

5. TAXATION

	Six months ended June 30,	
	2007	2006
	RMB'000	*RMB'000*
Hong Kong Profits Tax		
– current period	**–**	455
PRC enterprise income tax		
– current period	**11,040**	8,470
– over provision in prior periods	**(715)**	(125)
	10,325	8,800

Hong Kong Profits Tax is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used is 17.5% (2006: 17.5%) for the six months ended June 30, 2007.

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 exemptions and concessions for both periods. The tax holiday is 5 years from the first taxable profit year. Along with the tax reform in China mainland, the income tax rate of the PRC subsidiaries, except subsidiaries within tax holiday, will be unified as 25% effective from January 1, 2008.

6. DISPOSAL OF SUBSIDIARIES

During current period, the Group entered into an agreement to dispose of a wholly owned subsidiary, 海寧家藝傢具有限公司 ("Haining Home Craft Furniture Co., Ltd.") ("Home Craft"), which carried out upholstered furniture manufacturing operations. The disposal was completed on January 29, 2007, on which date the control of Home Craft passed to the acquirer.

During the first half year of 2006, the Group entered into an agreement to dispose of a non-wholly owned subsidiary, 海寧萬盛沙發有限公司 ("Haining Wansheng Furniture Co., Ltd.") ("Wansheng Furniture"), which carried out upholstered furniture manufacturing operations. The disposal was completed on June 29, 2006, on which date the control of Wansheng Furniture passed to the acquirer.

海寧市斜橋森博水務有限公司 ("Haining Senbo Water Co., Ltd.") ("Senbo Water") ceased to be a subsidiary of the Group from May 2006 due to the additional capital injections of its minority shareholder.

7. DIVIDEND PAID

	Six months ended June 30,	
	2007	2006
	RMB'000	*RMB'000*
Final, paid – Nil (2006: HK7.58 cents (equivalent to RMB7.85 cents) per ordinary share in respect of the year ended December 31, 2005)	**–**	79,575

8. SHARE OPTIONS

A share option scheme was adopted by the Company pursuant to a resolution passed on September 26, 2005 (the "Scheme") for the primary purpose of providing incentives to directors and eligible employees. The Scheme became effective on October 20, 2005 and the option issued pursuant to the Scheme will expire with no later than 10 years from the date of grant of the option. Under the Scheme, the board of directors of the Company may grant options to any employees and directors of the Company or any of its subsidiaries to subscribe shares of the Company.

The Company granted a total of 30,200,000 share options to the directors and other eligible employees on March 9, 2006. The exercise price of the options is fixed at HK$2.38 (the share price immediately before the grant date was HK$2.24).

The Binomial Model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

The share options could be exercised during the following periods:

Date	**Percentage of share options**
From January 1, 2007 to March 8, 2016	50%
From January 1, 2008 to March 8, 2016	50%

The fair value of the options determined at the date of grant using the Binomial Model was approximately RMB21 million and the Company recorded a share-based payment expense of RMB1,536,000 in the current period (six months ended June 30, 2006: RMB5,800,000).

Details of the share options outstanding during the current period are as follows:

	Number of share options
Outstanding as at January 1, 2007	29,800,000
Cancelled during the period due to resignation of employees	(2,100,000)
Outstanding as at June 30, 2007	27,700,000

No share option has been exercised during the current period.

9. EARNINGS PER SHARE

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

Earnings

	Six months ended June 30,	
	2007	2006
	RMB'000	*RMB'000*
Earnings for the purposes of basic and diluted earnings per share, being profit attributable to equity holders of the Company	**46,468**	77,931

Number of shares

	Six months ended June 30,	
	2007	2006
Number of ordinary shares for the purposes of basic and diluted earnings per share	**990,048,369**	1,014,045,369

The share options granted to the employees of the Group has no effect to the diluted earnings per share because the exercise price of the Company's share options was higher than the average market price for shares during both periods.

10. CAPITAL COMMITMENTS

At the balance sheet date, the Group had capital commitments as follows:

	June 30, 2007 *RMB'000*	December 31, 2006 *RMB'000*
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	**1,358**	1,464
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of construction of certain infrastructure and public facilities in the PRC on behalf of the government	**13,530**	14,135
	14,888	15,599

11. SUBSEQUENT EVENTS

(a) A new wholly owned subsidiary was set up in July 2007 with a registered capital of RMB10,000,000. The principal business of this subsidiary is sale of home furniture, bedroom furnishing products, household decoration and accessories, textiles, curtains and lightings.

(b) Pursuant to the Company's circular on July 23, 2007, the Company's Board of Directors decided to dispose of a subsidiary, Shanghai La Kassa Furniture Co., Ltd (上海禾美家具有限公司), to an independent third party for RMB102,310,000 after January 1, 2008.

(c) Pursuant to a board resolution on August 3, 2007, the Company disposed of a subsidiary, Haining Home Point Furniture Co., Ltd (海寧家典家具有限公司), to two independent third parties for a cash consideration of RMB41,500,000.

BUSINESS REVIEW AND PROSPECTS

RESULTS OVERVIEW

For the six months ended June 30, 2007, the Group recorded a consolidated turnover of RMB1,770.5 million (six months ended June 30, 2006: RMB2,044.8 million), representing a decrease of 13.4%.

The Group's gross profit for the first half of 2007 was RMB223.7 million (six months ended June 30, 2006: RMB245.1 million) with gross profit margin of 12.6%, representing a decrease of 8.7% in gross profit when compared with that of the corresponding period in 2006.

The profit attributable to equity holders of the Company for the first half of 2007 was RMB46.5 million (six months ended June 30, 2006: RMB77.9 million), representing a decrease of approximately 40.4% when compared with that of the corresponding period in 2006.

Sales Analysis by Products

The table below shows the total turnover by product category for the six months ended June 30, 2007, together with the comparative figures for the corresponding period of last year:

	Six Months Ended June 30,				
	2007		2006		Change
	RMB'Million	*%*	*RMB'Million*	*%*	*%*
Upholstered Furniture	**1,405.3**	**79.4**	1,661.3	81.1	-15.4
Leather Sofa	***893.0***	***50.5***	*995.4*	*48.7*	*-10.3*
Fabric Sofa	***142.2***	***8.0***	*193.2*	*9.4*	*-26.4*
Leather Cut-and-Sew	***304.1***	***17.2***	*317.0*	*15.4*	*-4.1*
Fabric Cut-and-Sew	***66.0***	***3.7***	*155.7*	*7.6*	*-57.6*
Furniture Leather	**208.5**	**11.8**	310.2	15.2	-32.8
Automotive Leather	**122.7**	**6.9**	53.7	2.7	128.5
Others	**34.0**	**1.9**	19.6	1.0	73.5
Total	**1,770.5**	**100.0**	2,044.8	100.0	-13.4

Upholstered Furniture

Sales of upholstered furniture including finished sofa and sofa cut-and-sew accounted for 79.4% of the Group's total revenue. The downturn in the US housing market severely affected the sales of home furnishing and furniture products. Most of the Group's major US customers, i.e., upholstered furniture manufacturers and retailers, have experienced difficulties in their businesses. This has in turn affected the Group's sales.

In order to improve profitability, the Group increased its selling prices on certain loss-making products. Some of our customers did not accept the price increases and decided to reduce their outsourcing orders.

In addition, during the first half of 2007, the Group closed its manufacturing facilities in Shanghai due to increasing operating costs. This has further impacted the Group's sales.

As a result of the above, the Group's upholstered furniture sales experienced a decrease of 15.4%, from RMB1,661.3 million in the first half of 2006 to RMB1,405.3 million in the current period.

Furniture Leather

The Group's priority in furniture leather production is to meet the internal leather requirement of its upholstered furniture division. Due to the increase in raw cowhide price and the shortage in cowhide supply pipeline, the Group's external sales of furniture leather decreased by 32.8%.

Automotive Leather

The automotive leather operation, although achieved an increase of 128.5% in turnover, continued to under-perform market. Through major US automotive seating companies, such as Intier Automotive and Johnson Controls, the Group was able to secure supply contract for some major US automotive models. However, due to the reduction in tax rebates for finished leather exports, the Group's price advantage was undermined, which led to the Group attained less than its expected sales volume.

Sales Analysis by Region

The table below shows the total turnover by geographic market for the six months ended June 30, 2007, together with the comparative figures for the corresponding period of last year:

	Six Months Ended June 30,				
	2007		2006		Change
	RMB'Million	*%*	*RMB'Million*	*%*	*%*
USA	**1,213.1**	**68.5**	1,536.7	75.2	-21.1
Europe	**147.7**	**8.3**	108.5	5.3	36.1
Australia	**50.7**	**2.9**	51.3	2.5	-1.2
PRC (including Hong Kong)	**331.2**	**18.7**	319.0	15.6	3.8
Others	**27.8**	**1.6**	29.3	1.4	-5.1
Total	**1,770.5**	**100.0**	2,044.8	100.0	-13.4

During the period under review, the Group's sales to the US market declined by 21.1%, and the percentage of US sales to the Group's total turnover reduced to 68.5%, representing a 6.7 percentage point drop as compared to the corresponding period of last year. This decrease is mainly due to the US housing market downturn which had led to slower residential furniture sales. In addition, some of our US customers were unwilling to accept our price increases and cut down their outsourcing orders.

The Group's expansion into the European market is still at an initial stage. For the first half of 2007, the Group was able to grow its European business by 36.1%, and this segment accounted for 8.3% of the Group's total turnover.

The Group's strategy of working with retail customers in Australia had caused the termination of supply relationship with a major OEM customer. The impact of such termination has now been remedied due to increased orders from retail customers. As a result, the Group's sales to the Australian market was only marginally reduced.

The Group's sales to the PRC domestic market mainly involved furniture leather and automotive leather, the turnover of which represented 18.7% of its total sales. Business in this segment increased by 3.8% during the first half of 2007 as the Group gave priority to its own needs of furniture leather amid raw material price increase.

Gross Margin Analysis

The Group's profit margin has continuously been under pressure: (1) The continued appreciation of the RMB has been a major adverse factor for the Group's profitability as more than 80% of the Group's sales are denominated in US dollars; (2) Although the price of raw cowhides and wet-blues, which accounts for about 45% of the Group's cost of sales, have stabilized during the period under review, it was still well above its historical average by between 20%-30%; (3) With the global inflation of commodities prices, costs of chemicals, foam, timber and, to a lesser extent, labor, also experienced increases; and (4) Export tax rebates were reduced as part of the Chinese government's initiative in reducing its massive trade surplus.

However, the Group has taken several steps in improving its gross profit margin. Raw material procurement and supply chain management have been improved, and new incentive scheme was introduced to motivate its business units. The Group also was partially successful in negotiating price increases for some of its products. In addition, the Group terminated the sales of certain loss making products in failing to reach new pricing agreements with customers.

As a result of the above, the Group's gross profit margin recorded a modest increase of 0.6 percentage point.

OPERATING EXPENSES, TAXATION AND PROFIT ATTRIBUTABLE TO EQUITY HOLDERS

Under the FOB trading terms, the marine freight charges of almost all the exporting business of the Group were borne by the customers. However, due to the increased trucking costs charged by third party logistics providers after the change of exporting ports, the Group's land transportation costs increased by RMB5.1 million, or 12.5%. As a result, the Group's distribution costs for the period increased by 5.1% as compared to the corresponding period of last year, and the percentage of distribution costs to turnover rose to 3.2% from 2.7%.

During the period under review, the Group was able to cut down its bad debt provisions, travel and entertainment expenses. However, exchange losses increased by RMB7.2 million on the Group's trade receivables arising from the RMB appreciation. Total employee remuneration increased also by RMB5.1 million. Overall, the Group's administrative expenses reduced by RMB2.2 million, or 2.9%. However, the percentage of administrative costs to turnover rose to 4.2% from 3.8% during the corresponding period of last year.

Despite the increase in its bank borrowings, the Group has been successful in switching to credit facilities with lower interest rates. As a result, the Group's finance cost reduced by RMB4.4 million or 9.3% as compared to the same period of last year.

Most of the Group's operations are carried out in the economic and technological development zones and coastal open areas of the PRC where income tax relieves are allowed in accordance with relevant income tax laws and regulations. As some of the tax relieves reduced or expired during the period under review, the overall effective tax rate of the Group increased significantly to 16.1%.

For reasons mentioned above, the profit attributable to equity holders of the Company was RMB46.5 million (six months ended June 30, 2006: RMB77.9 million), representing a decrease of 40.4% in the corresponding period of last year.

NEW PROJECT DEVELOPMENT

Retail Mall Project

To further diversify its revenue sources and implement its domestic marketing plans, the Group has formed a joint venture company with Haining Leather Market, a well-known and experienced developer and operator of large leather product shopping malls in China, and Haining Zhengyang Trading, a domestic company incorporated in the PRC and an independent third party. The joint venture company, in which the Group has a 60% equity interest, will be looking for new sites in major cities to develop large specialized leather product shopping malls. On January 29, 2007, the joint venture partners, through Haining Higher Point, the Group's wholly-owned subsidiary, have successfully tendered a land of approximately 145,078 square meters in Changsha, Hunan province with a consideration of RMB253.75 million. Development of the Changsha land is expected to begin in 2008 as the Group is still in the process of obtaining necessary permits from the local authorities. In the meantime, the Group, in collaboration with its joint venture partners, is actively looking for new sites in other cities.

Kasen Home Furnishing Stores

The Group believes that, with its fast growing economy, China's residential furniture market will go through major changes in the next few years. The mid to higher end segments are likely to offer faster growth potentials, while large players will emerge as stronger competitors in the market. The Group has secured two leases in Shanghai and Hangzhou with a total floor area of more than 8,000 square meters as its flagship stores. These stores will be opened in the second half of 2007.

FINANCIAL RESOURCES AND LIQUIDITY

As at June 30, 2007, the Group had cash and cash equivalent of RMB562.8 million (as at December 31, 2006: RMB381.0 million) and a total borrowings of RMB1,608.4 million (as at December 31, 2006: RMB1,257.1 million). This represents a gearing ratio of 71.6% (as at December 31, 2006: 57.1%) and a net debt-to-equity ratio of 46.4% (as at December 31, 2006: 39.7%). 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, 2007, the Group's inventory, comprising of mainly raw cowhides and wet blues, was RMB1,442.3 million, representing an increase of RMB116.1 million or 8.8% as compared to the previous year end. Inventory turnover day for the six months ended June 30, 2007 has increased to 168 days as compared to 139 days as at December 31, 2006.

The Group's trade and bills receivables have increased by RMB15.2 million from RMB490.5 million as at December 31, 2006 to RMB505.7 million as at June 30, 2007. Trade and bills receivables turnover day has increased to 51 days for the six months ended June 30, 2007 from 46 days as at the previous year end. There has been no major change in trading terms or deterioration in collections.

Prepaid lease payments (non-current portion) of RMB375.1 million is mainly composed of an amount of RMB253.8 million paid for the acquisition of the land in Changsha. This amount will be reclassified as land use right when the title of the land is obtained.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES

The Group disposed a subsidiary during the six months ended June 30, 2007. For details, please refer to note 6 to the Condensed Consolidated Financial Statements.

PLEDGE OF ASSETS

The Group pledged deposits to banks to secure the bills payable issued by the Group and the bank facilities granted to the Group. The deposits carry an average interest rate of 0.72%.

CONTINGENT LIABILITIES

As at June 30, 2007, no contingent liabilities were noted by the Directors.

EMPLOYEES AND EMOLUMENTS POLICIES

As at June 30, 2007, the Group employs a total of approximately 14,200 full time employees (as at June 30, 2006: approximately 16,000) which included management staff, technicians, salespersons and workers. For the six months ended June 30, 2007, the Group's total expenses on the remuneration of employees is RMB138.9 million (six months ended June 30, 2006: RMB130.2 million). The Group's emolument policies are formulated on the performance of individual employees, which will be reviewed regularly every year. Apart from provident fund scheme (in accordance with the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees) or state-managed retirement pension scheme (for the PRC employees) and medical insurance, discretionary bonuses will be offered to employees according to the assessment of individual performance. Share option schemes were also adopted to attract and retain talents to contribute to the Group. In relation to staff training, the Group also provides different types of programs for its staff to improve their skills and develop their respective expertise.

KEY RISK FACTORS

Exchange Risk

As the Group's businesses are principally export-related and transactions are primarily denominated in US dollars (approximately 80%), management considers the Group is exposed to foreign exchange fluctuation risks. Although a substantial portion of the Group's procurements is denominated in US dollars and currency risks can be partly reduced, the Group is still subject to great effects of exchange rate fluctuations. The Group monitors its foreign exchange exposure and is considering utilizing appropriate financial instruments for hedging purposes.

Commodities Risk

Raw cowhides and wet-blues are the principal raw materials in the Group's business, accounting for approximately 45% of the Group's cost of sales. As such, the Group is exposed to the fluctuations in the price of cattle raw hides. During the past 18 months, the increase of raw cowhides in the world market has adversely affected the Group's profitability. Although the cowhide prices have stabilized in the last six months, they are still well above its historical average. The Group remains cautious about the future trend of cowhide prices.

Cyclical Demand for Furniture

Historically, the furniture industry is cyclical in nature, fluctuating with economic cycles, and is sensitive to general economic conditions, home buying, interest rate levels, etc. The downturn in the US housing market has adversely impacted the Group's sales to this major market. The current financial uncertainties in the US may prolong and could further depress the market conditions for residential furniture.

Export VAT Rebates

In order to reduce its massive trade surplus, the Chinese government has gradually reduced its export VAT rebates for many business sectors. Starting from July 1, 2007, export VAT rebates for all of the Group's product segments had been reduced, from 8% to nil for finished leather, from 13% to 5% for leather cut-and-sew, and from 13% to 11% for finished sofa. These reductions will affect the Group's profitability in the second half of 2007 and beyond. In addition, further reductions may also be introduced.

Processing Trade Policy Change

Since 2006, the Chinese government has been introducing changes to the processing trade ("加工貿易") policy – such as moving certain widely used materials to the prohibited category – aimed at restricting the production and export of high pollution, high energy consumption and resource consuming products. In its latest policy switch in July 2007, the government requested that enterprises engaged in the processing trade industry in the prohibited category pay a mandatory duty deposit for imported raw materials. The Group's products fall into the prohibited industry and will be requested to pay a substantial amount of duty deposit to the customs. This will adversely impact the Group's cash flow and will incur increased financial costs.

Environmental Risk

The production of leather is pollutive. As the Chinese government is tightening its environmental protection policy, the Group's production activities will be put under close scrutiny. The Group has always adhered to high standard of social and environmental duties, and welcomes the government's new initiatives. However, it is possible that further investment will need to be made to upgrade the Group's waste treatment facilities and this will in turn bring increases to the Group's waste treatment costs.

PROSPECTS

Despite unfavorable market conditions, the Group remains committed to improve its business performance and to increase shareholders' value. Going forward, the Group will make every effort to strengthen its position as China's leading manufacturer of leather products and upholstered furniture. However, the Group is cautious about its performance and profitability in its core businesses for the second half of Year 2007 due to the challenging environments.

The Group's aggressive expansion prior to 2006 has resulted in relatively low level capacity utilization. As the industry wide over capacity is unlikely to abate soon, the Group has taken initiatives to consolidate its production capabilities while realizing returns arising from asset value appreciation. In July 2007, the Group has reached an agreement with a third party to dispose its entire interest in Shanghai La Kassa Furniture Co., Ltd. The Group is also considering disposing or renting out other facilities if there are reasonable offers. Cash generated from the asset consolidation initiatives will be used to finance new business development projects.

In order to capitalize the growth of China's domestic consumption sector, the Group is exploring new business opportunities. The Kasen Home Furnishing Store projects will introduce Kasen's quality furniture products to domestic retail customers.

The Group is also entering into the commercial real estate sector through the development of specialized leather product and furniture retail malls in major Chinese cities. In addition, the Group is also assessing the opportunities in China's residential property sector. The Group is well aware of the risks in its new business development and will ensure that these new projects would bring in added value to its shareholders.

CORPORATE GOVERNANCE

The Company has complied with the code provisions as set out in the "Code On Corporate Governance Practices" contained in Appendix 14 to the Listing Rules during the six months ended June 30, 2007, except for the following deviations:

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 currently considering appointing a new Chief Executive Officer to replace Mr. Zhu if candidate with suitable leadership, knowledge, skills and experience can be identified within or outside the Group. However, due to the nature and extent of the Group's operations, in particular in Mainland China and the in-depth knowledge and experience in the leather and upholstery furniture market required for the position of Chief Executive Officer, it is not possible to determine as to when the appointment of a Chief Executive Officer for the Company can be effected.

CODE PROVISION A.4.1

Under CG Code Provision A.4.1, non-executive Directors should be appointed for a specific term, subject to re-election. The current non-executive director of the Company, Mr. Li Hui, David and independent non-executive directors of the Company, Mr. Chow Joseph, Mr. Lu Yungang, Ken and Mr. Zhang Huaqiao, Joe are not appointed for specific terms, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's articles of association. At every annual general meeting, one-third of the Directors for the time being or, if their number is not a multiple of three, the number nearest to but not less than one-third, shall retire from office by rotation. The Board will keep these matters under review. Following sustained development and growth of the Company, we will continue to monitor and revise the Company's governance policies in order to ensure that such policies can meet the general rules and standards required by the Stock Exchange.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules. Having made specific inquiry with all Directors, all Directors confirmed that they have compiled with the required standard set out in the Model Code during the six months ended June 30, 2007.

AUDIT COMMITTEE

The Audit Committee, comprises all the three independent non-executive Directors, has reviewed with management and the external auditors the accounting principles and practices adopted by the Group. The Audit Committee has held meetings to discuss the auditing, internal controls and financial reporting matters including the review of the unaudited interim financial statements for the six months ended June 30, 2007.

REMUNERATION COMMITTEE

The Remuneration Committee comprises two independent non-executive Directors and a non-executive Director. Mr. Li Hui is the chairman of the Remuneration Committee. The Remuneration Committee is responsible for establishing policies, reviewing and determining the remuneration of the Directors and the senior management.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended June 30, 2007.

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

At no time during the period under review, did the Company nor any of its subsidiaries 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 a sufficient public float as required under the Listing Rules throughout the six months ended June 30, 2007.

PRE-EMPTIVE RIGHTS

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

PUBLICATION OF INFORMATION ON THE EXCHANGE'S WEBSITE

The interim report of the Company for the six months ended June 30, 2007 containing all the information required by the Listing Rules will be dispatched to the Company's shareholders and published on the website of the Stock Exchange (www.hkex.com.hk) and the Company (www.irasia.com/listco/hk/kasen) in due course.

As at the date of this announcement, the executive Directors of the Company are Mr. Zhu Zhangjin, Mr. Zhou Xiaosong and Mr. Zhu Jianqi, the non-executive Director of the Company is Mr. Li Hui, the independent non-executive Directors are Mr. Lu Yungang, Mr. Chow Joseph and Mr. Zhang Huaqiao.

By Order of the Board
Kasen International Holdings Limited
Yiu Hoi Yan
Company Secretary

Hong Kong, September 17, 2007