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KASEN INTERNATIONAL HOLDINGS LIMITED

卡森國際控股有限公司

(An exempted company incorporated in the Cayman Islands with limited liability)

(Stock Code: 496)

CLARIFICATION ANNOUNCEMENT AND RESUMPTION OF TRADING

Reference is made to a report (the “**Report**”) published by Blue Orca Capital (“**Blue Orca**”) on 21 November 2019 and the trading halt announcement of the Company dated 21 November 2019 in relation to trading halt of the shares of Kasen International Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) on the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) from 11:44 am on 21 November 2019.

BACKGROUND

On 21 November 2019, the board of directors (the “**Board**”) of the Company noticed the Report published by Blue Orca, pursuant to which Blue Orca made various allegations against the Group (the “**Allegation(s)**”). The Board vigorously denies the Allegations contained in the Report and considers them to be inaccurate and misleading. The Company reminds its shareholders and potential investors to read the disclaimer of Blue Orca in the Report carefully, which states that the authors are biased and are short sellers.

The Company wishes to point out that Blue Orca never contacted nor sought clarification from the Company nor any of its directors (the “**Director(s)**”) before or after the publication of the Report. The Company has no knowledge of the identities of the parties associated with Blue Orca, and also notes that Blue Orca is not licensed to conduct any regulated activities in Hong Kong, including the provision of investment advice, based on available information on the website of the Securities and Futures Commission of Hong Kong.

This announcement is made to refute such allegations or comments concerning the Group in the Report.

CLARIFICATIONS

The Company summarised the main Allegations in the Report and the Company's response as follows:

(i) Disposal of the automotive and furniture leather manufacturing divisions

Blue Orca's Allegation

In the Report, Blue Orca alleged that the Company disposed of its most valuable business (i.e. the automotive and furniture leather manufacturing business) to the family of the Company's chairman below market price in 2016 and understated the revenues and profits of the disposed entities. It is further alleged that liabilities associated with the disposed entities were not transferred and remained in the Company's books.

Company's response

Such Allegation is completely groundless and the Company refutes such Allegation.

On 1 February 2016, the Company entered a sale and purchase agreement to dispose the then subsidiaries of the Group which principally engaged in the automotive and furniture leather manufacturing business (the "**Disposal Group**") at a consideration of RMB492,755,687 (the "**Disposal**").

As stated in the circular of the Company dated 29 April 2016:

- (i) the Disposal was primarily stemmed from, among others, the Company's observation that the manufacturing of automotive leather and furniture leather business had not been particularly appealing to investors together with the depreciation in RMB and the increasing operating costs for the Disposal Group, as a result of which the Group decided to streamline its business to increase the Group's overall performance and prospects as a whole;
- (ii) the consideration for the Disposal was determined with reference to the unaudited net asset value of the Disposal Group as at 30 September 2015 as well as taking into consideration of the financial performance of the Disposal Group for the years 2013 to 2015; and
- (iii) the value of the land and buildings of the Disposal Group was assessed by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent international property valuer appointed by the Company.

Further, the Company would like to emphasize that the historical income and profit of the Disposal Group as disclosed by the Company had been independently audited and were accurate in material respect. In addition, the Allegation that the Company did not transfer and had remained the RMB744 million of trade, bills and other payables of the Disposal Group at the time of Disposal in the Company's books was also unfounded. The Disposal was completed by way of a transfer of equity interests of the Disposal Group, and any liabilities which subsisted in the entities of the Disposal Group would not have remained with the Group upon completion of the Disposal.

For further details in relation to the Disposal, please refer to the circular of the Company dated 29 April 2016.

(ii) Proposed development of a water park in Cambodia under joint venture agreement

Blue Orca's Allegation

In the Report, Blue Orca referenced to a joint venture arrangement entered into by the Group in January 2018 for its first Cambodian project. It alleged that the joint venture would spend RMB113 million to acquire a land, but the Company had not received the title to the land despite having paid RMB177 million as prepayments and that there is no evidence of the proposed development at the plots of land.

Company's response

Such Allegation is completely groundless and the Company refutes such Allegation.

On 2 January 2018, the Group entered into a joint venture agreement to establish a joint venture in Cambodia for the purpose of developing and operating a water park in Phnom Penh, Cambodia. As contemplated therein, the joint venture company would acquire lands in Cambodia with a total site area of 154,886 square metres for the purpose of utilizing it as potential site of the water park. On 8 May 2018, the joint venture company entered into an agency agreement for the acquisition of around 20 plots of land adjoining to the land acquired by the Group on 12 January 2018 located at Toulkey Village, Phnom Penh, Cambodia with a total site area of approximately 120,000 square metres. The Company would like to clarify that, as at the date of this announcement, the joint venture company has entered into agreement to acquire approximately 265,700 square metres of land in Cambodia, out of which land title of approximately 261,900 square metres of land had been obtained and passed to the joint venture company. The land certificates for the remaining plot of land is also under progress and is expected to be obtained by in the shortcoming future.

In relation to the development of the water park in Cambodia, as stated in the Company's annual report for the year ended 31 December 2018, land price in Phnom Penh, Cambodia has increased rapidly recently. Accordingly, the Company will pay close attention to the development of the land and real estate market in Phnom Penh, Cambodia and adopt appropriate measures. As a result of which, the actual development of the water park in Cambodia is still under evaluation. Further updates will be provided by the Company as and when necessary.

(iii) Proposed investments in Steung Hav International Port and Special Economic Zone in Cambodia

Blue Orca's Allegation

In the Report, Blue Orca referenced to the cooperation agreement between the Group and Attwood Investment Group in April 2018 in relation to a proposed development in the Steung Hav International Port and Special Economic Zone in Cambodia. As part of the development, it was then proposed to finance and construct a power plant and a paper factory. It alleged that the Company had not received the two sets of coal-fired generators it purchased despite having paid RMB96 million as prepayment. Blue Orca further referenced to the engineering, procurement and construction (“EPC”) contract entered into by the Group with China Energy Engineering Group Northwest Electric Power Construction Engineering Co., Ltd. (“CEEG Northwest”) in November 2018, pursuant to which the Group agreed to provide certain funding to the related project. In the Report, Blue Orca alleged that CEEG Northwest, being a subsidiary of a Chinese state-owned enterprise, China Energy Engineering Corporation Limited, did not need “a small bridge loan” to be provided by the Company, and alleged that the agreement was designed to pump the Company's stock. It is further alleged that another company, namely Metallurgical Corporation of China (“MCC”) has a competing claim to develop the same area.

Company's response

Such Allegation is completely groundless and the Company refutes such Allegation.

The Company would like to clarify that, as at the date of this announcement, the title of the aforementioned generators had been passed to the Company. As at 31 December 2018, the related purchase costs for the generators were accounted for as property, plant and equipment but not as prepayment alleged in the Report. As at the date of this announcement, the aforementioned generators are still under the progress of demodification, which typically would take longer time to complete.

In relation to the EPC contract entered by the Group in November 2018 for the related project, the Company would like to draw to the attention of the shareholders and potential investors that it is a common market practice that a contractor of an EPC contract would arrange for the financing of the project through bank financing, and that repayment will be made to the contractor out of the income generating from the project. In some cases, prepayment would be made to the contractor by the contract letting party based on the monthly progress of the work performed. The Company denied that it had provided any bridging loan to CEEG Northwest, all the payment and financing arrangement with CEEG Northwest are consistent with the industry practice and in accordance with the terms of the EPC contract entered with CEEG Northwest in November 2018.

In relation to MCC's potential investment in Steung Hav International Port and Special Economic Zone in Cambodia, whilst the Company is aware of MCC's potential investment therein, the Company is not aware as to how the potential investment by MCC would impact on the Company's existing project. Further, given that the Company has no actual knowledge on the detailed terms of MCC's potential investment, the Company is not in a position to respond to the potential competing interest of MCC in the same area.

(iv) Expenditures on property, plant and equipment

Blue Orca's Allegation

In the Report, Blue Orca alleged that the Company claimed to have incurred RMB714 million expenditures on property, plant and equipment ("PP&E"), yet the Company only RMB8 million in PP&E for its remaining manufacturing subsidiaries during the two-year period in 2017 and 2018. It further alleged that, despite the Company claimed to have incurred RMB714 million on PP&E, the Company's profit from its manufacturing segment grew by only RMB8 million as compared to the year 2016. Blue Orca suggested that the expenditures were either fabricated or the funds were misappropriated.

Company's response

Such Allegation is completely groundless and the Company refutes such Allegation.

As stated in the Report, the alleged RMB714 million of capital expenditure was derived selectively based on the capital expenditures for the half-year periods in 2017, 2018 and 2019. As disclosed in the financial reports previously published by the Company in the relevant periods, the Company's capital expenditures for the year ended 31 December 2017, the year ended 31 December 2018 and the six months ended 30 June 2019 amounted to approximately RMB90.7 million, RMB585.7 million and RMB169.3 million, respectively. In total, the capital expenditures during the period from 1 January 2017 to 30 June 2019 amounted to approximately RMB845.7 million.

As disclosed in the respective annual reports and interim report, the capital expenditures were spent on the “purchase of property, plant and equipment for operational purpose” across the Company’s businesses and were not confined to the manufacturing segment as alleged by Blue Orca. They were made in view of the Group’s long-term development and do not necessarily translate to a dollar-to-dollar increase in profit to the corresponding periods.

In relation to the alleged RMB8 million spent in PP&E for its remaining manufacturing subsidiaries and the RMB8 million profit from the Group’s manufacturing segment from the year 2016 as stated in the Report, both of which purportedly to have shown in certain credit reports, as Blue Orca has not identified the source for such credit reports, the Company is not in a position to evaluate their validity and credibility. Having said that, the Company would like to stress that to compare the total capital expenditures made by the Company as a whole to the increase in profit solely from the manufacturing segment is not a representative comparison.

(v) **Proposed residential development in Sanya**

Blue Orca’s Allegation

In the Report, Blue Orca referenced to an agreement entered into by the Group in 2009 in relation to the Group’s acquisition of 51% of Hainan Hejia Property Development (the “**Hainan Company**”). It alleged that the Hainan Company were to acquire the rights to develop land in Sanya, Hainan, and yet the Company has only obtained title for 11% of the land despite having paid RMB637 million as a deposit. It is further alleged that other companies were scammed of prepayments in the same development area in Sanya and suggested that the Company might be a victim.

Company’s response

Such Allegation is completely groundless and the Company refutes such Allegation.

The Company would like to confirm that its development project of a residential, hotel and tourism resort in Sanya is still ongoing. Despite development of this project has been processing in a relatively slow pace than originally expected, the Hainan Company has completed the procedures for obtaining the land use right certificates of certain lands in compliance with laws and regulations. The Hainan Company has been continuously communicating with the relevant local government authorities, and has continued to complete the procedures for obtaining land use right certificates from time to time. As the land acquisitions are still in progress, the Hainan Company has continued to pay the remaining land acquisition cost and applied for the remaining land use right certificates from the government. The remaining land cost paid each year had been disclosed in the Company’s annual reports in the previous financial years. The Company considers that the Allegation that the development in Sanya being a scam is not true.

It is important for shareholders to be aware that the relevant Allegations are the opinions of a short seller whose interests may not be aligned with those of shareholders in general, and that it may be intended specifically to undermine confidence in the Company and its management, and to harm its reputation. Accordingly, shareholders should treat such Allegations with caution. The Company reserves its right to take legal action against Blue Orca and/or those responsible for the relevant allegations.

RESUMPTION OF TRADING

At the request of the Company, trading in the shares of the Company was halted with effect from 11:44 a.m. on 21 November 2019, pending the release of this clarification announcement. The Company has applied to the Stock Exchange for resumption of trading in its shares on the Stock Exchange with effect from 9:00 a.m. on 22 November 2019.

The Board considers that the Report contained certain factual error, misleading statements and unfounded allegations which may lead to unusual price movement. Shareholders of the Company and potential investors are advised to exercise caution when dealing in the securities of the Company.

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

PRC, 22 November 2019

As at the date of this announcement, 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.

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