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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)**

**Financial adviser to the Company**



### **CONNECTED TRANSACTIONS**

#### **INVOLVING PROPOSED ACQUISITION OF FURTHER INTERESTS IN TWO SUBSIDIARIES**

The Board is pleased to announce that on 1 June 2006, Zhejiang Kasen, a wholly-owned subsidiary of the Company, entered into the conditional Agreements with the Vendors, pursuant to which Zhejiang Kasen has agreed to acquire from the Vendors the Sale Interests, representing 44.55% and 49.5% respectively of the paid up capital of each of Haining Hainix and Haining Hidea, at an aggregate consideration of approximately RMB49.9 million (equivalent to approximately HK\$48.4 million) subject to the terms and conditions set out in the Agreements.

As at the date of this announcement, Haining Hainix is owned as to 25.5% by Higher Point Investment, 25% by Cardina, 11.6% by Haining Zhiyuan Leather Supplementary Material Operation, 4.95% by Haining Tianke Sofa Accessories Operation, 4.95% by Haining Yushi Commercial & Trading Operation and remaining 28% by Haining Zheji Material Operation. The Company has an indirect interest of 50.5% in Haining Hainix. Following the Completion of the Acquisition, Haining Hainix will be owned as to 44.55% by Zhejiang Kasen, 25.5% by Higher Point Investment, 25% by Cardina and 4.95% by Haining Yushi Commercial & Trading Operation. As such, the Company will have an indirect interest of 95.05% in Haining Hainix.

As at the date of this announcement, Haining Hidea is owned as to 25.5% by Higher Point Investment, 25% by the Cardina, 27% by Haining Huiteng Garments Material Operation and 22.5% by Haining Liangda Sofa Accessories Operation. Following the Completion of the Acquisition, Haining Hidea will be owned as to 49.5% by Zhejiang Kasen, 25.5% by Higher Point Investment and 25% by Cardina. As such, the Company will have an indirect interest of 100% in Haining Hidea.

As all the respective applicable percentage ratios for each of the Acquisition contemplated under Hainix Agreement and the Hidea Agreement are below 5%, the Acquisition will not constitute notifiable transactions under Chapter 14 of the Listing Rules. However, since (i) Haining Zhiyuan Leather Supplementary Operation and Haining Zheji Material Operation hold respectively more than 10% of the paid up capital of Haining Hainix and (ii) Haining Huiteng Garments Material Operation and Haining Liangda Sofa Accessories Operation hold respectively more than 10% of the paid up capital of Haining Hidea, they are therefore connected persons of the Company under the Listing Rules. Thus, each of the Hainix Agreement and the Hidea Agreement constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is therefore subject to Independent Shareholders' approval at the EGM according to Rule 14A.17 of the Listing Rules.

The Board will establish the Independent Board Committee to consider and advise the Independent Shareholders on the terms of the Hainix Agreement and the Hidea Agreement. The Company has appointed Tai Fook Capital Limited as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Hainix Agreement and the Hidea Agreement.

A circular containing, among other things, (i) further details of the Acquisition, (ii) the recommendations of the Independent Board Committee and the letter of advice from Tai Fook Capital Limited to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Hainix Agreement and the Hidea Agreement, (iii) the property valuation report conducted by Sallmans (Far East) Limited, together with a notice to convene the EGM will be despatched to the Shareholders as soon as practicable in accordance with the requirements of the Listing Rules.

## THE AGREEMENTS

### (I) Hainix Agreement

Date: 1 June 2006

Parties:

- (a) as vendors: 海寧市志遠皮革輔料經營部 (Haining Zhiyuan Leather Supplementary Material Operation) (11.6%), 海寧市天可沙發配件經營部 (Haining Tianke Sofa Accessories Operation) (4.95%) and 海寧浙吉物資經營部 (Haining Zheji Material Operation) (28%), being the existing shareholders of Haining Hainix
- (b) as purchaser: Zhejiang Kasen
- (c) as party to agreement: 海寧市余氏商貿經營部 (Haining Yushi Commercial & Trading Operation) (4.95%), Higher Point Investment (25.5%) and Cardina (25%), being the other existing shareholders of Haining Hainix

Interests being acquired: the entire 44.55% paid up capital in Haining Hainix

Consideration and payment: RMB34.2 million for the 44.55% paid up capital of Haining Hainix and will be paid in cash in proportion to their respective Sales Interests in Haining Hainix within three months after the update of the business license of Haining Hainix.

On the basis of the consideration of RMB34.2 million payable for the acquisition of the 44.55% paid up capital of Haining Hainix, the consideration would imply a discount of approximately RMB1.1 million or approximately 3.2%, which was arrived at arm's length negotiation between the relevant parties and on normal commercial terms, and by reference to the net asset value of Haining Hainix as of 31 December 2005 as adjusted by the appreciation amount of the land and buildings of approximately RMB35.7 million valued by the independent valuer, Sallmans (Far East) Limited in May 2006.

Conditions and Completion: The other shareholders, namely, 海寧市余氏商貿經營部 (Haining Yushi Commercial & Trading Operation) (4.95%), Higher Point Investment (25.5%) and Cardina (25%) have given their consents to the equity transfer and have agreed not to exercise their respective pre-emptive rights.

The Hainix Agreement would be effective subject to the fulfillment of the following conditions precedent:

- (i) the approval of the said equity transfer from the PRC approving authority;
- (ii) the approval of the said equity transfer during the EGM;
- (iii) the compliance with all applicable laws and regulations, including but not limited to the Listing Rules

All parties to the Hainix Agreement have undertaken that after the coming into effect of the Hainix Agreement, they would act in good faith and use their best endeavours to perform all necessary actions for the Completion.

## (II) Hidea Agreement

Date: 1 June 2006

Parties:

- (a) as vendors 海寧市慧騰服裝面料經營部 (Haining Huiteng Garments Material Operation) (27%) and 海寧市良達沙發配件經營部 (Haining Liangda Sofa Accessories Operation) (22.5%), being existing shareholders of Haining Hidea
- (b) as purchaser: Zhejiang Kasen

(c) as party to agreement: Higher Point Investment (25.5%) and Cardina (25%), being the other existing shareholders of Haining Hidea

Interests being acquired: the entire 49.5% paid up capital in Haining Hidea

Consideration and payment: RMB15.7 million for the 49.5% paid up capital of Haining Hidea and will be paid in cash in proportion to their respective Sales Interests in Hidea within three months after the update of the business license of Hidea.

On the basis of the consideration of RMB15.7 million payable for the acquisition of the 49.5% paid up capital of Haining Hidea, the consideration would imply a discount of approximately RMB8.1 million or approximately 34.0%, which was arrived at arm's length negotiation between the relevant parties and on normal commercial terms, and by reference to the net asset value of Haining Hidea as of 31 December 2005 as adjusted by the appreciation amount of the land and buildings of approximately RMB26.3 million valued by the independent valuer, Sallmans (Far East) Limited in May 2006.

Conditions and Completion: The other shareholders, namely, Higher Point Investment (25.5%) and Cardina (25.0%) have given their consents to the equity transfer and have agreed not to exercise their respective pre-emptive rights.

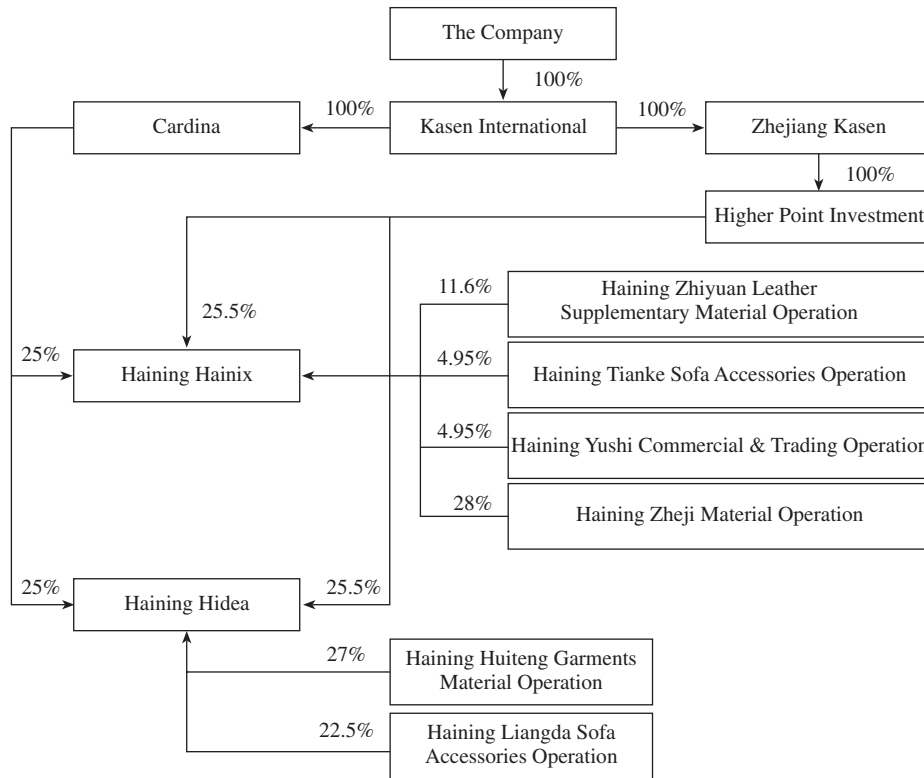
The Hidea Agreement would be effective subject to the fulfillment of the following conditions precedent:

- (i) the approval of the said equity transfer from the PRC approving authority;
- (ii) the approval of the said equity transfer during the EGM;
- (iii) the compliance with all applicable laws and regulations, including but not limited to the Listing Rules

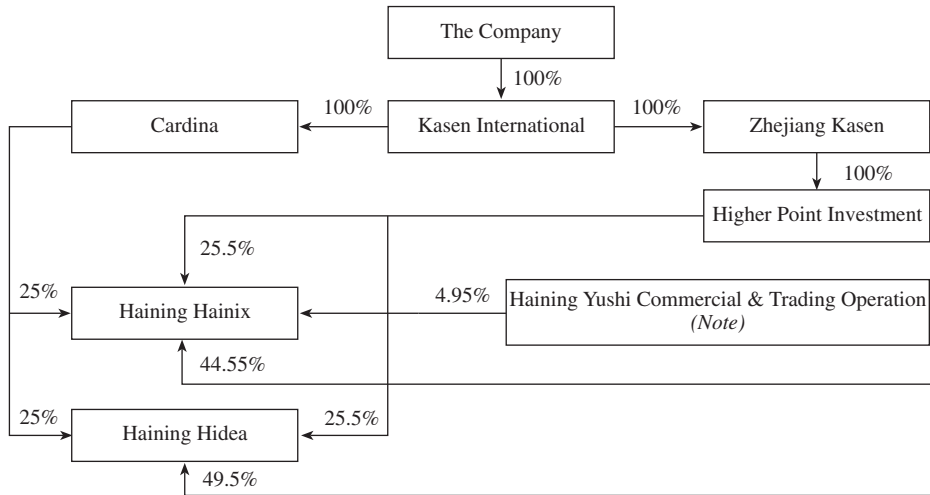
All parties to the Hidea Agreement have undertaken that after the coming into effect of the Hidea Agreement, they would act in good faith and use their best endeavours to perform all necessary actions for the Completion.

Save as disclosed herein, the Group owns 50.5% interests in each of Haining Hainix and Haining Hidea since their incorporation and has not acquired any further interests in them from the Vendors before the Acquisition.

**The Group's shareholding in Haining Hainix and Haining Hidea before the Acquisition**



**The Group's shareholding in Haining Hainix and Haining Hidea after the Acquisition**



*Note: The Company was informed by Haining Yushi Commercial & Trading Operation that currently, it has no intention to dispose of its interest in Haining Hainix.*

## INFORMATION ON HAINING HAINIX AND HAINING HIDEA

Haining Hainix was incorporated as a limited company in the PRC on 10 September 2003 with fully paid up capital of US\$ 6 million. Haining Hainix has been mainly engaged in the manufacturing and sales of sofas, dining chairs and other furniture products since its incorporation.

Haining Hidea was incorporated as a limited company in the PRC on 10 September 2003 with fully paid up capital of US\$5 million. Haining Hidea has been mainly engaged in the manufacturing and sales of sofas, dining chairs and other furniture products since its incorporation.

The table below sets out the selected financial information on Haining Hainix and Haining Hidea based on their respective management accounts prepared in accordance with International Accounting Standards for each of the two years ended 31 December 2005:

	<b>Haining Hainix</b>		<b>Haining Hidea</b>	
	<b>For the year ended</b>		<b>For the year ended</b>	
	<b>31 December</b>		<b>31 December</b>	
	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(million)</i>	<i>(million)</i>	<i>(million)</i>	<i>(million)</i>
Turnover	121	244	3	49
Profit /(Loss) before taxation	(6)	2	(6)	(13)
Profit/(Loss) after taxation	(6)	2	(6)	(13)
Total assets	184	227	108	217
Net assets	42	44	35	22

## INFORMATION ON THE VENDORS

Haining Zhiyuan Leather Supplementary Material Operation was incorporated in the PRC as sole proprietorship enterprise (個人獨資企業) and is principally engaged in wholesale and retail of leather fabrics and clothing accessories. It acquired its respective Sales Interests from its ultimate shareholder (who had held such interest since the incorporation of Haining Hainix) at 3 November 2004 and is interested in 11.6% of the paid up capital in Haining Hainix as at the date of the announcement.

Haining Tianke Sofa Accessories Operation was incorporated in the PRC as sole proprietorship enterprise (個人獨資企業) and is principally engaged in wholesale and retail of sofa accessories. It acquired its respective Sales Interests from its ultimate shareholder (who had held such interest since the incorporation of Haining Hainix) at 3 November 2004 and is interested in 4.95% of the paid up capital in Haining Hainix as at the date of the announcement.

Haining Zheji Material Operation was incorporated in the PRC as sole proprietorship enterprise (個人獨資企業) and is principally engaged in wholesale and retail of household furniture. It acquired its respective Sales Interests from a third party (who had held such interest since the incorporation of Haining Hainix) at 21 July 2005 and is interested in 28% of the paid up capital in Haining Hainix as at the date of the announcement.

Save for the respective shareholdings in Haining Hainix as mentioned above, each of Haining Zhiyuan Leather Supplementary Material Operation, Haining Tianke Sofa Accessories Operation and Haining Zheji Material Operation does not have any other relations with other Vendors (including Haining Huiteng Garments Material Operation and Haining Liangda Sofa Accessories Operation), nor with the Company.

Haining Huiteng Garments Material Operation was incorporated in the PRC as sole proprietorship enterprise (個人獨資企業) and is principally engaged in wholesale and retail of leather and knit materials. It acquired its respective Sales Interests from its ultimate shareholder (who had held such interest since the incorporation of Haining Hidea) at 24 March 2005 and is interested in 27% of the paid up capital in Haining Hidea as at the date of the announcement.

Haining Liangda Sofa Accessories Operation was incorporated in the PRC as sole proprietorship enterprise (個人獨資企業) and is principally engaged in wholesale and retail of sofa accessories. It acquired its respective Sales Interests from its ultimate shareholder (who had held such interest since the incorporation of Haining Hidea) at 24 March 2005 and is interested in 22.5% of the paid up capital in Haining Hidea as at the date of the announcement.

Save for the respective shareholdings in Haining Hainix as mentioned above, each of Haining Huiteng Garments Material Operation and Haining Liangda Sofa Accessories Operation does not have any other relations with other Vendors (including Haining Zhiyuan Leather Supplementary Material Operation, Haining Tianke Sofa Accessories Operation and Haining Zheji Material Operation), nor with the Company.

## **REASONS FOR AND BENEFITS OF THE ACQUISITION**

The Group is a leading upholstered furniture and leather products manufacturer based in China. It primarily manufactures upholstered furniture products in accordance with the designs of their customers.

The Company intends to acquire from the Vendors the Sale Interests and the other existing shareholders of Haining Hainix and Haining Hidea have given their consents to the equity transfer and have agreed not to exercise their respective pre-emptive rights.

Over the years, the Directors have experienced occasional difficulties in reaching consensus with the Vendors on business decisions and strategies for Haining Hainix and Haining Hidea. The Directors believe that the Acquisition provides a good opportunity for the Company to take full operation benefits of the two companies. By acquiring further interests in Haining Hainix and Haining Hidea, the Company will have greater control of these two companies and therefore its business strategies will be implemented more effectively. In addition, expected sales and profits of Haining Hainix and Haining Hidea to be accounted for in the future will be attributed as to 95.05% and 100% respectively to the Shareholders.

The Directors also noted that Haining Hainix has procured some key customers who are mainly manufacturers of upholstered furniture products located in the United States and Australia and has established a large customer base. Upon completion, the Directors intend



to fully capitalize on the growing customer base of Haining Hainix and thereby increasing its sales volume. As for Haining Hidea, the Directors consider that the business operation could be managed more efficiently and effectively once the Group obtains a greater control of the board composition. Furthermore, the Group plans to utilize Haining Hidea's production facilities for its expanded customer base.

For the above reasons, the Directors (including all independent non-executive Directors whose preliminary opinion is subject to finalisation after reviewing the recommendation from the independent financial adviser) consider that the terms and conditions of the Agreements are fair and reasonable and in the interests of the Company and Shareholders as a whole.

As at 10 October 2005 (the date of the prospectus of the Company), there was no plan for the Acquisition. Recently, the Vendors intend to dispose of their respective Sales Interests and the Company exercises its pre-emptive right to acquire such Sales Interests. As such, no proceeds raised by the Company in October 2005 is applied for financing the Acquisition, and the Directors intended to finance the Acquisition by internal resources of the Group.

## **LISTING RULES REQUIREMENTS**

As all the respective applicable percentage ratios for each of the Acquisition contemplated under the Hainix Agreement and the Hidea Agreement are below 5%, the Acquisition will not constitute notifiable transactions under Chapter 14 of the Listing Rules. However, since (i) Haining Zhiyuan Leather Supplementary Operation and Haining Zheji Material Operation hold respectively more than 10% of the paid up capital of Haining Hainix and (ii) Haining Huiteng Garments Material Operation and Haining Liangda Sofa Accessories Operation hold respectively more than 10% of the paid up capital of Haining Hidea, they are therefore connected persons of the Company under the Listing Rules. Thus, each of the Hainix Agreement and the Hidea Agreement constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is therefore subject to Independent Shareholders' approval at the EGM according to Rule 14A.17 of the Listing Rules. Since none of the Vendors holds any interest in the Company and no other Shareholder is materially interested in the Acquisition, no Shareholder is required to abstain from voting on the relevant resolutions should the EGM be held.

The Independent Shareholders will be asked to consider and, if thought fit, approve by poll the Acquisition at EGM.

The Board has appointed an Independent Board Committee to consider and advise the Independent Shareholders on the terms of the Hainix Agreement and the Hidea Agreement. The Company has appointed Tai Fook Capital Limited as an independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Hainix Agreement and the Hidea Agreement.

A circular containing, among other things, (i) further details of (ii) the Acquisition, the recommendations of the Independent Board Committee and the letter of advice from Tai Fook Capital Limited to the Independent Board Committee and the Independent Shareholders in



respect of the terms of the Hainix Agreement and the Hidea Agreement, (iii) the property valuation report conducted by Sallmans (Far East) Limited, together with a notice to convene the EGM will be despatched to the Shareholders as soon as practicable in accordance with the requirements of the Listing Rules.

## **DEFINITIONS**

In this announcement, unless otherwise indicated in the context, the following expressions have the meanings set out below:

“Acquisition”	the proposed acquisition by Zhejiang Kasen of the Sale Interests as provided for in the Agreements
“Agreements”	collectively the Hainix Agreement and the Hidea Agreement
“associate(s)”	has the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“Cardina”	Cardina International Company Limited (凱迪納國際有限公司), a company incorporated on 13 August 2003 under the laws of the Cayman Islands and is a wholly-owned subsidiary of the Company
“Company”	Kasen International Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the Stock Exchange
“Completion”	completion of the Agreements
“Completion Date”	the day on which Completion shall take place
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be held to consider and, if thought fit, to approve the Acquisition
“Group”	the Company and its subsidiaries
“Haining Hainix”	海寧漢林沙發有限公司 (Haining Hainix Sofa Co., Ltd.), a limited liability company incorporated on 10 September 2003 under the laws of the PRC
“Haining Hidea”	海寧慧達傢俱有限公司 (Haining Hidea Furniture Co., Ltd.), a limited liability company incorporated on 10 September 2003 under the laws of the PRC

“Hainix Agreement”	the equity transfer agreement dated 1 June 2006 entered into between Zhejiang Kasen and the existing shareholders of Hainix in relation to the sale and purchase of 44.55% of paid up capital in Haining Hainix
“Hidea Agreement”	the equity transfer agreement dated 1 June 2006 entered into between Zhejiang Kasen and the existing shareholders of Haining Hidea in relation to the sale and purchase of 49.5% of paid up capital in Haining Hidea
“Higher Point Investment”	海寧高點投資發展有限公司 (Haining Higher Point Investment Development Co., Ltd.), a limited liability company incorporated on 12 August 2003 under the laws of the PRC and is 100% owned by Zhejiang Kasen
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising of the independent non-executive Directors constituted to make recommendations to the Independent Shareholders in respect of the Acquisition
“Independent Shareholder(s)”	Shareholder(s) other than those who have interest in the Acquisition and are required to abstain from voting in the EGM
“Kasen International”	Kasen International Company Limited, an exempted company incorporated in the Cayman Islands with limited liability on 20 December 2002 under the Cayman Islands Company Law and is a wholly-owned subsidiary of the Company and the immediate holding company of Zhejiang Kasen
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	The People’s Republic of China, which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Interests”	collectively 44.55% of paid up capital of Haining Hainix and 49.5% of paid up capital of Haining Hidea
“Shareholder(s)”	holder(s) of the share(s) of the issued capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Vendors”	collectively (i) Haining Zhiyuan Leather Supplementary Material Operation, Haining Zheji Material Operation, and Haining Tianke Sofa Accessories Operation in respect of the Hainix Agreement; (ii) Haining Huiteng Garments Material Operation and Haining Liangda Sofa Accessories Operation, in respect of the Hidea Agreement
“Zhejiang Kasen”	浙江卡森實業有限公司 (Zhejiang Kasen Industrial Co., Ltd.), formerly known as Zhejiang Kasen Industrial Group Company Limited, a wholly-foreign owned enterprise with limited liability, originally incorporated as a limited liability company on 12 June 1995 under the laws of the PRC and is a wholly-owned subsidiary of the Company
“%”	per cent.

As at the date hereof, the Executive Directors are Mr. Zhu Zhangjin, Mr. Zhou Xiaosong and Mr. Zhu Jianqi. The non-executive Director is Mr. Li Hui. The independent non-executive Directors are Mr. Lu Yungang, Mr. Chow Joseph and Mr. Shi Zhengfu.

*For the purpose of illustration only, amounts denominated in RMB have been translated into HK\$ at the rate of HK\$1.00 = RMB1.03 in this announcement. Such translation should not be construed as a representation that the amounts denominated in RMB have been, could have been or could be converted at any particular rate or at all.*

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

1 June 2006

*Please also refer to the published version of this announcement in  
The Standard and Sing Tao Daily.*