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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)**

### **MAJOR TRANSACTION INVOLVING THE DISPOSAL OF 50.5% EQUITY INTEREST IN THE TARGET COMPANY**

On 8 October 2007, the First Vendor and the Second Vendor entered into the Equity Transfer Agreement with, among others, the First Purchaser and the Second Purchaser for the disposal of the Sale Interest as to 25.5% equity interest in the Target Company from the First Vendor to the First Purchaser for a consideration of RMB11,480,000 and 25% equity interest in the Target Company from the Second Vendor to the Second Purchaser for a consideration of RMB13,027,500.

The Disposal constitutes a major transaction on the part of the Company under the Listing Rules. The Equity Transfer Agreement will be subject to the Shareholders' approval at the EGM to be convened and held by the Company.

A circular containing, among other things, further details of the Equity Transfer Agreement and the transactions contemplated thereunder together with the notice of the EGM will be despatched to the Shareholders as soon as practicable and in accordance with the Listing Rules.

#### **THE EQUITY TRANSFER AGREEMENT**

**Date:** 8 October 2007

**Parties:** (1) First Vendor  
(2) Second Vendor  
(3) First Purchaser  
(4) Second Purchaser  
(5) Two existing shareholders of the Target Company

The First Purchaser is a company incorporated in the PRC with limited liability and is principally engaged in the manufacture and processing of handbags, wallets and card wallets. The Second Purchaser is a company incorporated in Hong Kong with limited liability and is principally engaged in investment and trade business. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, so far as the Directors are aware:

- (a) the First Purchaser and the Second Purchaser and their ultimate beneficial owners are Independent Third Parties;
- (b) the First Purchaser and the Second Purchaser are independent of and not connected with each other; and

- (c) the First Purchaser and the Second Purchaser are not connected with any substantial shareholders of the Target Company, which is a subsidiary of the Company.

Pursuant to the Equity Transfer Agreement, the First Vendor will transfer 25.5% equity interest in the Target Company to the First Purchaser at a cash consideration of RMB11,480,000. The Second Vendor will transfer 25% equity interest in the Target Company to the Second Purchaser at a cash consideration of RMB13,027,500. The two existing shareholders of the Target Company, which are corporate substantial shareholders of the Target Company as to 28% and 21.5%, are connected persons of the Company before completion of the Disposal. They entered into the Equity Transfer Agreement to waive their respective right of first refusal in respect of the transfer of the Sale Interest under the Disposal.

### **Assets to be disposed of**

The Sale Interest represents 50.5% of the registered capital of the Target Company.

### **Consideration**

The consideration for the Disposal is RMB24,507,500 and shall be paid as to RMB11,480,000 by the First Purchaser and RMB13,027,500 by the Second Purchaser in cash on Completion.

The consideration was arrived at after arm's length negotiations between the Purchasers and the Vendors to the Equity Transfer Agreement with reference to the Target Company's net asset value as at 31 August 2007. There are no PRC laws which require the consideration to be based on the percentage of equity interest for a transfer of interest in a sino-foreign enterprise. The Target Company is a sino-foreign joint venture. The Second Vendor, being a foreign investor, has not only made capital contributions to the Target Company, but also helped in other aspects in the past, such as obtaining preferential tax treatment, introducing customers, assisting in setting up export trading arrangement, etc. Therefore, the Second Purchaser, being also a foreign investor, is willing to make additional compensation for the Second Vendor's contribution in the past years. This has resulted in the Second Vendor receiving a relatively higher consideration which was arrived at after arm's length negotiation between the parties to the Equity Transfer Agreement.

The Board considers the consideration to be fair and reasonable and in the interests of the Group and the Shareholders as a whole.

### **Conditions**

The Equity Transfer Agreement is conditional upon (a) the passing by the Shareholders at the EGM of an ordinary resolution to approve the Equity Transfer Agreement and the transactions contemplated thereunder; and (b) the certificate of approval in respect of the Disposal having been granted by the Bureau of Foreign Trade & Economic Cooperation, Haining Municipal Government (海寧市對外貿易經濟合作局).

Completion will take place when all of the above conditions are satisfied. Upon completion of the Disposal, the Group will not have any interest in the Target Company which will accordingly cease to be a subsidiary of the Company.

## INFORMATION ON THE TARGET COMPANY

The Target Company is a company incorporated in the PRC with limited liability and is principally engaged in the manufacture and sale of sofas, dining chairs and home products. The Target Company's registered capital is held as to 25.5%, 25% and 28% and 21.5% by the First Vendor, the Second Vendor and the two existing shareholders of the Target Company respectively.

The financial information of the Target Company for the two financial years ended 31 December 2005 and 2006 and for the eight months ended 31 August 2007 are as follows:

	<b>Eight months ended 31 August 2007 (Unaudited) RMB'000</b>	<b>Year ended 31 December 2006 (Audited) RMB'000</b>	<b>Year ended 31 December 2005 (Audited) RMB'000</b>
Turnover	<b>285,231</b>	489,197	255,633
Profit before taxation ( <i>Note 1</i> )	<b>3,588</b>	39,561	4,442
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Net Assets/(liabilities)	<b>35,688</b> ( <i>Note 2</i> )	75,100	35,539

*Note:*

- (1) The Target Company was eligible for tax holidays and concessions and was exempted from PRC income taxes for 2005 and 2006 ("Tax Holidays"). The Tax Holiday is for 5 years starting from the first taxable profit year in 2005, where income taxes for the first two years are fully exempted and then for the subsequent three years are paid at half of normal tax rate.
- (2) The reason for the decrease in the net asset of the Target Company as at 31 August 2007 is the dividend distribution in the amount of RMB43 million in the Target Company in July 2007.

## REASONS FOR THE DISPOSAL

The Company acts as an investment holding company. Its subsidiaries are principally engaged in the processing of raw cowhides and wet blues into finished leather or fully assembled leather products.

Since 2006, the Group's core businesses, i.e. leather processing and upholstered furniture manufacturing, have been under severe pressure due to (1) the appreciation of the RMB; (2) the reduced demand in the US household furniture sector as a result of the downturn in the US housing market; (3) the purchase price increase in the Group's major raw material, namely, raw cowhides; (4) the change in government policies for exports in terms of value-added tax rebates reduction or elimination. As announced in the Group's interim announcement on 17 September 2007, the Group is taken initiatives to consolidate its assets by disposing certain manufacturing facilities.

The Target Company is one of the Group's subsidiaries in which the Group holds an aggregate of 50.5% equity interest before completion of the Disposal. It is engaged in the manufacturing of low end upholstered furniture products and its major customers are furniture wholesalers or importers from the United States. After recording a good growth in the first two years since its commencement of operation in 2004, its businesses are experiencing difficulties due to the factors described above. The Group is not optimistic about the Target Company's future financial performance. The Disposal will enable the Group to realize the value of its interests in the Target Company. Also, it will help the Group to further concentrate on its manufacturing resources and improve efficiency.

The Directors, including the independent non-executive Directors, consider that the terms of the Equity Transfer Agreement and the transactions contemplated thereunder are entered into upon normal commercial terms following arm's length negotiations among the parties and the terms are fair and reasonable so far as the Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

### **EFFECT OF THE DISPOSAL**

It was estimated that there would be a gain in the amount of approximately RMB6 million on the Disposal accrued to the consolidated accounts of the Group which is to be calculated by reference to the net proceeds from the Disposal and the proportionate net asset value of the Target Company attributable to the Group as at 31 August 2007. The actual gain will depend on the net asset value of the Target Company attributable to the Group as at the date of completion of the Disposal.

The Board intends to apply the sale proceeds of RMB24,507,500 as general working capital for the Group.

As a result of the Disposal, the Group's overall production capacity for upholstered furniture will be reduced. In addition, certain key customers in the lower-end product categories will be lost. However, the Group still has five upholstered furniture factories with adequate capability to satisfy the needs from customers. After the Disposal, the Directors believe that the Group will continue to maintain its leading position as China's major leather producer and a major OEM for upholstery furniture. At the same time, the Group will be looking for new business opportunities to diversify its sources of income. At the moment, the Group has made substantial investment in commercial property development. The Company will continue to manufacture "low end upholstered furniture good" through its subsidiaries but the quantities of such products will be reduced. In the future, the Company will allocate more manufacturing resources to the production of medium-high end products which may bring more profits to the Company.

### **LISTING RULES IMPLICATION**

The Disposal constitutes a major transaction on the part of the Company under the Listing Rules. The Equity Transfer Agreement will be subject to the Shareholders' approval at the EGM to be convened and held by the Company.

A circular containing, among other things, further details of the Equity Transfer Agreement and the transactions contemplated thereunder together with the notice of the EGM will be despatched to the Shareholders as soon as practicable and in accordance with the Listing Rules.

## DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meaning:

“Board”	the board of Directors
“Company”	Kasen International Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the main board of the Stock Exchange
“Completion”	completion of the Equity Transfer Agreement in accordance with its terms and conditions
“connected person”	has the meaning ascribed to it under the Listing Rules
“Directors”	the directors of the Company, including the independent non-executive directors
“Disposal”	the disposal of the Sale Interest under the Equity Transfer Agreement
“EGM”	an extraordinary general meeting of the Company to be convened and held to approve the Equity Transfer Agreement and the transactions contemplated thereunder
“Equity Transfer Agreement”	the equity transfer agreement dated 8 October 2007 entered into between the Vendors, the Purchasers and the Independent Third Parties in relation to the sale and purchase of the Sale Interest
“First Purchaser”	Haining Zhicun Leather Co., Ltd (海寧芝村皮業有限公司), a company incorporated in the PRC and an Independent Third Party
“First Vendor”	Zhejiang Kasen Property Development Company Limited 浙江卡森置業有限公司 (formerly known as Haining Higher Point Investment Development Company Limited 海寧高點投資發展有限公司), a company incorporated in the PRC with limited liability and an indirectly wholly owned subsidiary of the Company
“Group”	the Company and its subsidiaries (which shall exclude, where the context requires, the Target Company after Completion)
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Third Party”	third party independent of the Company and connected persons of the Company and is not a connected person of the Company
“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, shall exclude Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Purchasers”	the First Purchaser and the Second Purchaser
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Interest”	50.5% of the registered capital of the Target Company
“Shareholders”	holders of the Shares
“Shares”	ordinary shares with a par value of US\$0.00015 each in the capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Haining Oyi May Sofa Company Limited (海寧歐意美沙發有限公司), a company incorporated in the PRC with limited liability and an indirectly owned subsidiary of the Company before Completion
“US\$”	US dollars, the lawful currency of the United States of America
“Second Purchaser”	Top Fortune Asia Pacific Limited (益豐亞太有限公司), a company incorporated in Hong Kong and an Independent Third Party
“Second Vendor”	Cardina International Company Limited (凱迪納國際有限公司), a company incorporated in the Cayman Islands with limited liability and an indirectly wholly owned subsidiary of the Company
“Vendors”	the First Vendor and the Second Vendor
“%”	per cent.

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

Hong Kong, 8 October 2007

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

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