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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)

KEY FINDINGS OF THE INDEPENDENT REVIEW

This announcement is made by Kasen International Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

References are made to the announcements of the Company dated 21 November 2019, 22 November 2019 and 25 November 2019 in relation to, among others, a report published by Blue Orca Capital (“**Blue Orca**”) on 21 November 2019 which contains certain allegations against the Group (the “**Blue Orca Report**”). In view of the allegations made in the Blue Orca Report, the Company has established an independent board committee (the “**Independent Board Committee**”) to (i) engage an independent professional party to conduct a review on the matters as alleged in the Blue Orca Report, (ii) report to the Board on its findings; and (iii) make recommendations to the Board on appropriate actions to be taken, if any.

An independent international professional consultant, being one of the “**Big Four**” internationally well-known accounting firms, was subsequently engaged as the independent reviewer (the “**Independent Reviewer**”) to conduct a forensic review on the matters as detailed below (the “**Review**”).

The Company wishes to update the Shareholders that the Independent Reviewer has completed the Review and issued a report setting out its findings. Key findings of the Review are set out below.

SUMMARY OF THE INDEPENDENT REVIEWER'S KEY FINDINGS

(A) Scope of the Review

The Independent Reviewer was engaged to investigate into the following allegations raised in the Blue Orca Report:–

- (i) Allegations concerning the Group's disposal of its automotive and furniture leather manufacturing business to the Chairman's family members in 2016 (the "**Issues in relation to the Disposal of Leather Business**");
- (ii) Allegations concerning the genuineness of the Group's acquisitions of land in January 2018 for its proposed development of a waterpark in Cambodia (the "**Issues in relation to the Cambodia Waterpark**");
- (iii) Allegations concerning the Group's investments in the Steung Hav International Port and Special Economic Zone (the "**SEZ**") in Cambodia (the "**Issues in relation to the SEZ in Cambodia**");
- (iv) Allegations in relation to the Group's expenditures on property, plant and equipment (the "**Issues in relation to Capital Expenditures**"); and
- (v) Allegations concerning the land acquisitions and proposed development in Sanya, Hainan (the "**Issues in relation to the Proposed Development in Sanya**").

(collectively, the "**Allegations**")

(B) Summary of Key Findings

(i) Issues in relation to the Disposal of Leather Business

Blue Orca's allegations

Blue Orca alleged that the Company disposed of its most valuable business at the time, the automotive and furniture leather manufacturing business, to the Chairman's daughters below market price in 2016. It was further alleged in the Blue Orca Report that the Company understated the revenues and profits of the Disposal Group in 2016 for the purpose of misleading investors. Further, Blue Orca claimed that liabilities of the Disposal Group have remained in the Group's accounts.

The Independent Reviewer's findings

(1) No evidence to indicate that the Disposal caused any damage to the Group's value

The Independent Reviewer noted that both revenue and profit before tax of the Group reached its highest levels in 2018 (i.e. two years after the Disposal) between 2014 and 2018.

The Independent Reviewer has examined the China Haining Leather Index* (中國海寧皮革指數) to understand the industry performance of the leather business before and after the Disposal. Public data indicated that the said Index has shown a decreasing trend since February 2016, which is consistent with the management's explanations on the reasons for the Disposal.

(2) No evidence to indicate that the Company intentionally misled investors by understating the revenue of the Disposal Group in 2016

The consideration for the Disposal was determined with reference to the Disposal Group's unaudited net asset value as at 30 September 2015. Therefore, the revenue of the Disposal Group in 2016 was irrelevant to the consideration for the Disposal.

The Independent Reviewer noted after making enquiries that the financial data filed to the Administration of Industry and Commerce of the place where the Disposal Group was registered are not accessible to third parties. Therefore, Blue Orca's statement about the revenue of RMB2.2 billion of the Disposal Group in 2016 as derived from SAIC filings could not be independently verified.

Blue Orca calculated the annualised revenue of the Disposal Group in 2016 to be RMB1.3 billion. Based on the analysis of the Independent Reviewer, such calculation methodology was erroneous. The Independent Reviewer has re-calculated the annualised revenue of the Disposal Group as approximately RMB1.9 billion, which is only 14.3% different from the aggregate revenue of RMB2.2 billion as alleged in the Blue Orca Report.

(3) The liabilities of the Disposal Group have not remained in the Group's consolidated accounts

Having reviewed the breakdown of the Group's "trade, bills and other payables" for the years ended 31 December 2015 and 2016, the balance of the relevant liabilities of Disposal Group aggregated to be RMB0 as at the end of 2016, which means that the liabilities of the Disposal Group have not remained in the Group's consolidated accounts.

(ii) Issues in relation to the Cambodia Waterpark

Blue Orca's allegations

Blue Orca referred to a joint venture agreement entered into by the Group in January 2018 and alleged that the Company, through the Joint Venture, pre-paid RMB177 million to acquire land in Cambodia for its waterpark project, but has not received title to the land. Blue Orca also doubted the genuineness of the said waterpark project.

Blue Orca claimed to have visited the actual site of the waterpark and found no sign of development in Toulkey Village, Cambodia.

The Independent Reviewer's findings

- (1) *Land title for approximately 265,000 square metres of land in Phnom Penh, Cambodia were all obtained*

The Independent Reviewer noted that the Joint Venture acquired land title of approximately 265,000 square metres of land in Phnom Penh, Cambodia by the end of 2019. All of the land title certificates had been obtained by the end of 2019.

- (2) *Nature of the RMB177 million prepayments*

The Independent Reviewer noted that most of the prepayments of RMB177 million (as referred to by Blue Orca) did not relate to the waterpark project in Cambodia.

- (3) *Blue Orca did not visit the actual site acquired at its alleged site visit*

The Independent Reviewer located the land purchased by the Joint Venture in Phnom Penh through the maps provided in the land sale and purchase agreements and the coordinates shown in the land title certificates, and compared it with the site visited by Blue Orca. Results indicated that Blue Orca did not visit the actual location of the site.

(iii) Issues in relation to the SEZ in Cambodia

Blue Orca's allegations

Blue Orca referred to a cooperation agreement between the Group and Attwood Investment Group in April 2018 in relation to a proposed development in the SEZ in Cambodia. As part of the development, the Group purchased from Fujian Guo Ming two sets of 300 mega-watt coal-fired generators (the “**Generators**”) for RMB218 million. Blue Orca alleged that the Group prepaid RMB96 million for the Generators, but had not received title to or possession of the Generators by the end of 2018.

Blue Orca further questioned the authenticity of the EPC contract that AIG Kasen entered into with CEEG Northwest in November 2018. Blue Orca questioned the Group's role in the EPC contract and alleged that there was no mentioning of the name of the Group in CEEG Northwest's announcements about its development of the SEZ.

The Independent Reviewer's findings

(1) The EPC contract is authentic

Pursuant to the EPC contract, CEEG Northwest is responsible for providing to the Group services such as the demolition, relocation and reassembly of the Generators. It was noted that CEEG Northwest's parent company is China Energy Engineering Corporation Limited, a listed company in Hong Kong and directly managed by the SASAC.

The Independent Reviewer has identified several news articles on CEEG Northwest's official website which reported the progress of the project.

(2) The Group has already obtained the title to the Generators and accounted for the same, and the Independent Reviewer observed during an on-site visit that the demolition of the Generators was ongoing

The Independent Reviewer conducted an on-site visit at the site in which the Generators are located and noted that the demolition of the Generators was ongoing, and observed that the sampled components of the Generators at the site are in line with the descriptions in the contract for purchasing the Generators.

The Independent Reviewer has checked relevant documents and noted that the title of the Generators was received and accounted for.

(3) Prepayments of RMB96 million were irrelevant to the Generators

The Independent Reviewer noted that the RMB96 million prepayments mentioned by Blue Orca were irrelevant to the purchase of the Generators referred to in the aforesaid allegation (i.e. the two sets of generators purchased from Fujian Guo Ming). The prepayments were in relation to acquisitions of other equipment.

(iv) Issues in relation to Capital Expenditures

Blue Orca's allegations

Blue Orca claimed that the Group incurred RMB714 million of capital expenditures on property, plant and equipment (“PP&E”) to upgrade its manufacturing facilities and revitalise its business from 2017 to the first quarter of 2019. Blue Orca further alleged that the Group’s profits generated from its manufacturing segment only grew by RMB8 million compared to 2016, suggesting that the reported capital expenditures were either fabricated or misappropriated.

The Independent Reviewer's findings

Capital expenditures were incurred for expanding the Group's operation capacity

The Independent Reviewer examined the Group’s Interim Reports 2017, 2018 and 2019 and Annual Reports 2017 and 2018, and interviewed the management on the nature of the capital expenditures incurred. The results of the Independent Reviewer’s examination showed that most of the capital expenditures and all the top five items of capital expenditures in the past three years (accounting for around 88% of the total capital expenditures) were not related to the manufacturing facilities for the Group’s furniture manufacturing segment. As disclosed in the Group’s Annual Reports in 2017 and 2018, the capital expenditures were related to the purchase of PP&E for the purpose of expanding the Group’s operation capacity.

(v) Issues in relation to the Proposed Development in Sanya

Blue Orca's allegations

Blue Orca alleged that the Group prepaid RMB637 million to acquire land to be used for development in Sanya since 2009, and yet the Company only obtained title for 11% of the land. Blue Orca claimed to have sent investigators to the site and found little evidence of development. Blue Orca concluded that the Company might have been cheated by property scammers in Sanya or its funds might have been misappropriated.

The Independent Reviewer's findings

(1) No evidence indicating the Group has been cheated or its funds have been misappropriated

The Independent Reviewer examined relevant transaction documents and government approvals and found that there is no evidence of any fraud or misappropriation. The Group has been carrying out procedures to obtain the land use right certificates for the land acquired.

- (2) *Blue Orca did not visit the actual site acquired by Sanya Kasen at its alleged site visit*

The Independent Reviewer has visited the land acquired by Sanya Kasen and found that Blue Orca did not visit the actual site owned by Sanya Kasen. The Independent Reviewer conducted an on-site visit and noted that a waterpark is in operation at the site owned by Sanya Kasen.

THE AUDITORS' COMMUNICATION WITH THE COMPANY

The Company's auditors, BDO Limited, has considered the Independent Reviewer's report and advised that there was no need to change or withdraw their previous audit opinions issued on the Group's financial statements.

CONCLUSION

The Board considers that the Independent Reviewer's findings indicated that the Allegations are inaccurate and unsubstantiated. The alleged findings in the Blue Orca Report were premised on an inaccurate understanding and analysis of the transactions concerned and the Group's financial statements. Blue Orca, serving its own purpose, has made use of inaccurate information and misleading statements to make false allegations against the Company, specifically to undermine the investors' confidence in the Company and its management, and to harm its reputation. It is important for shareholders of the Company to be aware that Blue Orca's interests may not be aligned with theirs.

As indicated in the Company's announcement dated 21 November 2019, the Company reserves the right to take all appropriate actions to protect the Company from any unfounded allegation, including but not limited to taking legal action against Blue Orca.

Shareholders of the Company and potential investors are advised to exercise caution when dealing in the securities of the Company.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings when used herein:

“AIG Kasen”	AIG Kasen International Power Co. Ltd., a company incorporated in Cambodia with limited liability which is held as to 49% by a wholly-owned subsidiary of the Company, as to 30% by Attwood Investment Group Co., Ltd. and 21% by Mr. Fan Dehua
“Allegations”	allegations made against the Group in the Blue Orca Report
“Attwood Investment Group”	Attwood Investment Group Co., Ltd.
“Blue Orca”	Blue Orca Capital
“Blue Orca Report”	a report published by Blue Orca on 21 November 2019
“Board”	the board of directors of the Company
“CEEG Northwest”	China Energy Engineering Group Northwest Power Construction Engineering Co., Ltd.* (中國能源建設集團西北電力建設工程有限公司)
“Chairman”	chairman of the Company
“Company”	Kasen International Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange
“Disposal”	the disposal of the Disposal Group at a consideration of RMB492,755,687
“Disposal Group”	The then subsidiaries of the Group principally engaged in the automotive and furniture leather manufacturing business, that is, Haining Schinder Leather Company Limited* (海寧森德皮革有限公司), Haining Senmei Trading Company Limited* (海寧森美貿易有限公司), Haining Kasen Automotive Interior Materials Company Limited* (海寧卡森汽車內飾材料有限公司), Haining Kasen Leather Company Limited* (海寧卡森皮革有限公司), Haining Home Direct Furniture Company Limited* (海寧家值傢俬有限公司), Yancheng Dafeng Huasheng Leather Company Limited* (鹽城市大豐華盛皮革有限公司) (formerly known as Dafeng Huasheng Leather Company Limited* (大豐華盛皮革有限公司)) and Wuji Kasen Industrial Company Limited* (無極卡森實業有限公司)

“EPC”	Engineering, Procurement and Construction, an internationally used generic term for general engineering contracting industry
“Fujian Guo Ming”	Fujian Guo Ming Materials Recycling Company Limited* (福建國銘物資回收有限公司)
“Generators”	two sets of 300 mega-watt coal-fired generators purchased from Fujian Guo Ming
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee established by the Company in relation to the Blue Orca Report
“Independent Reviewer”	the independent professional party engaged to conduct a review on the Allegations
“Issues in relation to Capital Expenditures”	Allegations in relation to the Group’s expenditures on property, plant and equipment from 2017 to the first quarter of 2019
“Issues in relation to the Cambodia Waterpark”	Allegations concerning the genuineness of the Group’s acquisitions of land in January 2018 for its proposed development of a waterpark in Cambodia
“Issues in relation to the Disposal of Leather Business”	Allegations concerning the Group’s disposal of the automotive and furniture leather manufacturing business to the chairman’s family members in 2016
“Issues in relation to the proposed development in Sanya”	Allegations concerning the land acquisitions and proposed development in Sanya, Hainan
“Issues in relation to the SEZ in Cambodia”	Allegations concerning the Group’s investments in the Steung Hav International Port and SEZ in Cambodia
“Joint Venture”	Fun Waterpark Co., Ltd., a joint venture company held as to 49% by Cardina International Company Limited (an indirect wholly-owned subsidiary of the Company), as to 36% by Mr. Fan Dehua and as to 15% by Madam Oknha Lim Chhiv Ho
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	People’s Republic of China

“Review”	The independent review conducted by the Independent Reviewer
“RMB”	Renminbi, the lawful currency of PRC
“SAIC”	The State Administration for Industry and Commerce
“Sanya Kasen”	Hainan Hejia Property Development Company Limited* (海南合甲置業有限公司), now known as Hainan Sanya Kasen Property Development Company Limited* (海南三亞卡森置業有限公司)
“SASAC”	The State-owned Assets Supervision and Administration Commission of the State Council
“SEZ”	The Steung Hav International Port and Special Economic Zone located in Cambodia
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent.

* For identification purpose only

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

PRC, 13 March 2020

As at the date of this announcement, the executive directors of the Company are Mr. Zhu Zhangjin, Ms. Zhou Xiaohong and Mr. Zhu Ruijun and the independent non-executive directors of the Company are Mr. Du Haibo, Mr. Zhang Yuchuan and Mr. Zhou Lingqiang.

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