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If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Kasen International Holdings Limited, you should at once hand this circular to the purchaser or the transferee or to the bank manager, licensed securities dealer or registered institution in securities or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

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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)

**DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTION
IN RELATION TO
THE 2018 CCT MASTER AGREEMENT
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders**



Capitalised terms used in this cover shall have the same meanings as those defined in this circular.

A notice convening the EGM to be held at Building 1, 236 Haizhou Road West, Haining City, Zhejiang Province, China on Monday, 31 December 2018 at 9:00 a.m. is set out on pages EGM-1 to EGM-2 of this circular. Whether or not you intend to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not later than 9:00 a.m. on Saturday, 29 December 2018, or not less than 48 hours before the time fixed for holding any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM should you so wish.

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DEFINITIONS

In this circular, unless the context requires, otherwise, the following expressions have the following meanings:

“2016 CCT Master Agreement”	the master agreement dated 12 September 2016 entered into between the Company, the CCT Counter Guarantors and the CCT Group in relation to the provision of guarantee by the Group to the CCT Group and counter guarantee by the CCT Counter Guarantors to the Company
“2018 CCT Master Agreement”	the master agreement dated 20 November 2018 entered into among the Company, the CCT Counter Guarantors and the CCT Group in relation to the CCT Master Guarantee and the CCT Counter Guarantee
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“CCT Counter Guarantee”	the counter guarantee provided by the CCT Counter Guarantors to fully indemnify the Company up to the amount of the annual caps under the 2018 CCT Master Agreement
“CCT Counter Guarantors”	collectively, Mr. Zhu, Ms. Zhu Jiayun, Ms. Zhu Lingren and Lingjia New Material
“CCT Group”	collectively, Haining Kasen Leather, Haining Schinder and Dafeng Huasheng, which formed part of the Disposal Group
“CCT Master Guarantee”	the guarantee provided by the Group to the CCT Group up to the amount of the annual caps under the 2018 CCT Master Agreement
“Company”	Kasen International Holdings Limited, a company incorporated in the Cayman Islands with limited liability whose issued Shares are listed on the main board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules

DEFINITIONS

“Dafeng Huasheng”	鹽城市大豐華盛皮革有限公司 (Yancheng Dafeng Huasheng Leather Company Limited*), a company established under the laws of the PRC with limited liability and being part of the Disposal Group
“Director(s)”	director(s) of the Company
“Disposal”	the disposal of the entire interest of the Disposal Group by the Group to the Purchasers
“Disposal Group”	collectively, Haining Kasen Leather, Haining Schinder, Haining Home Direct, 海寧森美貿易有限公司 (Haining Senmei Trading Company Limited*), Dafeng Huasheng, 無極卡森實業有限公司 (Wuji Kasen Industrial Company Limited*) and 海寧卡森汽車內飾材料有限公司 (Haining Kasen Automotive Interior Materials Company Limited*)
“EGM”	the extraordinary general meeting to be held and convened on Monday, 31 December 2018 by the Company to, amongst others, consider and, if thought fit, approve the 2018 CCT Master Agreement and the transaction contemplated thereunder, including the annual caps
“Group”	the Company and its subsidiaries
“Haining Home Direct”	海寧家值傢俬有限公司 (Haining Home Direct Furniture Company Limited*), a company established under the laws of the PRC with limited liability, and being part of the Disposal Group
“Haining Kasen Leather”	海寧卡森皮革有限公司 (Haining Kasen Leather Company Limited*), a company established under the laws of the PRC with limited liability, and being part of the Disposal Group
“Haining Schinder”	海寧森德皮革有限公司 (Haining Schinder Leather Company Limited*), a company established under the laws of the PRC with limited liability, and being part of the Disposal Group

DEFINITIONS

“Hero Time”	Hero Time Ventures Limited, a company incorporated in the Republic of Seychelles with limited liability
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	the independent board committee of the Company, comprising all the independent non-executive Directors, which has been formed for the purpose of advising the Independent Shareholders in respect of the 2018 CCT Master Agreement and the transactions contemplated thereunder
“Independent Financial Adviser” or “Lego Corporate Finance”	Lego Corporate Finance Limited, a corporation licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO, and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the 2018 CCT Master Agreement and the transactions contemplated thereunder, including the annual caps thereunder
“Independent Shareholders”	Shareholders other than those who have material interest in the 2018 CCT Master Agreement and the transactions contemplated thereunder and are required to abstain from voting at the EGM
“Joyview”	Joyview Enterprises Limited, a company incorporated in the British Virgin Islands with limited liability and is wholly-owned by the Trustee
“Latest Practicable Date”	7 December 2018, being the latest practicable date for ascertaining certain information referred to in this circular prior to printing of this circular
“Lingjia New Material”	海寧靈嘉新材料科技有限公司 (Haining Lingjia New Material Technology Company Limited*), a company established under the laws of the PRC with limited liability and is wholly-owned by Ms. Zhu Jiayun and Ms. Zhu Lingren

DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Zhu”	Mr. Zhu Zhangjin, being a Director and a controlling shareholder of the Company
“Ms. Zhu Jiayun”	Ms. Zhu Jiayun, being the elder daughter of Mr. Zhu
“Ms. Zhu Lingren”	Ms. Zhu Lingren, being the younger daughter of Mr. Zhu
“PRC”	the People’s Republic of China, for the purpose of this circular, excluding Hong Kong, Macau Special Administration Region of the People’s Republic of China and Taiwan
“Purchasers”	Ms. Zhu Jiayun and Ms. Zhu Lingren
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of USD0.00015 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Trust”	a family trust established by Mr. Zhu as the settlor to hold interest of family members of Mr. Zhu (excluding Mr. Zhu) in the Company
“Trustee”	Prosperity and Wealth Limited, a private trust company incorporated in Bermuda and acting in its capacity as trustee of the Trust
“Vendor A”	Cardina International Company Limited, a company incorporated in the Cayman Islands with limited liability and a wholly-owned subsidiary of the Company

DEFINITIONS

“Vendor B”	浙江卡森實業集團有限公司 (Zhejiang Kasen Industrial Group Company Limited*), a company established under the laws of the PRC with limited liability and a wholly-owned subsidiary of the Company
“Vendors”	Vendor A and Vendor B
“%”	per cent.

* *for identification purposes only*

LETTER FROM THE BOARD



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)

Executive Directors:

ZHU Zhangjin

(Chairman and chief executive officer)

ZHOU Xiaohong

SHEN Jianhong

Independent non-executive Directors:

DU Haibo

ZHANG Yuchuan

ZHOU Lingqiang

Registered office:

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman

KY1-1111

Cayman Islands

Head office:

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236 Haizhou Road West

Haining City

Zhejiang Province 314400

China

Principal place of business

in Hong Kong:

Room 1605, Tai Tung Building

8 Fleming Road

Wanchai

Hong Kong

12 December 2018

To the Shareholders

Dear Sir or Madam,

**DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTION
IN RELATION TO
THE 2018 CCT MASTER AGREEMENT
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

References are made to the announcement of the Company dated 20 November 2018 in relation to, among other things, the 2018 CCT Master Agreement.

LETTER FROM THE BOARD

References are also made to the announcements of the Company dated 1 February 2016 and 25 November 2016 and the circular of the Company dated 29 April 2016 in relation to the Disposal. On 1 February 2016, the Company, the Vendors, the Purchasers and Mr. Zhu entered into a disposal agreement, pursuant to which, among others, the Vendors agreed to sell and the Purchasers agreed to acquire the entire equity interest of the Disposal Group (the “**Disposal Agreement**”). Completion of the Disposal took place on 25 November 2016. The CCT Group formed part of the Disposal Group under the Disposal Agreement.

With regard to the Group’s general business operation and practice, on one hand, the Group, as guarantor, provided guarantee for the performance and repayment obligations of bank facilities to the CCT Group which were pledged by the assets of the Group. On the other hand, the CCT Group, as guarantor, provided guarantee for the performance and repayment obligations of bank facilities to the Group. Details of the said guaranteed bank facilities and loans drawdown as at the Latest Practicable Date are summarized as follows:-

	Facility Amount		Guarantee with Asset Pledge		Guarantee	
	Total Amount <i>(Approximate RMB'million)</i>	Actual Drawdown <i>(Approximate RMB'million)</i>	Total Amount <i>(Approximate RMB'million)</i>	Actual Drawdown <i>(Approximate RMB'million)</i>	Total Amount <i>(Approximate RMB'million)</i>	Actual Drawdown <i>(Approximate RMB'million)</i>
Bank facilities to the CCT Group	375.2	258.5	285.2	168.5	90.0	90.0
The Group						
Bank facilities to the Group	774.8	684.8	-	-	774.8	684.8

The assets provided by the Group for the above guarantee included land use rights, properties, bank deposits and equity investment.

Save for the above and the guarantee provided by Haining Home Direct to the Group as set out in the announcement of the Company dated 20 November 2018, the Group has not provided any guarantee to the remaining companies under the Disposal Group or vice versa.

In view of the above, the Company had on 12 September 2016 entered into the 2016 CCT Master Agreement to govern the said provision of guarantees and asset pledge after completion of the Disposal.

As the 2016 CCT Master Agreement will expire on 31 December 2018, on 20 November 2018 (after trading hours), the Company, the CCT Counter Guarantors and the CCT Group entered into the 2018 CCT Master Agreement pursuant to which, among others, the Group agreed to provide the CCT Master Guarantee, and each of the CCT Counter Guarantors agreed to jointly and severally provide the CCT Counter Guarantee to fully indemnify the Company, for the performance and repayment obligations of bank facilities to the CCT Group up to the amount of the annual caps for the three years ending 31 December 2021, subject to the terms and conditions of the 2018 CCT Master Agreement.

LETTER FROM THE BOARD

On 23 May 2016, the Vendors, the Company and Hero Time entered into a share transfer agreement (the “**Share Transfer Agreement**”), pursuant to which, among others, the Vendors agreed to sell and Hero Time agreed to acquire the entire equity interest of Haining Home Direct, being one of the members of the Disposal Group, major terms of which were determined in line with that under the Disposal Agreement. On the same date, the Vendors, Haining Home Direct and Hero Time entered into a transfer of control agreement (the “**Transfer of Control Agreement**”), pursuant to which the Vendors agreed to transfer the controlling rights of Haining Home Direct to Hero Time (the “**Transfer of Controlling Rights**”). As at 23 May 2016, the Transfer of Controlling Rights was completed and the financial results of Haining Home Direct was de-consolidated from the Group’s financial statements.

Haining Home Direct is a company established in the PRC with limited liability and is principally engaged in the manufacturing of furniture leather in the PRC. Hero Time owns 100% of Haining Home Direct. The ultimate beneficial owner of Hero Time is a PRC resident who is a merchant of furniture leather business. To the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, Hero Time, Haining Home Direct and their ultimate beneficial owner are parties independent from the Company and its connected persons.

The purpose of this circular is to provide you with, among others, (i) details of the 2018 CCT Master Agreement; (ii) the recommendation of the Independent Board Committee; (iii) the advice of the Independent Financial Adviser; and (iv) a notice of the EGM.

2018 CCT MASTER AGREEMENT

Principal terms of the 2018 CCT Master Agreement

- Date: 20 November 2018
- Parties:
- (1) the Company;
 - (2) Mr. Zhu;
 - (3) Ms. Zhu Jiayun;
 - (4) Ms. Zhu Lingren;
 - (5) Lingjia New Material;
 - (6) Haining Kasen Leather;
 - (7) Haining Schinder; and
 - (8) Dafeng Huasheng.

LETTER FROM THE BOARD

As at the Latest Practicable Date, each of Haining Kasen Leather, Haining Schinder and Dafeng Huasheng are non-wholly owned subsidiaries of Lingjia New Material and Lingjia New Material is wholly owned by Ms. Zhu Jiayun and Ms. Zhu Lingren. Mr. Zhu is a Director and the controlling shareholder of the Company, and Ms. Zhu Jiayun and Ms. Zhu Lingren are the daughters of Mr. Zhu. Therefore, each of Lingjia New Material, Haining Kasen Leather, Haining Schinder and Dafeng Huasheng is an associate of Mr. Zhu, and is a connected person of the Company under the Listing Rules.

Subject matter

Pursuant to the 2018 CCT Master Agreement, the Group agreed to provide the CCT Master Guarantee, and each of the CCT Counter Guarantors agreed to jointly and severally provide the CCT Counter Guarantee up to the amount of the annual caps as set out below, subject to the terms and conditions of the 2018 CCT Master Agreement.

Annual caps

The proposed annual caps for the three financial years ending 31 December 2021 (the “CCT Guarantee Period”) under the 2018 CCT Master Agreement are as follows:-

	For the financial year ending 31 December 2019 <i>RMB'million</i>	For the financial year ending 31 December 2020 <i>RMB'million</i>	For the financial year ending 31 December 2021 <i>RMB'million</i>
Maximum amount	394.8	394.8	394.8

The annual caps were determined after arm’s length negotiations between the Company and the CCT Counter Guarantors with reference to, among others, the existing bank facilities of RMB375.2 million guaranteed by the Group to the CCT Group and the associated costs, without limitation to interest payment. Based on the recoverability of the CCT Group’s bank loans in the past two years and the current status of finding a new creditable guarantor to replace the Group, the Directors currently expect that it will take around three years more to release all CCT Master Guarantee.

LETTER FROM THE BOARD

Consideration

Neither the Company nor the CCT Counter Guarantors will receive any fee or commission from providing the CCT Master Guarantee and the CCT Counter Guarantee respectively.

Having considered that, among others, (i) the arrangement of no fee or commission payment is reciprocal; (ii) the major purpose of providing the CCT Master Guarantee is not for profit making; and (iii) the CCT Counter Guarantee will fully indemnify the Group's exposure to the provision of the CCT Master Guarantee, the Directors are of the view that the arrangement of no fee or commission being payable by the Company and the CCT Counter Guarantors is fair and reasonable and under normal commercial terms.

Effectiveness conditions

The CCT Master Guarantee and the CCT Counter Guarantee shall become effective upon fulfillment of the following conditions:

- (i) all necessary waiver, consent, approval, licence, authorisation, permission, order and exemption (if required) from the relevant governmental or regulatory authorities or other third parties which are necessary in connection with the 2018 CCT Master Agreement and the transactions contemplated thereunder having been obtained; and
- (ii) the obtaining of the Independent Shareholders' approval for the 2018 CCT Master Agreement and the transactions contemplated thereunder in compliance with the Listing Rules.

None of the above conditions can be waived. As at the Latest Practicable Date, none of the above conditions has been fulfilled.

Collateral

The Company agreed to continue to provide guarantee and pledge the Group's assets for the CCT Master Guarantee.

The assets provided by the Group for the guarantee include land use right, properties, bank deposits and equity investment.

LETTER FROM THE BOARD

The properties and bank deposits represent (i) certain commercial properties in a total gross floor area of approximately 5,730 square meters, with a net book value of approximately RMB17,790,000 as at 30 June 2018, located in Haining, the PRC that are used as offices of the Group for general administrative purposes; (ii) certain factories and land in a total gross floor area of 253,513 square meters, with a net book value of approximately RMB28,680,000 as at 30 June 2018, owned by 海寧漢林沙發有限公司 (Haining Hainix Sofa Co., Limited* (“**Haining Hainix**”), a wholly owned subsidiary of the Company, that are used for the production of upholstered furniture. The revenue of Haining Hainix represented approximately 17.9% of the total revenue of the Group for the year ended 31 December 2017 (“**FY2017**”); and (iii) the bank deposits of approximately RMB71,000,000 as at the Latest Practicable Date.

Equity investment represents 3,999,900 shares of Haining China Leather Market Company Limited, being a listed company on the Shenzhen Stock Exchange with a total market value of approximately RMB19,040,000 as at the Latest Practicable Date, held by the Group for investment purpose.

In addition, the provision of the CCT Counter Guarantee will fully indemnify the Group’s exposure to the provision of the CCT Master Guarantee.

Having considered the above, the Directors are of the view that there will not be any material adverse effect to the operation of the Group.

Major representations and warranties of the CCT Counter Guarantors

The major representations and warranties of the CCT Counter Guarantors are summarized as follows:–

- (i) the CCT Group shall continue to provide the guarantee for the bank facilities to the Group (including guarantee provided together with Haining Home Direct and a subsidiary of the Company) in an aggregate amount of RMB774.8 million during the CCT Guarantee Period and release of which shall be subject to the Company’s approval;
- (ii) without the written consent of the Group, the CCT Counter Guarantors shall not create any mortgage, charge, pledge, lien, hypothecation or other arrangement whatsoever over or affecting any of the entire equity interest of the Disposal Group (other than Haining Home Direct) during the CCT Guarantee Period;
- (iii) without the written consent of the Group, the CCT Counter Guarantors shall ensure that the CCT Group will not increase their total bank loans to the extent that exceed the guaranteed bank facilities of RMB375.2 million provided by the Group to the CCT Group during the CCT Guarantee Period;

LETTER FROM THE BOARD

- (iv) without the written consent of the Group, the Disposal Group (other than Haining Home Direct) shall be conducted in the ordinary course of business consistent with the past practice and there shall have no material adverse change on the assets, liabilities, financial condition and operating condition of the Disposal Group (other than Haining Home Direct), without limitation to material acquisition and disposal and dividend distribution during the CCT Guarantee Period; and
- (v) the CCT Counter Guarantors agree to, at the request of the Company, provide any information of the CCT Group (including their financial statements) from time to time to the Company.

The guarantees provided by Haining Home Direct and the CCT Group to the Group are on a several basis. Each of Haining Home Direct and the CCT Group will continue to provide guarantee for the bank facilities to the Group for an amount of RMB729.8 million and RMB774.8 million respectively.

INFORMATION ON PARTIES TO THE 2018 CCT MASTER AGREEMENT

As at the Latest Practicable Date, Mr. Zhu is a Director and the controlling shareholder of the Company; Ms. Zhu Jiayun and Ms. Zhu Lingren are the daughters of Mr. Zhu; and the CCT Group are non-wholly owned subsidiaries of Lingjia New Material, which is in turn wholly-owned by Ms. Zhu Jiayun and Ms. Zhu Lingren.

Lingjia New Material is a company established under the laws of the PRC with limited liability. Its principal business is research and development of new materials.

Haining Kasen Leather is a company established in the PRC with limited liability and is principally engaged in the manufacturing of furniture leather in the PRC.

Haining Schinder is a company established in the PRC with limited liability and is principally engaged in the manufacturing of automotive leather.

Dafeng Huasheng is a company established in the PRC with limited liability and is principally engaged in the manufacturing of furniture leather in the PRC. Each of Haining Kasen Leather and Dafeng Huasheng are wholly owned subsidiaries of Haining Schinder.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF THE 2018 CCT MASTER AGREEMENT

Since completion of the Disposal Agreement, the parties to the Disposal Agreement had exerted considerable efforts to arrange for the discharge and release all the guarantee obligations and liabilities of the Group in respect of the bank facilities to the CCT Group. As a result, the aggregate amount of guarantees provided by the Group to the CCT Group under the bank facilities has significantly reduced to approximately RMB375.2 million as at the Latest Practicable Date, representing a decrease of 41.1% from approximately RMB637.4 million as at 28 September 2016. However, despite various rounds of negotiation between the Group and the relevant banks in the PRC for the said discharge and release, the Group has yet to reach a consensus with the said banks to discharge and release all of the guarantee obligations and liabilities as (a) notwithstanding the efforts made by CCT Group to repay the loans from its earnings and working capital available within the contract period of the 2016 CCT Master Agreement, the CCT Group could not fully settle all the bank loans; and (b) the banks are of the view that they will only accept a guarantor which is no less favourable than the Group for the replacement of guarantor to the CCT Group's existing bank loans.

Having considered the terms and conditions of the existing guaranteed bank facilities of the CCT Group, the Company intends to continue to negotiate with the banks with a view to procure for the discharge and release of the outstanding guarantee obligations within the coming three years. The Group's aim to release all guarantee to the CCT Group remains unchanged and such intention is also agreed by the CCT Counter Guarantors and the CCT Group. However, based on the recoverability of the CCT Group's bank loans in the past two years and the search for another new creditable guarantor to replace the Group, the Directors believe that it will take around three years more to release all of the CCT Master Guarantee to the CCT Group. Accordingly, the Group entered into the 2018 CCT Master Agreement for the provision of guarantees by the Group to the CCT Group to secure the abovementioned bank facilities.

LETTER FROM THE BOARD

On the other hand, the CCT Group had provided counter guarantees to the Group under the 2018 CCT Master Agreement. As at the Latest Practicable Date, the CCT Group together with Haining Home Direct and a subsidiary of the Company provided guarantees in respect of bank facilities to the Group in an aggregate amount of RMB774.8 million (including guarantee amounting RMB45.0 million provided separately by the CCT Group without Haining Home Direct), representing an increase of approximately 103% from approximately RMB382.5 million as at 28 September 2016 (including guarantee amounting RMB267.5 million provided separately by the CCT Group without Haining Home Direct). Accordingly, the Company, the CCT Counter Guarantors and the CCT Group entered into the 2018 CCT Master Agreement to continue the provision of the CCT Master Guarantee to facilitate the stable operation of the Group as well as the CCT Group. Pursuant to the 2018 CCT Master Agreement, the CCT Group shall continue to provide the guarantee for the bank facilities to the Group (including guarantee provided together with Haining Home Direct and a subsidiary of the Company) in an aggregate amount of RMB774.8 million during the CCT Guarantee Period and release of which shall be subject to the Company's approval. The Directors consider that the continued provision of such guarantee by the CCT Group will enable the Group to operate stably in the short run without any material impact on the financial position of the Group.

The Directors believe that the Group is further protected and compensated by the CCT Counter Guarantee provided. As at the Latest Practicable Date, Mr. Zhu as settlor, and together with persons acting in concert with him as beneficiaries of the Trust (excluding Mr. Zhu), were collectively holding 539,221,635 Shares or approximately 36.10% of the entire issued share capital of the Company (including the 526,861,635 Shares or approximately 35.27% of the entire issued share capital of the Company held by Joyview which in turn is wholly-owned by the Trustee). Based on the closing price of the Shares of HK\$3.36 as at the Latest Practicable Date, the total market value of such Shares was approximately HK\$1,812 million. Having reviewed the relevant documents in relation to the Trust, the Company noted that the beneficiaries of the Trust are close family members of Mr. Zhu.

Pursuant to the 2018 CCT Master Agreement, among others, without the written consent of the Group, (i) the CCT Counter Guarantors shall not create any mortgage, charge, pledge, lien, hypothecation or other arrangement whatsoever over or affecting any of the entire equity interest of the Disposal Group (other than Haining Home Direct); (ii) the Disposal Group (other than Haining Home Direct) shall be conducted in the ordinary course of business consistent with the past practice and there shall have no material adverse change on the assets, liabilities, financial condition and operating condition of the Disposal Group (other than Haining Home Direct), without limitation to material acquisition and disposal and dividend distribution, during the CCT Guarantee Period.

In view of the above, the Directors consider that the CCT Counter Guarantors have the financial abilities to fulfill their obligations under the CCT Counter Guarantee.

LETTER FROM THE BOARD

Under the circumstances that the CCT Counter Guarantors fail to perform their obligations under the CCT Counter Guarantee, the Group will be required to settle the outstanding bank loans due from the CCT Group and the relevant lenders may take possession of the Group's pledged assets as repayment for such loans.

Notwithstanding the above, the Directors are of the view that (i) the risk of default by the CCT Group is remote given that there was no single default in relation to the repayment of loan by the CCT Group in the past and the CCT Group's repayment capability is expected to be maintained given that, according to the 2018 CCT Master Agreement, the CCT Group shall conduct its ordinary course of business consistent with the past practice and there shall not be material adverse change on the assets, liabilities, financial condition and operating condition of the CCT Group; (ii) the risk of default by the CCT Counter Guarantors is remote given that their sufficient financial abilities as discussed above. In addition, the provision of the CCT Master Guarantee will only be reported as contingent liabilities of the Group. As such, the Directors are also of the view that the provision of the CCT Master Guarantee under the 2018 CCT Master Agreement will not have any material adverse effect on the financial performance, assets and liabilities of the Group.

Notwithstanding that the CCT Group has been disposed by the Company, the Company has decided to continue to provide the CCT Master Guarantee by entering into the 2018 CCT Master Agreement due to the following reasons:

- (i) The Group itself also needs to obtain certain banking facilities from time to time in the operation of its business, and most PRC banks usually request further guarantee from entities other than members of the Group. However, such entities normally request for a cross guarantee in return for providing guarantees to the Group. As a result, the Directors believe that the CCT Group, previously being part of the Group but disposed by the Group in November 2016, is a suitable and desirable candidate for providing such guarantee since the Group is more familiar with its operations and its business as compared with other external parties.
- (ii) Based on the unaudited consolidated management accounts of the CCT Group as at 31 October 2018 provided by the CCT Group, the unaudited consolidated total assets of the CCT Group as at 31 October 2018 amounted to approximately RMB1,219 million; the unaudited consolidated net asset value of the CCT Group as at 31 October 2018 amounted to approximately RMB415 million; and the unaudited consolidated current assets of the CCT Group as at 31 October 2018 amounted to approximately RMB967 million. The Company considers that the CCT Group has adequate assets and liquidity to satisfy the repayment of their bank loans as well as to fulfil their obligations under the CCT Counter Guarantee.

LETTER FROM THE BOARD

- (iii) The Group will continue to assess the financial ability of the CCT Group by regularly (at least once every month) obtaining and reviewing the unaudited consolidated management accounts of the CCT Group, and through discussion with the management of the CCT Group for any significant changes in their operation or significant disposal or acquisition of assets. Pursuant to the 2018 CCT Master Agreement, the Company has the power to request the CCT Group to provide any information relating to the CCT Group (including the financial statements) from time to time. Based on the above measures, the Company considers that it will be able to keep track of the financial abilities of the CCT Group, and control and minimize the risk for the Group being required to indemnify the bank pursuant to its obligations under the CCT Master Guarantee.

Having considered the above, including without limitation the provision of guarantees by CCT Group in favour of the Group, the Directors consider that the transactions under the 2018 CCT Master Agreement are in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, Haining Kasen Leather, Haining Schinder and Dafeng Huasheng are non-wholly owned subsidiaries of Lingjia New Material and Lingjia New Material is wholly owned by Ms. Zhu Jiayun and Ms. Zhu Lingren. Mr. Zhu is a Director and the controlling shareholder of the Company, and Ms. Zhu Jiayun and Ms. Zhu Lingren are the daughters of Mr. Zhu. Therefore, each of Lingjia New Material, Haining Kasen Leather, Haining Schinder and Dafeng Huasheng is an associate of Mr. Zhu, and is a connected person of the Company under the Listing Rules. Mr. Zhu, Ms. Zhu Jiayun, Ms. Zhu Lingren and Lingjia New Material, being the CCT Counter Guarantors, are connected persons of the Company under the Listing Rules.

The provision of the CCT Master Guarantee constitutes the provision of financial assistance by the Group under Rule 14.04(1)(e) and Rule 14A.24(4) of the Listing Rules. As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules for the annual caps under the 2018 CCT Master Agreement, on an annual basis, are higher than 5%, the transactions under the 2018 CCT Master Agreement constitute a non-exempt continuing connected transaction for the Company and are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined in the Listing Rules) in relation to the annual caps under the 2018 CCT Master Agreement, on an annual basis, exceed 5% but all are less than 25%, the transactions under the 2018 CCT Master Agreement also constitute a discloseable transaction for the Company and are subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

LETTER FROM THE BOARD

The provision of the CCT Counter Guarantee by the CCT Counter Guarantors under the 2018 CCT Master Agreement constitutes financial assistance received by the Group from a connected person. As the CCT Counter Guarantee received by the Group from the CCT Counter Guarantors is on normal commercial terms or better and is not secured by the assets of the Group, the CCT Counter Guarantee is fully exempted from the reporting, announcement and Independent Shareholders' approval requirements pursuant to Rule 14A.90 of the Listing Rules.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, save for Mr. Zhu, no Shareholder has any material interest in the 2018 CCT Master Agreement and the transactions contemplated thereunder. Mr. Zhu, who holds 12,360,000 Shares under his own name, and Joyview, who is an associate of Mr. Zhu holding 526,861,635 Shares, collectively hold 539,221,635 Shares (equivalent to approximately 36.10% of the issued Shares). Mr. Zhu, Joyview and his associates will abstain from voting at the EGM to be convened to consider, and if thought fit, to approve the 2018 CCT Master Agreement and the transactions contemplated thereunder. Save for the foregoing, no other Shareholders will be required to abstain from voting on the resolution(s) in respect of the 2018 CCT Master Agreement and the transactions contemplated thereunder, including the annual caps, at the EGM.

Mr. Zhu has abstained from voting on the relevant board resolutions approving the 2018 CCT Master Agreement and the transactions contemplated thereunder.

INFORMATION ON THE GROUP

The Company, through its subsidiaries, is principally engaged in the businesses of (a) provisions of tourism resort related business, restaurant, hotel operations and provisions of travel related services; (b) property development; and (c) manufacture and trade of upholstered furniture in the PRC.

INTERNAL CONTROL FOR THE CONTINUING CONNECTED TRANSACTIONS

The senior manager of the Group's internal audit department and the management of the Group will, among others, conduct regular checks on a quarterly basis (including checking the relevant facility agreements and outstanding drawdown amount of borrowings under the facility agreements and reviewing the financial information of the CCT Group), and review and assess whether the transactions contemplated under the relevant continuing connected transaction are conducted in accordance with the terms of the 2018 CCT Master Agreement. As such, the transactions contemplated under the 2018 CCT Master Agreement will be subject to annual review of the independent non-executive Directors and the auditors of the Company pursuant to Rules 14A.55 and 14A.56 of the Listing Rules, as well as the regular checks of the Group's internal audit department and the management of the Group. Based on the above, the Directors consider that the internal control mechanism is effective to ensure that the transactions contemplated under the 2018 CCT Master Agreement will be conducted on normal commercial terms and not prejudicial to the interests of the Company and the Shareholders as a whole.

GENERAL

The Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders on the 2018 CCT Master Agreement and the transactions contemplated thereunder. The Company has appointed the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

LETTER FROM THE BOARD

A notice convening the EGM of the Company to be held at Building 1, 236 Haizhou Road West, Haining City, Zhejiang Province, China on Monday, 31 December 2018 at 9:00 a.m. is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use in connection with the EGM is enclosed herewith. Whether or not you intend to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not later than 9:00 a.m. on Saturday, 29 December 2018, or not less than 48 hours before the time fixed for holding any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM should you so wish. If you attend and vote at the EGM, the authority of your proxy will be revoked. Pursuant to Rule 13.39(4) of the Listing Rules, voting by the Independent Shareholders at the EGM will be by poll.

RECOMMENDATION

Taking into account the letter from the Independent Board Committee and the advice of the Independent Financial Adviser, the Board (including the independent non-executive Directors) considers that notwithstanding that the transactions under the 2018 CCT Master Agreement may not be in the Company's ordinary and usual course of business, the terms of the 2018 CCT Master Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and the entering into the 2018 CCT Master Agreement is in the interests of the Company and the Shareholders as a whole. Accordingly, the Board (including the independent non-executive Directors) recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the 2018 CCT Master Agreement and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 19 to 20 of this circular which contains its recommendation to the Independent Shareholders in relation to the 2018 CCT Master Agreement. Your attention is also drawn to the letter from the Independent Financial Adviser set out on pages 21 to 37 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in respect of the terms of the 2018 CCT Master Agreement and the transactions contemplated thereunder and the information set out in the appendices of this circular.

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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)

12 December 2018

To the Independent Shareholders

Dear Sir or Madam,

**DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTION
IN RELATION TO
THE 2018 CCT MASTER AGREEMENT**

We refer to the circular of the Company dated 12 December 2018 (the “**Circular**”) of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter unless the context otherwise requires.

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders in respect of the terms of the 2018 CCT Master Agreement and the transactions contemplated thereunder. Lego Corporate Finance Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

We wish to draw your attention to the letter from the Board on pages 6 to 18 of the Circular, which sets out details of the 2018 CCT Master Agreement and the transactions contemplated thereunder. We also wish to draw your attention to the letter from the Independent Financial Adviser set out on pages 21 to 37 of the Circular, which contains its advice to the Independent Board Committee and the Independent Shareholders in respect of the terms of the 2018 CCT Master Agreement and the transactions contemplated thereunder.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taken into account the terms of the 2018 CCT Master Agreement and the advice and recommendation of the Independent Financial Adviser, we consider that notwithstanding that the transactions under the 2018 CCT Master Agreement may not be in the Company's ordinary and usual course of business, the terms of the 2018 CCT Master Agreement are on normal commercial terms, fair and reasonable so far as the interests of the Independent Shareholders are concerned and the entering into of the 2018 CCT Master Agreement and the transactions contemplated thereunder is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution(s) which will be proposed at the EGM to approve the 2018 CCT Master Agreement and the transactions contemplated thereunder.

Yours faithfully,

For and on behalf of the Independent Board Committee

Mr. Du Haibo
Independent
Non-executive Director

Mr. Zhang Yuchuan
Independent
Non-executive Director

Mr. Zhou Lingqiang
Independent
Non-executive Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter of advice from Lego Corporate Finance, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular, setting out its advice in respect of the 2018 CCT Master Agreement and the transactions contemplated thereunder.



12 December 2018

To the Independent Board Committee and the Independent Shareholders

Dear Sirs or Madams,

DISCLOSEABLE TRANSACTION AND CONTINUING CONNECTED TRANSACTION IN RELATION TO THE 2018 CCT MASTER AGREEMENT

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the 2018 CCT Master Agreement and the transactions contemplated thereunder, details of which are set out in the “Letter from the Board” (the “**Letter from the Board**”) contained in the circular issued by the Company to the Shareholders dated 12 December 2018 (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

The Group has been providing guarantees to certain bank facilities granted to the CCT Group under the 2016 CCT Master Agreement. As the 2016 CCT Master Agreement will expire on 31 December 2018, on 20 November 2018 (after trading hours), the Company, the CCT Counter Guarantors and the CCT Group entered into the 2018 CCT Master Agreement pursuant to which, among others, the Group agreed to provide the CCT Master Guarantee, and each of the CCT Counter Guarantors agreed to jointly and severally provide the CCT Counter Guarantee to fully indemnify the Company, for the performance and repayment obligations of bank facilities granted to the CCT Group up to the amount of the annual caps for the three years ending 31 December 2021, subject to the terms and conditions of the 2018 CCT Master Agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Each of Haining Kasen Leather, Haining Schinder and Dafeng Huasheng are non-wholly owned subsidiaries of Lingjia New Material, and Lingjia New Material is wholly owned by Ms. Zhu Jiayun and Ms. Zhu Lingren as at the Latest Practicable Date. Mr. Zhu is a Director and the controlling shareholder of the Company, and Ms. Zhu Jiayun and Ms. Zhu Lingren are the daughters of Mr. Zhu. Therefore, each of Lingjia New Material, Haining Kasen Leather, Haining Schinder and Dafeng Huasheng is an associate of Mr. Zhu, and is a connected person of the Company under the Listing Rules. Mr. Zhu, Ms. Zhu Jiayun, Ms. Zhu Lingren and Lingjia New Material, being the CCT Counter Guarantors, are connected persons of the Company under the Listing Rules.

The provision of the CCT Master Guarantee constitutes the provision of financial assistance by the Group under Rule 14.04(1)(e) and Rule 14A.24(4) of the Listing Rules. As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules for the annual caps under the 2018 CCT Master Agreement, on an annual basis, are higher than 5%, the transactions under the 2018 CCT Master Agreement constitute a non-exempt continuing connected transaction for the Company and are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios (as defined in the Listing Rules) in relation to the annual caps under the 2018 CCT Master Agreement, on an annual basis, exceed 5% but all are less than 25%, the transactions under the 2018 CCT Master Agreement also constitute a discloseable transaction for the Company and are subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules. The provision of the CCT Counter Guarantee by the CCT Counter Guarantors constitute financial assistance received by the Group from a connected person. As the CCT Counter Guarantee received by the Group is on normal commercial terms or better and is not secured by the assets of the Group, the receiving of the CCT Counter Guarantee by the Group is fully exempted from the reporting, announcement and Independent Shareholders' approval requirements pursuant to Rule 14A.90 of the Listing Rules.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Du Haibo, Mr. Zhang Yuchuan and Mr. Zhou Lingqiang, has been established to advise the Independent Shareholders as to whether the terms of the 2018 CCT Master Agreement are fair and reasonable so far as the Company and Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders as to whether to vote in favour of the resolution to be proposed at the EGM to approve the 2018 CCT Master Agreement and the transactions contemplated thereunder. As the Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders in such regard.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, Lego Corporate Finance did not have any relationships or interests with the Company that could reasonably be regarded as relevant to the independence of Lego Corporate Finance. In the last two years, there was no engagement between the Group and Lego Corporate Finance. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangement exists whereby we have received or will receive any fees or benefits from the Company. Accordingly, we are qualified to give independent advice in respect of the 2018 CCT Master Agreement and the transactions contemplated thereunder.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information provided by the Group and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the date of the Circular and all such statements of belief, opinions and intention of the Directors and the management of the Group and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors, the management of the Group, and/or the advisers of the Company. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and continue to be so until the Latest Practicable Date.

We consider that we have reviewed the relevant information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the management of the Group, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Company or any of their respective subsidiaries or associates.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation, we have taken into consideration the following principal factors and reasons:

1. Background of and reasons for the 2018 CCT Master Agreement

1.1. Information on the Group and parties to the 2018 CCT Master Agreement

The Company, through its subsidiaries, is principally engaged in the businesses of (a) provisions of tourism resort related business, restaurant, hotel operations and provisions of travel related services; (b) property development; and (c) manufacture and trade of upholstered furniture in the PRC.

With reference to the announcements of the Company dated 1 February 2016 and 25 November 2016 and the circular of the Company dated 29 April 2016 in relation to the Disposal, the Company disposed of the Disposal Group which comprised, among others, the CCT Group, to Ms. Zhu Jiayun and Ms. Zhu Lingren and the Disposal was completed on 25 November 2016. Ms. Zhu Jiayun and Ms. Zhu Lingren are the daughters of Mr. Zhu, a Director and the controlling shareholder of the Company.

Lingjia New Material is a company established under the laws of the PRC with limited liability and is wholly owned by Ms. Zhu Jiayun and Ms. Zhu Lingren as at the Latest Practicable Date. Its principal business is research and development of new materials. Haining Kasen Leather is a company established in the PRC with limited liability and is principally engaged in the manufacturing of furniture leather in the PRC. Haining Schinder is a company established in the PRC with limited liability and is principally engaged in the manufacturing of automotive leather. Dafeng Huasheng is a company established in the PRC with limited liability and is principally engaged in the manufacturing of furniture leather in the PRC. Each of Haining Kasen Leather and Dafeng Huasheng are wholly owned subsidiaries of Haining Schinder.

Based on the unaudited consolidated management accounts of Haining Schinder prepared under the PRC accounting standards for the latest available period, the Disposal Group (other than Haining Home Direct) recorded revenue of approximately RMB1,197.5 million and RMB1,021.4 million, and net profit of approximately RMB56.0 million and RMB70.6 million for the year ended 31 December 2017 and the ten months ended 31 October 2018, respectively. As at 31 October 2018, the unaudited consolidated net asset value of Haining Schinder amounted to approximately RMB414.9 million and with cash balance of approximately RMB51.3 million.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

1.2. Reasons for and benefits of the 2018 CCT Master Agreement

As set out in the Letter from the Board, since the completion of the Disposal Agreement, the parties to the Disposal Agreement had exerted considerable efforts to arrange for the discharge and release all the guarantee obligations and liabilities of the Group in respect of the bank facilities granted to the CCT Group. As a result, the aggregate amount of guarantees provided by the Group to the CCT Group under the bank facilities has significantly reduced to approximately RMB375.2 million as at the Latest Practicable Date, representing a decrease of approximately 41.1% from approximately RMB637.4 million as at 28 September 2016. However, despite various rounds of negotiation between the Group and the relevant banks in the PRC for the said discharge and release, the Group has yet to reach a consensus with certain banks to discharge and release all of the guarantee obligations and liabilities as (a) notwithstanding the efforts made by CCT Group to repay the loans from its earnings and working capital available within the contract period of the 2016 CCT Master Agreement, the CCT Group could not fully settle all the bank loans; and (b) the banks are of the view that they will only accept a guarantor which is no less favourable than the Group for the replacement of guarantor to the CCT Group's existing bank loans. Upon our further enquiry, we understand that the renewal of such bank facilities shall generally facilitate the stable operation of the CCT Group and if no guarantees were provided by the Group, the bank would not consider the renewal of facilities granted to the CCT Group and new application for bank facility would be required, and such new application would be subject to lengthy due diligence process on the new guarantors and the renewed terms of bank facilities may not be comparable to the existing terms. The stable operation of the CCT Group shall also facilitate the continuous provision of the cross guarantees by the CCT Group to the bank facilities granted to the Group.

Having considered the terms and conditions of the existing guaranteed bank facilities of the CCT Group, the Company intends to continue to negotiate with the banks with a view to procure for the discharge and release of the outstanding guarantee obligations within the coming three years. The Group's aim to release all guarantee to the CCT Group remains unchanged and such intention is also agreed by the CCT Counter Guarantors and the CCT Group. However, based on the recoverability of the CCT Group's bank loans in the past two years and the search for another new creditable guarantor to replace the Group, the Directors believe that it will take around three years more to release all of the CCT Master Guarantee granted to the CCT Group. Accordingly, the Group entered into the 2018 CCT Master Agreement for the provision of guarantees by the Group to the CCT Group to secure the abovementioned bank facilities.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

On the other hand, the CCT Group had provided counter guarantees to the Group under the 2018 CCT Master Agreement. As at the Latest Practicable Date, the CCT Group together with Haining Home Direct and a subsidiary of the Company provided guarantees in respect of bank facilities to the Group in an aggregate amount of RMB774.8 million (including guarantee amounting RMB45.0 million provided separately by the CCT Group without Haining Home Direct), representing an increase of approximately 103% from approximately RMB382.5 million as at 28 September 2016 (including guarantee amounting RMB267.5 million provided separately by the CCT Group without Haining Home Direct). Accordingly, the Company, the CCT Counter Guarantors and the CCT Group entered into the 2018 CCT Master Agreement to continue the provision of the CCT Master Guarantee to facilitate the stable operation of the Group as well as the CCT Group. Pursuant to the 2018 CCT Master Agreement, the CCT Group shall continue to provide the guarantee for the bank facilities granted to the Group (including guarantee provided together with Haining Home Direct and a subsidiary of the Company) in an aggregate amount of RMB774.8 million during the CCT Guarantee Period and release of which shall be subject to the Company's approval. The Directors consider that the continued provision of such guarantee by the CCT Group will enable the Group to operate stably in the short run without any material impact on the financial position of the Group.

As further set out in the Letter from the Board, notwithstanding that the CCT Group has been disposed of by the Company, the Company has decided to continue to provide the CCT Master Guarantee by entering into the 2018 CCT Master Agreement due to the following reasons:

- (i) the Group itself also needs to obtain certain banking facilities from time to time in the operation of its business, and most PRC banks usually request further guarantee from entities other than members of the Group. However, such entities normally request for a cross guarantee in return for providing guarantees to the Group. As a result, the Directors believe that the CCT Group, previously being part of the Group but disposed by the Group in November 2016, is a suitable and desirable candidate for providing such guarantee since the Group is more familiar with its operations and its business as compared with other external parties;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (ii) based on the unaudited consolidated management accounts of the CCT Group and its subsidiaries prepared under the PRC accounting standards as at 31 October 2018 provided by the CCT Group, the unaudited consolidated total assets of the CCT Group as at 31 October 2018 amounted to approximately RMB1,219 million, the unaudited consolidated net asset value of the CCT Group as at 31 October 2018 amounted to approximately RMB415 million; and the unaudited consolidated current assets of the CCT Group as at 31 October 2018 amounted to approximately RMB967 million. The Company considers that the CCT Group has adequate assets and liquidity to satisfy the repayment of their bank loans as well as to fulfil their obligations under the CCT Counter Guarantee; and

- (iii) the Group will continue to assess the financial ability of the CCT Group by regularly (at least once every month) obtaining and reviewing the unaudited consolidated management accounts of the CCT Group, and through discussion with the management of the CCT Group for any significant changes in their operation or significant disposal or acquisition of assets. Pursuant to the 2018 CCT Master Agreement, the Company has the power to request the CCT Group to provide any information relating to the CCT Group (including the financial statements) from time to time. Based on the above measures, the Company considers that it will be able to keep track of the financial abilities of the CCT Group, and control and minimize the risk for the Group being required to indemnify the bank pursuant to its obligations under the CCT Master Guarantee.

In assessing the loan repayment ability of the CCT Group, we have obtained and reviewed the latest available unaudited consolidated management accounts of Haining Schinder and its subsidiaries prepared under the PRC accounting standards. As disclosed in the paragraph headed “Information on the Group and parties to the 2018 CCT Master Agreement” above, we noted that the Disposal Group (other than Haining Home Direct) was profit making for the year ended 31 December 2017 and the ten months ended 31 October 2018 with unaudited net profit after taxation of approximately RMB56.0 million and RMB70.6 million respectively. As at 31 October 2018, its unaudited net asset value of approximately RMB414.9 million was sufficient to cover the full amount of the CCT Counter Guarantee. Further, pursuant to the representations and warranties provided by the CCT Counter Guarantors under the 2018 CCT Master Agreement, it is noted that (i) the CCT Counter Guarantors shall not create any mortgage, charge, pledge, lien, hypothecation or other arrangement whatsoever over or affecting any of the entire equity interest of the Disposal Group (other than Haining Home Direct); and (ii) the Disposal Group (other than Haining Home Direct) shall be conducted in the ordinary course of business consistent with the past practice and there shall have no material adverse change on the assets, liabilities, financial condition and operating condition of the Disposal Group (other than Haining

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Home Direct), without limitation to material acquisition and disposal and dividend distribution, during the CCT Guarantee Period. As confirmed by the Company, the CCT Group had never defaulted in loan repayment and accordingly, while the Group had provided the CCT Master Guarantee under the 2016 CCT Master Agreement, the Group had never been called upon by banks to fulfil its obligations as guarantor during the guarantee period under the 2016 CCT Master Agreement. In view of the above, we concur with the Directors the continued provision of such guarantee to the CCT Group will not have any material impact on the financial position of the Group, and the risk for the Group being required to indemnify the bank pursuant to its obligations under the CCT Master Guarantee is limited.

Pursuant to the terms of the 2018 CCT Master Agreement, the CCT Counter Guarantors shall provide the CCT Counter Guarantee which fully indemnify the Company for the performance and repayment obligations of bank facilities to the CCT Group up to the amount of the annual caps. In other words, the CCT Counter Guarantee is a back-to-back guarantee provided to the Group by the CCT Counter Guarantors to fully indemnify the Company's exposure to the provision of the CCT Master Guarantee. In assessing the financial capability of the CCT Counter Guarantors to perform the CCT Counter Guarantee, we noted that Mr. Zhu is a Director and the controlling shareholder of the Company by virtue of being the settlor, together with persons acting in concert with him as beneficiaries of a family trust (excluding Mr. Zhu), collectively holding 539,221,635 Shares or approximately 36.10% of the total number of issued Shares (including the 526,861,635 Shares or approximately 35.27% of the issued Shares held by Joyview Enterprises Limited which in turn is wholly-owned by the trustee of such family trust). Based on the closing price of HK\$3.36 per Share as at the Latest Practicable Date, the value of the Shares held by Mr. Zhu and persons acting in concert with him amounted to approximately HK\$1,811.8 million. In view of the foregoing financial performance of the CCT Group, the warranties provided by the CCT Counter Guarantors and the financial background of Mr. Zhu, we consider that the CCT Guarantors are financially capable to perform their obligations under the CCT Counter Guarantee and accordingly, the Group is protected and compensated by the CCT Counter Guarantee provided.

In view of the foregoing reasons for the 2018 CCT Master Agreement, we are of the opinion that the the entering into of the 2018 CCT Master Agreement is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. Principal terms of the 2018 CCT Master Agreement

The principal terms of the 2018 CCT Master Agreement are summarised as follows:

Date: 20 November 2018

Parties:

- (1) the Company;
- (2) Mr. Zhu;
- (3) Ms. Zhu Jiayun;
- (4) Ms. Zhu Lingren;
- (5) Lingjia New Material;
- (6) Haining Kasen Leather;
- (7) Haining Schinder; and
- (8) Dafeng Huasheng.

Subject matter: Pursuant to the 2018 CCT Master Agreement, the Group agreed to provide the CCT Master Guarantee, and each of the CCT Counter Guarantors agreed to jointly and severally provide the CCT Counter Guarantee up to the amount of the annual caps, subject to the terms and conditions of the 2018 CCT Master Agreement.

Consideration: Neither the Company nor the CCT Counter Guarantors will receive any fee or commission from providing the CCT Master Guarantee and the CCT Counter Guarantee respectively.

Guarantee period: 1 January 2019 to 31 December 2021

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Effectiveness Conditions: The CCT Master Guarantee and the CCT Counter Guarantee shall become effective upon fulfillment of the following conditions:

- (i) all necessary waiver, consent, approval, licence, authorisation, permission, order and exemption (if required) from the relevant governmental or regulatory authorities or other third parties which are necessary in connection with the 2018 CCT Master Agreement and the transactions contemplated thereunder having been obtained; and
- (ii) the obtaining of the Independent Shareholders' approval for the 2018 CCT Master Agreement and the transactions contemplated thereunder in compliance with the Listing Rules.

None of the above conditions can be waived. As at the Latest Practicable Date, none of the above conditions has been fulfilled.

Collateral: The Company agreed to continue to provide guarantee and pledge the Group's assets for the CCT Master Guarantee. The assets provided by the Group for the guarantee included land use right, properties, bank deposits and equity investment.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The properties and bank deposits represent (i) certain commercial properties in a total gross floor area of approximately 5,730 square meters, with a net book value of approximately RMB17,790,000 as at 30 June 2018, located in Haining, the PRC that are used as offices of the Group for general administrative purposes; (ii) certain factories and land in a total gross floor area of 253,513 square meters, with a net book value of approximately RMB28,680,000 as at 30 June 2018, owned by 海寧漢林沙發有限公司 (Haining Hainix Sofa Co., Limited*, a wholly owned subsidiary of the Company, that are used for the production of upholstered furniture; and (iii) bank deposits of approximately RMB71,000,000 as at the Latest Practicable Date.

Equity investment represents 3,999,900 shares of Haining China Leather Market Company Limited, a listed company on the Shenzhen Stock Exchange, with a total market value of approximately RMB19,040,000 as at the Latest Practicable Date, held by the Group for investment purpose.

Major representations
and warranties of
the CCT Counter
Guarantors:

The major representations and warranties of the CCT Counter Guarantors are summarised as follows:-

- (i) the CCT Group shall continue to provide the guarantee for the bank facilities to the Group (including guarantee provided together with Haining Home Direct and a subsidiary of the Company) in an aggregate amount of RMB774.8 million during the CCT Guarantee Period and release of which shall be subject to the Company's approval;

* for identification purposes only

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (ii) without the written consent of the Group, the CCT Counter Guarantors shall not create any mortgage, charge, pledge, lien, hypothecation or other arrangement whatsoever over or affecting any of the entire equity interest of the Disposal Group (other than Haining Home Direct) during the CCT Guarantee Period;
- (iii) without the written consent of the Group, the CCT Counter Guarantors shall ensure that the CCT Group will not increase their total bank loans to the extent that exceed the guaranteed bank facilities of RMB375.2 million provided by the Group to the CCT Group during the CCT Guarantee Period;
- (iv) without the written consent of the Group, the Disposal Group (other than Haining Home Direct) shall be conducted in the ordinary course of business consistent with the past practice and there shall have no material adverse change on the assets, liabilities, financial condition and operating condition of the Disposal Group (other than Haining Home Direct), without limitation to material acquisition and disposal and dividend distribution during the CCT Guarantee Period; and
- (v) the CCT Counter Guarantors agree to, at the request of the Company, provide any information of the CCT Group (including their financial statements) from time to time to the Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The guarantees provided by Haining Home Direct and the CCT Group to the Group are on a several basis. Haining Home Direct is a company established in the PRC with limited liability and is principally engaged in the manufacturing of furniture leather in the PRC. Hero Time owns 100% of Haining Home Direct. The ultimate beneficial owner of Hero Time is a PRC resident who is a merchant of furniture leather business. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Hero Time, Haining Home Direct and their ultimate beneficial owner are parties independent from the Company and its connected persons. Each of Haining Home Direct and the CCT Group will continue to provide guarantee for the bank facilities to the Group for an amount of RMB729.8 million and RMB774.8 million respectively.

Based on our review of the 2018 CCT Master Agreement, we noted that the guarantee obligations of the Group under the CCT Master Guarantee is fully indemnified by the back-to-back CCT Counter Guarantee up to the amount of the annual caps, with no fee or commission shall be received by the Company and the CCT Counter Guarantors from providing the CCT Master Guarantee and the CCT Counter Guarantee, respectively. Having considered that (i) such no fee arrangement is reciprocal for the Group and the CCT Counter Guarantors; (ii) the major purpose of providing the CCT Master Guarantee is not for profit making; (iii) the CCT Counter Guarantee will fully indemnify the Group's exposure to the provision of the CCT Master Guarantee; (iv) the CCT Counter Guarantee is warranted by the financial capability of the CCT Counter Guarantors; and (v) the risk for the Group being required under the CCT Master Guarantee to indemnify the banks for the loan default of the CCT Group is limited, we are of the opinion that the terms of the 2018 CCT Master Agreement are on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned.

3. The annual caps

Set out below are the details of the guaranteed bank facilities of the Group and the CCT Group and their respective amount of loans drawdown up to 31 October 2018:

	Facility amount		Guarantee with asset pledge		Guarantee	
	Total amount	Actual drawdown	Total amount	Actual drawdown	Total amount	Actual drawdown
	(Approximate RMB'million)	(Approximate RMB'million)	(Approximate RMB'million)	(Approximate RMB'million)	(Approximate RMB'million)	(Approximate RMB'million)
The CCT Group						
Bank facilities to the CCT Group guaranteed by the Group	375.2	258.5	285.2	168.5	90.0	90.0
The Group						
Bank facilities to the Group guaranteed by Haining Home Direct, the CCT Group and a subsidiary of the Company	774.8	684.8	-	-	774.8	684.8

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The assets provided by the Group for the above guarantee included land use rights, properties, bank deposits and equity investment. Save for the above and the guarantee provided by Haining Home Direct to the Group as set out in the announcement of the Company dated 20 November 2018, the Group has not provided any guarantee to the remaining companies under the Disposal Group or vice versa.

Set out below are the proposed new annual caps for the CCT Guarantee Period under the 2018 CCT Master Agreement:

	For the year ending 31 December 2019 <i>RMB'million</i>	For the year ending 31 December 2020 <i>RMB'million</i>	For the year ending 31 December 2021 <i>RMB'million</i>
Maximum amount	394.8	394.8	394.8

As set out in the Letter from the Board, the annual caps were determined after arm's length negotiations between the Company and the CCT Counter Guarantors with reference to, among others, the existing bank facilities of RMB375.2 million guaranteed by the Group to the CCT Group and the associated costs, without limitation to interest payment. Based on the recoverability of the CCT Group's bank loans in the past two years and the current status of finding a new creditable guarantor to replace the Group, the Directors currently expect that it will take around three years more to release all CCT Master Guarantee.

As detailed under the paragraph headed "Principal terms of the 2018 CCT Master Agreement" above, the CCT Counter Guarantors shall ensure that the CCT Group will not increase their total bank loans to the extent that exceed the guaranteed bank facilities of RMB375.2 million provided by the Group to the CCT Group during the CCT Guarantee Period without the written consent of the Group. Therefore, the bank loans amount will be capped at the existing guaranteed bank facilities of RMB375.2 million during the CCT Guarantee Period.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

To assess the fairness and reasonableness of the annual caps under the CCT Guarantee Period, we have enquired to the Company regarding the basis and assumptions in estimating the annual caps, and obtained the relevant bank facility agreement guaranteed with the CCT Master Guarantee as well as those granted to the Group and guaranteed by the CCT Group. We noted that the term of the existing guaranteed bank facilities provided to the Group ranged from 73 days to ten years and the term of the existing guaranteed bank facilities provided to the CCT Group ranged from six months to approximately one year, and the bank facilities are renewable. As it is stipulated under the terms of the 2018 CCT Master Agreement that the CCT Group shall continue to provide the guarantee for the bank facilities to the Group during the CCT Guarantee Period and the release of which shall be subject to the Company's approval, and taking into account that it will take around three years more to release all CCT Master Guarantee based on the recoverability of the CCT Group's bank loans in the past two years and the current status of finding a new creditable guarantor to replace the Group, we consider that the duration of the CCT Guarantee Period shall provide the Group with flexibility to renew the existing bank facilities and maintain stable operation of the Group. We have also obtained the calculation in arriving the proposed new annual caps and noted that it is primarily determined based on the aggregate amount of the existing bank facilities and the interest rate which ranged from 5.22% per annum to 5.8725% per annum attached thereon. In light of the above, we consider that the proposed annual caps for the CCT Guarantee Period under the 2018 CCT Master Agreement are reasonable.

4. Annual review of the continuing connected transactions

Pursuant to Rules 14A.55 and 14A.56 of the Listing Rules, the transactions contemplated under the 2018 CCT Master Agreement are subject to the following requirements:

- (i) the independent non-executive Directors must review the continuing connected transactions every year and confirm in the annual reports that the continuing connected transactions have been entered into:
 - in the ordinary and usual course of business of the Group;
 - on normal commercial terms or better; and
 - according to the agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (ii) the Company must engage its auditors to report on the continuing connected transactions for each financial year of the Company and that the Company's auditors must provide a letter to the Board confirming whether anything has come to their attention that causes them to believe that the continuing connected transactions:
- have not been approved by the Board;
 - were not, in all material respects, in accordance with the pricing policy of the Group if the transactions involve the provision of goods or services by the Group;
 - were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and
 - have exceeded the annual caps.

Furthermore, according to the Letter from the Board, the senior manager of the Group's internal audit department and the management of the Group will, among others, conduct regular checks on a quarterly basis, including the checking of the relevant facilities agreements and outstanding drawdown amount of borrowings under the facilities agreement, and the reviewing of the financial information of the CCT Group, to review and assess whether the transactions contemplated under the relevant continuing connected transaction are conducted in accordance with the terms of its agreement. In view of the transactions contemplated under the 2018 CCT Master Agreement will be subject to annual review of the independent non-executive Directors and the auditors of the Company as well as the regular checks of the Group's internal audit department and the management of the Group, we are of the view that appropriate measures will be in place to govern the conduct of the transactions contemplated under the 2018 CCT Master Agreement and safeguard the interests of the Independent Shareholders.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

Having considered the principal factors and reasons as discussed above, we are of the opinion that, although the entering into of the 2018 CCT Master Agreement is not conducted in the ordinary and usual course of business of the Group, the terms of the 2018 CCT Master Agreement are on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned, and the entering into of the 2018 CCT Master Agreement is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed at the EGM to approve the 2018 CCT Master Agreement and the transactions contemplated thereunder.

Yours faithfully,

for and on behalf of

Lego Corporate Finance Limited

Gary Mui

Chief Executive Officer

Mr. Gary Mui is a licensed person registered with the Securities and Futures Commission and a responsible officer of Lego Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong). He has over 20 years of experience in the finance and investment banking industry.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors and Chief Executive

As at the Latest Practicable Date, the interests and short positions, if any, of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executive were deemed or taken to have under provisions of the SFO), or which were required to be and are recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies adopted by the Company (the “**Model Code**”) were as follows:

(i) Long positions in shares and underlying shares of the Company

Name of Directors	Number of shares held, capacity and nature of interest			Percentage of the Company's issued share capital as at the Latest Practicable Date
	Directly beneficially owned	Through controlled corporation	Total number of shares interested	
Zhu Zhangjin	12,360,000	526,861,635 (Note)	539,221,635	36.10%
Zhou Xiaohong	9,514,561	–	9,514,561	0.64%

Note: Mr. Zhu, the chairman of the Company, as settlor, and together with persons acting in concert with him as beneficiaries of the Trust (excluding Mr. Zhu), being the controlling shareholders of the Company, are collectively holding 539,221,635 Shares or approximately 36.10% of the total number of issued Shares (including the 526,861,635 Shares or approximately 35.27% of the issued Shares held by Joyview which in turn is wholly owned by the Trustee). As at the Latest Practicable Date, this figure did not include the options granted to Mr. Zhu to subscribe for 1,000,000 Shares under the share option scheme (the “Scheme”) adopted by a resolution of the Shareholders on 24 September 2005 and adopted by a resolution of the Board on 26 September 2005 and 26 May 2015.

(ii) Long positions in underlying shares of equity derivatives of the Company

Pursuant to the Scheme, the following share options were granted on 5 May 2008 and 26 May 2015.

Name of Director	Exercise price HK\$	Number of share option			Outstanding as at the Latest Practicable Date	Percentage of total issued share capital	Exercisable period	Notes
		Granted from 1 January 2018 to the Latest Practicable Date	Forfeited from 1 January 2018 to the Latest Practicable Date	Exercised from 1 January 2018 to the Latest Practicable Date				
Zhu Zhangjin	1.37	1,000,000	-	-	1,000,000	0.07%	1/1/2016 to 25/5/2025	3, 4, 5
Zhou Xiaohong	1.18	250,000	-	(250,000)	-	-	1/1/2009 to 4/5/2018	1, 4, 5
	1.18	250,000	-	(50,000)	-	-	1/1/2010 to 4/5/2018	2, 4, 5
	1.37	3,000,000	-	-	3,000,000	0.20%	1/1/2016 to 25/5/2025	3, 4, 5
		<u>4,500,000</u>	<u>-</u>	<u>(300,000)</u>	<u>4,000,000</u>	<u>0.27%</u>		

Notes:

- These share options were granted pursuant to the Scheme on 5 May 2008 and are exercisable at HK\$1.18 per Share from 1 January 2009 to 4 May 2018.
- These share options were granted pursuant to the Scheme on 5 May 2008 and are exercisable at HK\$1.18 per Share from 1 January 2010 to 4 May 2018.
- These share options were granted pursuant to the Scheme on 26 May 2015 and are exercisable at HK\$1.37 per Share from 1 January 2016 to 25 May 2025.
- These share options represent personal interests held by the relevant participants as beneficial owners.
- Up to the Latest Practicable Date, except for the forfeited or exercised share options as stated above, none of these share options had been lapsed.

(iii) Interests in the associated corporation of the Company

Name of Director	Associated Corporation	Number of Shares	Approximate percentage of shareholding in associated corporation
Zhu Zhangjin <i>(Note)</i>	Joyview	1	100%

Note: Mr. Zhu, the chairman of the Company, as settlor, and together with persons acting in concert with him as beneficiaries of the Trust (excluding Mr. Zhu), being the controlling shareholders of the Company, are collectively holding 539,221,635 Shares or approximately 36.10% of the total number of issued Shares (including the 526,861,635 Shares or approximately 35.27% of the issued Shares held by Joyview which in turn is wholly-owned by the Trustee).

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executive were deemed or taken to have under provisions of the SFO), or which were required to be and are recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) Substantial Shareholders

So far as is known to any Director or the chief executive of the Company, as at the Latest Practicable Date, Shareholders (other than Mr. Zhu's shareholdings stated herein this circular) who had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

(i) Long positions in shares and underlying shares of the Company

Name of Shareholder	Capacity	Short position	Long position	Number of issued shares held	Percentage of the Company's issued share capital
Joyview ⁽¹⁾	Beneficial owner	–	526,861,635	526,861,635	35.27%
Team Ease Limited ⁽²⁾	Beneficial owner	–	235,043,057	235,043,057	15.74%
Chen Dianer (陳錕兒) ⁽²⁾	Beneficial owner	–	235,043,057	235,043,057	15.74%
Lee Yu Leung	Beneficial owner	–	128,400,000	128,400,000	8.60%

Notes:

- Joyview is a company beneficially owned as to 100% by Mr. Zhu, the chairman of the Company, as settlor, and together with persons acting in concert with him as beneficiaries of the Trust (excluding Mr. Zhu).
- Team Ease Limited is a company beneficially owned by Chen Dianer.

(ii) *Long positions in shares and underlying shares of the subsidiaries of the Company*

Name of Shareholder	Subsidiary	Nature of interest	Percentage of interest in subsidiaries
Zhejiang Zhongyu Trading Investment Development Co., Ltd.* (浙江中宇經貿投資發展有限公司)	Hainan Sanya Kasen Property Development Co., Ltd.* ¹ (海南三亞卡森置業有限公司)	Beneficial	19.5%
Hangzhou Anwei Industrial and Investment Co., Ltd.* (杭州安維實業投資有限公司)	Hainan Boao Kasen Property Development Co., Ltd.* ² (海南博鰲卡森置業有限公司)	Beneficial	8%
Hangzhou Anwei Industrial and Investment Co., Ltd.* (杭州安維實業投資有限公司)	Changbai Mountain Protection and Development Zone Kasen Property Co., Ltd.* ³ (長白山保護開發區卡森置業有限公司)	Beneficial	8%
Juxing Holdings Co., Ltd.* (巨星控股集團有限公司)	Hangzhou Xinanjiang Hot Spring Development Co., Ltd.* ⁴ (杭州新安江溫泉度假村開發有限公司)	Beneficial	30%
Hangzhou Anwei Industrial and Investment Co., Ltd.* (杭州安維實業投資有限公司)	Hangzhou Xinanjiang Hot Spring Development Co., Ltd.* ⁴ (杭州新安江溫泉度假村開發有限公司)	Beneficial	10%
Jiangsu Yimu Industrial and Investment Co., Ltd.* (江蘇一木實業投資有限公司)	Jiangsu Kasen Property Development Co., Ltd.* ⁵ (江蘇卡森置業有限公司)	Beneficial	37%

Notes:

1. The Company has approximately 80.5% indirect interest in Hainan Sanya Kasen Property Development Co., Ltd.
2. The Company has approximately 92% indirect interest in Hainan Boao Kasen Property Development Co., Ltd.
3. The Company has approximately 89% indirect interest in Changbai Mountain Protection and Development Zone Kasen Property Co., Ltd.
4. The Company has 55% indirect interest in Hangzhou Xinanjiang Hot Spring Development Co., Ltd.
5. The Company has 55% indirect interest in Jiangsu Kasen Property Development Co., Ltd.

* *For identification purposes only*

Save as disclosed above, so far as is known to the Directors or chief executive of the Company, as at the Latest Practicable Date, no other person (other than a Director or chief executive of the Company) had, or was deemed or taken to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or held any option in respect of such capital.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group or any associated company of the Company (excluding contracts expiring or determinable within one year without payment of compensation, other than statutory compensation).

4. COMPETING BUSINESS INTEREST OF DIRECTORS

As at the Latest Practicable Date, none of the Directors or their respective close associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group as required to be disclosed pursuant to the Listing Rules.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2017, being the date to which the latest published audited financial statements of the Group were made up.

6. LITIGATION

So far as the Company is aware, as at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the Directors pending or threatened by or against any member of the Group.

7. EXPERT'S QUALIFICATION AND CONSENT

The following is the qualification of the expert who has given an opinion or advice contained in this circular:

Name	Qualification
Lego Corporate Finance Limited	a corporation licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO

The expert above has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report or letter or opinion as set out in this circular and references to its name in the form and context in which it appears in this circular.

As at the Latest Practicable Date, the above expert had no shareholding, directly or indirectly, in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, the above expert had no interest, direct or indirect, in any asset since 31 December 2017, being the date to which the latest published audited consolidated financial statements of the Group were made up, have been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

8. GENERAL

- (a) None of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group or proposed to be so acquired, disposed of by or leased to any member of the Group since 31 December 2017, being the date to which the latest published audited accounts of the Company were made up, and up to the Latest Practicable Date.
- (b) Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors were materially interested in any contract or arrangement entered into by any member of the Group, which was subsisting and was significant in relation to the business of the Group.
- (c) The English text of this circular shall prevail over their respective Chinese text for the purpose of interpretation.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the Company's principal place of business in Hong Kong at Room 1605, Tai Tung Building, 8 Fleming Road, Wanchai, Hong Kong during normal business hours on any weekdays, except public holidays, from the date of this circular up to and including the date of the EGM:

- (a) the Disposal Agreement;
- (b) the 2016 CCT Master Agreement;
- (c) the 2018 CCT Master Agreement;
- (d) the Share Transfer Agreement; and
- (e) the Transfer of Control Agreement.

NOTICE OF THE EGM



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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “EGM”) of Kasen International Holdings Limited (the “Company”, together with its subsidiaries, the “Group”) will be held at 9:00 a.m. on Monday, 31 December 2018 at Building 1, 236 Haizhou Road West, Haining City, Zhejiang Province, China to consider and, if thought fit, approve, with or without modifications, the following resolution as an ordinary resolution:

ORDINARY RESOLUTION

“THAT:

- (a) the master agreement dated 20 November 2018 entered into between (i) the Company; (ii) Mr. Zhu Zhangjin, Ms. Zhu Jiayun, Ms. Zhu Lingren and 海寧靈嘉新材料科技有限公司 (Haining Lingjia New Material Technology Company Limited*) (collectively, the “CCT Counter Guarantors”); and (iii) 海寧卡森皮革有限公司 (Haining Kasen Leather Company Limited*), 海寧森德皮革有限公司 (Haining Schinder Leather Company Limited*) and 鹽城市大豐華盛皮革有限公司 (Yancheng Dafeng Huasheng Leather Company Limited*) (collectively, the “CCT Group”) in relation to the guarantee provided by the Group to the CCT Group up to the amount of RMB394.8 million for each of the three financial years ending 31 December 2021 (the “Annual Caps”) and the counter guarantee provided by the CCT Counter Guarantors to fully indemnify the Company up to the amount of the Annual Caps (the “2018 CCT Master Agreement”) (a copy of the 2018 CCT Master Agreement has been tabled at the meeting and marked “A” signed by the Chairman of the meeting for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

NOTICE OF THE EGM

- (b) the directors of the Company be and are hereby authorized to take such actions and execute such documents as they may consider appropriate and expedient to carry out or give effect to or otherwise in connection with or in relation to the 2018 CCT Master Agreement and the transactions contemplated thereunder.”

Yours faithfully

By order of the Board

Kasen International Holdings Limited

Zhu Zhangjin

Chairman

PRC, 12 December 2018

Notes:

1. Every member entitled to attend and vote at the EGM is entitled to appoint one or more persons as his proxy to attend and vote on behalf of himself. A proxy need not be a member of the Company.
 2. A form of proxy for the EGM is enclosed. To be valid, a form of proxy, together with the power of attorney or other document of authority, if any, under which the form is signed, or a certified copy thereof, must be deposited with the Company's Hong Kong branch registrar in Hong Kong at Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 9:00 a.m. on Saturday, 29 December 2018, or not less than 48 hours before the time appointed for holding any adjourned meeting (as the case may be).
 3. Completion and return of the form of proxy will not preclude the shareholders of the Company from attending and voting in person at the EGM or any adjourned meeting or upon the poll concerned if the shareholders of the Company so wish. In such event, the instrument appointing the proxy shall be deemed to be revoked.
- * *The English name referred herein represents management's best efforts at translating the Chinese name of the company, as no English name has been registered, thus it is for identification purposes only.*

As at the date of this notice, the executive directors of the Company 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.