



“The dog that didn’t bark in the night.”
–Expression from Arthur Conan Doyle

THIS RESEARCH REPORT EXPRESSES SOLELY OUR OPINIONS. We are short sellers. We are biased. So are long investors. So is Kasen. So are the banks that raised money for the Company. If you are invested (either long or short) in Kasen, so are you. Just because we are biased does not mean that we are wrong. Use BOC Texas, LLC’s research opinions at your own risk. This report and its contents are not intended to be and do not constitute or contain any financial product advice. Investors should seek their own financial, legal and tax advice in respect of any decision regarding any securities discussed herein. You should do your own research and due diligence before making any investment decisions, including with respect to the securities discussed herein. We have a short interest in Kasen’s stock and therefore stand to realize significant gains in the event that the price of such instrument declines. Please refer to our full disclaimer located on the last page of this report.

COMPANY: Kasen International Holdings Ltd | HK: 496
INDUSTRY: Manufacturing/Property Development

PRICE (AS OF CLOSE
11/20/19)
HKD 4.58

MARKET CAP
HKD 6.8 BILLION

30 DAY AVG VOLUME
5.6 M SHARES

BLUE ORCA VALUATION
HKD 0.67

Kasen International Holdings Ltd. (“Kasen” or “the Company”) is ostensibly an automotive leather and furniture manufacturer which sold the best part of its automotive leather and furniture business to its chairman’s daughters three years ago. In this Report, we present evidence that the chairman’s family looted the public Company by understating the revenues and profits of the disposed businesses.

Recently, Kasen’s stock price has risen on the Company’s announcements of development projects in Cambodia, and a positive profit due to the sale of residential properties in China. Neither will provide much value for investors going forward.

Our extensive investigation of Kasen suggests that its hyped Cambodian investments are likely illusory. **Investigators sent to the site of one of the Company’s proposed developments found vacant, undeveloped plots of land which locals say are owned by someone else.** Investigators could find no evidence that Kasen’s proposed development project even exists.

Today, Kasen’s only viable segment is property development, a melting ice cube as the Company sells off the last of its remaining residential units. Given that its other segments generated losses, at best Kasen should be valued on a price-to-book ratio of other similarly

situated Hong Kong property developers (0.5x). After adjusting Kasen’s net asset value to account for projects or assets we think do not exist, we value Kasen at **HKD 0.67 per share, an 85% downside from its last traded price.** This is likely conservative, as a Company which fabricates capital expenditures and allows the chairman’s family to loot the public vehicle of its most valuable business is, in our opinion, simply uninvestable.

- 1. Chairman’s Daughters Looted the Most Valuable Business.** Three years ago, Kasen crippled itself by [selling](#) its most valuable business to its chairman’s daughters. In the two years prior to the sale, the disposed group accounted for 59% of the Company’s total revenue and was Kasen’s **only profitable segment** (after excluding one-time gains on investments). Not only was this business sold to the chairman’s family at well below market price, our due diligence suggests almost everything about this transaction was rotten. SAIC filings indicate that Kasen understated both the revenues and profits of the disposed entities in the year of the transaction, likely to make the disposition of Kasen’s most valuable business appear more palatable to investors. Evidence also suggests that liabilities associated with the disposed businesses were not transferred but kept on Kasen’s books, much to the detriment of shareholders. In our opinion, the chairman’s family simply looted the Company of its best and most profitable business.
- 2. Cambodian Waterslide to Nowhere.** In January 2018, Kasen [announced](#) an investment in a new JV to develop a large waterpark in Toulkey village, Cambodia. Kasen then paid RMB 177 million for what it described as “pre-payments” to a minority JV partner to acquire the land for the project. 18 months later, despite the large cash payment, the Company has still not received title to the land. **Investigators sent to Toulkey Village could find no evidence of the proposed development. No one they spoke to, including the chief of the local commune in charge of all land development in Toulkey, had even heard of the waterpark project. In this report, we have included photos of empty, undeveloped plots of land** in Toulkey which in our opinion, undermine the legitimacy of Kasen’s investment. We believe the project is a sham, and that the prepayments were likely misappropriated.

3. **Cambodian SEZ: All Hype, No Substance.** In April 2018, Kasen [announced](#) a cooperation agreement to develop the Steung Hav International Port and Special Economic Zone in Cambodia (the “[Steung Hav SEZ](#)”). The Company announced a planned investment of RMB 1.7 billion into the Cambodian SEZ, including for the financing and construction of a power plant and a paper factory. Yet much like Kasen’s waterslide to nowhere, the Company’s ambitious plans regarding its Cambodian SEZ appear to be largely illusory. We question the legitimacy of Kasen’s proposed investments, and a review of the independent evidence suggests that Kasen has neither the resources, experience, nor expertise to successfully complete its proposed investment.
- a. **Power Plant: Where are the Generators?** In April 2018, Kasen [announced](#) that it had agreed to purchase two sets of 300 mega-watt (“[MW](#)”) generators from a Fujian vendor for RMB 218 million. Kasen claimed that it planned to disassemble then ship the generators to Cambodia to build the power plant for the SEZ. Yet despite apparently paying for the generators, as of year-end 2018 Kasen had not received the equipment, and still listed a related RMB 96 million “pre-payment” on its balance sheet. Why would the Company pre-pay for two old coal-fired generators, without getting title to the assets? Our investigation also reveals that the Fujian vendor likely did not even own the generators, which were located in Hunan province.
 - b. **EPC: Contract Without Benefit.** In November 2018, Kasen [announced](#) an engineering, procurement and construction (“[EPC](#)”) contract with CEEC, a massive Chinese state-owned enterprise (“[SOE](#)”), for construction of the thermal power plant. According to the disclosed terms of the contract, CEEC agreed to design, engineer, build and obtain financing for the project from a Chinese bank. Kasen’s only role was supposedly to provide a bridge loan to CEEC to pre-pay for certain costs before CEEC received bank financing. But Kasen has very little cash, and CEEC has RMB 40 billion on its balance sheet. Why would an SOE like CEEC need a small bridge loan from a tiny Company like Kasen with no money? Kasen brings nothing to this deal, and we question whether there will be any meaningful benefit to investors from either this contract or this project. In our view, the agreement was primarily designed to pump Kasen’s stock and has little chance to provide substantive economic benefit to the Company.
 - c. **Competing Claims to Develop the Same Special Economic Zone.** Furthermore, we have uncovered multiple local media reports that Metallurgical Corporation of China (“[MCC](#)” 1618.HK) is working with the same Cambodian partner to develop the Steung Hav SEZ (and port). MCC, an SOE specializing in engineering and construction, has the balance sheet, track record and expertise to develop the SEZ. So MCC’s competing claim to be running the project corroborate other evidence showing that Kasen likely has little meaningful involvement in the SEZ development.
4. **Hundreds of Millions in Fabricated Capital Expenditures.** After Kasen sold the Leather Group to its chairman’s daughters in 2016, Kasen told investors that it spent RMB 714 million on PP&E to expand and upgrade its manufacturing facilities. Yet credit reports summarizing local financials show that Kasen’s four remaining manufacturing subsidiaries only invested RMB 8 million in PP&E in 2017-2018, the two-year period when most Kasen’s reported capex supposedly occurred. In our opinion, this evidence shows that Kasen fabricated hundreds of millions in reported capital expenditures. We believe that either the Company made up the figures to conceal fake profits or that insiders misappropriated the funds.
5. **Sanya Debacle: More Long-Term Prepayments without Title to Land.** In 2009, Kasen [announced](#) the purchase of 1.4 million sq. meters land in Sanya, Hainan, for a proposed residential development. **The Company never received the property.** Instead, Kasen [prepaid](#) RMB 637 million as a deposit for the land. Almost ten years later and after additional payments of RMB 206 million, the Company has only obtained title for 155,857 sqm of land, 11% of the original disclosed area. Other than a waterpark, Kasen has virtually nothing of value to show for its large investment, and after ten years, we think it never will. Either insiders looted the money or Kasen was itself the victim of a scam. We found numerous court cases in which other companies were scammed out of hundreds of millions of prepayments for land in the same Sanya development area. Whether Kasen was the scammer or got scammed, either way, the prepayments should be written off and ignored when valuing Kasen’s stock. The Sanya debacle is also emblematic of Kasen’s larger pattern: grandiose announcements for large developments, prepayments for nothing, and ultimately a project that goes nowhere. In the end, the project died but the money disappeared.

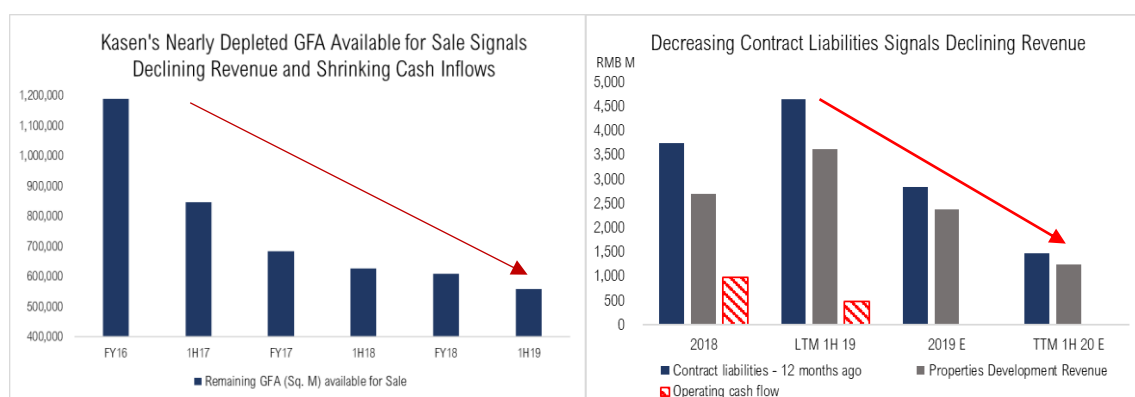
VALUATION

Kasen is uninvestable. In this report, we present independent evidence showing that the chairman's daughters looted the most valuable part of Kasen's business, leaving little of value in the public Company. Although Kasen's share price has risen on the hype of announced Cambodian development projects, our extensive investigation suggests that these projects are likely illusory. After four joint venture formations and five land purchase announcements throughout 2018, Kasen provided [no update](#) on these questionable Cambodian investments in its 2019 interim report.

After Kasen sold its most valuable assets to its chairman's daughters, property development became its largest revenue segment. The Company's revenue jumped in the last 18 months due to a spike of in property sales. But a closer look at Kasen's balance sheet suggest that its property business is winding down, and that future revenues and profits from this business will likely be minimal.

Kasen has not expanded its property portfolio since 2014 and as of 1H 2019, 76% of its units in its developments have already been sold.¹ Kasen's gross floor area available-for-sale is fast declining and is at its lowest level since 2014, signaling that revenues and cash flows from its property segment will continue to shrink going forward.

Another good measure of future property sales is the Company's disclosed contract liabilities, generated when Kasen receives cash for a pre-sold unit which has yet to be delivered. Because Kasen typically pre-sells its properties and receives cash before delivery of the units, the Company's reported contractual liabilities are a reliable measure of property revenues in the next period.² Kasen's reported contract liabilities confirm that its property developments are nearing completion and that revenues and profits generated from these developments are quickly declining.



Source: Kasen Public Filings, Blue Orca Calculation

Kasen's remaining business generates losses, and our investigation indicates that its proposed Cambodian projects are largely illusory. Best case scenario, Kasen should be valued as a property developer. Yet likely because of its hyper-promotional announcements regarding projects in Cambodia, Kasen trades at a price-to-book multiple (2.0x), far in excess of similarly situated Hong Kong-listed property developers (0.5x).

Company	Ticker	Share Price (HKD)	Market Cap	Net Asset Value	P/B	Contract Liability 2018	Property Revenue TTM 1H 19	Total Revenue TTM 1H 19	Operating Profit TTM 1H 19
Joy City Property	0207.HK	0.90	12,808	32,156	0.4 x	7,720	6,635	12,451	6,384
Poly Property Group	0119.HK	2.88	10,545	32,956	0.3 x	31,110	31,679	33,735	10,906
Central China	0832.HK	4.06	11,093	10,380	1.1 x	46,076	20,334	21,929	3,973
Beijing North Star	0588.HK	2.42	10,649	23,618	0.5 x	32,253	20,893	24,068	4,182
Beijing Capital Land	2868.HK	2.63	7,964	17,863	0.4 x	19,337	25,072	30,589	4,367
Average			10,612	23,394	0.5 x	27,299	20,922	24,555	5,962
Median			10,649	23,618	0.4 x	25,224	20,893	24,068	4,367
Kasen	496.HK	4.58	6,841	3,501	2.0 x	3,241	4,173	5,202	1,009

Source: Bloomberg, Factset, Companies Public Filings. Note: Figures are in HKD million (except for share price).

¹ Calculated by dividing accumulated gross floor area sold by aggregate gross floor area available for sale.

² From 2014 to 1H 2019, on average, 84% of the Company's contract liabilities in the previous year would convert to property revenue in the current year. We used the 84% to estimate its properties development revenue in 2019 and TTM 1H 20.

Kasen's only meaningful remaining business is property development, but this business is a melting ice cube as it sells off its dwindling inventory. If we take Kasen's reported net asset value and apply the average multiple of property industry peers (0.5 x), without applying any corporate governance discount or any adjustments to its balance sheet, we would expect a 72% downside to Kasen's stock.

	1H 19
Reported net asset value (RMB M)	3,163
# of diluted shares outstanding (M)	1,502
Book value per share (RMB)	2.11
Book value per share (HKD)	2.35
Property peers' P/B Multiple (average)	0.5 x
Valuation (HKD)	1.26
Last traded price (HKD)	4.58
Downside%	-72%

Source: Kasen Public Filings, Factset, Blue Orca Calculation

But Kasen's reported property assets should not be taken at face value. Kasen has a habit of making large prepayments for land but never actually receiving title to the property. Since 2009, the Company has prepaid RMB 637 million for 1.4 million sq. meters of land in Sanya. Ten years later, it has only received less than 11% of the land. In 2018, Kasen repeated the same practice. The Company prepaid RMB 177 million for land for the waterpark in Cambodia, yet the Company has still not received title to the land and our on-site investigation suggests that this project is likely a sham.

Accordingly, we believe it is reasonable when valuing the Company to subtract from its balance sheet the RMB 603 million of its remaining land prepayment for the Sanya project, the RMB 177 million of prepayment for the land in Cambodia, and the RMB 696 million in fabricated expenditures. We then apply the average price to book multiple of similarly situated Hong Kong listed property developers to the remaining net asset value.

Blue Orca Valuation

	1H 19
Reported net asset value (RMB M)	3,163
Less: land prepayment for waterpark (RMB M)	(177)
Less: Fabricated Capex/PP&E (RMB M)	(696)
Less: Impairment for land prepayment (RMB M)	(603)
Adjusted book value (RMB M)	1,686
# of diluted shares outstanding (M)	1,502
Adjusted book value per share (RMB)	1.12
Adjusted book value per share (HKD)	1.25
Property peers' P/B Multiple (average)	0.5 x
Blue Orca Valuation (HKD)	0.67
Last traded price (HKD)	4.58
Downside%	-85%

Source: Blue Orca Calculation

After adjusting its net assets value to reflect the independent evidence discussed in our report, we value Kasen at **HKD 0.67, an 85% downside from its last traded price**. This is likely conservative, as a Company which allows the chairman's family to loot the public vehicle of its most valuable business is, in our opinion, simply uninvestable.

CHAIRMAN'S DAUGHTERS LOOTED KASEN'S MOST VALUABLE BUSINESS

Three years ago, Kasen crippled itself by selling its most valuable business to its chairman's daughters. Our due diligence suggests almost everything about this transaction was rotten. To make the transaction appear more palatable to the market, we believe that Kasen understated both the revenues and profits of the disposed entities. Evidence also suggests that while the businesses were sold at below market price, payables owed by the disposed businesses were not transferred but kept on Kasen's books, much to the detriment of shareholders.

In 2016, Kasen [announced](#) the [sale](#) of its automotive and furniture leather manufacturing divisions (the "[Leather Group](#)") to its chairman's daughters for RMB 493 million.

The Purchasers are the daughters of Mr. Zhu, a Director and the controlling Shareholder of the Company, and hence, the Purchasers are connected persons of the Company under the Listing Rules.

The unaudited consolidated net assets of the Disposal Group as at 30 September 2015 was approximately RMB492.8 million.

"Total Consideration" the consideration of RMB492,755,687 (equivalent to approximately HK\$583,834,000) payable by the Purchasers to the Vendors for the purchase of the Sale Interest

Source: <https://www1.hkexnews.hk/listedco/listconews/sehk/2016/0202/ltm20160202005.pdf>

This was Kasen's most valuable business. In the two years prior to the disposition (2014-2015), the Leather Group generated 59% of the Company's total revenues and 135% of Kasen's pre-tax profit over that period.³

Leather Group Generated 59% of Kasen's Total Revenue

RMB M	2014	2015	Cumulative
Kasen reported total revenue	3,230	3,238	6,468
Leather Group revenue	1,991	1,831	3,823
% Leather Group	62%	57%	59%

Leather Group Generated 135% of Kasen's Profit Before Tax

RMB M	2014	2015	Cumulative
Kasen reported profit before tax	120	232	353
Less: Gain on disposal of available-for-sale investments	(191)	(289)	(479)
Kasen profit before tax excluded one-time gain	(70)	(56)	(127)
Leather Group profit before tax	44	24	68
% Leather Group	138%	130%	135%

Source: Kasen [Announcement](#) and [2016 Annual Report](#)

It is critical to note that in the two years prior to the disposition (2014-2015), the Leather Group was Kasen's only profitable segment. If we exclude one-time gains on the disposal of an investment, the Company's other operating segments generated significant losses.⁴

Kasen tried to make the transaction appear more palatable to investors by claiming that Leather Group was experiencing intense competition, resulting in shrinking revenues and falling profits. To this end, Kasen claimed that the Leather Group generated only RMB 1.3 billion of revenues and only RMB 15.1 million of net profit in 2016 (the year of the disposition).⁵

³ According to Company disclosures, in 2015, the Leather Group generated RMB 1.9 million and RMB 1.8 billion of revenue, before and after elimination of the sales to Kasen, respectively. That means sales from the Leather Group to Kasen were *de minimis*, and only represented 4% of the Leather Group's revenue.

⁴ Kasen only reported positive results in 2014 and 2015 because of one-time gain on disposal of a Shenzhen listed company's shares.

⁵ Kasen [reported](#) that the Leather Group generated RMB 1.2 billion of revenue and RMB 13.6 million of net profit in the first 11 months of 2016. We annualized these figures to estimate the full year numbers.

For the year ended December 31, 2016, the Company together with its subsidiaries (the "Group") recorded a consolidated turnover of RMB2,129.6 million from its continuing operations, i.e. operations of the Group other than the Disposal Group, (2015: RMB1,429.9 million), representing an increase of approximately 48.9% when compared with the year of 2015. On the other hand, the revenue generated from the discontinued operation amounted to RMB1,175.5 million for the year ended December 31, 2016 (2015: RMB1,831.2 million), representing a decrease of 35.8%.

annual report. Income attributable to owners of the Company from the discontinued operation for the year ended December 31, 2016 was approximately RMB8.2 million (2015: income of RMB17.8 million) comprised a loss on disposal of the Disposal Group amounted to approximately RMB5.5 million (2015: Nil) and the net profit arised from the discontinued operation of approximately RMB13.6 million (2015: a net profit of RMB17.8 million). As a

Source: 2016 Annual Report

*The disposal was [completed](#) on November 25, 2016

However, publicly available financials in the SAIC filings of the disposed subsidiaries suggest that the Leather Group generated more revenues and profits than Kasen admitted at the time of the transaction.

According to the Company's [disclosures](#), the Leather Group was composed of seven entities, only five of which were sufficiently material to be listed in Kasen's annual reports. SAIC filings, which any investor can review, show that these entities **generated aggregate revenue of RMB 2.2 billion in 2016, 68% more than what Kasen reported for the disposed businesses for that year.**

Just as importantly, SAIC filings show that the disposed entities generated aggregate net profits of RMB 69 million in 2016, which was **354% higher than reported by Kasen in the year of the sale.**

Company	Principal Activities	Revenue		Net Profit	
		2016	2017	2016	2017
Haining Schinder Leather 海宁森德皮革有限公司	Manufacturing of automotive leather	1,217	1,002	66	41
Wuji Kasen Industrial 无极卡森实业有限公司	Manufacturing of automotive leather	0	0	0	0
Haining Home Direct Furniture 海宁家值家私有限公司	Manufacturing of furniture leather	498	449	4	7
Yancheng Dafeng Huasheng Leather 盐城市大丰华盛皮业有限公司	Manufacturing of furniture leather	372	517	6	9
Haining Kasen Leather 海宁卡森皮革有限公司	Manufacturing of upholstered furniture and furniture leather	99	227	(7)	(9)
Total		2,185	2,195	69	49
Reported		1,304		15	
Difference (%)		68%		354%	

Source: Kasen 2016 Annual Report, [Disposal Circular](#), Companies' credit reports

Note: Haining Kasen Automotive Interior Materials and Haining Senmei Trading were not listed in Kasen's annual reports, so we excluded them from the table.

Put simply, local Chinese filings indicate that the Leather Group generated far greater revenues and much larger profits than Kasen admitted to investors in its Hong Kong filings. The Company's motivation should be obvious. The chairman's daughters were looting the public company of its best business, and Kasen tried to mislead investors by understating both the revenues and profits of these companies to make the disposition appear more palatable to shareholders.

We do not believe that the discrepancy between SAIC filings and Kasen's reported figures can be explained by inter-company transactions among the disposed subsidiaries. First, the disposed entities can be grouped into either the automotive leather or furniture leather divisions. Even if we assume hypothetically that intercompany transactions occurred within divisions, the largest revenue generating subsidiaries in each of the automotive and furniture divisions should represent sales to external customers. The largest subsidiaries in each of these two divisions generated far

more revenues (RMB 1.7 billion) than the Company reported for the disposed Leather Group, meaning inter-company transactions cannot explain the discrepancy.

Furthermore, inter-company transactions among disposed entities would not affect the reported net profits of the disposed entities. SAIC filings show that the Leather Group generated 354% more profits than Kasen reported to the market in 2016, which in our opinion clearly indicates that the businesses sold to the chairman's daughters were significantly more valuable than Kasen admitted to shareholders.

There is also evidence that the public Company kept the liabilities of the disposed businesses on its balance sheet. According to Kasen's disclosures, the Leather Group supposedly had RMB 744 million of trade, bills and other payables at the time of the disposition. Such amounts were significant, as the payables of the disposed group comprised 55% of Kasen's total trade, bills and other payables reported by the Company in the prior year.

As disclosed in note 13, the Disposal were completed during the year and a loss arising from the disposal of subsidiaries of RMB5,472,000 was recognised in profit or loss for the year ended December 31, 2016. Assets and liabilities disposed of at the dates of disposal are as follows:

	RMB'000
Property, plant and equipment	221,329
Prepaid lease payment	24,366
Intangible assets	22
Deposit for land use rights	4,458
Deposit paid for acquisition of property, plant and equipment	4,556
Deferred tax assets	5,719
Inventories	491,214
Trade, bills and other receivable	1,146,806
Tax recoverable	1,077
Pledged bank deposits	107,206
Bank balances and cash	37,392
Trade, bills and other payables	(744,431)
Bank borrowing	(831,057)
Deferred tax liabilities	(661)
Net assets disposed of	467,996
Total Consideration	492,755

Source: [Kasen 2016 Annual Report](#)

As the disposal was completed a month before year-end, we would expect to see a corresponding drop in Kasen's payable balance when the Leather Group was sold. However, the Company's payable balance remained largely unchanged.

24. **TRADE, BILLS AND OTHER PAYABLES**

	2016	2015
	RMB'000	RMB'000
Trade payables	884,108	990,059
Bills payable	-	68,000
Other payables (Note a)	228,351	159,374
Deposit received for partial disposal of interests in a subsidiary (Note b)	25,000	25,000
Advance from a director (note 40(b))	10,661	9,980
Advance from a related company (note 40(b))	3,453	3,453
Other tax payable	16,189	41,288
Accruals	34,299	62,695
Financial guarantees (note 38(b))	21,470	-
	1,223,531	1,359,849

Source: [Kasen 2016 Annual Report](#)

The Company's average credit period on purchases remained at 60 days in the years before and after the disposal. Therefore, we do not believe any change in the Company's credit terms can explain its unchanged balance of payables.

The average credit period on purchases of goods is 60 days.

KASEN INTERNATIONAL HOLDINGS LIMITED Annual Report 2015 97

The average credit period on purchases of goods is 60 days.

KASEN INTERNATIONAL HOLDINGS LIMITED Annual Report 2016 125

The average credit period on purchases of goods is 60 days.

KASEN INTERNATIONAL HOLDINGS LIMITED Annual Report 2017

Source: Kasen Annual Reports

The disposed Leather Group's payables accounted for 55% of the Company's total pre-disposition payables – how could Kasen's balance of payables not decrease substantially when it sold the Leather Group? The unchanged payable balance is, in our opinion, evidence that the liabilities of the disposed Leather Group were not transferred to the chairman's daughters but remained on the books of the public company.

In addition, we believe that Kasen provided an inappropriate 25% cash discount to its chairman's daughters by inflating the amount of debt supposedly owed to the disposed entities. Kasen disclosed to the market that the RMB 493 million in consideration for the transaction would be satisfied by a combination of cash and a waiver of debts supposedly owed by Kasen to the disposed Leather Group. According to Kasen's announcement, the debt owed by Kasen to the Leather Group was RMB 168 million as of December 2015.

For indication purpose, the aggregate amount of the interest-bearing loans due and owing by the Remaining Group to the Disposal Group as at 31 December 2015 was approximately RMB168,000,000 and assuming that the audited amount of the distributable retained profits of any individual members of the Disposal Group attributable to the Vendors up to 31 March 2016 (if any) will be distributed by cash to the Vendors by the Disposal Group, the Cash Consideration would be approximately RMB324,800,000. For information purpose, the unaudited distributable retained profits from members of the Disposal Group attributable to the Vendors as at 31 December 2015 were approximately RMB46 million (disregarding the consolidated position).

Source: <https://www1.hkxnews.hk/listedco/listconews/sehk/2016/0428/ltm20160428627.pdf>

However, in its 2016 annual report, Kasen stated that the amount of the debt waiver inexplicably increased to RMB 244.8 million, RMB 80 million more than it previously disclosed. Because of that, the cash consideration payable from the chairman's daughters to the public Company *decreased* from RMB 325 million to RMB 248 million. To put the RMB 80 million difference into perspective, Kasen generated **pre-tax profit of only RMB 6 million** in 2016.

Satisfied by:	
Cash consideration	247,990
Waiver of amounts due to subsidiaries of Manufacturing-Leather Division	244,765
	492,755

Source: 2016 Annual Report

For these disclosures to be true, the disposed Leather Group supposedly lent Kasen an additional RMB 80 million between December 2015 and the consummation of the transaction. The Company provides no details on these borrowings, but we question their authenticity. Why would the disposed Leather Group be lending to the Company's remaining businesses? Why did such borrowings increase dramatically in the months immediately prior to the disposition?

We question why the Company reduced the cash consideration payable by the chairman's daughters by RMB 80 million, an amount 12.2x the Company's pre-tax profits that year. To us, this looks like another egregious detail of a rotten transaction in which the chairman's family looted the public Company of its most valuable business.

Ultimately, independent evidence shows that the Leather Group was far more valuable than Kasen led investors to believe, as it generated much higher profits and greater revenues than Kasen disclosed to investors. Evidence also suggests that the Company kept the liabilities of the disposed interest, and we question why the Company allowed the chairman's daughters to pay so little cash for the business.

For shareholders, this was a double tragedy. Not only did the chairman's family loot the most valuable part of the business, but the public vehicle was left with little of value other than a melting ice cube of a property business and Cambodian hype projects of questionable authenticity.

CAMBODIAN WATERSLIDE TO NOWHERE

After Kasen sold its most valuable segment to its chairman's daughters, very little of value remained in the public vehicle. But the Company's share price has mysteriously rallied, primarily on the hype of a number of announcements regarding proposed investments and development projects in Cambodia. Yet our investigation suggests that these projects are of questionable legitimacy. Not only does the Company have almost nothing to show for these announcements in two years, but "prepayments" made in connection with the Cambodian investments appear to be naked transfers of wealth from the public Company.

This is best exemplified by Kasen's Cambodian waterslide to nowhere. In January 2018, Kasen announced its first Cambodian project, a proposed waterpark in Phnom Penh, to be developed by a joint venture ("Fun Waterpark JV"). Kasen [stated](#) that the shareholders of this JV were: Cardina (Kasen's subsidiary), Mr. Fan Dehua and Madam Oknha Lim Chhiv Ho ("[Ms. Lim](#)"). Unusually, Kasen owns only 49% of the JV but agreed that it would contribute 84% of the required capital.

	Capital Contribution			Ownership %
	(USD M)	(RMB M)	Contribution %	
Cardina (Kasen Sub)	23.1	158.5	84%	49%
Lim Chhiv Ho	4.1	28.3	15%	15%
Fan Dehua	0.2	1.2	1%	36%
Total	27.4	188.1	100%	100%

Source: [Kasen Announcement](#), January 2, 2018

At the time, Kasen [announced](#) that Fun Waterpark would spend RMB 113 million (USD 16.4 million) to acquire a total of 154,886 sq. meters land from the JV's minority shareholder, Ms. Lim (a Cambodian citizen).

The Board announces that on 2 January 2018, Cardina, Mr. Fan and Ms. Lim entered into the JV Agreement pursuant to which (1) Cardina, Mr. Fan and Ms. Lim have agreed to establish the JV Company which will be held as to 49% by Cardina, as to 36% by Mr. Fan and as to 15% by Ms. Lim. The initial capital commitment towards the JV Company will be approximately US\$27.4 million; and (2) after the establishment of the JV Company, the JV Company will enter into a formal sale and purchase agreement with the Potential Vendor to acquire the Land from the Potential Vendor at a proposed consideration of approximately US\$16.4 million.

Source: <https://www1.hkxnews.hk/listedco/listconews/sehk/2018/0102/ltm201801022296.pdf>

Note: The seller of the land is Phnom Penh Silver Sand, wholly owned by Ms. Lim.

Kasen apparently increased the size of its land purchase for the waterpark, because in its 2018 annual report the Company admitted that it **pre-paid RMB 177 million (USD 26 million) for land for the Cambodian waterpark**. Not only has the Company still not received title to the land, but our investigation casts doubt on the legitimacy of this project.

According to the Company's opaque disclosure, it pre-paid for 154,886 sq. meters. of agricultural land in "Toulkey Village, Phnom Penh, Cambodia."

INFORMATION ABOUT THE LAND

The Land, which consists of eight (8) plots of adjoining lands, is located at Toulkey Village, Phnom Penh, Cambodia with a total site area of 154,886 square metres and is held by the Vendor as at the date of this announcement. The Land is currently vacant and is permitted for agricultural use. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, save as certain mortgages provided in favour of a commercial bank in Cambodia which will be released before the completion of the Land Acquisition, the Land is free from all leases, encumbrances or third party rights.

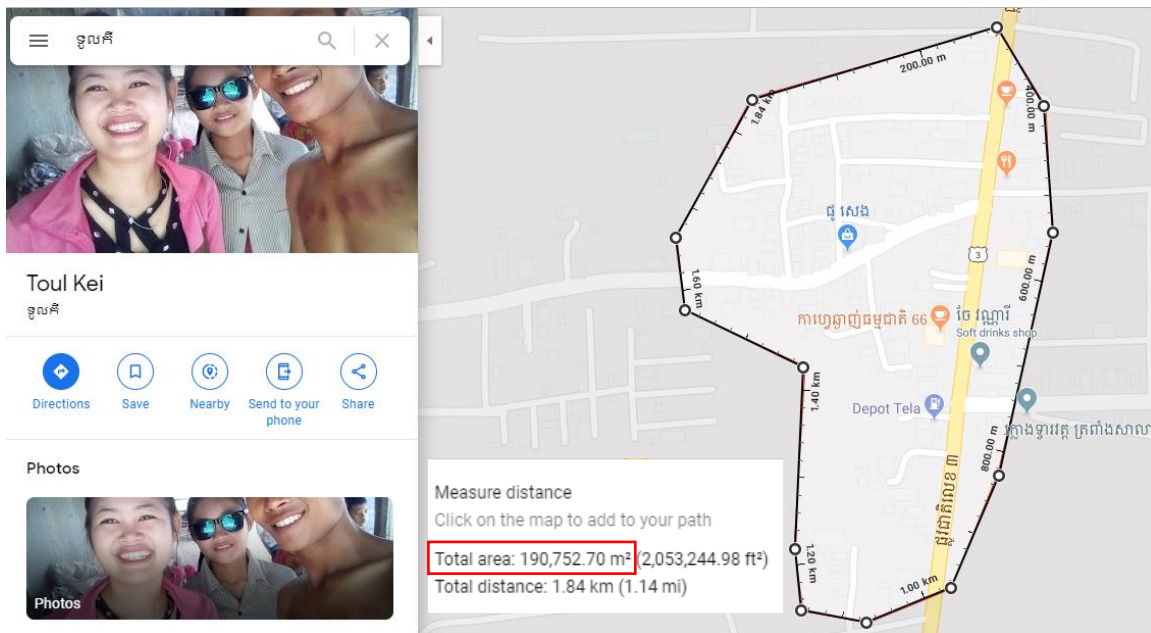
Source: <https://www1.hkxnews.hk/listedco/listconews/sehk/2018/0112/ltm20180112533.pdf>

Investigators sent to Toulkey Village to check Kasen's claims could **find no signs of any waterpark development in the village, nor any evidence of Kasen's project**.

Investigators asked the village chief and several local business owners and villagers. None of the locals or local authorities had heard about Fun Waterpark or any investment made by Kasen or its JV partners. Investigators even spoke to the head of the local commune, **who is in charge of all land development approvals in the village, and they had never even heard of a proposed waterpark.**

Toulkey (or Toul Kei) is a tiny village on the outskirts of Phnom Penh, so most of the locals and local authorities said that they would have heard about it if a high-profile investment or project like a waterpark was to be undertaken in their village.

Toul Kei village is only 190,753 sq. meters, so Kasen's claims to have purchased 8 plots of land totaling 154,886 sq. meters seems highly suspicious. It is unlikely that the waterpark would occupy 81% of the surface area of the village, and even more unlikely that such a massive investment would have been even discussed without the knowledge of the local authorities, business owners and villagers.



Source: [Google Map Outline of Toulkey \(Toul Kei\) Village](#)

The site visitors did not find any visible signage relating to the waterpark project and could not even locate the land where the waterpark is supposed to be (or could be) developed.

Investigators located the biggest vacant lot they could find in Toulkey Village, which was 40,000 sq. meters and connected to the national road. This plot was the biggest vacant lot they could find, but it was 74% smaller than the total area of the land investment announced by the Company. We would presume that any large-scale development of the size that the Company announced would have to include this land, but according to locals, the lot was not even owned by Kasen or its JV. Rather, locals reported that it was owned by an unrelated Cambodian businessman.



Source: Photo of Vacant Lot in Toulkey Village

The photos should tell investors a thousand words. The only plots the investigators could find which could support a large project are empty, undeveloped and apparently owned by someone else.



Source: Photo of Vacant Lot in Toulkey Village

In our opinion, the project is a sham. Empty, undeveloped lots in Toulkey Village also suggest that the money pre-paid by the Company to supposedly acquire the land for the Waterpark was likely misappropriated.

According to the contract it disclosed to the market, Kasen was only supposed to prepay RMB 56 million (USD 8 million) as a deposit for the land. The remaining 50% of the consideration was to be paid **only upon closing, when title to the land was transferred**. Yet on its balance sheet in its subsequent annual report, the Company admitted that it prepaid RMB 177 million (USD 26 million) for the land for the Cambodian waterpark, an amount far in excess of what was required.

PREPAYMENT FOR ACQUISITION OF FREEHOLD AND LEASEHOLD LAND

Prepayment for acquisition of freehold and leasehold land are non-refundable and included (i) the prepayment for acquisition of freehold land for construction and operation of waterpark amounting of USD25,798,000, equivalents to RMB177,057,000 (2017: Nil); and (ii) prepayment for acquisition of leasehold land for construction and operation of waterparks amounting of RMB174,522,000 (2017: RMB89,085,000), of which RMB150,702,000 (2017: RMB89,085,000) transferred from trade and other receivables and RMB23,820,000 was paid to local government during 2018.

Source: [Kasen 2018 Annual Report](#)

On its latest balance sheet, Kasen still classifies **RMB 177 million as a prepayment**, meaning as of its last interim report (June 2019), the Company had still not received title to the property.⁶

Why has the Company pre-paid RMB 177 million and, 18 months after the purchase announcement, still not received even title the land? Where did the money go? And why did the Company prepay so much, when according to the sales and purchase contract, Kasen was only obligated to put RMB 56 million in escrow and on deposit?

Even the viability of the investment is laughable. A Cambodian conglomerate, LYP Group, is [building](#) a water park in Phnom Penh, called Garden City Water Park (or Angkor Water Park). With an area of 60,000 sqm, Garden City Water Park is now the largest water park in Cambodia.⁷ News articles [reported](#) that the construction cost of Garden City Water Park will be RMB 377 million (USD 55 million).

This should also cast doubts on the viability of Kasen's proposed investment. Kasen [claimed](#) that the total investment to build its waterpark would be only RMB 188 million (USD 27 million), 50% less than LYP's total investment despite the fact that Kasen's proposed park would be on an area 2.6x larger.

The initial capital contribution of approximately US\$27.4 million will be used to satisfy the consideration of the Potential Land Acquisition, as well as the construction costs and other investment costs for the development of the Water Park. The capital contribution of the Group in the JV Company will be funded by internal resources and/or external borrowings of the Group.

Source: <https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0102/tm201801022296.pdf>

If Kasen's development costs increased proportionally with the size of the park, the true cost of the project would be almost RMB 1 billion. This is **3.5x larger than Kasen's last reported cash balance**, so the Company has nowhere near the cash to fund a project even remotely the size of the land area mentioned in its announcement. We also question the market for a waterpark of this size in a city of only 1.5 million people which is already flooded by waterpark projects.⁸

Kasen's waterslide to nowhere exemplifies, in our opinion, the Company's pattern of deceit. It began with a grandiose announcement of a project likely timed to help pump the Company's share price, followed by a large cash pre-payment for which, almost two years later, Kasen has received nothing of value. The project's viability as an investment is highly dubious, and the Company has failed to mention anything about it in months.

Our on-site investigation in Cambodia found that no-one in Toulkey village had heard of the project, and that the largest plot of land available for development was empty and owned by someone else. We found no evidence of any development, let alone land worth RMB 177 million (USD 26 million). We think, based on the preponderance of evidence, that this project is a sham and the pre-paid money has disappeared or been misappropriated.

⁶ The RMB 352 million of land prepayment, which remained mostly unchanged from 2018 to 1H 2019, included RMB 177 million prepayment for Cambodian waterpark.

⁷ [Fantastic Water World](#) used to be the largest water park in Cambodia with an area size of 12,000 sqm (1.2 hectares).

⁸ Google map shows there are at least five waterparks inside of or close to Phnom Penh: [Garden City Water Park](#), [Fantastic Water World](#), [Water Garden Aeon Mall Sen Sok](#), [Cambodian Water Cube Leisure Park](#), [Synny Water Park](#).

CAMBODIAN SEZ: ALL HYPE, NO SUBSTANCE

Despite selling its most valuable business, Kasen's share price has enjoyed an unlikely renaissance, rising 537% in 20 months at its peak. This was largely due to hype regarding its proposed Cambodia investments, which can be divided into two categories: the bogus waterpark investment (discussed previously) and the proposed special economic zone ("SEZ"). The Company's proposed SEZ investment in Cambodia follows much the same pattern: grandiose announcements, prepayments for nothing and ultimately a project that goes nowhere. The hype fades but the money disappears.

In April 2018, Kasen [announced](#) a cooperation agreement with Attwood Investment Group ("Attwood Investment") and Ms. Lim to develop the Steung Hav International Port and SEZ in Cambodia (the "Steung Hav SEZ"). The Company announced a planned investment of RMB 1.7 billion into the Cambodian SEZ, which included investment for the financing and construction of a power plant.

Kasen Announced RMB 1.7 Billion Investment in Steung Hav SEZ through Its 49% Owned JVs

Date	Event	Capital Commitment			Date	Event	Capital Commitment		
		USD M	RMB M	Source			USD M	RMB M	Source
4/24/2018	600MW generator	31	218	Link	7/10/2018	JV- AIG Kasen Int'l Power	180	1,256	Link
5/23/2018	Land purchase for power plant	4	26	Link	7/10/2018	JV- Kasen Int'l Paper	1	7	Link
7/5/2018	Land purchase for industrial projects	3	21	Link	11/12/2018	JV- Steung Hav Kasen SEZ	5.0	34.9	Link
7/19/2018	Land purchase for paper plant	24	168	Link		Subtotal – JV	186	1,298	
11/14/2018	EPC Service for power project	156	1,090	Link		Subtotal – Land purchases & power project	218	1,522	
Subtotal		218	1,522			Elimination (land purchases through JVs)	(157)	(1,097)	
						Total Announced Investment Amount	247	1,724	

Source: Kasen Public Filings

Note: Kasen claimed that most of these investments would be done through its 49% owned JVs, so Kasen's investment amount would be around RMB 845 million.

Much like Kasen's waterslide to nowhere, the Company's ambitious plans regarding its Cambodian SEZ appear to be largely fluff. We question the legitimacy and materiality of Kasen's involvement, and a review of the independent evidence suggests that Kasen has neither the resources, experience, nor expertise to execute its proposed investment.

Before parsing the details, it is important to note Kasen's current economic position. **The Company has only RMB 282 million in cash on its balance sheet and generated only RMB 18 million in cash flows from operations in 1H 2019.** Kasen lacks the cash for any large-scale investment, and its core business will not generate sufficient cash (even with property sales) to finance even a small part of its Cambodian projects.

Kasen's SEZ development plans are very light on details and we can find little economic substance behind the Company's announcements. Yet even the sparse details make us question the legitimacy of Kasen's proposals and whether Kasen will derive any economic benefit from the project.

1) Power Plant: Where are the Generators?

On April 24, 2018, Kasen [announced](#) that it had agreed to purchase two sets of 300 mega-watt coal-fired generators from Fujian Guo Ming Materials Recycling ("Fujian Guo Ming") for RMB 218 million. The Company's announcement stated that it intended to demolish the purchased generators, then ship them to Cambodia for reassembly into a thermal power plant it was building in the Steung Hav SEZ.

But the generator transaction raises a number of additional red flags. The contract for the purchase of the generators from Fujian Guo Ming required Kasen to remit the full RMB 218 million in consideration by June 30, 2018. Kasen paid for the equipment, but according to its 2018 annual report, the Company had still not received title to or possession of the generators by year end.

Instead, the Company listed an RMB 96 million "prepayment" for the acquisition of the generators on its 2018 balance sheet. As is common with Kasen, the cash walked out the door at the time of the project was announced, yet the Company appears not to have received the generators it supposedly purchased.

	NOTES	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	1,429,707	916,156
Prepaid lease payments – non-current portion	16	132,896	34,980
Intangible assets	17	830	234
Deferred tax assets	21	50,529	68,122
Prepayment for acquisition of property, plant and equipment	18	95,980	–

18. PREPAYMENT FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

The Group has prepaid and entered into certain contracts for the acquisition of power generators in Cambodia that the Group has not received related equipment and service at end of reporting period. The capital commitment for the acquisition of the plant and equipment are included in note 42. These prepayments would transfer to “property, plant and equipment” upon receipt of relevant equipment and service.

Source: Kasen 2018 Annual Report

Note: In its 2019 interim report, Kasen reported that it received RMB 5 million refund from the PP&E prepayment, and that the prepayment balance decreased to RMB 72 million. However, it is unclear whether the RMB 19 million prepayment transferred to PP&E or simply disappeared.

Why would the Company pre-pay for two old coal-fired generators, without getting title to the assets?

Further investigation reveals that the generators were not even located in the province from which Kasen claimed to purchase them. In Kasen’s initial [announcement](#), the Company claimed that the vendor of the generators was in Fujian, and that the generators were located in the vendor’s facilities.

Pursuant to the Equipment Purchase Agreement, Zhejiang Kasen shall arrange the demolition of the Equipment at the Vendor’s facility at its own costs before 30 July 2019. Prior to the actual demolition, Zhejiang Kasen shall submit to the Vendor of the demolition plan for its approval and the actual demolition shall not commence until the demolition plan is being approved by the Vendor. Further, any damage or accidents caused to the Vendor’s facilities as a result of the demolition shall be borne by Zhejiang Kasen, who will also be responsible for all applicable restoration work (if necessary).

Source: [Kasen Announcement](#), April 24, 2018

Yet a few months after the initial announcement, the Company subsequently [admitted](#) that the generators were located in Hunan, not Fujian.

Pursuant to the EPC Service Agreement, the Contractor agreed that it shall be responsible for the engineering, procurement and construction work of the Power Project, including, without limitation:

- (i) evaluation, inspection, demolition, re-building, cleaning, thermal insulation paint preservation, labeling, care, packaging, loading, etc. of [the Generators, which is currently located in Hunan](#) the PRC, and thereafter the unloading, care, equipment installation, operation commission, performance test, spare parts, technical training and quality assurance, etc. of the Generators for the new plant to be located within the Special Economic Zone;

Source: [Kasen Announcement](#), November 14, 2018

If the generators were really in Hunan, why would Kasen announce a deal to purchase them from a vendor’s facilities in Fujian? In our opinion, the Company’s conflicting disclosures about the location of the generators support our suspicion that the transaction is likely a sham. Kasen admits that it did not receive title to the equipment (even though according to the disclosed contract, it should have) and that it pre-paid a mysterious entity in Fujian for generators located in Hunan. We think this supports our suspicion that the payments were simply siphoned from the public Company.

2) EPC: Contract Without Benefit

Yet the story gets even stranger. Kasen announced in November 2018 that it [entered](#) into a RMB 1 billion EPC service contract with CEEC Northwest, a subsidiary of state owned energy conglomerate CEEC (3996 HK).⁹ Under the terms of the EPC contract, CEEC supposedly agreed to design, engineer and construct the power plant at the Steung Hav SEZ. Curiously, CEEC also supposedly agreed to obtain the bank loan in China to finance the project.

The Contract Letting Party intends to fund the contract price for the provision of the EPC Service under the EPC Service Agreement by way of bank loan to be obtained by the Contractor. The bank will be selected by the Contractor and agreed by the Contract Letting Party for financing (the “Bank”). The parties intend that China Export & Credit Insurance Corporation (中國出口信用保險公司) (“Sinosure”) shall be the guarantor for the bank loan and the third party(ies) nominated by the Contract Letting Party will provide counter-guarantee to Sinosure.

Source: <https://www1.hkxnews.hk/listedco/listconews/sehk/2018/1114/tn20181114602.pdf>

The announcement stated that the bank loan would be repaid with electricity fee income generated by the power plant in Cambodia, which means Kasen would not receive any cash flow from the project in the near future.

Financing arrangements

Pursuant to the Supplemental Agreement, the parties agreed that:

- (a) Subject to compliance of the applicable laws in the PRC by the Contractor, the Contractor shall be responsible for the construction and financing (“Financing”) of the Power Project.
- (b) The source of repayment of the Financing shall be derived from the electricity fee income, as confirmed by Sinosure and the Bank.
- (c) The parties shall agree on the plan for Financing by 31 December 2018, and the Financing shall be completed within three months after the satisfaction of financing conditions by the Contract Letting Party and Zhejiang Kasen. If the Financing cannot be completed within the above period, the Contract Letting Party shall have the right to terminate the EPC Service Agreement and appoint another main contractor, but the Contractor will still have the priority

Source: <https://www1.hkxnews.hk/listedco/listconews/sehk/2018/1114/tn20181114602.pdf>

This begs the obvious question: if the Chinese SOE (CEEC) was designing, engineering, constructing and financing the thermal power plant, what value does Kasen bring to the project?

It is unclear. According to Kasen, its Cambodian JV only agreed to provide a type of “bridge financing” for the project. The EPC contract disclosed by the Company stated that Kasen would provide nebulous “prepayments” to CEEC for construction fees, which would be repaid when CEEC receives financing from a bank for the project.

This is highly suspicious and again, makes it appear as though Kasen is simply misleading investors. Kasen’s cash balance was only RMB 282 million as of 1H 2019, and its cash flow from operations only RMB 18 million in the first half of the year. Kasen clearly does not have even remotely enough cash to fund the construction of the power plant (estimated to be over RMB 1 billion), even on a short-term loan.

It is also unclear why CEEC would ever need such bridge financing. CEEC’s [cash](#) balance was RMB 40 billion as of 1H 2019. Why would CEEC, a powerful SOE which is engineering, designing, construction and financing the project, need a short-term loan from a sketchy little Company like Kasen whose cash balance was 141x smaller than CEEC’s?

	CEEC	Kasen
Land	x	?
Expertise	✓	x
Experience	✓	x
Cash	✓	x
Financing	✓	x

Source: Blue Orca Comparison

⁹ EPC stands for engineering, procurement and construction; CEEC is China Energy Engineering Group Co., Ltd.; CEEC Northwest is CEEC Northwest Electric Power Construction Engineering.

It is also suspicious that **two months before** Kasen announced an EPC contract with CEEC for the Cambodian power plant, CEEC announced that it **signed** an EPC project to move two sets of generators in Hunan to the same Steung Hav SEZ **without mentioning Kasen**.

CEEC Announced the Power Plant Project Two Months Before Kasen

Company (CEEC) Successfully Signed the Contract of a D+EPC project of 2 x 300 MW coal power plant (phase I) in Steung Hav SEZ in Preah Sihanouk, Cambodia

公司成功签约束埔寨西哈努克斯敦豪经济特区2×300MW燃煤电站一期D+EPC项目

[文章来源:党建工部 Date: Sep. 21, 2018 日期:2018/9/21 17:16:45 访问次数:1745]

9月20日, 公司成功签约束埔寨西哈努克斯敦豪经济特区2×300MW燃煤电站一期D+EPC项目。

该工程是将湖南常德创元电厂两台300MW机组拆除后搬迁至柬埔寨西哈努克斯敦豪经济特区重新安装。项目是落实国家化解过剩产能政策的实际举措, 同时响应了国家“一带一路”战略, 将创元电厂原两台停产机组变废为宝, 在柬埔寨国内建设两台

On September 20, our company signed a D+EPC project contract of 2 x 300 MW coal power plant (phase I) in Steung Hav SEZ in Preah Sihanouk, Cambodia.

This project is to demolish, transfer, and re-build the two sets of 300MW generators at Hunan Changde Chuangyuan power plant to the Steung Hav SEZ in Preah Sihanouk, Cambodia.

Source: <http://www.nwpc3.ceec.net.cn/shownews.asp?newsid=3371>

In September 2018, two months before Kasen announced the EPC contract, CEEC Northwest put out the press release announcing that it had signed an EPC contract to build a thermal power plant in the Steung Hav SEZ. **Notably, CEEC’s announcement regarding the Steung Hav SEZ never mentioned Kasen.** In our opinion, this suggests that CEEC might have signed the contract with someone else, and that Kasen may only have minimal substantive involvement in the project.

Here is what we know. CEEC is supposedly designing, engineering, constructing and financing the Cambodian power plant project. Two months before Kasen’s announcements, CEEC had already issued an announcement that it was involved in the project which made no mention of Kasen. In exchange, CEEC will receive the income from the power generation. Kasen’s only role in the deal is to supposedly help bridge finance construction costs until CEEC secures a construction loan from a Chinese bank. Yet CEEC’s cash balance is 141x larger than Kasen’s, raising the question of why CEEC would ever need any type of short-term bridge financing from Kasen?

We question what value, if any, Kasen brings to the project. And we certainly question what economic value Kasen expects to receive for providing such minimal value.

Predictably, the Company has provided no update on the project in its 1H 2019 report. Like Kasen’s waterpark to nowhere and debacle in Sanya, the Cambodian power plant announcement appears to be designed primarily to pump Kasen’s stock price.

3) Competing Claims to Develop Same SEZ

Other than the power plant, Kasen has refused to disclose any substantive transactions or details about the Company’s plan to develop the Steung Hav SEZ in Cambodia. Based on Kasen’s lack of cash, experience, expertise and track record, we doubt that the Company could meaningfully contribute to any such development. But we are even more skeptical **given that a Chinese state-owned enterprise has made competing claims to be working with Attwood Investment to develop the same economic zone since 2017.**

In January 2018, Metallurgical Corporation of China (“MCC” 1618.HK), **signed** a framework cooperation to develop the Steung Hav SEZ (and port) with Attwood Investment in front of Premier of the State Council of the PRC and Cambodian prime minister. This is notable because MCC is apparently partnering with Attwood, Ms. Lim’s Company who was supposedly also to be Kasen’s partner in the project.

The leaders of China and Cambodia Witnessed MCC and Cambodia AIG Group (Attwood Investment) Signed Framework Cooperation Agreement
Zhang Mengxing and Lim Chhiv Ho, AIG CEO, Signed on Behalf of Both Parties

中柬两国领导人见证中国中冶与柬埔寨AIG集团签署框架合作协议

张孟星与AIG集团CEO林秋好分别代表双方签字

来源: 中冶海外 作者: 葛艳萍 发布时间: 2018年01月12日 Publication Date: January 12, 2018

1月11日上午, 在国务院总理李克强与柬埔寨首相洪森的共同见证下, 中国中冶与柬埔寨AIG集团在柬埔寨首都金边总理府签署斯登豪港口和经济特区框架合作协议, 中冶集团暨中国中冶党委副书记、中国中冶总裁张孟星与柬埔寨AIG集团CEO林秋好分别代表双方在框架合作协议上签字。

On the morning of January 11, under the joint witness of Premier Li Keqiang and Cambodian Prime Minister Hun Sen, MCC and Cambodia AIG Group signed the Steung Hav Port and SEZ Framework Cooperation Agreement at the Prime Minister's Office in Phnom Penh, Cambodia.

Source: http://www.mcc.com.cn/mcc/_132154/ywjj/506457/index.html

According to news articles, MCC and Attwood Investment meet up periodically to discuss the development plan for the Steung Hav port and SEZ. Notably, media reported that MCC began discussing the development of the SEZ with Attwood Investment as far back as November 2017, six months before Kasen announced any involvement in the project.

Date	Event	Source
11/2/2017	Zhang Mengxing (MCC's chairman) met with, Khek Cai Mealy Sysoda, Cambodian Ambassador to China to discuss the development of Steung Hav Port and SEZ with LCH Investment Group. Zhang Mengxing signed MOU with Lim Chhiv Ho, chairwoman of LCH.	Link
12/8/2017	Samdech Techo Prime Minister received visiting president of MCC, Zhang Mengxing and underlined the royal government's intention to transform the coastal areas into a potential economic pole.	Link
1/11/2018	MCC signed a framework cooperation to develop Steung Hav port and SEZ with Attwood Investment in front of Premier of the State Council of the PRC and Cambodian prime minister	Link
5/8/2018 – 5/11/2018	Zhang Mengxing visited the Cambodian deputy prime minister prince Tea Banh and led delegation to Cambodia to promote major projects	Link
7/12/2018	Cambodian media reported that MCC was working on the feasibility study of the Steung Hav international port expansion	Link
7/24/2018	Zhang Mengxing met with Khek Cai Mealy Sysoda, Cambodian Ambassador to China and Lim Chhiv Ho, the Chairwoman of Attwood Investment	Link
10/18/2018	Expert review meeting for the Steung Hav international port and SEZ	Link
12/8/2018	Zhang Mengxing met Janice Chan, general manager of AIG Group, Cambodia, and his Delegation	Link

In July 2018, Cambodian media [reported](#) that MCC was working on the feasibility study of the Steung Hav international port expansion. All the evidence points that MCC is the actual developer of the Steung Hav SEZ, not Kasen.

MCC has the cash, and experience and expertise to develop the project. By comparison, Kasen has little cash and no history of successfully completing a project even remotely similar in size, scope and complexity. Compared to MCC, Kasen can offer little of value to the project.

Much like Kasen's Cambodian waterpark and other projects, evidence undermines the materiality and legitimacy of Kasen's involvement in the Cambodian SEZ.

HUNDREDS OF MILLIONS OF FABRICATED CAPITAL EXPENDITURES

After Kasen sold the Leather Group to its chairman's daughters in 2016, Kasen told investors that it spent RMB 714 million on PP&E to expand and upgrade its manufacturing facilities. However, in our review of independent credit reports of Kasen's manufacturing subsidiaries, the entity-level financials show no increase in PP&E. We believe this is strong evidence that either Kasen fabricated the reported capital expenditures to conceal fake profits or that insiders simply misappropriated hundreds of millions in funds.

From 2017 to 1H 2019, Kasen reportedly invested RMB 714 million on capital expenditures for property, plant and equipment to upgrade its manufacturing facilities and revitalize its business.¹⁰

PROPERTY, PLANT AND EQUIPMENT

During the current period, the Group incurred expenditure of approximately RMB169,264,000 (six months ended June 30, 2018: RMB468,529,000) on property, plant and equipment to expand and upgrade the Group's manufacturing facilities.

Source: [Kasen 2019 Interim Report](#)

Kasen appears to have derived nothing in return for its investment. Despite supposedly spending a total of RMB 714 million on capital expenditure for PP&E in its manufacturing segment, Kasen's profit from its manufacturing segment grew by only RMB 8 million compared to 2016.

RMB M	2016	2017	2018	LTM 1H 19
Manufacturing segment revenue	611	696	719	731
Increase compared to 2016				120
Manufacturing segment operating profit	42	31	38	50
Increase compared to 2016		(10)	(4)	8
Capital Expenditure to manufacturing segment		77	469	169
Increase compared to 2016		77	545	714

Source: [Kasen Public Filings](#)

* Manufacturing segment profit excluded a one-time gain from its financial investment disposal.

At this rate of return, Kasen would take 87 years to recoup its investment in its manufacturing segment. If Kasen's investments were legitimate, why hasn't the Company's manufacturing segment shown any returns?

Independent evidence suggests that Kasen's reported capital spending was simply fabricated or misappropriated. After Kasen sold the Leather Group to its chairman's daughters in 2016, the Company had only four manufacturing subsidiaries.¹¹

Name of the company	Registered Capital	Principal Activities
Haining Kareno Furniture 海宁卡雷诺家私有限公司	USD3,600,000	Production and sale of upholstered furniture
Haining Hengsen Furniture 海宁恒森家具有限公司	RMB50,000,000	Production of furniture and glass fiber reinforced plastic products; wood processing
Haining Hainix Sofa 海宁汉林沙发有限公司	USD6,000,000	Production and sale of sofas, dining chairs and other furniture products
Haining Hidea Furniture 海宁慧达家具有限公司	USD8,000,000	Production and sale of sofas, dining chairs and other furniture products

Source: [Kasen 2018 Annual Report](#)

According to Kasen's interim reports, the Company spent a total of RMB 545 million on PP&E for its manufacturing facilities in 2017 and 2018.

¹⁰ In its interim reports, the Company disclosed that it spent RMB 77 million, RMB 469 million, and RMB 169 million in 1H 2017, 1H 2018, and 1H 2019, respectively on capital expenditures at its manufacturing facilities.

¹¹ According to its 2018 annual report, Kasen has a total of seven subsidiaries under its furniture manufacturing segment. Three of them are engaged in trading furniture and investment holding, and only four are Kasen's manufacturing subsidiaries.

PROPERTY, PLANT AND EQUIPMENT

During the current period, the Group incurred expenditure of approximately RMB468,529,000 (six months ended June 30, 2017: RMB76,538,000) on property, plant and equipment to expand and upgrade the Group's manufacturing facilities.

Source: [Kasen 2018 Interim Report](#)

To corroborate this claim, we obtained detailed credit reports for the four manufacturing subsidiaries. These credit reports, which summarized local financials, **show that Kasen's manufacturing subsidiaries only invested RMB 8 million in PP&E during this two-year period (2017-2018).**

RMB M	2016	2017	2018	Increase in PP&E
Haining Kareno Furniture				
PP&E at cost	471.7	471.6	472.4	0.7
Haining Hengsen Furniture				
PP&E at cost	38.7	29.4	29.2	(9.4)
Construction in progress	16.1	0	0	(16.1)
Haining Hainix Sofa				
PP&E at cost	80.4	81.0	81.6	1.2
Construction in progress	0.0	3.2	6.1	6.1
Haining Hidea Furniture				
PP&E at cost	85.0	83.9	83.9	(1.0)
Total	691.9	669.1	673.2	(18.6)
Additions to PP&E				8
Reported Capital Expenditure				545
Difference				(537)

Source: *Companies Credit Reports*

Note: The PP&E figures are listed at purchase cost to eliminate the impact of depreciation.

Put simply, financials of Kasen's manufacturing subsidiaries contained in credit reports do not show Kasen's reported RMB 545 million in capital expenditures. Instead, they show only RMB 8 million in investments in fixed assets. This explains why Kasen's returns on its supposed spending were so poor and indicates, in our opinion, that the Company either fabricated the reported capital expenditures or misappropriated over RMB 500 million in reported spending.

This pattern shows no signs of stopping. Kasen reported that its manufacturing capital expenditures were RMB 169 million in 1H 2019. The only relevant disclosure we could find in its 1H 2019 interim report was that the Company [claimed](#) it set up a furniture factory in Cambodia.

In the field of upholstered furniture, there are uncertainties as to whether the United States will continue to impose additional tariffs on furniture imported from China. In order to reduce risks, on the one hand, the Group has set up a upholstered furniture factory in Cambodia to meet the demand of exporting to the US market, on the other hand, the Group will continue to strengthen the operation and management of upholstered furniture factories in China and to make full use of its advantages in quality, price, delivery and service, and will communicate closely with its customers to share tariff costs.

Source: [1H 2019 Interim Report](#)

However, according to local media reports, the council for the Development of Cambodia only approved the construction of Kasen's furniture factory investment in October 2019. How could Kasen invest RMB 169 million in capital expenditures on PP&E in the first half of 2019 when Cambodian authorities only approved the investment in October 2019?

CDC Approves Seven Investment Projects Worth Nearly \$ 40 Million

លេខស្រុត ថ្ងៃទី 17 ខែ តុលា ឆ្នាំ 2019 Published on October 17, 2019

(Phnom Penh): The Cambodian Investment Board (CIB) of the Council for the Development of Cambodia (CDC) has approved seven new investment projects worth nearly \$ 40 million.

The companies approved by the CDC are as follows:

1. Cordy Intelligent Technology (CAMBODIA) CO., LTD, to establish a factory manufacturing plastic parts and motor accessories in Sihanoukville Special Economic Zone (SSEZ). The project is worth USD 1,1 million and will create 56 jobs/

2. Zhejiang Hengsen Furniture CO., LTD, to establish a furniture manufacturing factory in Sihanoukville Special Economic Zone (SSEZ). This project is worth USD 1,5 million and will create 666 jobs

Source: <https://swiftnewsdaily.com/articles/387328>

Local media also reported that the new factory was worth only USD 1.5 million (RMB 10.5 million). This suggests that Kasen also overstated the amount of its capital investment (RMB 169 million), given this was the only project mentioned by the Company in its interim report.

Ultimately, we believe that the independent evidence indicates that Kasen fabricated hundreds of millions in reported capital expenditures. We believe that either the Company made up the figures to conceal fake profits or that insiders misappropriated the funds. Either way, Kasen is simply uninvestable.

SANYA DEBACLE: LONG-TERM LAND PREPAYMENT BUT NO TITLE

Since 2009, Kasen has prepaid RMB 637 million in cash deposits for land to be (supposedly) used for the development of residential property and a large resort in Sanya, Hainan. Ten years later, almost the full amount of such prepayments remains on the Company's balance sheet, and Kasen has still not received title to 89% of the land.

After 10 years, we think it is obvious that insiders either stole the money or Kasen was cheated out of its prepayments. Either way, we believe that the prepayment balance associated with the Sanya land is not a real asset and should be entirely written off. Ultimately, the Sanya debacle fits Kasen's *modus operandi*: grandiose announcements to hype the Company's stock, dubious prepayments without receiving title or any asset of value, and an ultimately worthless project that goes nowhere. Like with the Cambodian waterslide to nowhere, the money in Sanya seemingly disappeared.

In November 2009, Kasen [entered](#) an agreement to purchase 51% of Hainan Hejia Property Development (“Hejia” 海南合甲置业有限公司). At the time of acquisition, Hejia was in the process of acquiring the rights to develop [land](#) at Group 15, Nanxin Farm in Sanya, Hainan. The total proposed site area of the land deal was 1.4 million sq. meters. Kasen claimed that the fair value of the land was RMB 617 million, and that it intended to develop residential buildings on the site.

The Target Company is principally engaged in property development in the PRC and has a right under the Land Transfer Agreement to acquire the land use rights of the Land. The Land is located in Sanya, Hainan Province, PRC with a total site area of approximately 1,424,692 square meters. After completion of the Acquisition, the First Purchaser and the Second Purchaser intend to develop residential buildings on the Land. As at the date of this announcement, the Land has not yet been developed.

Source: <https://www1.hkexnews.hk/listedco/listconews/sehk/2009/1112/ltm20091112606.pdf>

But there were immediately red flags which foreshadowed the coming disaster. At the time of the acquisition, Hejia had not obtained the land yet. Therefore, the contract stated that if the land acquisition failed to close, the vendors were obligated to refund buyers. But Kasen received neither a refund nor the land.

In the event that the acquisition of the Land fails to complete, (i) the Vendors shall, within 5 days from the date of occurrence of such event, return the sum already paid by the Purchasers to the Vendors, to the Purchasers (including the payment made by the Purchasers to the Target Company for the acquisition of the Land pursuant to the Land Transfer Agreement) and compensate the Purchasers all the loss and damages suffered by them as a result of non-completion of the acquisition of the Land; and (ii) the Purchasers shall withdraw the relevant applications for the transfer of the Sale Interest from the relevant PRC governmental authority if the transfer of the Sale Interest has not been completed, or the Purchasers shall cause the Sale Interest to be transferred back to the Vendors if the transfer of the Sale Interest has been completed.

Source: <https://www1.hkexnews.hk/listedco/listconews/sehk/2009/1112/ltm20091112606.pdf>

In 2010, Kasen [increased](#) its ownership of Hejia to 77%, but did not consolidate Hejia until 2013. At some point, with very little explanation, the Company began referring to Hejia as Hainan Sanya Kasen Property Development (“Hainan Sanya”). Despite zero progress, Kasen continues to carry a deposit of RMB 637 million to Hainan Sanya for land purchases as a “prepayment” on its balance sheet.

The Group had made deposits in respect of proposed acquisition of certain land use rights for property development. The amount is refundable if the Group does not proceed with the acquisitions. As of December 31, 2016, the amounts mainly included (i) RMB636,856,000 (2015: RMB636,856,000) as deposits for the land acquisition through Hainan Sanya Kasen Property Development Co., Ltd. (“Sanya Kasen”), a 80.5% subsidiary of the Company (“Sanya Deposits”) (note a (i)); (ii) RMB45,616,000 (2015: RMB42,700,000) as deposits paid for acquisitions of two pieces of reclaimed land in Malaysia (“Malaysia Deposits”) (note a (ii)); and (iii) RMB5,900,000 (2015: RMB5,900,000) as deposit paid for land acquisition in Hangzhou, PRC (“Land B”) (note c (i)).

Source: [Kasen 2016 Annual Report](#)

After almost ten years, Kasen still carries the prepayment balance as an asset on its balance sheet, even though we think it should be obvious that Kasen will not receive the land.

Investigators sent to the land (15th Group in the Nanxin Farm) **found little evidence of any development.** Nanxin farm appeared to be mostly farmland and occasional old factories. Investigators took photos showing the old, undeveloped plots of land and unreliable roads.



Source: Onsite Due Diligence Visit to 15th Group of Nanxin Farm, the supposed site of Kasen's 1.27 million square meter development.¹²

Picture on the left shows the undeveloped muddy road and farming land next to address for the 15th Group of Nanxin Farm on an online map.

Picture on the right shows the same road, which was more undeveloped further towards the core area of Nanxin Farm.



Source: Onsite Due Diligence Visit to 15th Group of Nanxin Farm, the supposed site of Kasen's 1.27 million square meter development.

Picture on the left: An old factory in the Nanxin Farm area.

Picture on the right: A logistics company located in the Nanxin Farm area.

Almost 10 years later, the 15th Group Area of Nanxin Farm remains an undeveloped plot of land with old factories and tired roads. There is no evidence of any proposed development, and Kasen still carries most of the RMB 637 million in prepayments for the land on its balance sheet.

¹² Kasen announced the total land area was 1.42 million sq. meters. 155,857 sq. meters were used to develop a water park.

Yet rather than write-off the investment, Kasen has started to make more “payments” for land in Sanya. In 2017, Kasen claimed that it received a government approval for 81,646 sqm of land and made an **additional payment** of RMB 49.5 million to local government to obtain title of a small parcel of land it should have already owned.

During 2017, the Group paid an additional deposit of RMB10,000,000 to the vendor. In February 2017, the Group received a notice from local government for approval of land acquisition of certain area on which the water park resort has been constructed, and made a further payment of RMB49,543,000 to local government, based on current market price assessed and approved by local government, for obtaining relevant title deeds of such area of 81,646 sq. meters. The deposits of RMB39,542,000 relating to such area paid to vendor in prior years, together with the further payment of RMB49,543,000 made to local government by the Group in 2017, totally RMB89,085,000 were reclassified as prepayment for acquisition of leasehold land under non-current assets as at December 31, 2017. In March 2018, the Group obtained relevant title deeds of the above area of 81,646 sq. meters.

Source: [2018 Annual Report](#)

In 2018, Kasen claimed to receive approval notice for another 74,211 sq. meters of land, but the Company had to pay additional RMB 114.8 million to acquire the title deeds.

During 2018, the Group paid an additional deposit of RMB31,989,000 to the vendor. In July 2018, the Group received a notice from local government for approval of land acquisition of remaining area on which the water park resort has been constructed, and made a further payment of RMB114,760,000 in December 2018 to local government, based on current market price assessed and approved by local government, for obtaining relevant title deeds of such area of 74,211 sq. meters. The deposits of RMB35,942,000 relating to such area of 74,211 sq. meters paid in prior years to the vendor, together with the payment of RMB114,760,000 made to local government, totally RMB150,702,000 were reclassified as prepayment for acquisition of leasehold land under non-current assets as at December 31, 2018. Up to the date of this report, such title deeds of such area had not been obtained from local government. With ongoing land acquisition approval have been continuously obtained from local

Source: [2018 Annual Report](#)

Not only did the Company make additional payments of RMB 164 million to the local government in the past two years, it also paid the vendors an additional RMB 42 million. It is highly suspicious that Kasen would pay more to the vendors when it has not received the land from its prepayment from 10 years ago.

We think there are two non-mutually exclusive possibilities. Either insiders looted over **RMB 600 million** in prepayments, or the Company was defrauded by property scammers in Hainan. We found Chinese court cases showing that just like Kasen, at least three companies paid hundreds of millions of RMB to purchase the land located on the same Nanxin Farm in Sanya, but never received the land or got their money back. This could suggest that like these other prepayers, Kasen may have been cheated.

For example, in 2010, Hainan Lile Real Estate Development (“[Lile](#)” 海南利乐房地产开发有限公司) entered a purchase agreement with Nanxin Farm for 981 mu (654,000 sqm) of land for RMB 353 million. In the same year, Lila [pre-paid](#) Nanxin Farm RMB 151 million for the property. The land at issue was zoned for agricultural use, which had stricter transfer conditions. Part of the deal was to obtain authorization to re-purpose the land for development, which Lile never successfully obtained from the local government. Five years passed by, Lile had not received any land use rights for the property, so it sued Nanxin Farm and demanded a refund.

原告利乐公司起诉称，2010年5月6日，南新农场与利乐公司签订《土地转让合同》，约定：南新农场按照周边建设用地经评估后确定的36万元/亩的价格，向利乐公司转让其位于23队的981亩国有划拨土地使用权，利乐公司受让土地后用于开发建设，转让总价为35316万元；同时约定：本转让合同所涉及的南新农场国有土地使用权，由南新农场向农垦总局书面申请批准，农垦总局在利乐公司交纳土地转让价款总额的30%后办理批准文件，本合同报经农垦总局批准后生效，并上报农垦总局备案两份。合同还就其他内容作了约定。2010年6月23日，农垦总局以《关于南新农场981亩国有土地使用权有偿转让给海南利乐房地产开发有限公司的批复》，答复南新农场：同意南新农场转让981亩国有土地使用权给利乐公司。涉案合同签订前后，利乐公司分多笔共向南新农场支付了15140万元土地转让款。合同签订后，利乐公司在申请办理土地使用权过户的过程中，遇到了严重障碍。涉案划拨土地无法通过政府批准转让给利乐公司的主要原因包括：合同项下土地属农业用地，尤其是相当面积的土地属于饮用水水源二级保护区；涉案土地大部分为坡度在25%以上的山体区域，属于三亚市人民政府（以下简称三亚市政府）禁止开发建设的土地；涉案合同项下土地属于非建设用地，用作建设用地不符合土地利用总体规划，亦不符合城乡规划；南新农场对合同项下土地并未取得国有土地使用权证。南新农场在签订涉案合同时，没有告知利乐公司上述实际情况，以致利乐公司在签约之后申请办理土地使用权转让过程中，多年来历经奔波，根本无法获得政府批准，土地使用权无法过户至利乐公司名下。

The plaintiff Lile Company sued that on May 6, 2010, Nanxin Farm signed a Land Transfer Contract with Lile Company, stipulating that Nanxin Farm would transfer the land use right of 981 Mu (note: 654,000 sqm) state-owned land on Group 23 to Lile Company for development and construction. The total price is RMB 353.16 million, determined by appraisal of surrounding construction land price of RMB 360,000/mu (note: RMB 540/sqm).

Before and after the contract was signed, Lile Company paid a total of RMB 151.4 million to Nanxin Farm for land transfer.

After years of request, Lile can neither obtain government approval, nor transfer the land use right to its name.

Source: https://www.qichacha.com/wenshuDetail.com_6b7b3ba2367dfda2442621e2e0e74e61.html

A Chinese court ruled that the Nanxin Farm did not need to refund the prepayments or transfer the land. As a result, Lile lost the RMB 151 million that it pre-paid.

We found other similar cases in which purchasers paid hundreds of millions of RMB for the land on Naxin Farm and did not get the land or get their money back. Perhaps Kasen was similarly scammed.

Date of Verdict	Date of Purchase Agreement	Plaintiff	Land Area (sqm)	Total Price (RMB M)	Payment Made (RMB M)	Result	Source
12/24/2015	5/6/2010	Hainan Lile Property Development 海南利乐房地产开发有限公司	654,000	353.2	151.4	Plaintiff lost	Link
6/30/2016	7/15/2009	Sanya Runji Industrial 三亚润基实业有限公司	400,000	199.8	119.9	Plaintiff lost	Link
4/27/2018	6/8/2010	Sanya Wanbao Real Estate Development 三亚万宝房地产开发有限公司	160,000	160.8	48.5 ~ 65.7	Plaintiff lost	Link
	5/24/2008	Sanya Huixi Tourism Industry 三亚汇喜旅游产业有限公司	600,000	242.1	145	N/A	News
12/22/2016		8 individuals	81,336			Plaintiff lost	Link

The only substantive asset developed by Kasen in Sanya, Hainan, despite the massive capital investment by the Company, is an 155,857 sqm waterpark development with a history of operating trouble.¹³ Kasen first [opened](#) the Sanya Dream Waterpark in February 2015. The waterpark [operated](#) for eight months before being forced to shut down because the Company lacked proper construction permits and inspection approvals. In March 2018, after being shut for two years, local media reported that waterpark finally reopened when Kasen obtained the proper paperwork for the project.

¹³ Investigators noted that a small hotel and restaurant was under construction next to the waterpark; and that Kasen has a small three-story office building nearby.



Source: http://epaper.sanvarb.com.cn/html/2018-03/22/content_5_8.htm

Other than a small waterpark, which had been shut down for not having the proper permitting, Kasen has virtually nothing to show for its massive capital investment in Sanya, Hainan. Ten years after prepaying for the land, it still does not have title to 89% of the land area it supposedly purchased in 2009. Either insiders looted the money or Kasen was scammed (like others) out of its investment. Or some combination of both. Either way, we believe that Kasen should write off the remaining RMB 603 million prepayment from its balance sheet and no investor should give such prepayments any credit when valuing Kasen’s assets or its shares.

Yet the pattern evident in Kasen’s dealings in Sanya is a template to evaluate the Company’s recent stock price appreciation and development plans in Cambodia. From November 2009 to February 2010, Kasen’s stock price doubled largely due to the hype surrounding the Hainan land purchase. Sell side analysts even bought into the Company’s hype project.

Kasen International (496 HK)

2 February 2010

Flying phoenix: a direct beneficiary of buoyant Hainan market

➤ **Where is the value?** Kasen International (“Kasen”, 496 HK) is currently trading at 1.5x 09F PBV, with major real estate assets including 1.4m sqm land bank in Hainan at blended cost of RMB508/sqm. Such land bank offers good value to investors on buoyant prospects of Hainan property market. We estimated the company’s base-case NAV at HK\$6.09 per share, and see sustainable development of Hainan property market and continued asset restructuring as the key rerating catalysts to the company.

➤ **Direct beneficiary of buoyant Hainan market.** Despite recent negative sentiment across nation-wide property markets, house buyers in Hainan remain upbeat and property sales continues to see good momentum. We just came back from a field trip study in Hainan with more comfort in the outlook of Hainan

Company Rating: Not Rated

Sector Rating: Overweight

Price: HK\$2.79

Target: Nil

Trading data

52-week range	HK\$0.455-2.85
Market capitalization (m)	HK\$3,239/US\$417
Shares outstanding (m)	1,161
Free float (%)	53.5
Year-to-date average daily T/O (m share)	1.5
Closing price on 1 February, 2010	

Source: CCB International Report, February 2, 2010

In February 2010, Kasen increased its ownership interest in the Hainan land development and the Company's share price jump to a record high. Yet the project went nowhere, and predictably Kasen's stock price crashed.



Source: Kasen Announcements, Factset, CCB International Research

The Sanya debacle is emblematic of Kasen's larger pattern: grandiose announcements for large developments accompanied by prepayments without receiving anything tangible in return. In the end, the project died but the money disappeared.

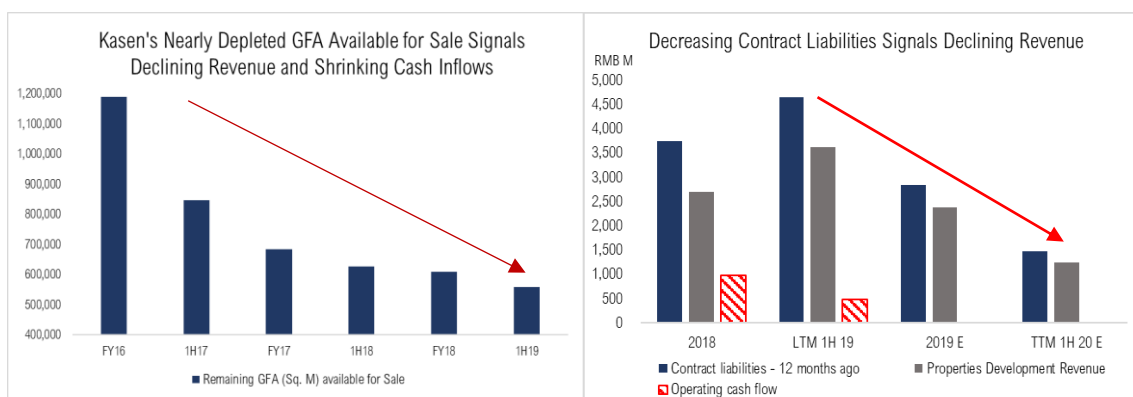
VALUATION

Kasen is uninvestable. In this report, we present independent evidence showing that the chairman's daughters looted the most valuable part of Kasen's business, leaving little of value in the public Company. Although Kasen's share price has risen on the hype of announced Cambodian development projects, our extensive investigation suggests that these projects are likely illusory. After four joint venture formations and five land purchase announcements throughout 2018, Kasen provided [no update](#) on these questionable Cambodian investments in its 2019 interim report.

After Kasen sold its most valuable assets to its chairman's daughters, property development became its largest revenue segment. The Company's revenue jumped in the last 18 months due to a spike of in property sales. But a closer look at Kasen's balance sheet suggest that its property business is winding down, and that future revenues and profits from this business will likely be minimal.

Kasen has not expanded its property portfolio since 2014 and as of 1H 2019, 76% of its units in its developments have already been sold.¹⁴ Kasen's gross floor area available-for-sale is fast declining and is at its lowest level since 2014, signaling that revenues and cash flows from its property segment will continue to shrink going forward.

Another good measure of future property sales is the Company's disclosed contract liabilities, generated when Kasen receives cash for a pre-sold unit which has yet to be delivered. Because Kasen typically pre-sells its properties and receives cash before delivery of the units, the Company's reported contractual liabilities are a reliable measure of property revenues in the next period.¹⁵ Kasen's reported contract liabilities confirm that its property developments are nearing completion and that revenues and profits generated from these developments are quickly declining.



Source: Kasen Public Filings, Blue Orca Calculation

Kasen's remaining business generates losses, and our investigation indicates that its proposed Cambodian projects are largely illusory. Best case scenario, Kasen should be valued as a property developer. Yet likely because of its hyper-promotional announcements regarding projects in Cambodia, Kasen trades at a price-to-book multiple (2.0x), far in excess of similarly situated Hong Kong-listed property developers (0.5x).

Company	Ticker	Share Price (HKD)	Market Cap	Net Asset Value	P/B	Contract Liability 2018	Property Revenue TTM 1H 19	Total Revenue TTM 1H 19	Operating Profit TTM 1H 19
Joy City Property	0207.HK	0.90	12,808	32,156	0.4 x	7,720	6,635	12,451	6,384
Poly Property Group	0119.HK	2.88	10,545	32,956	0.3 x	31,110	31,679	33,735	10,906
Central China	0832.HK	4.06	11,093	10,380	1.1 x	46,076	20,334	21,929	3,973
Beijing North Star	0588.HK	2.42	10,649	23,618	0.5 x	32,253	20,893	24,068	4,182
Beijing Capital Land	2868.HK	2.63	7,964	17,863	0.4 x	19,337	25,072	30,589	4,367
Average			10,612	23,394	0.5 x	27,299	20,922	24,555	5,962
Median			10,649	23,618	0.4 x	25,224	20,893	24,068	4,367
Kasen	496.HK	4.58	6,841	3,501	2.0 x	3,241	4,173	5,202	1,009

Source: Bloomberg, Factset, Companies Public Filings. Note: Figures are in HKD million (except for share price).

¹⁴ Calculated by dividing accumulated gross floor area sold by aggregate gross floor area available for sale.

¹⁵ From 2014 to 1H 2019, on average, 84% of the Company's contract liabilities in the previous year would convert to property revenue in the current year. We used the 84% to estimate its properties development revenue in 2019 and TTM 1H 20.

Kasen's only meaningful remaining business is property development, but this business is a melting ice cube as it sells off its dwindling inventory. If we take Kasen's reported net asset value and apply the average multiple of property industry peers (0.5 x), without applying any corporate governance discount or any adjustments to its balance sheet, we would expect a 72% downside to Kasen's stock.

	1H 19
Reported net asset value (RMB M)	3,163
# of diluted shares outstanding (M)	1,502
Book value per share (RMB)	2.11
Book value per share (HKD)	2.35
Property peers' P/B Multiple (average)	0.5 x
Valuation (HKD)	1.26
Last traded price (HKD)	4.58
Downside%	-72%

Source: Kasen Public Filings, Factset, Blue Orca Calculation

But Kasen's reported property assets should not be taken at face value. Kasen has a habit of making large prepayments for land but never actually receiving title to the property. Since 2009, the Company has prepaid RMB 637 million for 1.4 million sq. meters of land in Sanya. Ten years later, it has only received less than 11% of the land. In 2018, Kasen repeated the same practice. The Company prepaid RMB 177 million for land for the waterpark in Cambodia, yet the Company has still not received title to the land and our on-site investigation suggests that this project is likely a sham.

Accordingly, we believe it is reasonable when valuing the Company to subtract from its balance sheet the RMB 603 million of its remaining land prepayment for the Sanya project, the RMB 177 million of prepayment for the land in Cambodia, and the RMB 696 million in fabricated expenditures. We then apply the average price to book multiple of similarly situated Hong Kong listed property developers to the remaining net asset value.

Blue Orca Valuation

	1H 19
Reported net asset value (RMB M)	3,163
Less: land prepayment for waterpark (RMB M)	(177)
Less: Fabricated Capex/PP&E (RMB M)	(696)
Less: Impairment for land prepayment (RMB M)	(603)
Adjusted book value (RMB M)	1,686
# of diluted shares outstanding (M)	1,502
Adjusted book value per share (RMB)	1.12
Adjusted book value per share (HKD)	1.25
Property peers' P/B Multiple (average)	0.5 x
Blue Orca Valuation (HKD)	0.67
Last traded price (HKD)	4.58
Downside%	-85%

Source: Blue Orca Calculation

After adjusting its net assets value to reflect the independent evidence discussed in our report, we value Kasen at **HKD 0.67, an 85% downside from its last traded price**. This is likely conservative, as a Company which allows the chairman's family to loot the public vehicle of its most valuable business is, in our opinion, simply uninvestable.

DISCLAIMER

We are short sellers. We are biased. So are long investors. So is Kasen. So are the banks that raised money for the Company. If you are invested (either long or short) in Kasen, so are you. Just because we are biased does not mean that we are wrong. We, like everyone else, are entitled to our opinions and to the right to express such opinions in a public forum. We believe that the publication of our opinions about the public companies we research is in the public interest.

You are reading a short-biased opinion piece. Obviously, we will make money if the price of Kasen stock declines. This report and all statements contained herein are solely the opinion of BOC Texas, LLC, and are not statements of fact. Our opinions are held in good faith, and we have based them upon publicly available evidence, which we set out in our research report to support our opinions. We conducted research and analysis based on public information in a manner that any person could have done if they had been interested in doing so. You can publicly access any piece of evidence cited in this report or that we relied on to write this report. Think critically about our report and do your own homework before making any investment decisions. We are prepared to support everything we say, if necessary, in a court of law.

As of the publication date of this report, BOC Texas, LLC (a Texas limited liability company) (possibly along with or through our members, partners, affiliates, employees, and/or consultants) along with our clients and/or investors has a direct or indirect short position in the stock (and/or possibly other options or instruments) of the company covered herein, and therefore stands to realize significant gains if the price of such instrument declines. Use BOC Texas, LLC's research at your own risk. You should do your own research and due diligence before making any investment decision with respect to the securities covered herein. The opinions expressed in this report are not investment advice nor should they be construed as investment advice or any recommendation of any kind.

This report and its contents are not intended to be and do not constitute or contain any financial product advice as defined in the Australian Corporations Act 2001 (Cth). Because this document has been prepared without consideration of any specific clients investment objectives, financial situation or needs, no information in this report should be construed as recommending or suggesting an investment strategy. Investors should seek their own financial, legal and tax advice in respect of any decision regarding any securities discussed herein. At this time, because of ambiguity in Australian law, this report is not available to Australian residents. Australian residents are encouraged to contact their lawmakers to clarify the ambiguity under Australian financial licensing requirements.

Following publication of this report, we intend to continue transacting in the securities covered therein, and we may be long, short, or neutral at any time hereafter regardless of our initial opinion. This is not an offer to sell or a solicitation of an offer to buy any security, nor shall any security be offered or sold to any person, in any jurisdiction in which such offer would be unlawful under the securities laws of such jurisdiction. To the best of our ability and belief, all information contained herein is accurate and reliable, and has been obtained from public sources we believe to be accurate and reliable, and who are not insiders or connected persons of the stock covered herein or who may otherwise owe any fiduciary duty or duty of confidentiality to the issuer. As is evident by the contents of our research and analysis, we expend considerable time and attention in an effort to ensure that our research analysis and written materials are complete and accurate. We strive for accuracy and completeness to support our opinions, and we have a good-faith belief in everything we write, however, all such information is presented "as is," without warranty of any kind— whether express or implied.

If you are in the United Kingdom, you confirm that you are subscribing and/or accessing BOC Texas, LLC research and materials on behalf of: (A) a high net worth entity (e.g., a company with net assets of GBP 5 million or a high value trust) falling within Article 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "FPO"); or (B) an investment professional (e.g., a financial institution, government or local authority, or international organization) falling within Article 19 of the FPO.

This report should only be considered in its entirety. Each section should be read in the context of the entire report, and no section, paragraph, sentence or phrase is intended to stand alone or to be interpreted in isolation without reference to the rest of the report. The section headings contained in this report are for reference purposes only and may only be considered in conjunction with the detailed statements of opinion in their respective sections.

For convenience purposes only, we have provided a Chinese translation of this report. In case of any discrepancy or inconsistency between the Chinese and the English versions of this report, the English version is the original and should prevail. In case of any legal dispute, reference shall be made only to the English version.

BOC Texas, LLC makes no representation, express or implied, as to the accuracy, timeliness, or completeness of any such information or with regard to the results to be obtained from its use. All expressions of opinion are subject to change without notice, and BOC Texas, LLC does not undertake a duty to update or supplement this report or any of the information contained herein. By downloading and opening this report you knowingly and independently agree: (i) that any dispute arising from your use of this report or viewing the material herein shall be governed by the laws of the State of Texas, without regard to any conflict of law provisions; (ii) to submit to the personal and exclusive jurisdiction of the superior courts located within the State of California and waive your right to any other jurisdiction or applicable law, given that BOC Texas, LLC is a Texas limited liability company that operates in Texas; and (iii) that regardless of any statute or law to the contrary, any claim or cause of action arising out of or related to use of this website or the material herein must be filed within one (1) year after such claim or cause of action arose or be forever barred. The failure of BOC Texas, LLC to exercise or enforce any right or provision of this disclaimer shall not constitute a waiver of this right or provision. If any provision of this disclaimer is found by a court of competent jurisdiction to be invalid, the parties nevertheless agree that the court should endeavor to give effect to the parties' intentions as reflected in the provision and rule that the other provisions of this disclaimer remain in full force and effect, in particular as to this governing law and jurisdiction provision.