

## **Main Board Listing - Research**

卡森國際控股有限公司

**Kasen International Holdings Limited [Stock Code: 0496]**

**Global Coordinator, Bookrunner, Sponsor and Lead Managers** : UBS AG

**Sector** : Consumer Durables and Apparel

**Business** : Upholstered furniture and leather products manufacturer in China

<p><b>Total share offer:</b> 304,220,000 shares (30% of the enlarged share capital)</p> <p><b>Public Offer:</b> 30,422,000 shares (10%)</p> <p><b>Placing:</b> 273,798,000 shares (90%)</p> <p><b>Greenshoe:</b> 45,633,000 shares (15%)</p>	<p><b><u>Business of Kasen ("The Group")</u></b></p> <p>The Group is a leading upholstered furniture and leather products manufacturer in China. In 2004, it was the largest leather products and the largest upholstered furniture manufacturer in China based on revenue. It purchases and processes raw cow-hides and wet blues into finished leather and fully assembled leather products, which include leather and fabric upholstered furniture and furniture covers, furniture leather and automotive leather.</p> <p>The Group primarily manufacture its upholstered furniture products in accordance with the designs of its customers, who market its products under their own brand names, in the US. Its upholstered furniture customers include leading US furniture companies, such as Furniture Brand International and Berkline/Benchcraft LLC.</p> <p>The Group commenced sales of automotive leather at the end of 2003, principally to automobile parts suppliers whose customers are leading international automobile manufacturers with operations or worldwide supply centers in China, such as General Motors and Volkswagen.</p>
<p><b>Price:</b> HK\$2.55 – HK\$3.15 per share</p> <p><b>Market Cap.:</b> HK\$2,586 million – HK\$3,194 million</p> <p><b>Pro Forma FY2005E P/E:</b> 10.3x – 12.8x</p> <p><b>Adjusted NTA per share:</b> HK\$1.90 – HK\$2.05</p> <p><b>Staffing:</b> 15,147</p>	
<p><b>HK Public Offer period:</b> 10<sup>th</sup> October 2005 – 14<sup>th</sup> October 2005</p> <p><b>Receiving bank:</b> Bank of China (Hong Kong)</p> <p><b>Share registrar:</b> Computershare Hong Kong Investor Services Limited</p> <p><b>Listing date:</b> 20<sup>th</sup> October 2005</p>	

### **Major Shareholders after Listing** (Assuming the over-allotment option is not exercised)

Zhu Zhangjin, <i>Chairman &amp; Chief Executive Officer</i>	32.43%
Warburg Pincus Funds	18.44%
21 individual shareholders*	19.11%
Wang Runyi and Yiu Hoi Yan, <i>Company Secretary</i>	0.02%
	<b>70.00%</b>

\* Cao Haoqiang, Yu Guanlin, Mi Linfei, Yang Jianing, Yao Yueming, Zhu Xiaoxuan, Shi Caibin, Chen Shengqing, Song Linong, Xu Hongmei, Guo Xiaoyuan, Zhu Bihao, Zhu Jianxing, Xia Yin, Zhou Xiaohong, Zhou Xiaosong - Vice President & General Manger, Shen Xiaoping, Zhu Jianqi - Vice President & General Manger, Zhu Jianqiang, Song Hongbin and Zhang Mingfa - Vice President.

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### Use of Proceeds

Net proceeds from the offer are estimated to be HK\$537.8 million.

(Assuming the over-allotment option is not exercised, and at an issue price of HK\$2.85 each, being the mid-point of the indicative price range)

	HK\$ million
Repayment of short-term bank borrowings	268.9
Capital expenditures	215.1
Working capital and other general corporate purposes	53.8

### Financial Highlights

	Year ended 31 <sup>st</sup> December			4 months ended
	2002	2003	2004	30 <sup>th</sup> April 2005
	RMB million	RMB million	RMB million	RMB million
Turnover	1,386.8	2,135.5	2,852.4	983.1
Gross profit	194.2	377.4	443.7	160.5
Operating profit	209.1	336.4	349.6	123.2
Net profit	127.4	232.5	234.5	75.8
Earnings per share – Basic	RMB0.25	RMB0.46	RMB0.47	RMB0.15

### Breakdown of Turnover by Products

	Year ended 31 <sup>st</sup> December						4 months ended	
	2002		2003		2004		30 <sup>th</sup> April 2005	
	RMB mn	%	RMB mn	%	RMB mn	%	RMB mn	%
Upholstered furniture	567.3	40.9	1,128.4	52.9	2,033.2	71.3	756.7	77.0
Furniture leather	351.4	25.4	427.8	20.0	491.8	17.2	178.8	18.2
Automotive leather	0.6	0.0	47.4	2.2	127.5	4.5	47.3	4.8
Leather garments	439.6	31.7	445.5	20.9	130.8	4.6	0.0	0.0
Others	27.9	2.0	86.4	4.0	69.1	2.4	0.3	0.0
<b>Total turnover</b>	<b>1,386.8</b>	<b>100.0</b>	<b>2,135.5</b>	<b>100.0</b>	<b>2,852.4</b>	<b>100.0</b>	<b>983.1</b>	<b>100.0</b>

### Strengths/Opportunities

- ✓ The outsourcing trend in the global upholstered furniture industry is expected to continue which would allow the Group to maintain its position as one of the leading players in China.
- ✓ With the group's vertical integration and technology know-how, the Group has the ability to further penetrate into other markets, such as Australia, Japan and the Europe.
- ✓ The Group has registered a CAGR of 40% in terms of business turnover over the past 3 years.

### Weaknesses/Threats

- × Raw material costs like cost of raw cowhides and wet blues, which together accounted for 51.4% of the Group's cost of sales for FY2004, are expected to continue to rise in the future.
- × The Group's inventory days increased from 117 days in FY2002 to 134 days in FY2003, and further to 211 days in FY2004.
- × Products of the group may be targeted for US to impose anti-dumping duties in the future.
- × Valuation of the counter at 10.3x to 12.8x FY2005E P/E is higher than 9.4x for Chitaly Holdings (stock code: 1198).

**Recommendation: Unexciting**