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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

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

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KASEN INTERNATIONAL HOLDINGS LIMITED

(卡森國際控股有限公司)

(An exempted company incorporated in the Cayman Islands with limited liability)

(Stock Code: 496)

CONTINUING CONNECTED TRANSACTIONS –

1. REVISION OF ANNUAL CAPS IN RESPECT OF

CONTINUING CONNECTED TRANSACTIONS WITH STARCORP

2. CONTINUING CONNECTED TRANSACTIONS WITH NORTH POLE

Financial adviser to the Company



A subsidiary of ICBC 中國工商銀行集團成員

Independent financial adviser to the Independent Board Committee and the Independent Shareholders



TAI FOOK CAPITAL LIMITED

A letter from the board of directors of Kasen International Holdings Limited is set out on pages 5 to 12 of this circular. A letter from the Independent Board Committee (as defined herein) containing its advice to the Independent Shareholders (as defined herein) is set out on page 13 of this circular. A letter of advice from Tai Fook Capital Limited containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 14 to 23 of this circular.

A notice convening the extraordinary general meeting of the Company to be held at 259, Qianjiang Road West, Haining, Zhejiang, China on 31 March 2006 at 2:00 p.m. is set out on pages 32 to 33 of this circular. Whether or not you are able to attend the extraordinary general meeting, please complete and return the accompanying form of proxy in accordance with the instructions printed hereon to the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time of the extraordinary general meeting. Completion and delivery of the form of proxy will not preclude you from attending and voting at the extraordinary general meeting in person should you so wish.

16 March 2006

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DEFINITIONS

In this circular, the following expressions shall have the meanings set out below unless the context requires otherwise:

“associate(s)”	has the meaning ascribed thereto in the Listing Rules
“AUD”	Australian dollar(s), the lawful currency of the Commonwealth of Australia
“Board”	the board of Directors
“Company”	Kasen International Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the Stock Exchange
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be held on 31 March 2006 to consider and, if thought fit, to approve the Non-exempt Continuing Connected Transactions and the annual caps relating thereto
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Shareholders”	Shareholders other than those who are required under the Listing Rules to abstain from voting at the EGM on the proposed resolutions in relation to the Non-exempt Continuing Connected Transactions and the annual caps relating thereto
“Independent Board Committee”	an independent committee of the Board comprising of the independent non-executive Directors, namely LU Yungang, CHOW Joseph and SHI Zhengfu constituted to make recommendations to the Independent Shareholders in respect of the Non-exempt Continuing Connected Transactions

DEFINITIONS

“Latest Practicable Date”	13 March 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Mr. Zhu”	Zhu Zhangjin, the chairman, chief executive officer and founder of the Group
“Non-exempt Continuing Connected Transactions”	the continuing connected transactions between (a) the Group and Starcorp and; and (b) the Group and North Pole Limited and North Pole (China) Limited
“North Pole Agreements”	an agreement dated 22 February 2006 and a supplemental agreement dated 22 February 2006 entered into among North Pole Limited, North Pole (China) Limited and the Group in respect of sales of outdoor leisure products
“North Pole Annual Caps”	the proposed annual caps for the continuing connected transactions between North Pole Limited, North Pole (China) Limited and the Group as detailed in the section headed “North Pole Agreements”
“North Pole (China) Limited”	North Pole (China) Limited, a company incorporated in the PRC with limited liability on 3 November 1988 and a wholly-owned subsidiary of North Pole Limited
“North Pole Limited”	North Pole Limited, a company incorporated in Hong Kong on 27 November 1998 and is owned, among others, as to approximately 46.1% by North Pole Holdings Ltd. and approximately 46.1% by North Pole International Holdings Ltd. which are wholly-owned by Warburg Pincus Funds
“Original Caps”	the original annual caps for the continuing connected transactions between Zhejiang Kasen Industrial Co., Ltd. and Starcorp as approved by the Stock Exchange at the time of the Company’s listing
“PRC”	The People’s Republic of China, which, for the purpose of this circular excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan

DEFINITIONS

“Prospectus”	the prospectus of the Company dated 10 October 2005
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Cap 571 of the laws of Hong Kong)
“Share(s)”	ordinary share(s) of the Company, with a nominal value of US\$0.00015 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the share(s) of the issued capital of the Company
“Starcorp”	Starcorp Corporation Pty. Ltd., a company incorporated under the laws of Australia which is owned, among others, as to 70% by Zhejiang Sunbridge Industrial (Group) Co., Ltd. which is held as to 33% on trust for Mr. Zhu, and its subsidiaries
“Starcorp Agreement”	an agreement dated 22 February 2006 entered into between Starcorp and the Group in respect of sales of upholstered furniture, which replaces the original agreement entered into between Zhejiang Kasen Industrial Co., Ltd. and Starcorp on 1 January 2005. Details of the Starcorp Agreement is set out in the section headed “Starcorp Agreement”
“Starcorp Annual Caps”	the proposed annual caps for the continuing connected transactions between the Group and Starcorp as detailed in the section headed “Starcorp Agreement”
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Sunbridge”	Zhejiang Sunbridge Industrial (Group) Co., Ltd. is owned as to 66% by Li Shilun, 33% of which is held on trust for Mr. Zhu, and the remaining 34% is held by Yu Jintang
“Tai Fook”	Tai Fook Capital Limited, a licensed corporation under the SFO to carry out type 6 regulated activity (advising on corporate finance) and the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms and the annual cap amounts of the Non-exempt Continuing Connected Transactions
“United States”	the United States of America

DEFINITIONS

“US\$”	US dollars, the lawful currency of the United States
“Warburg Pincus Funds”	(i) Warburg Pincus International Partners, L.P. (“WPIP”), (ii) Warburg Pincus Netherlands Private Equity VIII I, C.V. (“WPNPE I”), (iii) Warburg Pincus Netherlands International Partners I, C.V. (“WPNIP I”), (iv) Warburg Pincus Germany Private Equity VIII K.G. (“WPGPE”), (v) Warburg Pincus Private Equity VIII L.P (“WPPE”), and (vi) Warburg Pincus Germany International Partners, K.G. (“WPGIP”)
“%”	per cent.

LETTER FROM THE BOARD



KASEN INTERNATIONAL HOLDINGS LIMITED

(卡森國際控股有限公司)

(An exempted company incorporated in the Cayman Islands with limited liability)

(Stock Code: 496)

Executive Directors:

ZHU Zhangjin
ZHOU Xiaosong
ZHU Jianqi

Non-executive Director:

SUN Qiang Chang

Independent non-executive Directors:

LU Yungang
CHOW Joseph
SHI Zhengfu

Registered Office:

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
British West Indies

Head Office:

259 Qianjiang West Road
Haining City
Zhejiang Province 314400
China

*Principal Place of Business
in Hong Kong:*

Room 1605, Tai Tung Building
8 Fleming Road
Wanchai
Hong Kong

16 March 2006

To the Shareholders,

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS –

1. REVISION OF ANNUAL CAPS IN RESPECT OF

CONTINUING CONNECTED TRANSACTIONS WITH STARCORP

2. CONTINUING CONNECTED TRANSACTIONS WITH NORTH POLE

INTRODUCTION

The Group is a leading upholstered furniture and leather products manufacturer based in China. It is principally engaged in the manufacture of upholstered furniture and leather products in accordance with the designs of its customers, which market the Group's products under their own brand names.

LETTER FROM THE BOARD

As disclosed in the Prospectus, the Company has obtained connected transactions waivers from the Stock Exchange from strict compliance with the announcement and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of a number of non-exempt continuing connected transactions between the Company and its connected persons.

As set out in the announcement of the Company dated 22 February 2006, the Company entered into the Starcorp Agreement in respect of transactions for the period from 1 January 2006 to 31 December 2008 and has set or revised, where applicable, the annual caps for the three years ending 31 December 2008. Also, the Board announced that, on 22 February 2006, the Group entered into the North Pole Agreements in respect of the sales of outdoor leisure products to North Pole Limited and North Pole (China) Limited, being connected persons of the Company, for a term from 1 March 2006 to 31 December 2008.

As Starcorp, North Pole Limited and North Pole (China) Limited are connected persons of the Company, each of the transactions between (a) the Group and Starcorp; and (b) the Group and North Pole Limited and North Pole (China) Limited constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. Furthermore, the continuing connected transactions constitute non-exempt continuing connected transactions for the Company under Rule 14A.35 of the Listing Rules and are subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules and the Independent Shareholders' approval requirements under Rule 14A.48 of the Listing Rules. Assuming the approval of the Non-exempt Continuing Connected Transactions by the Independent Shareholders be forthcoming, the Company will also need to comply with the annual review requirements under Rules 14A.37 and 14A.38 of the Listing Rules.

Mr. Zhu and his associates will abstain from voting in relation to the resolution to be proposed at the EGM to approve the non-exempt continuing connected transactions in respect of the Starcorp Agreement and the Starcorp Annual Caps. Warburg Pincus Funds, their ultimate beneficial owners and their respective associates will abstain from voting in relation to the resolution to be proposed at the EGM to approve the non-exempt continuing connected transactions in respect of the North Pole Agreements and the North Pole Annual Caps. The votes of the Independent Shareholders at the EGM will be taken by poll.

The Board has appointed an Independent Board Committee to consider and advise the Independent Shareholders on the terms of the Non-exempt Continuing Connected Transactions and the annual caps relating thereto. The Company has appointed Tai Fook as an independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the above matters.

LETTER FROM THE BOARD

The purpose of this circular is to (i) provide you with further information regarding, among other things, the Non-exempt Continuing Connected Transactions, the Starcorp Annual Caps and the North Pole Annual Caps; (ii) to set out the recommendation of the Independent Board Committee to the Independent Shareholders in respect of the terms and the annual caps of the Non-exempt Continuing Connected Transactions; (iii) to set out the letter of advice from Tai Fook to the Independent Board Committee and the Independent Shareholders in respect of the terms and the annual caps of the Non-exempt Continuing Connected Transactions; and (iv) to give you the notice of the EGM, which shall be convened for the purpose of considering and, if thought fit, approving the resolutions in relation to the Non-exempt Continuing Connected Transactions and the proposed annual caps relating thereto.

Starcorp Agreement

Reference is made to the announcement of the Company dated 22 December 2005 in relation to the total value of the sales of upholstered furniture by the Group to Starcorp, a connected person of the Company, for the year ended 31 December 2005 was expected to exceed the estimated annual cap of RMB50 million for the year ended 31 December 2005 as approved by the Stock Exchange at the time of listing. The revised sales estimate of RMB58 million for the year ended 31 December 2005 is less than 2.5% of each of the percentage ratio (other than the profits ratio) on an annual basis under Rule 14A.34 of the Listing Rules, but exceeded the annual cap granted by the Stock Exchange at the time of listing. Pursuant to the requirement of Rule 14A.36, the Company made an announcement on 22 December 2005 to re-comply with Rule 14A.35(3). Due to the rapid growth in the Group's sales of upholstered furniture to Starcorp in Australia, the Directors consider that the annual cap amounts in respect of transactions with Starcorp are no longer sufficient. Given the above, the Company entered into the Starcorp Agreement for the purpose of allowing the Group to sell more upholstered furniture to Starcorp for the three years ending 31 December 2008, details of which are set out below:

Date:	22 February 2006
Parties:	The Group and Starcorp
Services to be provided:	Sales of upholstered furniture
Pricing:	Transactions will be conducted on terms determined by reference to the prevailing market prices at any given time. The prices paid by Starcorp to the Group will be negotiated in each sale and will be no less favourable to the Group than the prices paid by independent third parties for similar products.
Term:	From 1 January 2006 to 31 December 2008 (subject to the Independent Shareholders' approval at the EGM)

LETTER FROM THE BOARD

Starcorp's core business is retail sales of a variety of wooden and other upholstered furniture in Australia which are mainly imported from the PRC, while Sunbridge is principally engaged, through its various subsidiaries, in hardwood furniture manufacturing in China and furniture retailing in Australia. Starcorp is owned as to 70% by Sunbridge which is in turn held as to 33% on trust for Mr. Zhu, the controlling Shareholder of the Company. Sunbridge is an associate of Mr. Zhu, and therefore a connected person of the Company. As Starcorp is a subsidiary of Sunbridge, it is also a connected person of the Company under the Listing Rules.

The Group began selling upholstered furniture to Starcorp in 2004. Since the Group's sales to Starcorp started in 2004 and were originally made on a trial basis, the Group could not foresee the strong demand for the Group's products by Starcorp in Australia at the time of listing of the Company. During the year ended 31 December 2005, the unaudited sales value with Starcorp was approximately RMB57.1 million which exceeded the annual cap of RMB50 million as approved by the Stock Exchange at the time of listing.

The Company proposes that the maximum amounts of the Starcorp Agreement for the three years ending 31 December 2008 will be RMB110 million, RMB150 million and RMB180 million respectively. The Starcorp Annual Caps are determined with reference to projections of the Company taking into consideration of the following factors:

- (i) the historical growth rates of the sales to Starcorp and the values of the transactions during the two years ended 31 December 2005;
- (ii) the expectation of the Group's management that there would be a strong demand for the Group's upholstered furniture in the Australian market for the three years ending 31 December 2008; and
- (iii) the Group's experience in selling similar products to new customers in other markets (mainly the United States and Canada) that once the Group's products are acceptable to a particular customer during the trial stage, the Group's sales of such products to that customer may increase significantly at a rate of more than 100% per annum subsequently. The Directors consider that such experience is relevant for determining the Starcorp Annual Caps because the products sold by the Group to these markets are similar to those sold to Starcorp.

The Group's sales to Starcorp started in 2004 on a trial basis and amounted to only approximately RMB3.3 million for the year ended 31 December 2004. The unaudited value of sales by the Group to Starcorp rose to approximately RMB57.1 million for the year ended 31 December 2005, representing an annual growth rate of approximately 1,630.3%. The revised sales estimate of RMB58 million for the year ended 31 December 2005 is 16% higher than the RMB50 million annual cap granted by the Stock Exchange at the time of listing.

LETTER FROM THE BOARD

Set out below is a comparison of the Original Caps as approved by the Stock Exchange at the time of listing and the Starcorp Annual Caps:

For the year ending	Original Caps (RMB)	Starcorp Annual Caps (RMB)
2006	96,000,000	110,000,000
2007	128,000,000	150,000,000
2008	N/A	180,000,000

North Pole Agreements

Date:	22 February 2006
Parties:	The Group, North Pole Limited and North Pole (China) Limited, the wholly-owned subsidiary of North Pole Limited
Services to be provided:	Sales of outdoor leisure products
Pricing:	Transactions will be conducted on terms determined by reference to the prevailing market prices at any given time. The prices paid by North Pole Limited and North Pole (China) Limited to the Group will be negotiated in each sale and will be no less favourable to the Group than the prices paid by independent third parties for similar products.
Term:	From 1 March 2006 to 31 December 2008 (subject to the Independent Shareholders' approval at the EGM)

North Pole Limited, is owned, among others, as to approximately 46.1% by North Pole Holdings Ltd. and approximately 46.1% by North Pole International Holdings Ltd., both of which are in turn wholly-owned by Warburg Pincus Funds. North Pole (China) Limited is a wholly-owned subsidiary of North Pole Limited. As Warburg Pincus Funds is interested in approximately 18.44% of the issued share capital of the Company, North Pole Limited and North Pole (China) Limited are also connected persons of the Company under the Listing Rules.

The Company proposes that the maximum amounts of the North Pole Agreements for the three years ending 31 December 2008 will be RMB250 million, RMB500 million and RMB800 million respectively. Pursuant to the North Pole Agreements, there is no minimum sales order agreed to be placed by North Pole Limited and North Pole (China) Limited to the Group during the three years ending 31 December 2008. The supplemental agreement of North Pole Agreement prescribes the North Pole Annual Caps and the obligations of North Pole Limited, North Pole (China) Limited and the Group under the Listing Rules. The terms and conditions

LETTER FROM THE BOARD

of both agreements are identical. The North Pole Annual Caps are determined with reference to the projections of the Company taking into consideration of the following factors:

- (i) the amount of outdoor leisure products purchased by the North Pole Limited and North Pole (China) Limited from its suppliers amounting to not less than RMB800 million for the year ended 31 December 2005 as indicated by the management of North Pole Limited and North Pole (China) Limited in writing to the Company in February 2006;
- (ii) the expectation of the Group's management that there would be a continuous growth of outdoor leisure products imported into the United States; and
- (iii) the written indication by the management of North Pole Limited and North Pole (China) Limited to the Company in February 2006 that more purchases of outdoor leisure products will be made by North Pole Limited and North Pole (China) Limited from the Group for the period from 1 March 2006 to 31 December 2008, which is expected to be approximately RMB250 million, RMB500 million and RMB800 million for each of the three years ending 31 December 2008 (or not more than 31%, 62% and 100% respectively of the purchases of outdoor leisure products by North Pole Limited and North Pole (China) Limited of not less than RMB800 million for the year ended 31 December 2005 without taking into account the possible increase in the purchases of outdoor leisure products by North Pole Limited and North Pole (China) Limited for the three years ending 31 December 2008 as a result of the higher demand for such products in the market of the United States).

REASONS FOR AND BENEFITS OF THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Starcorp's core business is retail sales of wooden and other upholstered furniture in Australia. Whilst the Group also sells products to other independent retailers in Australia, the Group began selling to Starcorp in 2004. With a rapidly expanding retail network in Australia, Starcorp sells a variety of upholstered furniture mainly imported from China. In order to increase sales of upholstered furniture in the Australian market, the Group plans to increase its sales of upholstered furniture to Starcorp.

North Pole Limited is a leading manufacturer of outdoor leisure products such as camping tents, furniture and sleeping bags with its sourcing and manufacturing operations mainly located in the PRC whereas its commercial operations are mainly located in the United States. Its customers include the worlds' leading retail companies such as Wal-Mart, Kmart, the Home Depot, Dick's and Target, etc. North Pole Limited currently outsources some of the above products to several small to medium sized manufacturers in the PRC. As indicated by the management of North Pole Limited and North Pole (China) Limited, North Pole Limited intends to consolidate its supplier base by engaging a large scale and reliable manufacturer for its outsourced products. The Directors consider that the production process of the Group's existing products can be readily adjusted to accommodate the manufacture of outdoor leisure

LETTER FROM THE BOARD

products such as camping tents, furniture and sleeping bags given that such products mainly require similar cut-and-sew capabilities and skills for the manufacture of the Group's existing upholstered furniture and leather products. Moreover, the major raw materials for manufacture of outdoor leisure products are fabrics which the Group also uses for the production of fabric upholstered furniture. Accordingly, the Directors consider that the production of outdoor leisure products will not have any adverse impact on the operation and financial position of the Group. As such, the Directors consider that the entering into of the North Pole Agreements will enable the Group to further utilise its existing production capacity to diversify and expand its products mix and revenue base.

The Directors are of the view that the Non-exempt Continuing Connected Transactions are conducted in the usual and ordinary course of business of the Group and are based on normal commercial terms. The Directors consider that the terms of the Non-exempt Continuing Connected Transactions are fair and reasonable and in the interests of the Company and Shareholders as a whole.

The independent non-executive Directors and the auditors of the Company will review and confirm their respective views on the Non-exempt Continuing Connected Transactions in the annual report of the Company during the respective terms of the Non-exempt Continuing Connected Transactions in accordance with Rules 14A.37 and 14A.38 of the Listing Rules. The Company will comply with Rule 14A.39 in relation to the provision of sufficient access of accounting records to the auditors of the Company. The Company will also comply with Rules 14A.40 and 14A.41 in relation to the relevant reporting, announcement and/or independent shareholders' approval requirements.

The Company will re-comply with Rules 14A.35(3) and (4) (as applicable) of the Listing Rules, as required under Rule 14A.36 of the Listing Rules, if the relevant estimated annual cap for any of the Non-exempt Continuing Connected Transactions is exceeded, the agreement is renewed, or there is a material change to the terms of the agreement.

EGM

A notice convening the EGM to be held at 259 Qianning Road West, Haining Zhejiang, China, on 31 March 2006 at 2:00 p.m. is set out in this circular. At the EGM, ordinary resolutions will be proposed for the Independent Shareholders to consider and, if thought fit, to approve the Non-exempt Continuing Connected Transactions and the proposed annual caps relating thereto.

The ordinary resolutions to be proposed at the EGM will be determined by way of poll by the Independent Shareholders. Mr. Zhu and his associates will abstain from voting in relation to the resolution to be proposed at the EGM to approve the non-exempt continuing connected transactions in respect of Starcorp Agreement and the Starcorp Annual Caps. Warburg Pincus Funds, their ultimate beneficial owners and their respective associates will abstain from voting in relation to the resolution to be proposed at the EGM to approve the non-exempt continuing connected transactions in respect of North Pole Agreements and the North Pole Annual Caps.

LETTER FROM THE BOARD

A form of proxy for use in connection with the EGM is enclosed with this circular. Whether or not you intend to attend the EGM, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM (or any adjourned meeting thereof) should you wish to do so.

An announcement will be made by the Company following the conclusion of the EGM to inform you of its results.

RECOMMENDATIONS

The Independent Board Committee has been formed to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Non-exempt Continuing Connected Transactions set out in its letter on page 13 of this circular. Your attention is drawn to the letter of advice from Tai Fook to the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt Continuing Connected Transactions set out on pages 14 to 23 in this circular.

The Independent Board Committee, having taken into account the advice of Tai Fook and the principal factors and reasons considered by Tai Fook, is of the view that the Non-exempt Continuing Connected Transactions are on normal commercial terms, in the ordinary course of business, and that the Starcorp Annual Caps and North Pole Annual Caps are also fair and reasonable so far as the Company and the Independent Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolutions to approve the aforesaid at the EGM.

GENERAL

Your attention is drawn to the letter from the Independent Board Committee, the letter of advice from Tai Fook and the additional information set out in the appendix to this circular and the notice of the EGM.

On behalf of the Board
Kasen International Holdings Limited
Zhu Zhangjin
Chairman

Haining, the People's Republic of China



KASEN INTERNATIONAL HOLDINGS LIMITED

(卡森國際控股有限公司)

(An exempted company incorporated in the Cayman Islands with limited liability)

(Stock Code: 496)

16 March 2006

Dear Independent Shareholders,

CONTINUING CONNECTED TRANSACTIONS –

1. REVISION OF ANNUAL CAPS IN RESPECT OF

CONTINUING CONNECTED TRANSACTIONS WITH STARCORP

2. CONTINUING CONNECTED TRANSACTIONS WITH NORTH POLE

We refer to the circular dated 16 March 2006 of the Company (the “Circular”) of which this letter forms part. Terms defined in the Circular bear the same meanings herein unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to advise you regarding the fairness and reasonableness of the Non-exempt Continuing Connected Transactions, the terms of the Starcorp Agreement, the terms of North Pole Agreements, the Starcorp Annual Caps and the North Pole Annual Caps. Tai Fook has been appointed as the independent financial adviser to advise us and the Independent Shareholders in this regard.

Having taken into account the advice of Tai Fook, we consider that the Non-exempt Continuing Connected Transactions, the terms of the Starcorp Agreement and North Pole Agreements are on normal commercial terms, in the ordinary course of business, fair and reasonable, and that the Starcorp Annual Caps and the North Pole Annual Caps are also fair and reasonable so far as the Company and Independent Shareholders are concerned and all are in the interests of the Company and its Shareholders as a whole. Accordingly, we would advise the Independent Shareholders to vote in favour of the ordinary resolutions to approve the aforesaid at the EGM.

We also draw the attention of the Independent Shareholders to (i) the letter from the Board, (ii) the letter of advice from Tai Fook, and (iii) the appendix to the Circular.

Yours faithfully,

Independent Board Committee

LU Yungang

CHOW Joseph

SHI Zhengfu

independent non-executive Directors

LETTER FROM TAI FOOK

The following is the text of a letter of advice received from Tai Fook in respect of the Non-exempt Continuing Connected Transactions and is prepared for the purpose of inclusion in this circular.



25th Floor
New World Tower
16-18 Queen's Road Central
Hong Kong

16 March 2006

To the Independent Board Committee and the Independent Shareholders
Kasen International Holdings Limited

Dear Sirs,

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders with respect to the Non-exempt Continuing Connected Transactions, details of which are set out in the "Letter from the Board" in the circular (the "Circular") dated 16 March 2006 issued by the Company, of which this letter forms part. Terms used in this letter shall have the same respective meanings as those defined in the Circular unless the context otherwise requires.

As referred to in the "Letter from the Board" of the Circular, Starcorp is owned as to 70% by Sunbridge which is in turn held as to 33% on trust for Mr. Zhu, the controlling Shareholder of the Company. As Starcorp is a subsidiary of Sunbridge, an associate of Mr. Zhu, Starcorp is a connected person of the Company under the Listing Rules. North Pole Limited is owned as to approximately 46.1% and approximately 46.1% by North Pole Holdings Ltd. and North Pole International Holdings Ltd. respectively, both of which are in turn wholly-owned by Warburg Pincus Funds. North Pole (China) Limited is a wholly-owned subsidiary of North Pole Limited. As Warburg Pincus Funds is interested in approximately 18.44% of the issued share capital of the Company, North Pole Limited and North Pole (China) Limited (together, the "North Pole Group") are also connected persons of the Company under the Listing Rules. As such, each of the transactions between (i) the Group and Starcorp; and (ii) the Group and the North Pole Group constitutes continuing connected transactions for the Company under Chapter 14A of the Listing Rules, which are subject to the reporting, announcement and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

In our capacity as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to provide you with an independent opinion and recommendations as to whether the Non-exempt Continuing Connected Transactions are (i) on normal commercial terms; (ii) in the ordinary and usual course of business of the Group; and (iii) fair and reasonable so far as the interest of the Independent Shareholders is concerned, and are in the interests of the Independent Shareholders and the Group as a whole.

LETTER FROM TAI FOOK

The Independent Board Committee has been established to advise the Independent Shareholders in respect of the terms of the Non-exempt Continuing Connected Transactions, and advise the Independent Shareholders how to vote on the resolutions approving the Non-exempt Continuing Connected Transactions at the EGM, after taking into account our opinion and recommendations.

BASES AND ASSUMPTIONS

In formulating our recommendations, we have relied on the information and facts supplied and representations expressed by the Directors. We have been advised by the Directors that no material facts have been omitted from the information supplied and representations expressed to us and we are not aware of any facts or circumstances which would render such information and representations untrue, inaccurate or misleading. We have assumed that the information contained and representations made or referred to in the Circular were complete, true and accurate at the time they were made and continue to be so at the date of despatch of the Circular.

Our review and analyses were based upon, among others, the information provided by the Company as set out below:

- (i) the Starcorp Agreement and the North Pole Agreements;
- (ii) the written indications given by the management of the North Pole Group to the Company in February 2006 respectively;
- (iii) the Prospectus; and
- (iv) the Circular.

In addition to the information provided by the Company, we have also reviewed:

- (i) the industry report issued in December 2005 headed “Furniture manufacturing n.e.c. in Australia” issued by IBISWorld Pty Ltd. (“IBIS”), an independent market research organisation specialised in forecasting of industries and the general business environment, and providing information for strategic planning and research purposes;
- (ii) “Statistical abstract of the United States: 2006” published by Census Bureau (“US Census Bureau”) of the Department of Commerce, the Government of the United States;
- (iii) latest available information as shown on the official website of National Park Service (“US National Park Service”) of the Department of the Interior, the Government of the United States; and
- (iv) “Value of major export products in December 2005” published by the General Administration of Customs (“PRC Customs”), the Government of the PRC.

LETTER FROM TAI FOOK

We have also discussed with the Directors with respect to the terms of, and reasons for, the Non-exempt Continuing Connected Transactions, and consider that we have reviewed sufficient information to reach an informed view and have no reason to doubt the completeness, truth or accuracy of the information and facts provided and representations made to us. We have not, however, conducted an independent investigation into the business and affairs of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in respect of the Non-exempt Continuing Connected Transactions, we have considered the following principal factors and reasons:

(I) Information on the Group

The Group is principally engaged in the manufacture of upholstered furniture and leather products in accordance with the designs of its customers, which market the Group's products under their own brand names. For each of the three years ended 31 December 2004, the total turnover and the amounts of sales of upholstered furniture of the Group are set out below:

	Year ended 31 December		
	2002	2003	2004
	(RMB million) (Audited)	(RMB million) (Audited)	(RMB million) (Audited)
The Group's total turnover	1,386.8	2,135.5	2,852.4
Sales of upholstered furniture of the Group	567.3	1,128.4	2,033.2

From the year ended 31 December 2002 to the year ended 31 December 2004, it is noted that the amount of the Group's sales of upholstered furniture increased rapidly at a compound average growth rate ("CAGR") of approximately 89.3% per annum (the "Historical CAGR of Upholstered Furniture").

(II) The Starcorp Agreement

1. Background

Information on Starcorp and its business relationship with the Group

As referred to in the "Letter from the Board" of the Circular, the core business of Starcorp is the retail sales of a variety of wooden and other upholstered furniture in Australia which are mainly imported from the PRC.

LETTER FROM TAI FOOK

The Group has sold upholstered furniture to Starcorp since 2004, details of which were set out in the section headed “Business” of the Prospectus. As advised by the Directors and disclosed in the Prospectus, it has been the Group’s objective to increase its sales of upholstered furniture to Australia. As disclosed in the Prospectus, the Company has obtained a waiver from the Stock Exchange from the strict compliance with Rules 14A.34 and 14A.35 of the Listing Rules in respect of the Group’s sales of upholstered furniture to Starcorp with the Original Caps of RMB50 million, RMB96 million and RMB128 million for each of three years ending 31 December 2007 respectively.

Historical amount of the Group’s sales of upholstered furniture to Starcorp

For each of the two years ended 31 December 2005, the amounts of sales of upholstered furniture by the Group to Starcorp are set out below:

	Year ended 31 December	
	2004	2005
	<i>(RMB million)</i>	<i>(RMB million)</i>
	(Audited)	(Unaudited)
Sales of upholstered furniture to Starcorp	3.3	57.1

As referred to in the announcement dated 22 December 2005 issued by the Company, the total value of the sales of upholstered furniture by the Group to the Starcorp for the year ended 31 December 2005 was expected to exceed the original annual cap of RMB50 million for the year ended 31 December 2005. As advised by the Directors, as the Group’s sales to Starcorp were originally made on a trial basis, the Directors could not foresee the strong demand for the Group’s products by Starcorp in Australia at the time of listing of the Company, which resulted in the amount of sales to Starcorp for the year ended 31 December 2005 exceeding the original annual cap of RMB50 million as approved by the Stock Exchange for that year.

Demand for furniture in Australia

According to the industry report headed “Furniture manufacturing n.e.c. in Australia” issued by IBIS in December 2005, the domestic demand for furniture in Australia increased from approximately AUD1,241.7 million for the twelve months ended 30 June 2001 to approximately AUD1,832.3 million for the twelve months ended 30 June 2005, representing a CAGR of approximately 10.2% per annum.

With the robust growth in the domestic demand for furniture in Australia and taking into account the historical significant increase in the Group’s sales of upholstered furniture to Starcorp for the year ended 31 December 2005, we expect that the Group’s sales of upholstered furniture to Starcorp in Australia have good potential in the coming years.

2. *The Starcorp Agreement*

(A) *Reasons for and benefits of entering into of the Starcorp Agreement*

As a consequence of the rapid growth in the sales of the Group's upholstered furniture to Starcorp in 2005 which exceeded the original cap as approved by the Stock Exchange, the Directors consider that the Original Caps will not be sufficient for the two years ending 31 December 2007. As such, the Company entered into the Starcorp Agreement for the purpose of allowing the Group to sell more upholstered furniture to Starcorp for the three years ending 31 December 2008 under new annual caps as set out below.

(B) *Terms of the Starcorp Agreement*

According to the Starcorp Agreement, for the three years ending 31 December 2008, the Group will sell upholstered furniture to Starcorp at prices as determined after arm's length negotiation between the Group and Starcorp with reference to the prevailing market prices of the related upholstered furniture. Such selling prices, however, shall not be less favourable than the prices offered by the Group to other independent third parties for similar products.

We have compared the prices of upholstered furniture sold by the Group to Starcorp with the prices of similar products sold by the Group to another independent customer during the two years ended 31 December 2005 on a sample basis. We found that the prices of upholstered furniture sold by the Group to Starcorp were not less favourable than the prices of similar products sold by the Group to the independent customer.

Based on the above, we concur with the view of the Directors that the entering into of the Starcorp Agreement is in the ordinary and usual course of business of the Group and is in the interests of the Group and the Independent Shareholders as a whole, and the terms of the Starcorp Agreement are on normal commercial terms and fair and reasonable so far as the Group and the Independent Shareholders are concerned.

LETTER FROM TAI FOOK

3. *Bases of the Starcorp Annual Caps*

Set out below are the Original Caps and the Starcorp Annual Caps for each of the three years ending 31 December 2008:

	Year ending 31 December		
	2006	2007	2008
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Original Caps	96	128	N/A
Starcorp Annual Caps	110	150	180
Percentage of increase from the Original Caps to the Starcorp Annual Caps	14.6%	17.2%	N/A

As advised by the Directors, the Group has adopted the following bases and assumptions in arriving at the Starcorp Annual Caps:

- (i) the historical growth rates of the sales to Starcorp and the values of the transactions during the two years ended 31 December 2005;
- (ii) the expectation of the Group's management that there would be a strong demand for the Group's upholstered furniture in the Australian market for the three years ending 31 December 2008; and
- (iii) the Group's experience in selling similar products to new customers in other markets (mainly the United States and Canada) that once the Group's products are acceptable to a particular customer during the trial stage, the Group's sales of such products to that customer may increase significantly at a rate of more than 100% per annum subsequently. The Directors consider that such experience is relevant for determining the Starcorp Annual Caps because the products sold by the Group to these markets are similar to those sold to Starcorp.

In view of the above, in particular the significant historical growth rate of 1,630.3% per annum of the Group's sales of upholstered furniture to Starcorp for the year ended 31 December 2005 as compared with that for the year ended 31 December 2004 and the fact that the Group's actual sales of upholstered furniture to Starcorp for the year ended 31 December 2005 of approximately RMB57.1 million has already exceeded the Original Caps for that year of RMB50 million by approximately 14.2%, we consider that, in setting the Starcorp Annual Caps, it is reasonable for the Group to (i) increase the maximum amount of sales of upholstered furniture to Starcorp for the year ending 31 December 2006 by approximately 14.6% as compared with the Original Caps for that year; and (ii) increase the maximum amount of sales of upholstered furniture to Starcorp for the year ending 31 December 2007 by approximately

17.2% as compared with the Original Caps for that year. In addition, based on the aforementioned factors and the Historical CAGR of Upholstered Furniture of approximately 89.3% per annum, we consider that it is reasonable for the Group to increase the maximum amount of sales of upholstered furniture to Starcorp under the Starcorp Annual Caps by 20% from RMB150 million for the year ending 31 December 2007 to RMB180 million for the year ending 31 December 2008. Therefore, we concur with the Directors' view that the Starcorp Annual Caps are reasonable.

(III) The North Pole Agreements

I. Background

Information on the North Pole Group

As advised by the Directors, the North Pole Group is a leading manufacturer of outdoor leisure products such as camping tents, furniture and sleeping bags. Its sourcing and manufacturing operations are mainly located in the PRC whereas its commercial operations are mainly located in the United States. The customers of the North Pole Group include a number of the worlds' leading retail companies such as Wal-Mart, Kmart, the Home Depot, Dick's and Target. As stated in the "Letter from the Board" of the Circular, the North Pole Group currently outsources some of its products to several small to medium sized manufacturers in the PRC, and, as indicated by the management of the North Pole Group, it intends to consolidate its supplier base by engaging a large scale and reliable manufacturer for its products. Up to the Latest Practicable Date, the Group has not made any sales to the North Pole Group.

Demand for outdoor leisure products in the United States

As advised by the Directors, outdoor leisure activities are common for people in the United States where there are many outdoor camping sites in the rural areas and forests. Based on the latest available information about the number of national parks as shown on the official website of US National Park Service, there are currently more than 50 national parks in the United States which offer sites for outdoor camping purposes.

As advised by the Directors, the imports of travel goods (which include outdoor leisure products) increased from approximately US\$4,300 million in 2001 to approximately US\$5,660 million in 2004, representing a CAGR of approximately 9.6% per annum, according to "Statistical abstract of the United States: 2006" published by the US Census Bureau. In addition, as advised by the Directors, the exports of travel products (which include outdoor leisure products) of the PRC increased by approximately 17.2% to approximately US\$7,310 million in 2005 according to "Value of major export products in December 2005" published by the PRC Customs.

Based on the above, we expect that there is a good potential for the sales of Group's outdoor leisure products to the North Pole Group in the United States in the coming years.

2. *The North Pole Agreements*

(A) Reasons for and benefits of the entering into of the North Pole Agreements

As advised by the Directors, the production process of the Group's existing products can be readily adjusted to accommodate the manufacture of outdoor leisure products such as camping tents, furniture and sleeping bags given that such products mainly require similar cut-and-sew capabilities and skills for the manufacture of the Group's existing upholstered furniture and leather products. Moreover, the major raw materials for manufacture of outdoor leisure products are fabrics which the Group also uses for the production of fabric upholstered furniture. Accordingly, the Directors consider that the production of outdoor leisure products will not have any adverse impact on the operation and financial position of the Group. As such, we concur with the view of the Directors that the entering into of the North Pole Agreements will enable the Group to further utilise its existing production capacity to diversify and expand its products mix and revenue base.

(B) Terms of the North Pole Agreements

According to the North Pole Agreements, for the period from 1 March 2006 to 31 December 2008, the Group will sell outdoor leisure products to the North Pole Group at prices as determined after arm's length negotiation between the Group and the North Pole Group with reference to the prevailing market prices of the related outdoor leisure products. Such selling prices, however, shall not be less favourable than the prices offered by the Group to other independent third parties for similar products. Pursuant to the North Pole Agreements, there is no minimum purchase orders agreed to be placed by the North Pole Group to the Group during the period from 1 March 2006 to 31 December 2008.

As advised by the Directors, the Group will ensure that the selling price of outdoor leisure products to the North Pole Group be set based on the available prevailing market prices information including but without limitation to (i) the purchase prices of such products by the North Pole Group from other independent suppliers; and (ii) if any, the selling prices of similar outdoor leisure products sold by the Group to other independent customers, which we consider are reasonable bases to assess the prevailing market prices of the related outdoor leisure products.

Based on the above, we concur with the view of the Directors that the entering into of the North Pole Agreements is in the ordinary and usual course of business of the Group and is in the interests of the Group and the Independent Shareholders as a whole, and the terms of the North Pole Agreements are on normal commercial terms and fair and reasonable so far as the Group and the Independent Shareholders are concerned.

LETTER FROM TAI FOOK

3. *Bases of the North Pole Annual Caps*

Set out below are the North Pole Annual Caps for each of the three years ending 31 December 2008:

	Year ending 31 December		
	2006	2007	2008
	(RMB million)	(RMB million)	(RMB million)
North Pole Annual Caps	250	500	800

As advised by the Directors, the Group has adopted the following bases and assumptions in arriving at the North Pole Annual Caps:

- (i) the amount of outdoor leisure products purchased by the North Pole Group from its suppliers amounting to not less than RMB800 million for the year ended 31 December 2005 as indicated by the management of the North Pole Group in writing to the Company in February 2006;
- (ii) the expectation of the Group's management that there would be a continuous growth of outdoor leisure products imported into the United States; and
- (iii) the written indication by the management of the North Pole Group to the Company in February 2006 that more purchases of outdoor leisure products will be made by the North Pole Group from the Group for the period from 1 March 2006 to 31 December 2008, which is expected to be approximately RMB250 million, RMB500 million and RMB800 million for each of the three years ending 31 December 2008 (or not more than 31%, 62% and 100% respectively of the North Pole Group's purchases of outdoor leisure products of not less than RMB800 million for the year ended 31 December 2005 without taking into account the possible increase in the purchases of outdoor leisure products by the North Pole Group for the three years ending 31 December 2008 as a result of the higher demand for such products in the market of the United States).

Based on the above, in particular, the indications given by the management of the North Pole Group to the Company in respect of the amount of purchases of outdoor leisure products by the North Pole Group for the year ended 31 December 2005 and its intended amounts of purchases of outdoor leisure products from the Group for the period from 1 March 2006 to 31 December 2008, we concur with the Directors' view that the North Pole Annual Caps are reasonable.

LETTER FROM TAI FOOK

RECOMMENDATION

Having considered that:

- (i) the terms of, and reasons for, the entering into of the Starcorp Agreement and the North Pole Agreements;
- (ii) the bases and assumptions adopted in arriving at the Starcorp Annual Caps and the North Pole Annual Caps,

we consider that the Starcorp Agreement and the North Pole Agreements are entered into on normal commercial terms and in the ordinary and usual course of business of the Group, and the terms of the Starcorp Agreement and the North Pole Agreements are fair and reasonable so far as the Group and the Independent Shareholders are concerned and are in the interests of the Group and the Independent Shareholders as a whole. As such, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolutions to approve the Non-exempt Continuing Connected Transactions at the EGM.

Yours faithfully,

For and on behalf of

Tai Fook Capital Limited

Derek C. O. Chan

Managing Director

Marcus Ho

Director

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

(a) Directors’ and Chief Executives’ interests

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

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

Name of Director	Capacity	Name of corporation	Nature of interest	Amount of share capital/registered capital held	% of interest in the Company/ associated corporations
Zhu Zhangjin	Executive Director	the Company	Beneficial	328,867,019	32.43%
Zhu Jianqi	Executive Director	the Company	Beneficial	7,478,260	0.74%
Zhou Xiaosong	Executive Director	the Company	Beneficial	8,173,912	0.81%

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

Name of corporation	Director	Exercise Price HK\$	Number of share options				Percentage of total issued share capital	Exercisable Period	Notes
			Outstanding as at 1 January 2006	Granted from 1 January 2006 to the Latest Practicable Date	Outstanding as at the Latest Practicable Date				
Company	Zhu Zhangjin	2.38	–	1,000,000	1,000,000	0.10%	1/1/2007 to 8/3/2016	1,3,4	
		2.38	–	1,000,000	1,000,000	0.10%	1/1/2008 to 8/3/2016	2,3,4	
Company	Zhou Xiaosong	2.38	–	1,000,000	1,000,000	0.10%	1/1/2007 to 8/3/2016	1,3,4	
		2.38	–	1,000,000	1,000,000	0.10%	1/1/2008 to 8/3/2016	2,3,4	
Company	Zhu Jianqi	2.38	–	1,000,000	1,000,000	0.10%	1/1/2007 to 8/3/2016	1,3,4	
		2.38	–	1,000,000	1,000,000	0.10%	1/1/2008 to 8/3/2016	2,3,4	
Company	Lu Yungang	2.38	–	200,000	200,000	0.02%	1/1/2007 to 8/3/2016	1,3,4	
		2.38	–	200,000	200,000	0.02%	1/1/2008 to 8/3/2016	2,3,4	
Company	Chow Joseph	2.38	–	200,000	200,000	0.02%	1/1/2007 to 8/3/2016	1,3,4	
		2.38	–	200,000	200,000	0.02%	1/1/2008 to 8/3/2016	2,3,4	
Company	Shi Zhengfu	2.38	–	200,000	200,000	0.02%	1/1/2007 to 8/3/2016	1,3,4	
		2.38	–	200,000	200,000	0.02%	1/1/2008 to 8/3/2016	2,3,4	

Notes:

1. Pursuant to the share option scheme of Kasen International Holdings Limited (“Share Option Scheme”) adopted by a resolution of the Shareholders on 24 September 2005 and adopted by a resolution of the Board on 26 September 2005, these share options were granted on 9 March 2006 and are exercisable at HK\$2.38 per Share from 1 January 2007 to 8 March 2016.
2. These shares options were granted pursuant to the Share Option Scheme on 9 March 2006 and are exercisable at HK\$2.38 per Share from 1 January 2008 to 8 March 2016.
3. These share options represent personal interest held by the relevant participants as beneficial owner.
4. Up to the Latest Practicable Date, none of these share options were exercised, cancelled nor lapsed.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executives of the Company had or was deemed to have any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group, which was subsisting and was significant in relation to the business of the Group.

(b) Substantial Shareholders’ Interests

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

Long positions in shares and underlying shares of the Company

Name of Shareholder	Company	Capacity/ Nature of interest	Number of shares or underlying shares held	% of interest in the Company
Zhu Zhangjin ²	the Company	Beneficial	328,867,019	32.43%
Warburg Pincus & Co ¹	the Company	Beneficial	186,989,966	18.44%
Warburg Pincus Partners LLC ¹	the Company	Beneficial	186,989,966	18.44%
Warburg Pincus International Partners, L.P. ¹	the Company	Beneficial	89,616,811	8.84%
Warburg Pincus Private Equity VIII L.P. ¹	the Company	Beneficial	90,605,988	8.94%
UBS AG	the Company	Beneficial	49,419,999	4.87%
Griffin John Anthony	the Company	Beneficial	71,022,000	7.00%

Notes:

1. Warburg Pincus International Partners, L.P., and Warburg Pincus Private Equity VIII L.P. are part of the Warburg Pincus Funds. The general partner of the Warburg Pincus Funds is Warburg Pincus Partners LLC, which is a subsidiary of Warburg Pincus & Co. Each of Warburg Pincus Partners LLC and Warburg Pincus & Co. is therefore deemed to be interested in the shares held by the Warburg Pincus Funds, which includes Warburg Pincus International Partners, L.P. and Warburg Pincus Private Equity VIII L.P. as well as four other funds consisted in the Warburg Pincus Funds.
2. Zhu Zhangjin is interested in 2,000,000 share options of the Company which were granted on 9 March 2006 as detailed in section 2(a) of this appendix.

Long positions in shares and underlying shares of the subsidiaries of the Company

Name of Shareholder	Subsidiary	Nature of interest	% of interest in subsidiaries
海寧浙吉物資經營部 (Haining Zheji Material Operation)	Haining Hainix Sofa Co., Ltd. ¹⁰	Beneficial	28%
張利法 (Zhang Lifa) ¹	Haining Hainix Sofa Co., Ltd. ¹⁰	Corporate	28%
海寧市志遠皮革輔料 經營部 (Haining Zhiyuan Leather Supplementary Material Operation)	Haining Hainix Sofa Co., Ltd. ¹⁰	Beneficial	11.6%
周志賢 (Zhou Zhixian) ²	Haining Hainix Sofa Co., Ltd. ¹⁰	Corporate	11.6%
海寧市歐意皮革輔料 經營部 (Haining Oyi Leather Supplementary Material Operation)	Haining Oyi May Sofa Co., Ltd. ¹¹	Beneficial	28.0%
許月蓮 (Xu Yuelian) ³	Haining Oyi May Sofa Co., Ltd. ¹¹	Corporate	28.0%
海寧宏遠沙發配件 經營部 (Haining Hongyuan Sofa Accessories Operation)	Haining Oyi May Sofa Co., Ltd. ¹¹	Beneficial	21.5%
朱聖源 (Zhu Shenyuan) ⁴	Haining Oyi May Sofa Co., Ltd. ¹¹	Corporate	21.5%
海寧市慧騰服裝面料 經營部 (Haining Huiteng Garments Material Operation)	Haining Hidea Furniture Co., Ltd. ¹²	Beneficial	27%
周慧敏 (Zhou Huimin) ⁵	Haining Hidea Furniture Co., Ltd. ¹²	Corporate	27%
海寧市良達沙發配件 經營部 (Haining Liangda Sofa Accessories Operation)	Haining Hidea Furniture Co., Ltd. ¹²	Beneficial	22.5%
孫時良 (Sun Shiliang) ⁶	Haining Hidea Furniture Co., Ltd. ¹²	Corporate	22.5%
海寧市通盛紡織品 經營部 (Haining Tongsheng Textile Products Operation)	Haining Wansheng Furniture Co., Ltd. ¹³	Beneficial	29.5%
孫建新 (Sun Jianxin) ⁷	Haining Wansheng Furniture Co., Ltd. ¹³	Corporate	29.5%
海寧市大盛紡織品 經營部 (Haining Dasheng Textile Products Operation)	Haining Wansheng Furniture Co., Ltd. ¹³	Beneficial	20%
孫立 (Sun Li) ⁸	Haining Wansheng Furniture Co., Ltd. ¹³	Corporate	20%
岳娜有限責任公司 (Yuena Co., Ltd.)	Zhejiang Liema Furniture Co., Ltd. ¹⁴	Beneficial	25%
海寧強業針紡織貿易 經營部 (Haining Qiangye Textile Trading Operation)	Zhejiang Liema Furniture Co., Ltd. ¹⁴	Beneficial	15.15%
沈志強 (Shen Zhiqiang) ⁹	Zhejiang Liema Furniture Co., Ltd. ¹⁴	Corporate	15.15%

Name of Shareholder	Subsidiary	Nature of interest	% of interest in subsidiaries
海寧市斜橋工業經濟發展開發有限公司 (Haining Xieqiao Industrial Economic Development Co., Ltd.)	Haining Xieqiao Senbo Water Co., Ltd. ¹⁵	Beneficial	33.3%

Notes:

- Haining Zheji Material Operation is a private enterprise wholly-owned by Zhang Lifa. Therefore, Zhang Lifa is deemed to be interested in 28% of the registered capital of Haining Hainix Sofa Co., Ltd. held by Haining Zheji Material Operation.
- Haining Zhiyuan Leather Supplementary Material Operation is a private enterprise wholly-owned by Zhou Zhixian. Therefore, Zhou Zhixian is deemed to be interested in 11.6% of the registered capital of Haining Hainix Sofa Co., Ltd. held by Haining Zhiyuan Leather Supplementary Material Operation.
- Haining Oyi Leather Supplementary Material Operation is a private enterprise wholly-owned by Xu Yuelian. Therefore, Xu Yuelian is deemed to be interested in 28% of the registered capital of Haining Oyi May Sofa Co., Ltd. held by Haining Oyi Leather Supplementary Material Operation.
- Haining Hongyuan Sofa Accessories Operation is a private enterprise wholly-owned by Zhu Shenyuan. Therefore, Zhu Shenyuan is deemed to be interested in 21.5% of the registered capital of Haining Oyi May Sofa Co., Ltd. held by Haining Hongyuan Sofa Accessories Operation.
- Haining Huiteng Garments Material Operation is a private enterprise wholly-owned by Zhou Huimin. Therefore, Zhou Huimin is deemed to be interested in 27% of the registered capital of Haining Hidea Furniture Co., Ltd. held by Haining Huiteng Garments Material Operation.
- Haining Liangda Sofa Accessories Operation is a private enterprise wholly-owned by Sun Shiliang. Therefore, Sun Shiliang is deemed to be interested in 22.5% of the registered capital of Haining Hidea Furniture Co., Ltd. held by Haining Liangda Sofa Accessories Operation.
- Haining Tongsheng Textile Products Operation is a private enterprise wholly-owned by Sun Jianxin. Therefore, Sun Jianxin is deemed to be interested in 29.5% of the registered capital of Haining Wansheng Furniture Co., Ltd. held by Haining Tongsheng Textile Products Operation.
- Haining Dasheng Textile Products Operation is a private enterprise wholly-owned by Sun Li. Therefore, Sun Li is deemed to be interested in 20% of the registered capital of Haining Wensheng Furniture Co., Ltd. held by Haining Dasheng Textile Products Operation.
- Haining Qiangye Textile Trading Operation is a private enterprise wholly-owned by Shen Zhiqiang. Therefore, Shen Zhiqiang is deemed to be interested in 15.15% of the registered capital of Zhejiang Liema Furniture Co., Ltd. held by Haining Qiangye Textile Trading Operation.
- The Company has 50.5 % indirect interest in Hainix Sofa Co., Ltd.
- The Company has 50.5 % indirect interest in Haining Oyi May Sofa Co., Ltd.
- The Company has 50.5 % indirect interest in Haining Hidea Furniture Co., Ltd.
- The Company has 50.5 % indirect interest in Haining Wansheng Furniture Co., Ltd.
- The Company has 50.5 % indirect interest in Zhejiang Liema Furniture Co., Ltd.
- The Company has 66.67 % indirect interest in Haining Xieqiao Senbo Water Co., Ltd.

Save as disclosed above, as at the Latest Practicable Date, the Company had not been notified by any persons (other than Directors nor the chief executive of the Company) who had interest or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any options in respect of such share capital.

3. **COMPETING BUSINESS INTEREST OF DIRECTORS**

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

4. **QUALIFICATION OF EXPERT**

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

Name	Qualification
Tai Fook Capital Limited	a licensed corporation under the SFO to carry out type 6 regulated activity (advising on corporate finance)

5. **CONSENT**

Tai Fook has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of their respective opinion or letter and/or reference to its name, opinion or letter in the form and context in which it appears.

6. **MATERIAL ADVERSE CHANGE**

The Company is not aware of any material adverse change in the financial or trading position of the Group since 30 April 2005, being the date to which the latest published audited financial statements of the Group were made up.

7. **LITIGATION**

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

8. MISCELLANEOUS

- (a) None of the Directors has entered into a service contract with the Company which does not expire or which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.
- (b) As at the Latest Practicable Date, save as disclosed in this circular, none of the Directors or Tai Fook was beneficially interested in the share capital of any member of the Group or had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group nor did it have any interest, either direct or indirect, in any assets which had been, since the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.
- (c) The company secretary of the Company is YIU Hoi Yan (associate member of the Association of Chartered Certified Accountants and associate member of the Hong Kong Institute of Certified Public Accountants).
- (d) The qualified accountant of the Company is LEE Lawrence (associate member of the Association of Chartered Certified Accountants).
- (e) The registered office of the Company is at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681GT, George Town, Grand Cayman, British West Indies.
- (f) The principal place of business of the Company in Hong Kong is at Room 1605, Tai Tung Building, 8 Fleming Road, Wanchai, Hong Kong.
- (g) The branch share registrar of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited.
- (h) The principal share registrar of the Company is Butterfield Fund Services (Cayman) Limited.
- (i) The English text of this circular and the accompanying form of proxy shall prevail over their respective Chinese texts for the purpose of interpretation.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company in Hong Kong at Room 1605, Tai Tung Building, 8 Fleming Road, Wanchai, Hong Kong, during normal business hours from the date of this circular to 31 March 2006 (both dates inclusive):

- the Starcorp Agreement;
- the North Pole Agreements;
- the letter from the Independent Board Committee, the text of which is set out on page 13 in this circular;
- the letter of advice from Tai Fook to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 14 to 23 in this circular; and
- the written consent of Tai Fook referred to in paragraph headed “Consent” of this appendix.

NOTICE OF EGM



KASEN INTERNATIONAL HOLDINGS LIMITED

(卡森國際控股有限公司)

(An exempted company incorporated in the Cayman Islands with limited liability)

(Stock Code: 496)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN (the “Notice”) that the extraordinary general meeting (the “Meeting”) of Kasen International Holdings Limited (the “Company”) will be held at 259, Qianjiang Road West, Haining, Zhejiang, China, on 31 March 2006 at 2:00 p.m. for the purpose of considering and, if thought fit, passing (with or without amendments) the following as ordinary resolutions of the Company:-

ORDINARY RESOLUTIONS

1. “THAT:

- (a) the agreement (the “**Starcorp Agreement**”) entered into between Kasen International Holdings Limited and its subsidiaries (the “**Group**”) and Starcorp Corporation Pty. Ltd. and its subsidiaries (“**Starcorp**”) dated 22 February 2006 in relation to the sales of upholstered furniture by the Group to Starcorp, the particulars of which are described in the circular dated 16 March 2006 despatched to the shareholders of the Company, with the maximum aggregate annual value of goods sold or to be sold by the Group to Starcorp for the three years ending 31 December 2008 being RMB110,000,000, RMB150,000,000 and RMB180,000,000, respectively, be and is hereby approved; and
- (b) the board of directors of the Company be and is hereby authorised to take all such actions and steps and execute all documents or deeds as it may consider necessary or desirable to give full effect to this resolution, and to implement the Starcorp Agreement.”

2. “THAT:

- (a) the agreement and the supplemental agreement (the “**North Pole Agreements**”) entered into between Kasen International Holdings Limited and its subsidiaries (the “**Group**”) and North Pole Limited and North Pole (China) Limited dated 22 February 2006 in relation to the sales of outdoor leisure products by the Group to North Pole Limited and North Pole (China) Limited, the particulars of which are described in the circular dated 16 March 2006 despatched to the shareholders of the Company, with the maximum aggregate annual value of goods sold or to be sold by

NOTICE OF EGM

the Group to North Pole Limited and North Pole (China) Limited for the three years ending 31 December 2008 being RMB250,000,000, RMB500,000,000 and RMB800,000,000, respectively, be and is hereby approved; and

- (b) the board of directors of the Company be and is hereby authorised to take all such actions and steps and execute all documents or deeds as it may consider necessary or desirable to give full effect to this resolution, and to implement the North Pole Agreements.”

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

Hong Kong, 16 March 2006

Registered Office:
Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
British West Indies

*Principal Place of Business
in Hong Kong:*
Room 1605
Tai Tung Building
8 Fleming Road
Wanchai
Hong Kong

Notes:

- (a) Any member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and to vote in his stead. A proxy need not be a member of the Company. If more than one proxy is appointed, the appointment shall specify the number of Shares in respect of which each such proxy is appointed.
- (b) The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time fixed for holding of the meeting or any adjourned meeting.
- (c) In accordance with Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), Mr Zhu Zhangjin and his associates (as defined in the Listing Rules) are required to abstain from voting on No (1) resolution, Warbury Pincus Funds (as defined in the circular of the Company dated 16 March 2006), their ultimate beneficial owners and their associates (as defined in the Listing Rules) are required to abstain from voting on No (2) resolution.
- (d) The ordinary resolutions set out above will be determined by way of poll.