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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)

CONNECTED TRANSACTIONS INVOLVING PROPOSED ACQUISITION OF FURTHER INTERESTS IN TWO SUBSIDIARIES

Financial adviser to the Company



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



A letter from the board of directors of Kasen International Holdings Limited is set out on pages 4 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 22 of this circular.

A notice of the extraordinary general meeting of the Company to be held at 259, Qianjiang Road West, Haining, Zhejiang, China on 30 June 2006 at 10:00 a.m. is set out on pages 37 to 38 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.

15 June 2006

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DEFINITIONS

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

| | |
|-----------------------|---|
| “Acquisition” | the proposed acquisition by Zhejiang Kasen of the Sale Interests as provided for in the Agreements |
| “Agreements” | collectively the Hainix Agreement and the Hidea Agreement |
| “associate(s)” | has the meaning ascribed thereto in the Listing Rules |
| “Board” | the board of Directors |
| “Cardina” | Cardina International Company Limited (凱迪納國際有限公司), a company incorporated on 13 August 2003 under the laws of the Cayman Islands and is a wholly-owned subsidiary of the Company |
| “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 |
| “Completion” | completion of the Agreements |
| “Completion Date” | the day on which Completion shall take place |
| “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 30 June 2006 to consider and, if thought fit, to approve the Acquisition |
| “Group” | the Company and its subsidiaries |
| “Haining Hainix” | 海寧漢林沙發有限公司 (Haining Hainix Sofa Co., Ltd.), a limited liability company incorporated on 10 September 2003 under the laws of the PRC |
| “Haining Hidea” | 海寧慧達傢俱有限公司 (Haining Hidea Furniture Co., Ltd.), a limited liability company incorporated on 10 September 2003 under the laws of the PRC |
| “Hainix Agreement” | the equity transfer agreement dated 1 June 2006 and entered into between Zhejiang Kasen and the existing shareholders of Haining Hainix in relation to the sale and purchase of 44.55% of paid up capital in Haining Hainix |
| “Hidea Agreement” | the equity transfer agreement dated 1 June 2006 and entered into between Zhejiang Kasen and the existing shareholders of Haining Hidea in relation to the sale and purchase of 49.5% of paid up capital in Haining Hidea |

DEFINITIONS

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| “Higher Point Investment” | 海寧高點投資發展有限公司 (Haining Higher Point Investment Development Co., Ltd.), a limited liability company incorporated on 12 August 2003 under the laws of the PRC and is 100% owned by Zhejiang Kasen |
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “Independent Board Committee” | an independent committee of the Board comprising of the independent non-executive Directors constituted to make recommendations to the Independent Shareholders in respect of the Acquisition |
| “Independent Shareholder(s)” | Shareholder(s) other than those who have interest in the Acquisition and are required to abstain from voting in the EGM |
| “Kasen International” | Kasen International Company Limited, an exempted company incorporated in the Cayman Islands with limited liability on 20 December 2002 under the Cayman Islands Company Law and is a wholly-owned subsidiary of the Company and the immediate holding company of Zhejiang Kasen |
| “Latest Practicable Date” | 13 June 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” | Mr. Zhu Zhangjin, the chairman, chief executive officer and founder of the Group |
| “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 |
| “Property Valuation Report” | the property valuation report provided by Sallmanns on the property interests of Haining Hainix and Haining Hidea, the text of which is set out in Appendix I to this circular |
| “Prospectus” | the prospectus of the Company dated 10 October 2005 |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “Sale Interests” | collectively 44.55% of paid up capital of Haining Hainix and 49.5% of paid up capital of Haining Hidea |
| “Sallmanns” | Sallmanns (Far East) Limited, an independent property valuer |
| “SFO” | the Securities and Futures Ordinance (Cap 571 of the laws of Hong Kong) |

DEFINITIONS

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| “Shareholder(s)” | holder(s) of the share(s) of the issued capital of the Company |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “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 appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Hainix Agreement and the Hidea Agreement |
| “United States” | The United States of America |
| “US\$” | United States dollars, the lawful currency of the United States |
| “Vendors” | collectively (i) Haining Zhiyuan Leather Supplementary Material Operation, Haining Zheji Material Operation, and Haining Tianke Sofa Accessories Operation in respect of the Hainix Agreement; (ii) Haining Huiteng Garments Material Operation and Haining Liangda Sofa Accessories Operation, in respect of the Hidea Agreement |
| “Zhejiang Kasen” | 浙江卡森實業有限公司 (Zhejiang Kasen Industrial Co., Ltd.), formerly known as Zhejiang Kasen Industrial Group Company Limited, a wholly-foreign owned enterprise with limited liability, originally incorporated as a limited liability company on 12 June 1995 under the laws of the PRC and is a wholly-owned subsidiary of the Company |
| “%” | per cent. |
| “sq.m.” | square metre(s) |

For the purpose of illustration only and unless otherwise stated, amounts denominated in US\$ have been translated into RMB at the rate of US\$1.00 = RMB8.03, or into HK\$ at the rate of US\$1.00 = HK\$7.80 (as the case may be) in this circular. Such translations should not be construed as a representation that the amounts in question have been, could have been or could be converted at any particular rate or at all.

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:

LI Hui

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 Road West
Haining City
Zhejiang Province 314400
China

*Principal Place of Business
in Hong Kong:*

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

15 June 2006

To the Shareholders,

Dear Sir or Madam,

CONNECTED TRANSACTIONS INVOLVING PROPOSED ACQUISITION OF FURTHER INTERESTS IN TWO SUBSIDIARIES

INTRODUCTION

On 1 June 2006, the Board announced that Zhejiang Kasen, a wholly-owned subsidiary of the Company, entered into the conditional Agreements with the Vendors, pursuant to which Zhejiang Kasen has agreed to acquire from the Vendors the Sale Interests, representing 44.55% and 49.5% respectively of the paid up capital of each of Haining Hainix and Haining Hidea, at an aggregate consideration of approximately RMB49.9 million (equivalent to approximately HK\$48.4 million) subject to the terms and conditions set out in the Agreements.

LETTER FROM THE BOARD

THE AGREEMENTS

(I) Hainix Agreement

Date: 1 June 2006

Parties:

(a) as vendors: 海寧市志遠皮革輔料經營部 (Haining Zhiyuan Leather Supplementary Material Operation) (11.6%), 海寧市天可沙發配件經營部 (Haining Tianke Sofa Accessories Operation) (4.95%) and 海寧浙吉物資經營部 (Haining Zheji Material Operation) (28%), being the existing shareholders of Haining Hainix

(b) as purchaser: Zhejiang Kasen

(c) as party to agreement: 海寧市余氏商貿經營部 (Haining Yushi Commercial & Trading Operation) (4.95%), Higher Point Investment (25.5%) and Cardina (25%), being the other existing shareholders of Haining Hainix

Interests being acquired: the entire 44.55% paid up capital in Haining Hainix

Consideration and payment: RMB34.2 million for the 44.55% paid up capital of Haining Hainix and will be paid in cash in proportion to their respective Sales Interests in Haining Hainix within three months after the update of the business license of Haining Hainix.

On the basis of the consideration of RMB34.2 million payable for the acquisition of the 44.55% paid up capital of Haining Hainix, the consideration would imply a discount of approximately RMB1.1 million or approximately 3.2%, which was arrived at arm's length negotiation between the relevant parties and on normal commercial terms, and by reference to the net asset value of Haining Hainix as of 31 December 2005 as adjusted by the appreciation amount of the land and buildings of approximately RMB35.7 million valued by the independent valuer, Sallmanns in May 2006.

Conditions and Completion: The other shareholders, namely, 海寧市余氏商貿經營部 (Haining Yushi Commercial & Trading Operation) (4.95%), Higher Point Investment (25.5%) and Cardina (25%) have given their consents to the equity transfer and have agreed not to exercise their respective pre-emptive rights.

The Hainix Agreement would be effective subject to the fulfillment of the following conditions precedent:

- (i) the approval of the said equity transfer from the PRC approving authority;
- (ii) the approval of the said equity transfer during the EGM;
- (iii) the compliance with all applicable laws and regulations, including but not limited to the Listing Rules

LETTER FROM THE BOARD

All parties to the Hainix Agreement have undertaken that after the coming into effect of the Hainix Agreement, they would act in good faith and use their best endeavours to perform all necessary actions for the Completion.

(II) Hidea Agreement

Date: 1 June 2006

Parties:

(a) as vendors: 海寧市慧騰服裝面料經營部 (Haining Huiteng Garments Material Operation) (27%) and 海寧市良達沙發配件經營部 (Haining Liangda Sofa Accessories Operation) (22.5%), being existing shareholders of Haining Hidea

(b) as purchaser: Zhejiang Kasen

(c) as party to agreement: Higher Point Investment (25.5%) and Cardina (25%), being the other existing shareholders of Haining Hidea

Interests being acquired: the entire 49.5% paid up capital in Haining Hidea

Consideration and payment: RMB15.7 million for the 49.5% paid up capital of Haining Hidea and will be paid in cash in proportion to their respective Sales Interests in Hidea within three months after the update of the business license of Hidea.

On the basis of the consideration of RMB15.7 million payable for the acquisition of the 49.5% paid up capital of Haining Hidea, the consideration would imply a discount of approximately RMB8.1 million or approximately 34.0%, which was arrived at arm's length negotiation between the relevant parties and on normal commercial terms, and by reference to the net asset value of Haining Hidea as of 31 December 2005 as adjusted by the appreciation amount of the land and buildings of approximately RMB26.2 million valued by the independent valuer, Sallmanns in May 2006.

Conditions and Completion: The other shareholders, namely, Higher Point Investment (25.5%) and Cardina (25.0%) have given their consents to the equity transfer and have agreed not to exercise their respective pre-emptive rights.

The Hidea Agreement would be effective subject to the fulfillment of the following conditions precedent:

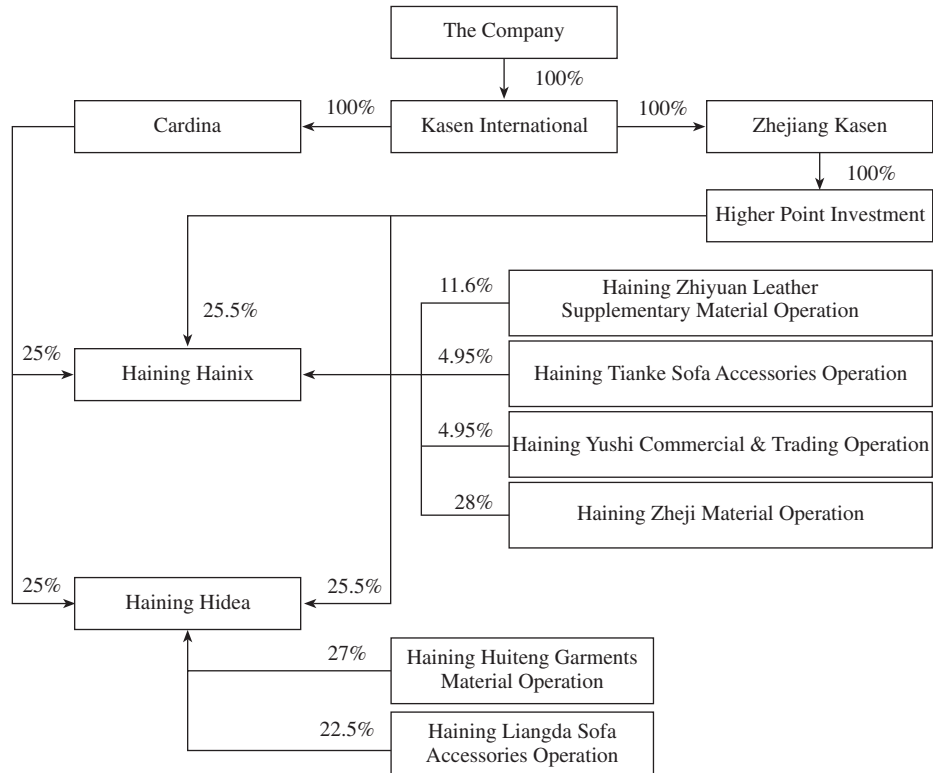
- (i) the approval of the said equity transfer from the PRC approving authority;
- (ii) the approval of the said equity transfer during the EGM;
- (iii) the compliance with all applicable laws and regulations, including but not limited to the Listing Rules

LETTER FROM THE BOARD

All parties to the Hidea Agreement have undertaken that after the coming into effect of the Hidea Agreement, they would act in good faith and use their best endeavours to perform all necessary actions for the Completion.

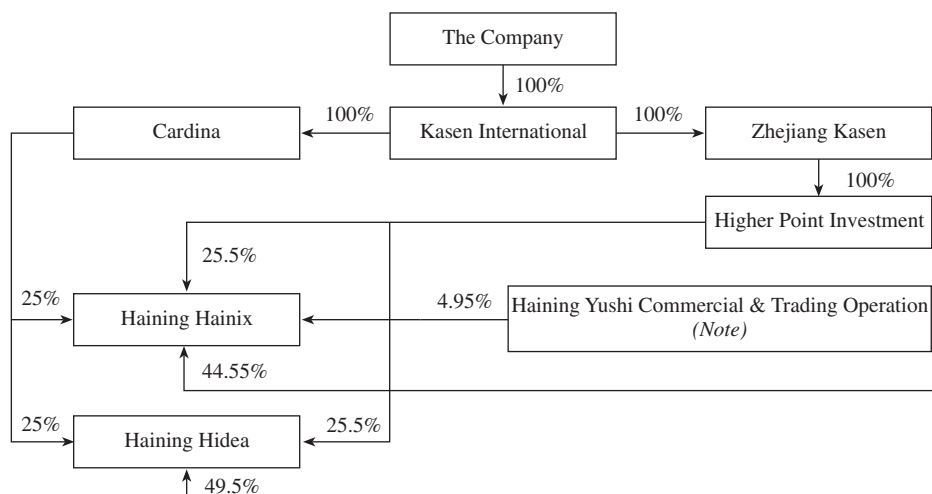
Save as disclosed herein, the Group owns 50.5% interests in each of Haining Hainix and Haining Hidea since their incorporation and has not acquired any further interests in them from the Vendors before the Acquisition.

The Group's shareholding in Haining Hainix and Haining Hidea before the Acquisition



LETTER FROM THE BOARD

The Group's shareholding in Haining Hainix and Haining Hidea after the Acquisition



Note: The Company was informed by Haining Yushi Commercial & Trading Operation that currently, it has no intention to dispose of its interest in Haining Hainix.

INFORMATION ON HAINING HAINIX AND HAINING HIDEA

Haining Hainix was incorporated as a limited company in the PRC on 10 September 2003 with fully paid up capital of US\$6 million. Haining Hainix has been mainly engaged in the manufacturing and sales of sofas, dining chairs and other furniture products since its incorporation.

Haining Hidea was incorporated as a limited company in the PRC on 10 September 2003 with fully paid up capital of US\$5 million. Haining Hidea has been mainly engaged in the manufacturing and sales of sofas, dining chairs and other furniture products since its incorporation.

The table below sets out the selected financial information on Haining Hainix and Haining Hidea based on their respective management accounts prepared in accordance with International Accounting Standards for each of the two years ended 31 December 2005:

| | Haining Hainix | | Haining Hidea | |
|--------------------------------|-----------------------------------|-----------|-----------------------------------|-----------|
| | For the year ended 31 December | | For the year ended 31 December | |
| | 2004 | 2005 | 2004 | 2005 |
| | RMB | RMB | RMB | RMB |
| | (million) | (million) | (million) | (million) |
| Turnover | 121 | 244 | 3 | 49 |
| Profit /(Loss) before taxation | (6) | 2 | (6) | (13) |
| Profit/(Loss) after taxation | (6) | 2 | (6) | (13) |
| Total assets | 184 | 227 | 108 | 217 |
| Net assets | 42 | 44 | 35 | 22 |

Business performance of Haining Hainix

Based on the management accounts of Haining Hainix (prepared under International Accounting Standards) as at 31 December 2005, the major assets of Haining Hainix were fixed assets, inventories, bank balances and accounts receivables while the major liabilities were bank loans, trade payables and notes payables.

LETTER FROM THE BOARD

Based on the management accounts of Haining Hainix (prepared under International Accounting Standards) as at 31 December 2005, the amount of properties of Haining Hainix was approximately RMB75 million while the relevant revalued amount as stated in the Property Valuation Report was approximately RMB111 million as at 23 May 2006.

Based on its management accounts prepared in accordance with International Accounting Standards, the turnover of Haining Hainix increased from approximately RMB121 million for the year ended 31 December 2004 to approximately RMB244 million for the year ended 31 December 2005. Haining Hainix recorded a profit after taxation of approximately RMB2 million for the year ended 31 December 2005 as compared with its net loss after taxation of approximately RMB6 million for the year ended 31 December 2004. The Directors considered that the improvement in financial results of Haining Hainix is mainly due to the continuous increases in production volume and sales to customers in the United States and Australia, including new major customers like Bernhardt Furniture and La-Z-Boy in 2005. The total assets of Haining Hainix increased from approximately RMB184 million as at 31 December 2004 to approximately RMB227 million as at 31 December 2005 as Haining Hainix needed to build up inventory to meet increase in sales demand.

Business performance of Haining Hidea

Based on the management accounts of Haining Hidea (prepared in accordance with International Accounting Standards) as at 31 December 2005, the major assets of Haining Hidea were fixed assets, inventories, bank balances and trade receivables while the major liabilities were bank loans, trade payables and other payables.

Based on the management accounts of Haining Hidea (prepared in accordance with International Accounting Standards) as at 31 December 2005, the amount of properties of Haining Hidea were approximately RMB81 million while the relevant revalued amount as stated in the Property Valuation Report were approximately RMB107 million as at 23 May 2006.

Based on its management accounts prepared in accordance with International Accounting Standards, the turnover of Haining Hidea increased from approximately RMB3 million for the year ended 31 December 2004 to approximately RMB49 million for the year ended 31 December 2005. Haining Hidea recorded net loss after taxation of approximately RMB6 million and RMB13 million for the two years ended 31 December 2004 and 2005 respectively.

As advised by the Directors, given that the commercial operations of Haining Hidea only commenced in December 2004, the net loss after taxation of approximately RMB6 million for the year ended 31 December 2004 recorded by Haining Hidea was mainly the net loss for the month ended 31 December 2004. As such, the Directors consider that the financial performance of Haining Hidea has actually improved for the year ended 31 December 2005. As Haining Hidea needed to build up inventory and grant credit terms to customers to meet increase in sales demand, the total assets of Haining Hidea increased from approximately RMB108 million as at 31 December 2004 to approximately RMB217 million as at 31 December 2005.

As these two subsidiaries have just commenced their operation, sales orders were not stable and the skills of workers were yet to be developed. The Directors believe that there will be potential with these businesses and the Acquisition can improve the financial performance by avoiding conflicts with minority shareholders, having efficient management and implementing consistent policy and strategy with the Group.

LETTER FROM THE BOARD

INFORMATION OF THE PURCHASER

Zhejiang Kasen is a wholly-owned enterprise with limited liability, originally incorporated as a limited liability company on 12 June 1995 under the laws of the PRC and is a wholly-owned subsidiary of the Company. It is principally engaged in research, development, production and sales of furniture leather in the PRC.

INFORMATION ON THE VENDORS

Haining Zhiyuan Leather Supplementary Material Operation was incorporated in the PRC as sole proprietorship enterprise (個人獨資企業) and is principally engaged in wholesale and retail of leather fabrics and clothing accessories. It acquired its respective Sales Interests from its ultimate shareholder (who had held such interest since the incorporation of Haining Hainix) at 3 November 2004 and is interested in 11.6% of the paid up capital in Haining Hainix as at the Latest Practicable Date.

Haining Tianke Sofa Accessories Operation was incorporated in the PRC as sole proprietorship enterprise (個人獨資企業) and is principally engaged in wholesale and retail of sofa accessories. It acquired its respective Sales Interests from its ultimate shareholder (who had held such interest since the incorporation of Haining Hainix) at 3 November 2004 and is interested in 4.95% of the paid up capital in Haining Hainix as at the Latest Practicable Date.

Haining Zheji Material Operation was incorporated in the PRC as sole proprietorship enterprise (個人獨資企業) and is principally engaged in wholesale and retail of household furniture. It acquired its respective Sales Interests from a third party (who had held such interest since the incorporation of Haining Hainix) at 21 July 2005 and is interested in 28% of the paid up capital in Haining Hainix as at the Latest Practicable Date.

Save for the respective shareholdings in Haining Hainix as mentioned above, each of Haining Zhiyuan Leather Supplementary Material Operation, Haining Tianke Sofa Accessories Operation and Haining Zheji Material Operation does not have any other relations with other Vendors (including Haining Huiteng Garments Material Operation and Haining Liangda Sofa Accessories Operation), nor with the Company.

Haining Huiteng Garments Material Operation was incorporated in the PRC as sole proprietorship enterprise (個人獨資企業) and is principally engaged in wholesale and retail of leather and knit materials. It acquired its respective Sales Interests from its ultimate shareholder (who had held such interest since the incorporation of Haining Hidea) at 24 March 2005 and is interested in 27% of the paid up capital in Haining Hidea as at the Latest Practicable Date.

Haining Liangda Sofa Accessories Operation was incorporated in the PRC as sole proprietorship enterprise (個人獨資企業) and is principally engaged in wholesale and retail of sofa accessories. It acquired its respective Sales Interests from its ultimate shareholder (who had held such interest since the incorporation of Haining Hidea) at 24 March 2005 and is interested in 22.5% of the paid up capital in Haining Hidea as at the Latest Practicable Date.

Save for the respective shareholdings in Haining Hainix as mentioned above, each of Haining Huiteng Garments Material Operation and Haining Liangda Sofa Accessories Operation does not have any other relations with other Vendors (including Haining Zhiyuan Leather Supplementary Material Operation, Haining Tianke Sofa Accessories Operation and Haining Zheji Material Operation), nor with the Company.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is a leading upholstered furniture and leather products manufacturer based in China. It primarily manufactures upholstered furniture products in accordance with the designs of their customers.

The Company intends to acquire from the Vendors the Sale Interests and the other existing shareholders of Haining Hainix and Haining Hidea have given their consents to the equity transfer and have agreed not to exercise their respective pre-emptive rights.

Over the years, the Directors have experienced occasional difficulties in reaching consensus with the Vendors on business decisions and strategies for Haining Hainix and Haining Hidea. The Directors consider that the Acquisition provides a good opportunity for the Company to take full operational benefits of the two companies as well as consolidation of the Group's sales and marketing resources. In addition, by acquiring further interests in Haining Hainix and Haining Hidea, the Company will have greater control of these two companies and therefore its business strategies will be implemented more effectively by way of alignment of the strategies of these two subsidiaries with the overall strategies of other members of the Group.

The Directors note that Haining Hainix has established a large customer base which are mainly companies of upholstered furniture products in the United States and Australia. Upon completion of the Hainix Agreement, the Directors intend to fully capitalise on the growing customer base of Haining Hainix. Furthermore, the Group also plans to utilise Haining Hidea's production facilities for its expanded customer base and accordingly would shift more orders to Haining Hidea.

The Directors note that the current utilisation rate of the production capacity of each of Haining Hainix and Haining Hidea is below 40%, which is lower than the average utilisation rate of Group's other production lines. As a result of Completion, the Directors expect that the utilisation rate of the production capacity of each of Haining Hainix and Haining Hidea would be increased.

As at 10 October 2005 (the date of the prospectus of the Company), there was no plan for the Acquisition. Recently, the Vendors intend to dispose of their respective Sales Interests and the Company exercises its pre-emptive right to acquire such Sales Interests. As such, no proceeds raised by the Company in October 2005 is applied for financing the Acquisition, and the Directors intended to finance the Acquisition by internal resources of the Group.

As a result of the acquisition of 44.55% of the registered capital of Haining Hainix, it is expected that the Group will record an unaudited gain of approximately RMB1.1 million. As a result of the acquisition of 49.5% of the registered capital of Haining Hidea, it is expected that the Group will record an unaudited gain of approximately RMB8.1 million. The aforesaid unaudited gains are resulted from the recognition of negative goodwill to be arisen upon Completion. As such, it is expected that the consolidated net assets value of the Group will be increased by approximately RMB9.2 million as a result of the Acquisition.

LISTING RULES REQUIREMENTS

As all the respective applicable percentage ratios for each of the Acquisition contemplated under the Hainix Agreement and the Hidea Agreement are below 5%, the Acquisition will not constitute notifiable transactions under Chapter 14 of the Listing Rules. However, since (i) Haining Zhiyuan Leather Supplementary Operation and Haining Zheji Material Operation hold respectively more than 10% of the paid up capital of Haining Hainix and (ii) Haining Huiteng Garments Material Operation and Haining Liangda Sofa Accessories Operation hold respectively more than 10% of the paid up

LETTER FROM THE BOARD

capital of Haining Hidea, they are therefore connected persons of the Company under the Listing Rules. Thus, each of the Hainix Agreement and the Hidea Agreement constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is therefore subject to Independent Shareholders' approval at the EGM according to Rule 14A.17 of the Listing Rules.

EGM

A notice of the EGM to be held at 259 Qianjiang Road West, Haining City, Zhejiang, China, on 30 June 2006 at 10:00 a.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 Acquisition.

The ordinary resolutions to be proposed at the EGM will be determined by way of poll by the Independent Shareholders. Since none of the Vendors holds any interest in the Company and no other Shareholders is materially interested in the Acquisition, no Shareholder is required to abstain from voting on the relevant resolutions should the EGM be held.

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 Directors (including all independent non-executive Directors) consider that the terms and conditions of the Agreements are fair and reasonable and in the interests of the Company and Shareholders as a whole.

The Independent Board Committee has been formed to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Agreements 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 Acquisition set out on pages 14 to 22 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 Acquisition are on normal commercial terms, and are also fair and reasonable so far as the Company and the Independent Shareholders are concerned and all are in the interests of the Company and its 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 appendices 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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



KASEN INTERNATIONAL HOLDINGS LIMITED

(卡森國際控股有限公司)

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

(Stock Code: 496)

15 June 2006

To the Independent Shareholders

Dear Sir or Madam,

**CONNECTED TRANSACTIONS
INVOLVING PROPOSED ACQUISITION OF FURTHER INTERESTS
IN TWO SUBSIDIARIES**

We refer to the circular dated 15 June 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 by the Board as members of the Independent Board Committee to advise you regarding the fairness and reasonableness of the Acquisition and the terms of the Agreements. 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 terms of the Agreements are on normal commercial terms, and 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 appendices 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 prepared for the purpose of inclusion in this circular in respect of the Hainix Agreement and the Hidea Agreement.



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

15 June 2006

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

Dear Sirs,

CONNECTED TRANSACTIONS INVOLVING PROPOSED ACQUISITION OF FURTHER INTERESTS IN TWO SUBSIDIARIES

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders with respect to the Hainix Agreement and the Hidea Agreement, details of which are set out in the "Letter from the Board" of the circular (the "Circular") dated 15 June 2006 issued by the Company, of which this letter forms part. Capitalised 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, (i) each of Haining Zhiyuan Leather Supplementary Operation (海寧市志遠皮革輔料經營部) and Haining Zheji Material Operation (海寧浙吉物資經營部) holds more than 10% of the paid up capital of Haining Hainix; and (ii) each of Haining Huiteng Garments Material Operation (海寧市慧騰服裝面料經營部) and Haining Liangda Sofa Accessories Operation (海寧市良達沙發配件經營部) holds more than 10% of the paid up capital of Haining Hidea, they are therefore connected persons of the Company under the Listing Rules. As such, each of the transaction contemplated under each of the Hainix Agreement and the Hidea Agreement constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is therefore subject to the Independent Shareholders' approval at the EGM, which will be taken by way of poll.

In our capacity as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to provide you with our independent opinion and recommendations as to whether the terms of each of the Hainix Agreement and the Hidea Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders and the Group are concerned, and are in the interests of the Independent Shareholders and the Group as a whole.

The Independent Board Committee has been established to advise the Independent Shareholders in respect of the terms of the Hainix Agreement and the Hidea Agreement, and advise the Independent Shareholders how to vote on the ordinary resolutions approving the Hainix Agreement and the Hidea Agreement at the EGM, after taking into account our opinion and recommendations.

LETTER FROM TAI FOOK

BASES AND ASSUMPTIONS

In formulating our recommendations, we have relied on the information and facts supplied and representations expressed by the Directors and/or the management of the Group. We have been advised by the Directors and/or the management of the Group 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 Hainix Agreement and the Hidea Agreement;
- (ii) the Prospectus;
- (iii) the annual report of the Company for the year ended 31 December 2005 (the “Annual Report”); and
- (iv) the Circular.

In addition to the information provided by the Company, we have also reviewed the industry report headed “Upholstered furniture: world market outlook” issued in August 2005 by CSIL Milano (“CSIL”), an independent market research institution based in Italy which is specialised in the research of furniture industry.

We have also discussed with the Directors and/or the management of the Group with respect to the terms of and reasons for the Hainix Agreement and the Hidea Agreement, 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 also consider that we have performed all reasonable steps as required under Rule 13.80 of the Listing Rules (including the notes thereto) to formulate our opinion and recommendations. 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 recommendations in respect of the Hainix Agreement and the Hidea Agreement, we have considered the following principal factors and reasons:

(I) BACKGROUND

1. 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

LETTER FROM TAI FOOK

their own brand names. The majority of the sales of the Group were derived from the United States and Australia. The sales of the Group for each of the two years ended 31 December 2005 are set out below:

| | Year ended 31 December | |
|--|-------------------------------|----------------------|
| | 2004 | 2005 |
| | <i>(RMB million)</i> | <i>(RMB million)</i> |
| | <i>(Audited)</i> | <i>(Audited)</i> |
| The Group's total sales | 2,852.4 | 3,475.5 |
| The Group's sales to the United States and Australia | 1,986.1 | 2,571.3 |

For the year ended 31 December 2005, the Group's sales to the United States and Australia increased by approximately 29% when compared with that for the year ended 31 December 2004. For each of the two years ended 31 December 2005, the aggregate sales of the Group to the United States and Australia accounted for approximately 70% and 74% of the Group's total turnover respectively.

2. Demand for upholstered furniture in the United States and Australia

As referred to in the industry report headed "Upholstered furniture: world market outlook" issued in August 2005 by CSIL, (i) the imports of upholstered furniture in the United States increased from approximately US\$1,130 million (equivalent to approximately RMB9,074 million) in 1997 to approximately US\$2,975 million (equivalent to approximately RMB23,889 million) in 2004, representing a compound average growth rate of approximately 14.8% per annum; and (ii) the imports of upholstered furniture in Australia increased from approximately US\$79 million (equivalent to approximately RMB634 million) in 1997 to approximately US\$282 million (equivalent to approximately RMB2,264 million) in 2004, representing a compound average growth rate of approximately 19.9% per annum. According to the industry report, the PRC is one of the largest exporters of upholstered furniture to the United States and Australia.

With the robust growth in the imports of upholstered furniture in the United States and Australia and taking into account the significant increase in the Group's sales of upholstered furniture to these two countries for the year ended 31 December 2005, we expect that the Group's sales of upholstered furniture to the United States and Australia have good potential in the coming years.

3. Information on Haining Hainix

Haining Hainix is beneficially owned as to 50.5% by the Company and is mainly engaged in the manufacture and sales of sofas, dining chairs and other furniture products. As advised by the Directors, the production of Haining Hainix commenced in November 2003, and its major customers are reputable and established furniture companies in the United States and Australia, including Bernhardt Furniture Company and La-Z-Boy Incorporated.

Based on its management accounts prepared in accordance with International Accounting Standards, (i) the turnover of Haining Hainix increased from approximately RMB121 million for the year ended 31 December 2004 to approximately RMB244 million for the year ended 31 December 2005; and (ii) Haining Hainix recorded a profit after taxation of approximately RMB2 million for the year ended 31 December 2005 as compared with the net loss after taxation of approximately RMB6 million for the year ended 31 December 2004. The Directors consider that the improvement in financial results of Haining Hainix is mainly due to the continuous increases in production volume and sales to customers in the United States and Australia, including new major customers like Bernhardt Furniture Company and La-Z-Boy Incorporated.

LETTER FROM TAI FOOK

4. Information on Haining Hidea

Haining Hidea is beneficially owned as to 50.5% by the Company and is mainly engaged in the manufacture and sales of sofas, dining chairs and other furniture products. As advised by the Directors, the production of Haining Hidea commenced in December 2004 and the sales of Haining Hidea's products are made to other subsidiaries of the Company as well as independent customers in the United States, Australia and the PRC.

Based on its management accounts prepared in accordance with International Accounting Standards, (i) the turnover of Haining Hidea increased from approximately RMB3 million for the year ended 31 December 2004 to approximately RMB49 million for the year ended 31 December 2005; and (ii) Haining Hidea recorded net loss after taxation of approximately RMB6 million and RMB13 million for each of the two years ended 31 December 2004 and 2005 respectively.

As advised by the Directors, given that the commercial operations of Haining Hidea only started in December 2004, the net loss after taxation of approximately RMB6 million for the year ended 31 December 2004 recorded by Haining Hidea was mainly the net loss for the month ended 31 December 2004. As such, the Directors consider that the financial performance of Haining Hidea had actually improved for the year ended 31 December 2005.

(II) REASONS FOR AND BENEFITS OF THE ENTERING INTO OF THE HAINIX AGREEMENT AND THE HIDEA AGREEMENT

As referred to in the "Letter from the Board" of the Circular, the Directors have experienced occasional difficulties in reaching consensus with the Vendors on business decisions and strategies for Haining Hainix and Haining Hidea. The Directors consider that the Acquisition provides a good opportunity for the Company to take full operational benefits of the two companies as well as consolidation of the Group's sales and marketing resources. In addition, by acquiring further interests in Haining Hainix and Haining Hidea, the Company will have greater control of these two companies and therefore its business strategies will be implemented more effectively by way of alignment of the strategies of these two subsidiaries with the overall strategies of other members of the Group.

The Directors note that Haining Hainix has established a large customer base which mainly comprises companies of upholstered furniture products in the United States and Australia. Upon the completion of the Hainix Agreement, the Directors intend to fully capitalise on the growing customer base of Haining Hainix. Furthermore, the Group also plans to utilise Haining Hidea's production facilities for its expanded customer base and accordingly would shift more orders to Haining Hidea.

The Directors note that the current utilisation rate of the production capacity of each of Haining Hainix and Haining Hidea is below 40%, which is lower than the average utilisation rate of the Group's other production lines. As a result of Completion, the Directors expect that the utilisation rate of the production capacity of each of Haining Hainix and Haining Hidea would be increased.

Based on the aforesaid, we consider that the entering into of each of the Hainix Agreement and the Hidea Agreement is in the interests of the Independent Shareholders and the Group as a whole.

LETTER FROM TAI FOOK

(III) THE HAINIX AGREEMENT

1. Terms of the Hainix Agreement

Pursuant to the Hainix Agreement, Zhejiang Kasen agreed to acquire 44.55% of the registered capital of Haining Hainix from Haining Zhiyuan Leather Supplementary Material Operation (海寧市志遠皮革輔料經營部), Haining Tianke Sofa Accessories Operation (海寧市天可沙發配件經營部) and Haining Zheji Material Operation (海寧浙吉物資經營部), for an aggregate consideration of RMB34.2 million. The consideration will be paid in cash to the relevant vendors in proportion to their respective interests in Haining Hainix within three months after the update of the business licence of Haining Hainix.

2. Basis of consideration

As advised by the Directors, the consideration was determined with reference to, among other things, the adjusted net assets value of Haining Hainix after taking into account the appreciation in value of the land and buildings of Haining Hainix based on the Property Valuation Report. Set out below is the adjusted net assets value of Haining Hainix based on the information provided by the Directors:

| | Amount (RMB million) |
|--|--------------------------------|
| Net assets value of Haining Hainix as at 31 December 2005 | 43.6 |
| Add: Appreciation in value of the land and buildings of Haining Hainix based on the Property Valuation Report | <u>35.7</u> |
| Adjusted net assets value of Haining Hainix | 79.3 |
| (A) 44.55% of the adjusted net assets value of Haining Hainix | 35.3 |
| (B) Consideration | 34.2 |
| Discount of (B) to (A) | 1.1 (or 3.2%) |

As shown above, the consideration for the acquisition of 44.55% of the registered capital of Haining Hainix, which is RMB34.2 million, represented a discount of approximately 3.2% (the “Hainix Discount”) to the attributable net assets value of Haining Hainix as at 31 December 2005 as adjusted by the appreciation in value of land and buildings of Haining Hainix based on the Property Valuation Report.

For the purpose of our assessment of the fairness and reasonableness of the consideration under the Hainix Agreement, to the best of our knowledge and based on publicly available information, we have identified four companies listed on the Stock Exchange which are mainly engaged in the manufacturing of furniture and/or household accessories (the “Comparable Companies”), namely Chitaly Holdings Limited, JF Household Furnishings Limited, Samson Holdings Limited and Ultra

LETTER FROM TAI FOOK

Group Holdings Limited. The table below illustrates the level of premium of the market capitalisation of the Comparable Companies as at the Latest Practicable Date over their consolidated net assets values as extracted from their latest published annual reports or interim report:

| | Market capitalisation based on the closing price per share as at the Latest Practicable Date (HK\$ million) | Latest published consolidated net assets value (HK\$ million) | Premium of market capitalisation over consolidated net assets value |
|--|--|--|--|
| Chitaly Holdings Limited (stock code: 1198) | 434.4 | 348.0 | 24.8% |
| JF Household Furnishings Limited (stock code: 8310) | 135.6 | 75.2 | 80.3% |
| Samson Holdings Limited (stock code: 531) | 9,591.0 | 2,875.4 (Note) | 233.6% |
| Ultra Group Holdings Limited (stock code: 8203) | 92.9 | 24.5 | 279.2% |
| Simple average of premiums | | | 154.5% |

Note: As at 31 December 2005, the audited consolidated net assets value of Samson Holdings Limited amounted to approximately US\$368,646,000 (equivalent to approximately HK\$2,875,438,800).

As shown above, all the Comparable Companies were traded at premiums ranging between approximately 24.8% and 279.2% over their consolidated net assets values. The simple average of such premiums of the Comparable Companies amounted to approximately 154.5% (the “Comparable Premium”).

We acknowledge that price earnings multiple is commonly used in assessing the valuation of companies. However, we consider that it is not applicable in assessing the consideration under the Hainix Agreement given that (i) as the operations of Haining Hainix only commenced in November 2003, the business of Haining Hainix is still at the developing stage as compared with the Comparable Companies; and (ii) the financial results of Haining Hainix has not completely reflected its potential as a result of the occasional difficulties in reaching consensus among its shareholders and the low utilisation rate of its production capacity.

Based on the above and, in particular, after taking into account the following, we concur with the Director’s view that the consideration under the Hainix Agreement is on normal commercial terms and fair and reasonable so far as the Independent Shareholders and the Group are concerned:

- (i) the consideration is at a discount of approximately 3.2% to the attributable adjusted net assets value of Haining Hainix;

LETTER FROM TAI FOOK

- (ii) the Hainix Discount is favourable as compared with the Comparable Premium; and
- (iii) the Directors expect that the financial performance of Haining Hainix would be improved after the completion of the Hainix Agreement based on the reasons as detailed in Section (II) of this letter.

(IV) THE HIDEA AGREEMENT

1. Terms of the Hidea Agreement

Pursuant to the Hidea Agreement, Zhejiang Kasen agreed to acquire 49.5% of the registered capital of Haining Hidea from Haining Huiteng Garments Material Operation (海寧市慧騰服裝面料經營部) and Haining Liangda Sofa Accessories Operation (海寧市良達沙發配件經營部), for an aggregate consideration of RMB15.7 million. The consideration will be paid in cash to the relevant vendors in proportion to their respective interests in Haining Hidea within three months after the update of the business licence of Haining Hidea.

2. Basis of consideration

As advised by the Directors, the consideration was determined with reference to, among other things, the adjusted net assets value of Haining Hidea after taking into account the appreciation in value of the land and buildings of Haining Hidea based on the Property Valuation Report. Set out below is the adjusted net assets value of Haining Hidea based on the information provided by the Directors:

| | Amount (RMB million) |
|---|--------------------------------|
| Net assets value of Haining Hidea as at 31 December 2005 | 21.8 |
| Add: Appreciation in value of the land and buildings of Haining Hidea based on the Property Valuation Report | <u>26.2</u> |
| Adjusted net assets value of Haining Hidea | 48.0 |
| (A) 49.50% of the adjusted net assets value of Haining Hidea | 23.8 |
| (B) Consideration | 15.7 |
| Discount of (B) to (A) | 8.1 (or 34.0%) |

As shown above, the consideration for the acquisition of 49.50% of the registered capital of Haining Hidea, which is RMB15.7 million, represented a discount of approximately 34.0% (the “Hidea Discount”) to the attributable net assets value of Haining Hidea as at 31 December 2005 as adjusted by the appreciation in value of the land and buildings of Haining Hidea based on the Property Valuation Report.

We consider that price earnings multiple is not applicable in assessing the consideration under the Hidea Agreement given that Haining Hidea recorded a net loss after taxation of approximately RMB13 million for the year ended 31 December 2005.

LETTER FROM TAI FOOK

Based on the above and, in particular, after taking into account the following, we concur with the Director's view that the consideration under the Hidea Agreement is on normal commercial terms and fair and reasonable so far as the Independent Shareholders and the Group are concerned, notwithstanding that Haining Hidea made losses in each of the two years ended 31 December 2005:

- (i) the consideration is at a large discount of approximately 34.0% to the attributable adjusted net assets value of Haining Hidea;
- (ii) the Hidea Discount is significantly favourable as compared with the Comparable Premium;
- (iii) as advised by the Directors, the financial performance of Haining Hidea had actually improved during the year ended 31 December 2005 based on the reasons as detailed in Section (I) of this letter, and the historical financial results of Haining Hidea did not reflect its potential as a result of the occasional difficulties in reaching consensus among its shareholders and the low utilisation rate of its production capacity; and
- (iv) the Directors expect that the financial performance of Haining Hidea would be improved after the completion of the Hidea Agreement based on the reasons as detailed in Section (II) of this letter.

(V) FINANCIAL EFFECTS OF COMPLETION ON THE GROUP

1. Net assets value

As advised by the Directors, (i) as a result of the acquisition of 44.55% of the registered capital of Haining Hainix, it is expected that the Group will record an unaudited gain of approximately RMB1.1 million; and (ii) as a result of the acquisition of 49.5% of the registered capital of Haining Hidea, it is expected that the Group will record an unaudited gain of approximately RMB8.1 million. The aforesaid unaudited gains are resulted from the recognition of negative goodwill to be arisen upon Completion. As such, it is expected that the consolidated net assets value of the Group will be increased by approximately RMB9.2 million as a result of the Acquisition. In view of this, the Directors consider that the Hainix Agreement and the Hidea Agreement will improve the Group's net assets position upon Completion.

2. Financial resources of the Group

The aggregate consideration for the Acquisition of RMB49.9 million, which will be financed by the Group's internal resources, representing approximately 13.4% of the Group's aggregate bank and cash balances of approximately RMB372.3 million as at 31 December 2005. As such, we concur with the Directors' view that the Acquisition will not have a material adverse impact on the Group's financial resources.

3. Gearing

As referred to in the Annual Report, the Group's aggregate bank and cash balances amounted to approximately RMB372.3 million as at 31 December 2005, whilst its bank and other borrowings (which comprised bank borrowings of approximately RMB1,281.3 million and other interest-bearing borrowings of approximately RMB10.4 million) amounted to approximately RMB1,291.7 million as at 31 December 2005. Based on the aforesaid, the Group's net borrowings to equity ratio (being bank and other borrowings less bank and cash balances, expressed as a percentage of net assets value) was approximately 40.0% as at 31 December 2005.

LETTER FROM TAI FOOK

We concur with the Directors' view that there would not be a material adverse impact on the Group's aforesaid net borrowings to equity ratio as a result of (i) the completion of the Hainix Agreement; and/or (ii) the completion of the Hidea Agreement.

RECOMMENDATIONS

Having considered that:

- (i) the reasons for and benefits of the entering into of the Hainix Agreement and the Hidea Agreement; and
- (ii) the terms of each of the Hainix Agreement and the Hidea Agreement,

we consider that the terms of the Hainix Agreement and the Hidea Agreement are on normal commercial terms, 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 Hainix Agreement and the Hidea Agreement at the EGM.

Yours faithfully,
For and on behalf of
Tai Fook Capital Limited
Derek C. O. Chan **Marcus Ho**
Managing Director *Executive Director*

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this Circular received from Sallmanns (Far East) Limited, an independent valuer, in connection with its valuation as at 23 May 2006 of the property interests of the Company.

**Sallmanns**

Corporate valuation and consultancy

www.sallmanns.com

西門

22nd Floor, Siu On Centre
188 Lockhart Road
Wanchai, Hong Kong
Tel: (852) 2169 6000
Fax: (852) 2528 5079

15 June 2006

The Board of Directors
Kasen International Holdings Limited

Dear Sirs,

In accordance with your instructions to value the properties in which Haining Hidea Furniture Co., Ltd. and Haining Hainix sofa Co., Ltd. have interests in the People's Republic of China (the "PRC") and the equity interests of which are to be acquired by Kasen International Holdings Limited (the "Company"), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at 23 May 2006 (the "date of valuation").

Our valuations of the property interests represent the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

Where, due to the nature of the buildings and the structures of the properties in the PRC, there are no market sales comparables readily available, the property interests have been valued on the basis of their depreciated replacement cost.

Depreciated replacement cost is defined as "the current cost of replacement(reproduction) of a property less deductions for physical deterioration and all relevant forms of obsolescence and optimization." It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement(reproduction)of the improvements less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement cost of the property interests are subject to adequate potential profitability of the concerned business.

Our valuations have been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charges, mortgages or amounts owing on any of the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Appraisal and Valuation Standards (5th Edition May 2003) published by the Royal Institution of Chartered Surveyors; and the HKIS Valuation Standards on Properties (1st Edition January 2005) published by the Hong Kong Institute of Surveyors.

We have relied to a very considerable extent on the information given by the Company and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including State-owned Land Use Rights Certificates, Building Ownership Certificates, Real Estate Title Certificates and official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing titles to the property interests in the PRC and any material encumbrances that might be attached to the property interests or any lease amendments which may not appear on the copies handed to us. We have relied considerably on the advice given by the Company's PRC legal adviser — 浙江潮鄉律師事務所 (Zhejiang Chao Xiang Law Firm), concerning the validity of the Company's title to the property interests.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the properties but have assumed that the site areas shown on the documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also sought confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our valuations are summarised below and the valuation certificates are attached.

Yours faithfully,
for and on behalf of
Sallmanns (Far East) Limited
Paul L. Brown
B.Sc. FRICS FHKIS RPS (GP)
Director

Note: Paul L. Brown is a Chartered Surveyor who has 23 years' experience in the valuation of properties in the PRC and 26 years of property valuation experience in Hong Kong, the United Kingdom and the Asia-Pacific region.

SUMMARY OF VALUES

Property interests to be acquired by the Company in the PRC

| No. | Property | Capital value in existing state as at 23 May 2006 RMB |
|---------------|--|--|
| 1. | Land, various buildings and structures located at No.26 Wenchang Road Jianshan New District Haining City Zhejiang Province The PRC | 107,326,000 |
| 2. | Land, various buildings and structures located at No.28 Wenchang Road Jianshan New District Haining City Zhejiang Province The PRC | 110,938,000 |
| Total: | | <u>218,264,000</u> |

Notes:

1. The land use rights and building ownership rights of property no.1 are fully vested in Haining Hidea Furniture Co., Ltd.
2. The land use rights and building ownership rights of property no.2 are fully vested in Haining Hainix Sofa Co., Ltd.

VALUATION CERTIFICATE

Property interests to be acquired by the Company in the PRC

| Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at 23 May 2006 RMB |
|---|---|---|--|
| 1. Land, various buildings and structures located at No.26 Wenchang Road Jianshan New District Haining City Zhejiang Province The PRC | <p>The property comprises a parcel of land with a site area of approximately 152,023 sq.m. on which are constructed 16 industrial buildings and various ancillary structures completed in 2005.</p> <p>The buildings have a total gross floor area of approximately 108,932.59 sq.m.</p> <p>The buildings mainly include industrial buildings and warehouses, etc.</p> <p>The structures mainly include boundary wall and roads.</p> <p>The land use rights of the property have been granted for a term of 50 years expiring on 15 December 2053 for industrial use.</p> | The property is currently occupied by Haining Hidea Furniture Co., Ltd. for production purpose. | 107,326,000 |

Notes:

- Pursuant to a State-owned Land Use Rights Grant Contract — Hai Di He(2003) No.343 dated 3 December 2003 entered into between the People's Government of Haining City and Haining Hidea Furniture Co., Ltd. ("Hidea Furniture"), a subsidiary of the Company, the land use rights of a parcel of land have been granted to Hidea Furniture for a term of 50 years expiring on 15 December 2053.
- Pursuant to a State-owned Land Use Rights Certificate — Hai Guo Yong (2005) No.7400JS0017 dated 7 July 2005 issued by the People's Government of Haining City, the land use rights of a parcel of land with a site area of approximately 152,023 sq.m. have been granted to Hidea Furniture for a term of 50 years expiring on 15 December 2053 for industrial use.
- Pursuant to 3 Building Ownership Certificates — Haining Fang Quan Zheng Yuan Zi Nos.Yuan00031642, 00031643 and 00031644 dated 17 November 2005 issued by the People's Government of Haining City, 14 buildings with a total gross floor area of approximately 108,867.59 sq.m. are owned by Hidea Furniture.
- In valuation of this property, we have not attributed any commercial value to 2 buildings with a total gross floor area of approximately 65 sq.m. which have not obtained any Building Ownership Certificate. However, for reference purposes, we are of the opinion that the capital value of the buildings as at the date of valuation would be RMB40,000 assuming all relevant title certificates have been obtained and the buildings could be freely transferred.
- Hidea Furniture is a 50.5% interest owned subsidiary of the Company. The remaining 49.5% interest is proposed to be acquired by the Company.
- According to a mortgage contract, the property is subject to a mortgage dated 12 December 2005 in favour of Haining Branch of China Construction Bank Corporation (the "Mortgagee") as security for a bank loan with total maximum amount of RMB95,000,000 granted to Hidea Furniture for a mortgage period expiring on 12 December 2008.

7. We have been provided with a legal opinion dated 15 June 2006 regarding the property interest by the Company's PRC legal adviser — 浙江潮鄉律師事務所 (Zhejiang Chao Xiang Law Firm), which contains, inter alia, the following:
- (i) Hidea Furniture legally owns the land use rights and the building ownership rights of the property. According to the legal opinion, Hidea Furniture has been properly incorporated in the PRC and its business license is valid and has full force.
 - (ii) The property can be legally transferred and sublet by Hidea Furniture upon obtaining the approval from the Mortgagee.

VALUATION CERTIFICATE

| Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at 23 May 2006 RMB |
|---|---|---|--|
| 2. Land, various buildings and structures located at No.28 Wenchang Road Jianshan New District Haining City Zhejiang Province The PRC | <p>The property comprises a parcel of land with a site area of approximately 144,786 sq.m. on which are constructed 12 industrial buildings and various ancillary structures completed in 2005.</p> <p>The buildings have a total gross floor area of approximately 108,727.33 sq.m.</p> <p>The buildings mainly include industrial buildings and warehouses, etc.</p> <p>The structures mainly include boundary wall and roads.</p> <p>The land use rights of the property have been granted for a term of 50 years expiring on 29 December 2053 for industrial use.</p> | The property is currently occupied by Haining Hainix Sofa Co., Ltd. for production purpose. | 110,938,000 |

Notes:

- Pursuant to a State-owned Land Use Rights Grant Contract — Hai Di He(2003) No.355 dated 17 December 2003 entered into between the People's Government of Haining City and Haining Hainix Sofa Co., Ltd. ("Haining Hainix"), a subsidiary of the Company, the land use rights of a parcel of land were granted to Haining Hainix for a term of 50 years expiring on 29 December 2053.
- Pursuant to a State owned Land Use Rights Certificate — Hai Guo Yong (2005) No.7400030007 dated 30 April 2005 issued by the People's Government of Haining City, the land use rights of a parcel of land with a site area of approximately 144,786 sq.m. have been granted to Haining Hainix for a term of 50 years expiring on 29 December 2053 for industrial use.
- Pursuant to 2 Building Ownership Certificates — Haining Fang Quan Zheng Yuan Zi Nos.Yuan00031619 and 00031620 dated 27 July 2005 issued by the People's Government of Haining City, 12 buildings with a total gross floor area of approximately 108,727.33 sq.m. are owned by Haining Hainix.
- Haining Hainix is a 50.5% interest owned subsidiary of the Company. The remaining 44.55% interest is to be acquired by the Company.
- According to 2 mortgage contracts, the property is subject to two mortgages dated 12 December 2005 in favour of Haining Branch of the Bank of China (the "Mortgagee") as security for a bank loan with total maximum amount of RMB67,850,000 granted to Haining Hainix Sofa Co., Ltd. for a mortgage period expiring on 12 September 2007.
- We have been provided with a legal opinion dated 15 June 2006 regarding the property interest by the Company's PRC legal adviser — 浙江潮鄉律師事務所 (Zhejiang Chao Xiang Law Firm), which contains, inter alia, the following:
 - Haining Hainix legally owns the land use rights and the building ownership rights of the property.
 - The property can be legally transferred and sublet by Haining Hainix upon obtaining the approval from the Mortgagee.

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:

- 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.
- 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.
- These share options represent personal interest held by the relevant participants as beneficial owner.
- 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 | 330,867,019 | 32.63% |
| Joyview Enterprises Limited ³ | 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 | 46,483,000 | 4.58% |

Notes:

- 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.
- Mr. Zhu Zhangjin is interested in 330,867,019 shares in the Company. These shares were held in the following capacity:
 - 328,867,019 shares were held by Joyview Enterprises Limited, being the wholly-owned subsidiary of Mr. Zhu Zhangjin; and

- (ii) 2,000,000 shares were options granted on 9 March 2006, details of which were stated in section 2(a)(2) of Appendix II.

3. Joyview Enterprises Limited is a company beneficially owned as to 100% by Mr. Zhu Zhangjin.

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% |

APPENDIX II

GENERAL INFORMATION

| Name of Shareholder | Subsidiary | Nature of interest | % of interest in subsidiaries |
|---|--|--------------------|-------------------------------|
| 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% |

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.

7. 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.
8. 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.
9. 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.
10. The Company has 50.5 % indirect interest in Haining Hainix Sofa Co., Ltd.
11. The Company has 50.5 % indirect interest in Haining Oyi May Sofa Co., Ltd.
12. The Company has 50.5 % indirect interest in Haining Hidea Furniture Co., Ltd.
13. The Company has 50.5 % indirect interest in Haining Wansheng Furniture Co., Ltd.
14. The Company has 50.5 % indirect interest in Zhejiang Liema Furniture 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 EXPERTS

The following are the names and qualifications of the experts who have 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) |
| Sallmanns (Far East) Limited | an independent valuer for properties and chartered surveyors |
| 浙江潮鄉律師事務所 (Zhejiang Chao Xiang Law Firm) | PRC legal adviser |

5. CONSENT

Each of Tai Fook, Sallmanns and 浙江潮鄉律師事務所 (Zhejiang Chao Xiang Law Firm) has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its respective opinion or letter and/or references to its names, opinion or letter in the form and context in which they appear.

None of the experts named above has any shareholding interests in the Company or any of its subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company or any of its subsidiaries.

6. MATERIAL ADVERSE CHANGE

The Company is not aware of any material adverse change in the financial or trading position of the Group since 31 December 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 or Sallmanns or Zhejiang Chao Xiang Law Firm 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 text 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 up to and including the date of the EGM:

- the Hainix Agreement;
- the Hidea Agreement;
- the Property Valuation Report;
- the PRC legal opinion issued by, 浙江潮鄉律師事務所 (Zhejiang Chao Xiang Law Firm), the Group's PRC legal adviser, dated 15 June 2006;
- the audited financial statements of the Group for the years ended 31 December 2004 and 2005;
- the memorandum and articles of association of the Company;
- 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 22 in this circular;
- the written consents from the experts referred to in paragraph headed "Consent" of Appendix II; and
- this circular.

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 30 June 2006 at 10:00 a.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

“THAT:

- (a) the equity transfer agreement dated 1 June 2006 and entered into between Zhejiang Kasen and the existing shareholders of Haining Hainix in relation to the sale and purchase of 44.55% of paid up capital in Haining Hainix (the “Hainix Agreement”, a copy of which marked “A” and initialled by chairman of the Meeting was produced to the Meeting for identification) and the transaction contemplated therein be and are hereby approved;
- (b) the equity transfer agreement dated 1 June 2006 and entered into between Zhejiang Kasen and the existing shareholders of Haining Hidea in relation to the sale and purchase of 49.5% of paid up capital in Haining Hidea (the “Hidea Agreement”, a copy of which marked “B” and initialled by chairman of the Meeting was produced to the Meeting for identification) be and are hereby approved; and
- (c) 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 Hainix Agreement and the Hidea Agreement.”

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

Hong Kong, 15 June 2006

NOTICE OF EGM

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) The ordinary resolutions set out above will be determined by way of poll.



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)

Form of proxy for use by shareholders at the Extraordinary General Meeting of Kasen International Holdings Limited to be held at 259, Qianjiang Road West, Haining, Zhejiang, China on 30 June 2006 at 10:00 a.m. and any adjournment thereof

I/We^(Note 1) _____

of _____

being the registered holder(s) of _____ ordinary shares^(Note 2) of US\$0.00015 each (the

“Ordinary Shares”) in the share capital of KASEN INTERNATIONAL HOLDINGS LIMITED (the “Company”) HEREBY APPOINT

THE CHAIRMAN OF THE MEETING^(Note 3) or, failing him, _____

of _____

as my/our proxy to attend and act for me/us at the Extraordinary General Meeting (the “Meeting”) (and at any adjournment thereof) of the Company to be held at 259, Qianjiang Road West, Haining, Zhejiang, China on 30 June 2006 at 10:00 a.m. for the purposes of considering and, if thought fit, passing the resolution as set out in the notice of the Meeting and at the Meeting (and at any adjournment thereof) to vote for me/us and in my/our name(s) in respect of the resolution as indicated below^(Note 4), or if no such indication is given, as my/our proxy thinks fit.

Please make a mark in the appropriate boxes to indicate how you wish your proxy to vote.

| | ORDINARY RESOLUTION | FOR ^(Note 4) | AGAINST ^(Note 4) | ABSTAIN ^(Note 4) |
|----|---|-------------------------|-----------------------------|-----------------------------|
| 1. | To approve the Hainix Agreement entered into between Zhejiang Kasen and the existing shareholders of Haining Hainix in relation to the sale and purchase of 44.55% of paid up capital in Haining Hainix as set out in the Notice of the Extraordinary General Meeting. | | | |
| 2. | To approve the Hidea Agreement entered into between Zhejiang Kasen and the existing shareholders of Haining Hidea in relation to the sale and purchase of 49.5% of paid up capital in Haining Hidea as set out in the Notice of Extraordinary General Meeting. | | | |
| 3. | To authorise the board of directors of the Company 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 Hainix Agreement and the Hidea Agreement.” | | | |

Dated this _____ day of _____ 2006 Signature(s)^(Note 5) _____

Notes:

- Full name(s) and address(es) to be inserted in BLOCK CAPITALS.
- Please insert the number of the Ordinary Shares registered in your name(s) to which this form of proxy relates. If no number is inserted, this form of proxy will be deemed to relate to all the Ordinary Shares registered in your name(s).
- If any proxy other than the Chairman is preferred, strike out the words “THE CHAIRMAN OF THE MEETING” and insert the name and address of the proxy desired in the space provided. If no amendment is made, the Chairman shall be deemed to have been appointed as your proxy. A member may appoint one or more proxies to attend and vote in his stead. ANY ALTERATION MADE TO THIS FORM OF PROXY MUST BE INITIALED BY THE PERSON WHO SIGNS IT.
- IMPORTANT: IF YOU WISH TO VOTE FOR THE RESOLUTIONS, TICK THE APPROPRIATE BOX MARKED “FOR”. IF YOU WISH TO VOTE AGAINST THE RESOLUTIONS, TICK THE APPROPRIATE BOX MARKED “AGAINST”. IF YOU WISH TO ABSTAIN, TICK THE APPROPRIATE BOX MARKED “ABSTAIN”. Failure to complete any of the boxes will entitle your proxy to cast your votes at his/her discretion or abstain from voting. Your proxy will also be entitled to vote or abstain at his/her discretion on any resolution properly put to the Meeting other than that referred to in the notice convening the Meeting.
- This form of proxy must be signed by you or your attorney duly authorised in writing or, in the case of a corporation, must be either executed under its common seal or under the hand of an officer of that corporation or attorney or other person duly authorised by that corporation to sign the same.
- In the case of joint shareholders, the vote of the senior who tenders a vote, whether in person, or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority will be determined by the order in which the names stand in the Company’s register of shareholders in respect of the joint holding.
- To be valid, this form of proxy together with the power of attorney (if any) or other authority under which it is signed (if any) or a notarially certified copy thereof, must be lodged at the branch share registrar and share transfer office of the Company, 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 the Meeting or any adjournment thereof (as the case may be).
- The proxy need not be a member of the Company but must attend the Meeting in person to represent you.
- Completion and delivery of this form of proxy will not preclude you from attending and voting at the Meeting if you so wish. In such event, the instrument appointing a proxy shall be deemed to be revoked.