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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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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 your stockbroker or other registered securities dealer, 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 the bank, stockbroker or other agent through whom the sale was effected, for transmission to the purchaser or the transferee.

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**KASEN INTERNATIONAL HOLDINGS LIMITED**

**卡森國際控股有限公司**

*(Incorporated in the Cayman Islands with Limited Liability)*

**(Stock Code: 496)**

**DISCLOSEABLE TRANSACTIONS  
ACQUISITION OF LAND IN CHANGSHA  
AND  
FORMATION OF A JOINT VENTURE**

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## DEFINITIONS

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

“Acquisition”	the acquisition of the Land pursuant to the Tender
“associates”	has the meanings ascribed thereto in the Listing Rules
“Board”	that board of directors of the Company
“Company”	Kasen International Holdings Limited, a company incorporated in the Cayman Islands, the shares of which are listed on the Stock Exchange
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Haining Leather Market”	Haining Zhejiang Leather and Garment Market Investment and Development Company Limited (海寧浙江皮革服裝城投資開發有限公司), a domestic company incorporated in the PRC and an Independent Third Party. It is principally engaged in the development and operating of large leather products markets in the PRC
“Haining Higher Point”	Haining Higher Point Investment Development Co., Ltd. (海寧高點投資發展有限公司), a indirectly wholly-owned subsidiary of the Company incorporated under the PRC law and a PRC domestic company
“Haining Zhengyang Trading”	Haining Zhengyang Trading Co., Ltd. (海寧正揚貿易有限公司), a domestic company incorporated in the PRC and an Independent Third Party. It is principally engaged in the trading of leather products
“HK\$”	Hong Kong dollar, the lawfully currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party”	an independent third party not connected with the Company or any of its subsidiaries or any of their respective directors, chief executive or substantial shareholders or any of their respective associates

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## DEFINITIONS

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“Joint Venture”	the joint venture company to be established by the Joint Venture Partners under the laws of the PRC pursuant to the preliminary joint venture agreement entered into by the Joint Venture Partners on 15 March 2007
“Joint Venture Partners”	Haining Leather Market, Haining Zhengyang Trading, Haining Higher Point and Haining Kasen Leather Co., Ltd. Haining Kasen Leather Co., Ltd is an indirectly wholly-owned subsidiary of the Company incorporated under the PRC law and a sino-foreign joint venture company
“Land”	a piece of land located in Changsha, the PRC with a total area of approximately 145,078 square metres under the Tender
“Latest Practicable Date”	3 April 2007, being the latest practicable date for the purpose of ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	the shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tender”	the tender made by Haining Higher Point to the Land Market Administration Department for the Acquisition of the Land
“%”	per cent.

*For illustration purposes, amounts in RMB in this circular have been translated into HK\$ at HK\$1.00 = RMB0.99.*

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LETTER FROM THE BOARD

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**KASEN INTERNATIONAL HOLDINGS LIMITED**

**卡森國際控股有限公司**

*(Incorporated in the Cayman Islands with Limited Liability)*

**(Stock Code: 496)**

*Executive Directors:*

Mr. Zhu Zhangjin (*Chairman*)

Mr. Zhou Xiaosong

Mr. Zhu Jianqi

*Registered Office:*

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

*Non-executive Director:*

Mr. Li Hui

*Independent Non-executive Directors:*

Mr. Lu Yungang

Mr. Chow Joseph

Mr. Zhang Huaqiao

4 April 2007

*To the Shareholders*

Dear Sir or Madam

**DISCLOSEABLE TRANSACTIONS  
ACQUISITION OF LAND IN CHANGSHA  
AND  
FORMATION OF A JOINT VENTURE**

**INTRODUCTION**

The Board announced on 16 March 2007 that the Tender submitted by Haining Higher Point, a wholly-owned subsidiary of the Company for the Acquisition of the Land for an aggregate consideration of RMB253.75 million (equivalent to approximately HK\$256.31 million) was confirmed. The Group, Haining Leather Market, and Haining Zhengyang Trading will form a Joint Venture to hold and develop the Land as a leather product retail mall.

The Acquisition of the Land and the formation of the Joint Venture form a series of transactions which should be treated as if they were one transactions under Rule 14.22 of the Listing Rules. Upon aggregation, these transactions constitute discloseable transactions of the Company under Rule 14.06 of the Listing Rules. The purpose of this circular is to provide you with further information with regard to these transactions.

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## LETTER FROM THE BOARD

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### THE ACQUISITION

#### Date of the Tender

29 January 2007

#### Parties involved in the Acquisition

- (1) Changsha Municipal Bureau of State Land and Resources (長沙市國土資源局); and
- (2) Haining Higher Point.

#### The Tender and the Acquisition of the Land

On 29 January 2007, the Group, Haining Leather Market and Haining Zhengyang Trading had an oral agreement pursuant to which the parties agreed to submit the Tender to Changsha Land Market Administration Department, the authorized land auction administrator for the acquisition of the Land, and to subsequently form a Joint Venture in Changsha, the PRC, to hold and develop the Land as a leather product retail mall.

On 29 January 2007 and prior to the formation of the Joint Venture, Haining Higher Point submitted the Tender to Changsha Land Market Administration Department for the acquisition of the Land.

The Tender was confirmed by an auction confirmation signed by Changsha Land Market Administration Department and Haining Higher Point dated 29 January 2007.

Pursuant to the auction confirmation, a formal land use right granting contract shall be signed with Changsha Municipal Bureau of State Land and Resources to take up the land use rights in respect of the Land on or before 12 April 2007, otherwise the Tender will be terminated. As at the date of this circular, the land use right granting contract has not yet been signed.

#### The Consideration

The aggregate consideration for the Acquisition of the Land is RMB253.75 million (equivalent to approximately HK\$256.31 million), of which RMB250 million is the price for the land use right and RMB3.75 million is the transaction levy in respect of the Acquisition. The price for the land use right in respect of the Land was determined after a public bidding process and the Board considers that the consideration is fair and reasonable having taking into account the market price of land and estimated development costs together with the location and development potential of the Land.

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## LETTER FROM THE BOARD

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On 5 February 2007, Haining Higher Point paid the total consideration of RMB253.75 million to Changsha Municipal Bureau of State Land and Resources, 80% of the land price and the total amount of the transaction levy, being RMB203.75 million, was funded from the internal resources of the Group and the remaining 20% of the land price, being RMB50 million, was funded by Haining Leather Market as agreed.

### **The Land**

The Land is located in 長沙市雨花區黎托鄉 (Li Tuo Township, Yu Hua District, Changsha, the PRC) with an area of approximately 145,078 square meter. The approved purpose of the relevant Land is for commercial use and the term of the land use right to be granted is 40 years.

### **Disclosure obligation under the Listing Rules**

The Company did not disclose the receipt of the confirmation of the Tender for the following reasons: (1) the Land to be acquired was intended to be held and developed by the Joint Venture and the land use right in respect of such Land was intended to be held by a wholly-owned subsidiary of the Joint Venture; and (2) the Joint Venture to be established was still under discussions and the Joint Venture Partners had not yet reached an agreement in respect of their respective equity interest in the Joint Venture before the Tender was due to be submitted. The Directors were of the view that the Acquisition of the Land was part of the arrangement under the Joint Venture. The Directors intended to disclose the entire transaction, which involves the Acquisition of the Land and the formation of the Joint Venture when the Joint Venture Partners reached an agreement on the principal terms. However, failure to disclose the Acquisition upon receipt of the auction confirmation on 29 January 2007 constituted a breach of Rule 14.34 of the Listing Rules. To ensure that the Company will continue to comply with the Listing Rules, the Directors will continue to enhance their understanding of the Listing Rules. The management of the Company will strengthen its corporate governance, amongst other things, by conducting regular review of the transactions the Company may enter into and to seek external professional advice when necessary.

### **Formation of the Joint Venture**

Under the oral agreement between the Joint Venture Partners, the Joint Venture Partners had agreed to form a Joint Venture to hold and develop the Land as a leather product retail mall. It was further agreed that prior to the formation of the Joint Venture and the determination of the parties' respective equity interest in the Joint Venture, each of Haining Higher Point and Haining Leather Market would contribute 80% and 20%, respectively, of the price of the Land and Haining Higher Point would also fund the transaction levy in respect of the Acquisition under the Tender.

#### *(i) Registered capital*

On 15 March, 2007, the Joint Venture Partners entered into a preliminary joint venture agreement. Pursuant to the preliminary joint venture agreement, the total registered capital of

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## LETTER FROM THE BOARD

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the Joint Venture will be RMB360 million, which was determined based on the consideration paid for the Land and the estimated development costs of such Land. As the Joint Venture is a PRC domestic company, to the best knowledge and information of the Directors after making reasonable inquiries, the term “total investment” under the rules and regulations governing foreign invested enterprises does not apply to PRC domestic companies. Under the agreement, the total registered capital will be paid by two installments. The first installment will be RMB180 million and will be fully paid up by the Joint Venture Partners upon formation of the Joint Venture. Each of the Group, Haining Leather Market and Haining Zhengyang Trading will contribute RMB105.93 million, RMB45 million and RMB29.07 million, respectively, for the first installment and shall further contribute in the same proportion as stated above for the second installment within one year after the formation of the Joint Venture. Upon completion of the capital contribution, each of the Group, Haining Leather Market and Haining Zhengyang Trading will hold 51%, 35% and 14%, respectively, of the equity interest of the Joint Venture. Upon formation, the Joint Venture will be a subsidiary of the Company and its results will be consolidated to the Group. The Company will satisfy its capital contribution obligation from internal resources.

In respect of the capital contributions to be made by the Group and Haining Zhengyang Trading, each of the Group and Haining Zhengyang Trading will contribute an additional RMB28.26 million and RMB7.74 million, respectively, representing 7.85% and 2.15%, respectively, of the total registered capital (the “Additional Contributions”). The Additional Contributions represent the cost the Group and Haining Zhengyang Trading agreed to pay to enable the Joint Venture to use the trade name “海寧中國皮革城” owned by Haining Leather Market, free of charge, for projects developed by the Joint Venture, and to share the management resources and customers bases owned by Haining Leather Market. Such cost was agreed by the Joint Venture Partners based on arm’s length negotiations and under normal commercial terms. Hence, the total capital contributions to be made by the Group and Haining Zhengyang Trading will be RMB211.86 million and RMB58.14 million, respectively, and their respective percentage of equity interest in the Joint Venture will remain as 51% and 14% respectively. Haining Leather Market will contribute a total of RMB90 million and will hold 35% equity interest in the Joint Venture. The Additional Contributions will form part of the total registered capital of the Joint Venture. Taking into account the market recognition of the trade name “海寧中國皮革城”, the goodwill attached to such name and the management resources that the Joint Venture will be able to share, and based on the initial financial analysis performed by the management of the Company, the Directors are of the view that the Additional Contributions to be paid to Haining Leather Market is fair and reasonable.

*(ii) Board of directors of the Joint Venture*

The board of directors of the Joint Venture will consist of 9 members. Each of the Group and Haining Leather Market will be entitled to appoint 4 directors and Haining Zhengyang Trading will be entitled to appoint 1 director.



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## LETTER FROM THE BOARD

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*(iii) Supplemental agreement*

On 15 March 2007, the Joint Venture Partners entered into a supplemental agreement to the preliminary joint venture agreement pursuant to which the Joint Venture Partners agree that (1) upon full payment of the first installment of the registered capital of the Joint Venture by the Joint Venture Partners, the Joint Venture shall, within two days after the signing of the land use right granting contract by its wholly-owned subsidiary, repay RMB180 million to Haining Higher Point; (2) the Group shall make its second proportionate capital contribution to the Joint Venture until after the Group has received the RMB180 million in full; and (3) within two days after the completion of the capital verification in respect of the full amount of capital paid to the Joint Venture, the Joint Venture shall repay RMB23.75 million to the Group, being the remaining amount of the total consideration paid by Haining Higher Point for the Acquisition; and RMB50 million to Haining Leather Market.

*(iv) Strategic investor*

Haining Zhengyang Trading, a strategic investor in the Joint Venture who will hold only 14% equity interest in the Joint Venture, will not participate in the initial setup or the management or operation of the Joint Venture. It was agreed by the Joint Venture Partners that as a condition to its investment, Haining Zhengyang Trading did not have to contribute to the initial financial requirements prior to the establishment of the Joint Venture. As such, Haining Zhengyang was not required to pay any consideration for the Acquisition. The Directors believe that the investment to be made by Haining Zhengyang Trading in the Joint Venture will provide a further source of funding for the development of the Land. Under such circumstances, the Directors are of the view that it is fair and reasonable that Haining Zhengyang Trading was not required to pay the consideration for the Acquisition prior to the establishment of the Joint Venture.

*(v) Holder of title of the Land*

To form a proper corporate structure, the Joint Venture Partners intend that the Joint Venture will establish a wholly-owned subsidiary to sign the formal land use right granting contract with Changsha Municipal Bureau of State Land and Resources to transfer the legal title to such wholly-owned subsidiary.

### **Information on Haining Leather Market and Haining Zhengyang Trading**

Haining Leather Market is wholly owned by 海寧市國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission of Haining Municipal Government). Haining Leather Market is principally engaged in the development and operation of large leather product retail malls.

Haining Zhengyang Trading is owned as to 66.7% by 海寧白楊皮革有限公司 (Haining Baiyang Leather Co. Ltd) and as to 33.3% by Lin Yingyou. Haining Zhengyang Trading is principally engaged in leather product trading.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiry, each of Haining Leather Market, Haining Zhengyang Trading and their ultimate beneficial shareholders is an Independent Third Party.

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## LETTER FROM THE BOARD

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### **The Effect of the Acquisition on the Company's Profits, Assets and Liabilities**

Having considered that:

- (1) 80% of the land price and the total amount of the transaction levy, being RMB203.75 was funded from the internal resources of the Group and the remaining 20% of the land price, being RMB50 million was funded by Haining Leather Market; and
- (2) the Group will secure the land use rights in respect of the Land when a formal land use right granting contract is signed pursuant to the auction confirmation,

the Directors are of the view that the Company's assets and liabilities will not be affected by the Acquisition.

The Directors also consider that the Acquisition will have no effect on the Company's earnings in the short term.

### **Reasons for the Acquisition and the formation of the Joint Venture**

The Group is principally engaged in the processing of raw cowhides and wet blues into finished leather or fully assembled leather products.

The Board believes that the Acquisition of the interest in the Land and the formation of the Joint Venture, in particular with Haining Leather Market, an experienced and well-known leather market operator in the PRC will provide the Group with a better opportunity to develop and operate leather product retail malls in the PRC. The Directors (including the independent non-executive Directors) consider that the Acquisition and the formation of the Joint Venture have been made on normal commercial terms and that such terms are fair and reasonable so far as the Company and the Shareholders are concerned and that the Acquisition and the formation of the Joint Venture are in the interest of the Company and the Shareholders as a whole.

### **GENERAL**

The Acquisition of the Land and the formation of the Joint Venture form a series of transactions which should be treated as if they were one transaction under Rule 14.22 of the Listing Rules. Upon aggregation, these transactions constitute discloseable transactions of the Company under Rule 14.06 of the Listing Rules. The purpose of this circular is to provide you with further information with regard to these transactions.

Your attention is drawn to the general information set out in the appendix to this circular.

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

Hong Kong, 4 April 2007

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. 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 the omission of which would make any statement herein misleading.

## 2. DISCLOSURE OF INTERESTS

### Directors' and chief executive's interests and short positions in shares, underlying shares and debentures

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 Securities and Futures Ordinance (“SFO”)) where were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executive were deemed or taken to have under provisions of the SFO), or which were required to be and are recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies adopted by the Company (the “Model Code”) were as follows:

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

Name of Director	Number of shares held, capacity and nature of interest			Percentage of the Company's issued share capital
	Directly beneficially owned	Through controlled corporation	Total number of shares interested	
Zhu Zhangjin	–	328,867,019 (Note)	328,867,019	33.22%
Zhou Xiaosong	8,173,912	–	8,173,912	0.83%
Zhu Jianqi	7,478,260	–	7,478,260	0.76%

*Note:* 328,867,019 shares are beneficially owned by Joyview Enterprises Limited, a company wholly-owned by Mr. Zhu Zhangjin

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

Name or category of participant	Exercise price HK\$	Number of share options					Percentage of total issued share capital	Exercisable period	Notes
		Outstanding as at January 1, 2006	Granted from January 1, 2006 to the Latest Practicable Date	Cancelled from January 1, 2006 to the Latest Practicable Date	Outstanding as at the Latest Practicable Date	Outstanding as at the Latest Practicable Date			
<i>Directors</i>									
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	
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	
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	
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	
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	
Shi Zhengfu	2.38	–	200,000	(200,000)	–	–	1/1/2007 to 8/3/2016	1,3,4,5	
	2.38	–	200,000	(200,000)	–	–	1/1/2008 to 8/3/2016	2,3,4,5	

*Notes:*

- Pursuant to the share option scheme (the “Scheme”) adopted by a resolution of the Shareholders on September 24, 2005 and adopted by a resolution of the Board on September 26, 2005, these share options were granted on March 9, 2006 and are exercisable at HK\$2.38 per share from January 1, 2007 to March 8, 2016.
- These share options were granted pursuant to the Scheme on March 9, 2006 and are exercisable at HK\$2.38 per Share from January 1, 2008 to March 8, 2016.
- These share options represent personal interest held by the relevant participants as beneficial owner.
- Except the cancelled share option stated above, up to the Latest Practicable Date, none of these share options were exercised nor lapsed.
- Mr. Shi Zhengfu resigned as the Independent Non-executive Director on July 3, 2006.

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

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.

### 3. SUBSTANTIAL SHAREHOLDERS

So far as is known to any Director or the chief executive of the Company, as at the Latest Practicable Date, Shareholders (other than the Directors or the chief executives of the Company stated in “Directors’ and Chief Executive’s Interests and Short Positions in Shares, Underlying Shares and Debentures”) who had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

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

Name of Shareholder	Capacity	Short position	Long position	Number of issued shares held	Percentage of the Company’s issued share capital
Joyview Enterprises Limited <sup>2</sup>	Beneficial owner	–	328,867,019	328,867,019	33.22%
Warburg Pincus & Co. <sup>1</sup>	Interest of controlled corporation	–	186,989,966	186,989,966	18.88%
Warburg Pincus Partners LLC <sup>1</sup>	Beneficial owner	–	186,989,966	186,989,966	18.88%

Name of Shareholder	Capacity	Short position	Long position	Number of issued shares held	Percentage of the Company's issued share capital
Warburg Pincus Private Equity VIII L. P. <sup>1</sup>	Beneficial owner	–	90,605,988	90,605,988	9.15%
Warburg Pincus International Partners L.P. <sup>1</sup>	Beneficial owner	–	89,616,811	89,616,811	9.05%
UBS AG	Beneficial owner	–	51,566,000	51,566,000	5.21%

*Notes:*

1. Warburg Pincus International Partners, L.P., and Warburg Pincus Private Equity VIII L.P. are part of the Warburg Pincus Funds. The general partner of the Warburg Pincus Funds is Warburg Pincus Partners LLC, which is a subsidiary of Warburg Pincus & Co. Each of Warburg Pincus Partners LLC and Warburg Pincus & Co. is therefore deemed to be interested in the shares held by the Warburg Pincus Funds, which includes Warburg Pincus International Partners, L.P. and Warburg Pincus Private Equity VIII L.P. as well as four other funds consisted in the Warburg Pincus Funds.
2. Joyview Enterprises Limited is a company beneficially owned as to 100% by Mr. Zhu Zhangjin. Mr. Zhu Zhangjin is the director of Joyview Enterprises Limited.

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

Name of Shareholder	Subsidiary	Nature of interest	% of interest in subsidiaries
海寧歐諾雅進出口有限公司 (Haining Ounuoya Import & Export Co., Ltd)	Haining Oyi May Sofa Co., Ltd <sup>4</sup>	Beneficial	28%
許月蓮 (Xu Yuelian) <sup>1</sup>	Haining Oyi May Sofa Co., Ltd <sup>4</sup>	Corporate	25.20%
海寧宏遠沙發配件經營部 (Haining Hongyuan Sofa Accessories Operation)	Haining Oyi May Sofa Co., Ltd <sup>4</sup>	Beneficial	21.50%

Name of Shareholder	Subsidiary	Nature of interest	% of interest in subsidiaries
朱聖源 (Zhu Shenyuan) <sup>2</sup>	Haining Oyi May Sofa Co., Ltd <sup>4</sup>	Corporate	21.50%
岳娜有限責任公司 (Yuena Co., Ltd)	Zhejiang Liema Furniture Co., Ltd <sup>5</sup>	Beneficial	25%
海寧強業針紡織貿易經營部 (Haining Qiangye Textile Trading Operation)	Zhejiang Liema Furniture Co., Ltd <sup>5</sup>	Beneficial	15.15%
王益煒 (Wang Yiwei) <sup>3</sup>	Zhejiang Liema Furniture Co., Ltd <sup>5</sup>	Corporate	15.15%

*Notes:*

1. Haining Ounuoya Import & Export Co., Ltd is a company 90% owned by Xu Yuelian. Therefore, Xu Yuelian is deemed to be interested in the 25.2% of the registered capital of Haining Oyi May Sofa Co., Ltd.
2. Haining Hongyuan Sofa Accessories Operation is a private enterprise wholly-owned by Zhu Shenyuan. Therefore, Zhu Shenyuan is to be interested in 21.5% of the registered capital of Haining Oyi May Sofa Co., Ltd held by Haining Hongyuan Sofa Accessories Operation.
3. Haining Qiangye Textile Trading Operation is a private enterprise wholly-owned by Wang Yiwei. Therefore, Wang Yiwei 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.
4. The Company has 50.5% indirect interest in Haining Oyimay Sofa Co., Ltd.
5. 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 has not been notified of any other person (other than the Directors or the chief executive of the Company) who had an interest or a short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or 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.

#### 4. 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.

## 5. PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Pursuant to the general mandate granted by the Shareholders of the Company, the Board resolved on July 31, 2006 to repurchase the Company's shares of up to 10% of the issued shares of the Company as at the date of May 30, 2006. During the year ended 31 December 2006, the Company repurchased 23,997,000 shares of the Company on the Stock Exchange at an aggregate consideration of HK\$25,165,000. All of the shares repurchased were subsequently cancelled. The nominal value of the cancelled shares of RMB29,730 (equivalent to USD3,600) was debited to share capital and the excess of relevant aggregate consideration over nominal value was debited to the Company's share premium. Details of the repurchases are as follows:

<b>Month of the repurchases</b>	<b>Total number of the ordinary shares repurchased</b>	<b>Highest price paid per share</b> <i>HK\$</i>	<b>Lowest price paid per share</b> <i>HK\$</i>	<b>Aggregate consideration</b> <i>HK\$'000</i>
August 2006	23,997,000	1.0503	0.9986	25,165

The purchases were made for the benefit of the Shareholders as a whole as they enhanced the net asset value and/or earnings per share of the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries had purchase, sold or redeemed any of the Company's listed securities as from 1 January 2006 to the Latest Practicable Date.

## 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. GENERAL**

- (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) The qualified accountant and secretary of the Company is Ms. Yiu Hoi Yan. Ms. Yiu is a member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Ms. Yiu has over ten years of experience in auditing and accounting.
- (c) The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (d) The principal place of business of the Company in Hong Kong is at Room 1605, Tai Tung Building, 8 Fleming Road, Wanchai, Hong Kong.
- (e) The branch share registrar of the Company is Computershare Hong Kong Investor Services Ltd.
- (f) The principal share registrar of the Company is Butterfield Fund Services (Cayman) Limited.
- (g) The English text of this circular will prevail over the Chinese text.