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If you are in 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

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

(Stock Code: 496)

CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF 4.92% EQUITY INTEREST IN HAINING LEATHER MARKET

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



Quam Capital Limited

A letter from the board of directors of Kasen International Holdings Limited is set out on pages 4 to 11 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 12 of this circular. A letter of advice from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 13 to 18 of this circular.

A notice of the EGM (as defined herein) to be held at 259, Qianjiang Road West, Haining, Zhejiang, China will be set out in the Major Transaction Circular (as defined herein), which shall set out the date and time of the EGM accordingly. The Proxy Form (as defined herein) will also be enclosed with the Major Transaction Circular. Whether or not you intend to attend the EGM, please complete and return the Proxy Form 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 Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event by not later than 48 hours before the time appointed for holding of the EGM or any adjourned meeting thereof. Completion and return of the Proxy Form will not preclude you from attending and voting in person at the EGM (or any adjourned meeting thereof) should you so wish.

CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	4
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	12
LETTER FROM THE INDEPENDENT FINANCIAL ADVISER	13
APPENDIX – GENERAL INFORMATION	19

DEFINITIONS

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

“Acquired Assets”	the 4.92% equity interest in Haining Leather Market upon the increase of its registered capital
“Acquisition”	the proposed acquisition of 4.92% equity interest in Haining Leather Market by Zhejiang Kasen Industrial upon the increase of its registered capital as contemplated under the Capital Increase Agreement
“Board”	the board of directors of the Company
“Capital Increase Agreement”	the agreement dated 30 September 2007 entered into by Haining City Assets, Haining Development Centre, Zhejiang Hongda, Zhejiang Kasen Industrial and Haining Leather Market Management Unit
“Company”	Kasen International Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability, and the issued Shares of which are listed on the main board of the Stock Exchange
“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be convened and held to consider and, if thought fit, approve the Acquisition
“Group”	the Company and its subsidiaries
“Haining”	Haining city, Zhejiang province, the PRC
“Haining City Assets”	海寧市資產經營公司 (Haining City Assets Operation Company Limited*), a state-owned enterprise in the PRC and an Independent Third Party
“Haining Development Centre”	海寧市市場開發服務中心 (Haining City Market Development Services Centre*), a state-owned enterprise in the PRC and an Independent Third Party

DEFINITIONS

“Haining Leather Market”	海寧浙江皮革服裝城投資開發有限公司 (Haining Zhejiang Leather and Garment Market Investment and Development Company Limited*), a company incorporated in the PRC
“Haining Leather Market Management Unit”	海寧浙江皮革服裝城投資開發有限公司管理層入股聯合體 (Haining Zhejiang Leather and Garment Market Investment and Development Company Limited Management Share Association*) and an Independent Third Party
“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 all independent non-executive Directors
“Independent Financial Adviser”	Quam Capital Limited, a licensed corporation under the SFO authorised to carry out type 6 (advising on corporate finance) regulated activities; the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition
“Independent Shareholders”	the Shareholders of the Company other than the controlling shareholder of the Company and its associates (as defined in the Listing Rules) and who have no interests in the transactions contemplated under the Capital Increase Agreement and are not required to abstain from voting on a resolution to approve the Acquisition
“Independent Third Party(ies)”	an independent third party/independent third parties 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
“Latest Practicable Date”	24 October 2007, 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

DEFINITIONS

“Major Transaction Circular”	the circular in relation to the Disposal (as defined in the announcement of the Company dated 8 October 2007) which is expected to be despatched by the Company on or before 9 November 2007
“PE”	price-to-earnings ratio
“PRC”	the People’s Republic of China
“Proxy Form”	a form of proxy for use in connection with the EGM
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Cap 571 of the laws of Hong Kong)
“Shareholder(s)”	holder(s) of the Shares
“Shares”	ordinary shares with a par value of US\$0.00015 each in the capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$”	US dollars, the lawful currency of the United States of America
“Zhejiang Hongda”	浙江宏達經編股份有限公司 (Zhejiang Hongda Warp Knitting Co., Ltd.*), a company incorporated in the PRC and an Independent Third Party
“Zhejiang Kasen Industrial”	浙江卡森實業有限公司 (Zhejiang Kasen Industrial Co., Ltd.*), a company incorporated in the PRC and an indirectly wholly owned subsidiary of the Company
“%”	per cent.

For the purpose of this circular, the exchange rate of RMB0.9699 to HK\$1.00 has been used for illustration purpose only.

* For identification purpose only



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:

Mr. Zhu Zhangjin (*Chairman*)

Mr. Zhou Xiaosong

Mr. Zhu Jianqi

Non-executive Director:

Mr. Li Hui

Independent non-executive Directors:

Mr. Lu Yungang

Mr. Chow Joseph

Mr. Zhang Huaqiao

Registered office:

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

Head office:

259 Qianjing 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

29 October 2007

To the Shareholders

Dear Sir or Madam,

**CONNECTED TRANSACTION IN RELATION TO
ACQUISITION OF 4.92% EQUITY INTEREST IN HAINING LEATHER MARKET**

1. INTRODUCTION

On 3 October 2007, the Board announced that pursuant to an auction for strategic investment in Haining Leather Market held on 30 September 2007, Zhejiang Kasen Industrial, a wholly owned subsidiary of the Company, succeeded in its bidding and entered into the Capital Increase Agreement to acquire 4.92% equity interest in Haining Leather Market.

LETTER FROM THE BOARD

As Haining Leather Market is a connected person of the Company by virtue of it being a substantial shareholder of a subsidiary of the Company, the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Since one of the applicable ratios exceeds 2.5% and the total consideration of the Acquisition is more than HK\$10,000,000, the Acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to Independent Shareholders' approval requirements at the EGM to be conducted by way of poll.

The purposes of this circular are:

1. to provide you with the details of the Acquisition;
2. to set out the advice of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition;
3. to set out the recommendation of the Independent Board Committee in respect of the Acquisition; and
4. to provide you with the general information of the Group.

2. ACQUISITION OF 4.92% EQUITY INTEREST IN HAINING LEATHER MARKET

BACKGROUND

Haining City Assets engaged 浙江產權交易所有限公司 (Zhejiang Property and Stock Exchange*) to hold the auction to invite bids from prospective investors and to select a maximum of two strategic investors to acquire the equity interest in Haining Leather Market after its increase of registered capital. Each bidder had to pay a refundable security deposit of RMB4,000,000 to 浙江產權交易所有限公司 (Zhejiang Property and Stock Exchange*) before it may participate at the auction.

Pursuant to the auction for strategic investment in Haining Leather Market on 30 September 2007, Zhejiang Kasen Industrial, a wholly owned subsidiary of the Company, succeeded in its bidding and entered into the Capital Increase Agreement to acquire 4.92% equity interest in Haining Leather Market.

LETTER FROM THE BOARD

CAPITAL INCREASE AGREEMENT

Date: 30 September 2007

Parties:

- (1) Haining City Assets
- (2) Haining Development Centre
- (3) Zhejiang Hongda
- (4) Zhejiang Kasen Industrial
- (5) Haining Leather Market Management Unit

Assets to be acquired:

Zhejiang Kasen Industrial entered into the Capital Increase Agreement on 30 September 2007 to acquire 4.92% equity interest in Haining Leather Market upon the increase of its registered capital from RMB47,607,800 to RMB58,081,600. Save for disclosed in this circular, as at the Latest Practicable Date, the Group does not have any plan to acquire further equity interest in Haining Leather Market.

Consideration and payment term:

The total consideration payable in cash under the Capital Increase Agreement is RMB42,333,400 (equivalent to approximately HK\$43,647,180). RMB4,000,000 (equivalent to approximately HK\$4,124,137) has been paid to 浙江產權交易所有限公司 (Zhejiang Property and Stock Exchange*) as security deposit for entering into the auction for the Acquired Assets which was conducted on 30 September 2007. An amount of RMB635,001 (equivalent to approximately HK\$654,708) calculated at 1.5% of the total consideration has been deducted from such security deposit as commission payment to 浙江產權交易所有限公司 (Zhejiang Property and Stock Exchange*) who manages the said auction in accordance with the requirements of such auction. Under the Capital Increase Agreement, the balance of the consideration has been paid to 浙江產權交易所有限公司 (Zhejiang Property and Stock Exchange*) on 10 October 2007, which is within 3 working days after the execution of the Capital Increase Agreement.

The total consideration and the related costs will be financed by the internal resources of the Group and/or bank financing.

Basis of consideration:

Zhejiang Kasen Industrial will acquire 4.92% equity interest in Haining Leather Market upon the said increase of its registered capital, constituting RMB2,856,500 (equivalent to approximately HK\$2,945,149) of the increased registered capital of Haining Leather Market. The total consideration of RMB42,333,400 is equivalent to the bid price offered by Zhejiang Kasen Industrial at a public auction held by 浙江產權交易所有限公司 (Zhejiang Property and Stock Exchange*) on 30 September 2007.

LETTER FROM THE BOARD

The Directors consider that it is fair and reasonable having taken into account factors including the profitability for the two years ended 31 December 2006 (as detailed below in the section headed “Information on Haining Leather Market” of this circular), the net asset value of RMB124,371,000 (equivalent to approximately HK\$128,230,745) and the revalued net asset value of RMB705,577,000 (equivalent to approximately HK\$727,473,966) of Haining Leather Market as of 31 December 2006.

Such revalued net asset value of Haining Leather Market was conducted and appraised by 浙江勤信資產評估有限公司 (Zhejiang Qinxin Appraisals Co., Ltd.*), an independent valuer employed by Haining City Assets, in accordance with 資產評估準則 (The Asset Valuation Standards) issued by the Ministry of Finance of the PRC. Assets subject to such revaluation include current assets, non-current assets, fixed assets including property, plant and equipment and intangible assets. The increase from Haining Leather Market’s net asset value to the revalued net asset value was mainly attributable to the appreciation of property owned by Haining Leather Market. As of 31 December 2006, Haining Leather Market has acquired approximately 330,000 square meters of property, and the open market value of such property increased from the historical purchase value of RMB1,200 per square meter to RMB18,000 per square meter based on the valuation report of 浙江勤信資產評估有限公司 (Zhejiang Qinxin Appraisals Co., Ltd.*) as of 31 December 2006. However, it should be noted that the revalued net asset value of Haining Leather Market is not reflected in the audited accounts of Haining Leather Market as of 31 December 2006, the reason being that the result of the revaluation was issued in August 2007.

Conditions:

Completion of the Acquisition is subject to all approval(s) required from the parties’ respective governance bodies having been obtained in respect of the transactions contemplated under the Capital Increase Agreement.

INFORMATION ON HAINING LEATHER MARKET

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

Based on the audited consolidated financial statements of Haining Leather Market prepared under generally accepted accounting principles in the PRC, the net profits before and after taxation of Haining Leather Market for the two financial years ended 31 December 2005 and 2006 are as follows:

	Year ended 31 December 2006 (Audited) RMB	Year ended 31 December 2005 (Audited) RMB
Profit before taxation	39,479,436	8,376,062
Profit after taxation	29,967,104	4,287,418

LETTER FROM THE BOARD

INFORMATION ON THE PARTIES TO THE CAPITAL INCREASE AGREEMENT OTHER THAN THE GROUP

Haining City Assets is a PRC state-owned enterprise engaged in state asset management for Haining City. Prior to the Acquisition, it holds 64.34% equity interest in Haining Leather Market. It will hold 52.73% equity interest in Haining Leather Market upon the completion of the Acquisition.

Haining Development Centre is a PRC state-owned enterprise engaged in the development of retail markets. Prior to the Acquisition, it holds 35.66% equity interest in Haining Leather Market. It will hold 29.23% equity interest in Haining Leather Market upon the completion of the Acquisition.

Zhejiang Hongda is a company with its A shares listed on the Shenzhen Stock Exchange in the PRC, which carries on the business of warp knitting, printing and dyeing for garment manufacturing. It will hold as a strategic investor 4.92% equity interest constituting RMB2,856,500 (equivalent to approximately HK\$2,945,149) of the increased registered capital of Haining Leather Market upon the completion of the Acquisition, at a total consideration of RMB42,333,400 (equivalent to approximately HK\$43,647,180) under the same terms of the Company under the Capital Increase Agreement.

Haining Leather Market Management Unit is an association representing the interests of Haining Leather City's management employees. It will hold 8.2% equity interest constituting RMB4,760,800 (equivalent to approximately HK\$4,908,547) of the increased registered capital of Haining Leather Market upon the completion of the Acquisition, at a total consideration of RMB70,555,056 (equivalent to approximately HK\$72,744,670) under the same terms of the Company under the Capital Increase Agreement.

To the best of the knowledge, information and belief of the Directors after having made all reasonable enquiries, Haining City Assets, Haining Development Centre, Zhejiang Hongda, Haining Leather Market Management Unit and their ultimate beneficial owners, are Independent Third Parties.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in the processing of raw cowhides and wet blues into finished leather or fully assembled leather products, and the Group is in the process of entering into property investment and development business.

Since state-owned assets in the PRC are normally acquired by means of auction, and Haining Leather Market is at present owned by state-owned enterprises and is indirectly wholly owned by 海寧市國有資產監督管理委員會 (State-owned Assets Supervision and Administrative Commission of Haining Municipal Government), equity interest in Haining Leather Market pursuant to its capital increase has to be put to auction.

LETTER FROM THE BOARD

The Board believes that the acquisition of equity interest in Haining Leather Market, an experienced and well-known leather market operator in the PRC, will further secure its relationship with Haining Leather Market and will provide the Group with a favorable opportunity to develop and operate leather product retail malls in the PRC. Accordingly, the Acquisition would enhance the retail sales and commercial property development capability, growth and profitability of the Group.

The Directors, including the independent non-executive Directors, consider that the terms of the Capital Increase Agreement and the transactions contemplated thereunder are entered into in the ordinary and usual course of business and the terms are fair and reasonable so far as the Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As Haining Leather Market is a substantial shareholder of a subsidiary of the Company, 海寧皮革產業投資開發有限公司 (Haining Leather Industry Investment and Development Co., Limited*), it is a connected person of the Company for the purposes of Chapter 14A of the Listing Rules. Accordingly, the transaction disclosed hereof constitutes a connected transaction of the Company under the Listing Rules. Further, as one of the applicable percentage ratios exceeds 2.5% and the total consideration is more than HK\$10,000,000, the Acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to reporting and announcement requirements as well as Independent Shareholders' approval requirements under the Listing Rules.

The Group's capital investment in Haining Leather Market is not a discloseable transaction under Chapter 14 of the Listing Rules as each of the applicable percentage ratios for the Acquisition is less than the relevant percentage requirement for constituting a discloseable transaction under Chapter 14 of the Listing Rules.

3. INFORMATION ON THE GROUP

The Company is an investment holding company and its subsidiaries are principally engaged in the processing of raw cowhides and wet blues into finished leather or fully assembled leather products. The Group is in the process of entering into property investment and development business.

Zhejiang Kasen Industrial is an indirect wholly owned subsidiary of the Company whose principal activities are research, development, production and sale of furniture leather. It is also an investment holding company of the Group's subsidiaries in the PRC.

4. EGM

A notice of the EGM to be held at 259, Qianjiang Road West, Haining, Zhejiang, China will be set out in the Major Transaction Circular, which shall set out the date and time of the EGM accordingly. At the EGM, ordinary resolutions will be proposed to consider and, if thought fit, to approve the Acquisition.

LETTER FROM THE BOARD

The ordinary resolutions to be proposed at the EGM to approve the Acquisition will be determined by way of poll by the Independent Shareholders in accordance with the Listing Rules.

As none of the Shareholders of the Company has a material interest in the Acquisition, no Shareholders shall abstain from voting in relation to the ordinary resolutions approving the Acquisition at the EGM.

The Proxy Form will be enclosed with the Major Transaction Circular. Whether or not you intend to attend the EGM, please complete and return the Proxy Form 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 Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event by not later than 48 hours before the time appointed for holding of the EGM or any adjourned meeting thereof. Completion and return of the Proxy Form will not preclude you from attending and voting in person at the EGM (or any adjourned meeting thereof) should you so wish.

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

5. PROCEDURE FOR DEMANDING A POLL BY SHAREHOLDERS

Under the articles of association of the Company, at any general meeting of Shareholders, a resolution shall be decided on a show of hands unless voting by way of a poll is required by the Listing Rules or is demanded before or on the declaration of the results of the show of hands or on the withdrawal of any other demand for a poll:

- (a) by the chairman of the meeting;
- (b) by at least three Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting;
- (c) by one or more Shareholder(s) present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or
- (d) by one or more Shareholder(s) present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and holding Shares in the Company conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all Shares conferring that right; or
- (e) if required by the Listing Rules, by an Director or Directors who, individually or collectively, hold proxies in respect of Shares representing five percent. (5%) or more of the total voting rights at such meeting.

LETTER FROM THE BOARD

6. RECOMMENDATIONS

The Independent Board Committee has been formed to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Acquisition under the Capital Increase Agreement set out in its letter on page 12 of this circular. Your attention is drawn to the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition set out on pages 13 to 18 in this circular.

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser and the principal factors and reasons considered by the Independent Financial Adviser, is of the view that the Acquisition is made on normal commercial terms, and is also fair and reasonable so far as the Company and the Independent Shareholders are concerned and is 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 Acquisition at the EGM.

Accordingly, the Directors as a whole consider that the terms and conditions of the Acquisition under the Capital Increase Agreement are fair and reasonable and in the interests of the Company and Shareholders as a whole. The Board recommends the Shareholders to vote in favour of the ordinary resolutions to approve the Acquisition at the EGM.

7. GENERAL

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

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

Haining, the People's Republic of China



KASEN INTERNATIONAL HOLDINGS LIMITED

卡森國際控股有限公司

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

(Stock Code: 496)

29 October 2007

To the Independent Shareholders

Dear Sir or Madam,

**CONNECTED TRANSACTION IN RELATION TO
ACQUISITION OF 4.92% EQUITY INTEREST IN HAINING LEATHER MARKET**

INTRODUCTION

We refer to the circular dated 29 October 2007 of the Company (the “Circular”) of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context requires otherwise.

We, being the independent non-executive Directors constituting the Independent Board Committee, are writing to advise you as a Shareholder whether in the views of the Independent Board Committee the terms of the Acquisition under the Capital Increase Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

We wish to draw your attention to the letter from the Board as set out on pages 4 to 11 of the Circular and the letter from the Independent Financial Adviser as set out on pages 13 to 18 of the Circular which contains, inter alia, its advice and recommendation to us regarding the terms of the Acquisition under the Capital Increase Agreement, with the principal factors and reasons for its advice and recommendation.

RECOMMENDATION

Having taken into account the advice and recommendation of the Independent Financial Adviser, we are of the view that the Acquisition is in the interests of the Company and the Shareholders as a whole and the terms of the Acquisition under the Capital Increase Agreement are fair and reasonable so far as the interests of the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Acquisition.

Yours faithfully,
Independent Board Committee
LU Yungang CHOW Joseph ZHANG Huaqiao
Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter of advice from Quam Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders of the Company, which has been prepared for the purpose of incorporation into this circular, setting out its advice to the Independent Board Committee and the Independent Shareholders of the Company in respect of the terms of the Acquisition.



Financial Services Group

Quam Capital Limited 華富嘉洛企業融資有限公司

A Member of The Quam Group

29 October 2007

To the Independent Board Committee and the Independent Shareholders
Kasen International Holdings Limited
Room 1605, Tai Tung Building
8 Fleming Road, Wanchai
Hong Kong

Dear Sir or Madam,

**CONNECTED TRANSACTION
ACQUISITION OF 4.92% EQUITY INTEREST IN
HAINING LEATHER MARKET**

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition. Details of the terms of the Acquisition are set out in the “Letter from the Board” contained in the circular issued by the Company to the Shareholders dated 29 October 2007 (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meaning as defined in the Circular unless the context otherwise requires.

Messrs. Lu Yungang, Chow Joseph and Zhang Huaqiao, the independent non-executive Directors, have been appointed as members of the Independent Board Committee to advise the Independent Shareholders as to whether the Acquisition is on normal commercial terms, in the ordinary and usual course of business of the Company, fair and reasonable and in the interest of the Company and the Shareholders as a whole; and as to whether to vote in favour of the Acquisition. As the independent financial adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Quam Capital Limited is independent of and not connected with any members of the Group or any of their substantial shareholders, directors or chief executives, or any of their respective associates, and is accordingly qualified to give an independent advice in respect of the Acquisition.

In formulating our recommendation, we have relied on the information, facts supplied by the Company, and the opinions expressed by and the representations of the Directors and management of the Company. We have assumed that all the information and representations contained or referred to in the Circular were true and accurate in all respects at the date thereof and may be relied upon. We have also assumed that all statements and representations made or referred to in the Circular are true at the time that they were made and continue to be true at the date thereof. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the Directors have confirmed to us that no material facts have been withheld or omitted from the information provided and referred to in the Circular, which would make any statement in the Circular misleading.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have also taken all the reasonable steps to satisfy the requirements under Rule 13.80 of the Listing Rules in forming our opinion. We have not, however, carried out any independent verification of the information, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of any member of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation, we have taken into consideration the following principal factors and reasons:

1. Background of the Acquisition

Background

As stated in the “Letter from the Board”, pursuant to an auction for strategic investment in Haining Leather Market, Zhejiang Kasen Industrial, a wholly-owned subsidiary of the Company, succeeded in its bidding and entered into the Capital Increase Agreement on 30 September 2007, pursuant to which Zhejiang Kasen Industrial agreed to acquire a 4.92% equity interest in Haining Leather Market. As Haining Leather Market is a connected person of the Company by virtue of it being a substantial shareholder of a subsidiary of the Company, the Acquisition constitutes a connected transaction of the Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Reasons for the entering into the Acquisition

Haining Leather Market is indirectly wholly owned by 海寧市國有資產監督管理委員會 (State-owned Assets Supervision and Administrative Commission of Haining Municipal Government). It is principally engaged in the development and operation of mega leather product retail malls/stores and the trading of leather products. The mega leather product shopping centre of Haining Leather Market is located in Haining. It contains a total floor area of 15.6 million square metres, hosts more than 2,000 stores that are principally engaged in the retail and wholesale of both raw and finished leather products. Following completion of the Acquisition, shareholdings of Haining Leather Market will be held as to (i) 52.73% by Haining City Assets, a PRC state-owned enterprise engaged in state asset management for Haining City; (ii) 29.23% by Haining Development Centre, a PRC state-owned enterprise engaged in the developments of retail markets; (iii) 8.2% held by Haining Leather Market Management Unit, an association representing the interest of Haining Leather City's management employees; (iv) 4.92% by Zhejiang Hongda, a company with its A-Shares listed on the Shenzhen Stock Exchange in the PRC, which carries on the business of warp knitting, printing and dyeing for garment manufacturing; and (v) 4.92% by the Company.

Based on the audited consolidated financial statements of Haining Leather Market prepared under generally accepted accounting principles in the PRC, the net profit before and after taxation for the year ended 31 December 2005 amounted to about RMB8.38 million (or about HK\$8.64 million) and about RMB4.29 million (or about HK\$4.42 million) respectively; and the net profit before and after taxation for the year ended 31 December 2006 amounted to about RMB39.48 million (or about HK\$40.70 million) and RMB29.97 million (or about HK\$30.90 million) respectively.

As the Group is principally engaged in the processing of raw cowhides and wet blues into finished leather or fully assembled leather products and is in the process of entering into property investment and development business, the Board believes, and as stated in the "Letter from the Board" of the Circular, that the Acquisition will further secure its relationship with Haining Leather Market which in turn may offer the Group opportunities to develop and operate leather product retail malls in the PRC and thereby enhance the retail sales and commercial property development capability of the Group.

In view of the above, we agree with the Directors that the entering into the Acquisition is in the ordinary and usual course of business and in the interests of the Company and the Shareholders as a whole in this respect.

2. Principal terms of the Acquisition

Consideration and payment term

The total consideration payable in cash for the acquisition of 4.92% equity interest in Haining Leather Market is RMB42,333,400 (or about HK\$43,647,180). The PE represented by the consideration of the Acquisition is 28.71 times. The total consideration and the related costs will be financed by the internal resources of the Group and/or bank financing. Please refer to the “Letter from the Board” for details of the related costs and payment terms.

Basis of consideration

As stated in the section above, Haining Leather Market is at present owned by state-owned enterprises and is indirectly wholly owned by 海寧市國有資產監督管理委員會 (State-owned Assets Supervision and Administrative Commission of Haining Municipal Government); as such, sales of equity interest in Haining Leather Market are conducted by means of auction. The consideration for the Acquisition was arrived at as a result of the bidding process undertaken by Zhejiang Kasen Industrial at a public auction held by 浙江產權交易所有限公司 (Zhejiang Property and Stock Exchange).

In preparation for the bidding of the 4.92% Haining Leather Market, the Directors have taken into account the track record profitability referred to in the section above as well as the net asset value of RMB124.37 million (or about HK\$128.23 million) and the revalued net asset value of RMB705.58 million (or about HK\$727.47 million) of Haining Leather Market as of 31 December 2006. The revaluation of the net asset was prepared by 浙江勤信資產評估有限公司 (Zhejiang Qin Xin Appraisals Co., Ltd.), an independent valuer, in accordance with 資產評估準則 (The Asset Valuation Standards) issued by 中華人民共和國財政部 (The Ministry of Finance of the PRC). However, it should be noted that the revalued net asset value is not reflected in the audited accounts of Haining Leather Market as of 31 December 2006. For information relating to the revaluation, please refer to the “Letter from the Board”.

On the basis of the track record profitability and business prospects of Haining Leather Market, the Directors are of the view that the consideration for the Acquisition and the basis of the same are fair and reasonable, and are in the interest of the Group and the Shareholders as a whole.

In our view, reassessed net asset value, when prepared according to the relevant and applicable guidelines, should better reflect the underlying strength of the asset backing of the respective assets or investments. In the context of our review, due to the nature of Haining Leather Market’s principle business of developing and operating mega retail malls/stores and the trading of leather products, we consider it is more appropriately valued by reference to earnings. Given there were no transactions of comparable scale

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

announced in the last 12 months by Hong Kong listed companies with similar background, in order to assess the reasonableness of the consideration, we have made reference to the PE of the companies whose shares are listed in the Stock Exchange which are principally engaged in the business nature which are generally in line with that engaged by Haining Leather Market. We have identified 3 companies with their shares listed on the Stock Exchange (“**Comparable Companies**”) as comparables in our analyses. The following table summarises our findings:

Name of the companies (Stock Code)	Principal businesses	Closing share price (HK\$)	Market capitalisation (HK\$ million)	PE (times)	Net Asset Value (HK\$ million)
Jiahua Stores Holdings Ltd. (“Jiahua”) (602)	Operation of department stores and retail chain in the PRC	0.78	809.25	13.78	352.61
Intime Department Store (Group) Co., Ltd. (“Intime”) (1833)	Operation of department store chain in the PRC	6.21	11,178.00	52.48	937.37
Golden Eagle Retail Group Ltd. (“Golden Eagle”) (3308)	Operation and development of department store chain in the PRC	7.25	13,172.60	55.02	979.03

Average PE of the Comparable Companies is 40.43.

Source: Annual reports of the Comparable Companies and website of the Stock Exchange

Notes:

- (1) Based on the net profit attributable to shareholders of Jiahua of approximately RMB56.90 million (or about HK\$58.71) million for the year ended 31 December 2006 and 1,037,500,000 shares in issue as at 31 August 2007, the earnings per share (“EPS”) of Jiahua was about HK\$0.0567. Based on the EPS of Jiahua and the closing shares price of Jiahua of about HK\$0.78 as at 24 October 2007, Jiahua had PE of about 13.78 times.
- (2) Based on the net profit attributable to shareholders of Intime of approximately RMB206.41 million (or about HK\$212.99 million) for the year ended 31 December 2006 and 1,800,000,000 shares in issue as at 31 July 2007. EPS of Intime was about HK\$0.118. Based on the EPS of Intime and the closing shares price of Intime of about HK\$6.21 as at 24 October 2007, Intime had PE of about 52.48 times.
- (3) Based on the net profit attributable to shareholders of Golden Eagle of approximately RMB232.00 million (or about HK\$239.40 million) for the year ended 31 December 2006 and 1,816,911,000 shares in issue as at 31 August 2007. EPS of Golden Eagle was about HK\$0.1318. Based on the EPS of Golden Eagle and the closing shares price of Golden Eagle of about HK\$7.25 as at 24 October 2007, Golden Eagle had PE of about 55.02 times.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As illustrated above, PE of the comparable companies range from 13.78 to 55.02 times with an average of about 40.43 times. The PE of 28.71 times represented by the consideration of the Acquisition is lower than the average of the Comparable Companies. In view of the above, we consider that the terms and consideration of the Acquisition fair and reasonable.

RECOMMENDATION

Taking into consideration of all the material factors and reasons as mentioned above which are relevant to assess the fairness on the terms of the Acquisition, we consider that the terms of the Acquisition were entered into on normal commercial terms in the ordinary and usual course of business of the Group, and it is fair and reasonable and in the interests of the Company and the Shareholders as a whole and so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Shareholders and the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Acquisition.

Yours faithfully,
For and on behalf of
Quam Capital Limited
Sandy Yip
Director

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the 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

(a) Directors and Chief Executive

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 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 Directors	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	328,867,019	33.22%
		(Note)		
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 of Director	Exercise price (HK\$)	Number of share options			Outstanding as at the Latest Practicable Date	Percentage of total issued share capital	Exercisable period	Notes
		Outstanding as at 1 January 2007	Granted from 1 January 2007 to the Latest Practicable Date	Cancelled from 1 January 2007 to the Latest Practicable Date				
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

Notes:

- Pursuant to the share option scheme (the “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 share options were granted pursuant to the 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.
- Except the cancelled share option stated above, up to the Latest Practicable Date, none of these share options were exercised nor lapsed.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive 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.

(b) 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 Mr. Zhu Zhangjin 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 ²	Beneficial owner	–	328,867,019	328,867,019	33.22%
Warburg Pincus & Co. ¹	Interest of controlled corporation	–	186,989,966	186,989,966	18.88%
Warburg Pincus Partners LLC ¹	Beneficial owner	–	186,989,966	186,989,966	18.88%
Warburg Pincus Private Equity VIII L.P. ¹	Beneficial owner	–	90,605,988	90,605,988	9.15%
Warburg Pincus International Partners L.P. ¹	Beneficial owner	–	89,616,811	89,616,811	9.05%

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	Percentage of interest in subsidiaries
海寧歐諾雅進出口有限公司 (Haining Ounuoya Import & Export Co., Ltd*)	海寧歐意美沙發有限公司 ⁴ (Haining Oyi May Sofa Co., Ltd*)	Beneficial	28%
許月蓮 ¹ (Xu Yuelian)	海寧歐意美沙發有限公司 ⁴ (Haining Oyi May Sofa Co., Ltd*)	Corporate	25.20%
海寧宏遠沙發配件經營部 (Haining Hongyuan Sofa Accessories Operation*)	海寧歐意美沙發有限公司 ⁴ (Haining Oyi May Sofa Co., Ltd*)	Beneficial	21.50%
朱聖源 ² (Zhu Shenyuan)	海寧歐意美沙發有限公司 ⁴ (Haining Oyi May Sofa Co., Ltd*)	Corporate	21.50%
岳娜有限責任公司 (Yuena Co., Ltd*)	浙江獵馬傢俬有限公司 ⁵ (Zhejiang Liema Furniture Co., Ltd*)	Beneficial	25%
海寧強業針紡織貿易經營部 (Haining Qiangye Textile Trading Operation*)	浙江獵馬傢俬有限公司 ⁵ (Zhejiang Liema Furniture Co., Ltd*)	Beneficial	15.15%
王益煒 ³ (Wang Yiwei)	浙江獵馬傢俬有限公司 ⁵ (Zhejiang Liema Furniture Co., Ltd*)	Corporate	15.15%
海寧浙江皮革服裝城投資開發有限公司 (Haining Zhejiang Leather and Garment Market Investment and Development Company Limited*)	海寧皮革產業投資開發有限公司 ⁶ (Haining Leather Industry Investment and Development Co., Ltd.*)	Beneficial	25%

Notes:

1. 海寧歐諾雅進出口有限公司 (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 海寧歐意美沙發有限公司 (Haining Oyi May Sofa Co., Ltd.*).
2. 海寧宏遠沙發配件經營部 (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 海寧歐意美沙發有限公司 (Haining Oyi May Sofa Co., Ltd.*) held by 海寧宏遠沙發配件經營部 (Haining Hongyuan Sofa Accessories Operation*).
3. 海寧強業針紡織貿易經營部 (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 浙江獵馬傢俬有限公司 (Zhejiang Liema Furniture Co., Ltd.*) held by 海寧強業針紡織貿易經營部 (Haining Qiangye Textile Trading Operation*).
4. The Company has 50.5% indirect interest in 海寧歐意美沙發有限公司 (Haining Oyimay Sofa Co., Ltd.*).
5. The Company has 50.5% indirect interest in 浙江獵馬傢俬有限公司 (Zhejiang Liema Furniture Co., Ltd.*).
6. The Company has 60% indirect interest in 海寧浙江皮革服裝城投資開發有限公司 (Haining Leather Industry Investment and Development Co., Ltd.*).

3. DIRECTORS' SERVICE CONTRACTS

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.

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 business of the Group as required to be disclosed pursuant to the Listing Rules.

5. QUALIFICATIONS OF EXPERT

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

Name	Qualifications
Quam Capital Limited	A licensed corporation under the SFO authorised to carry out type 6 regulated activities (advising on corporate finance)

6. CONSENT

The Independent Financial Adviser has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and references to its name in the form and context in which it appears.

7. 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 2006, being the date to which the latest published audited financial statements of the Company were made up.

8. 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.

9. GENERAL

- (a) Neither the Directors nor the Independent Financial Adviser had any direct or indirect interest in any assets which had been acquired or disposed of or leased to any member of the Company or proposed to be so acquired, disposed of or leased since 31 December 2006, being the date to which the latest published audited accounts of the Company were made up, and up to the Latest Practicable Date.
- (b) 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.
- (c) As at the Latest Practicable Date, the Independent Financial Adviser does not have any shareholding in or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company.
- (d) The qualified accountant and company 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.
- (e) The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (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 Ltd.
- (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.

10. 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:

- (a) the Capital Increase Agreement;
- (b) the memorandum and articles of association of the Company;
- (c) the annual reports of the Company for each of the two years ended 31 December 2006;
- (d) the letter from the Independent Board Committee, the text of which is set out on page 12 in this circular;
- (e) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 13 to 18 in this circular;
- (f) the written consent of the Independent Financial Adviser referred to in the paragraph headed “Qualification of Expert” in the Appendix; and
- (g) this circular.