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# THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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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 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 and the accompanying form of proxy to the purchaser, transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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## KASEN INTERNATIONAL HOLDINGS LIMITED

卡森國際控股有限公司

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

**(Stock Code: 496)**

## CONTINUING CONNECTED TRANSACTIONS

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



招商證券(香港)有限公司

CHINA MERCHANTS SECURITIES (HK) CO., LTD.

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A letter from the Board is set out on pages 4 to 12 of this circular and a letter from the Independent Board Committee is set out on page 13 of this circular. A letter from China Merchants, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, containing its advice to the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions and the Annual Caps is set out on pages 14 to 27 of this circular.

A notice convening the EGM to be held at 259 Qianjiang Road West, Haining, Zhejiang, China on 22 January 2008 is set out on pages 35 to 36 of this circular. Whether or not you are able to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the office of the Company's share registrar 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 not less than 48 hours before the appointed time for holding the meeting or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting and any adjourned meeting (as the case may be) should you so wish.

7 January 2008

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## DEFINITIONS

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

“Agreements”	the Sleep City Agreement and the Northwestern Renewal Agreement
“Annual Caps”	the Sleep City Annual Caps and the Northwestern Annual Caps
“associate(s)”	has the same meaning as given to it under the Listing Rules
“Baiyin Kasen”	Baiyin Kasen Leather Co., Ltd, a company established in the PRC and a subsidiary of Sunbridge
“Board”	the board of Directors
“China Merchants”	China Merchants Securities (HK) Co., Ltd., the independent financial adviser to the Independent Board Committee and the Independent Shareholders and a corporation licensed to carry on Type 1 (dealings in securities), Type 2 (dealings in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
“Company”	Kasen International Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability and the issued Shares (stock code: 496) of which are listed on the main board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Continuing Connected Transactions”	the transactions contemplated under the Agreements
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened on 22 January 2008 to approve the Continuing Connected Transactions and the Annual Caps or any adjournment thereof
“Group”	the Company and its subsidiaries

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## DEFINITIONS

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“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 independent non-executive Directors, namely Mr. Lu Yungang, Mr. Chow Joseph and Mr. Zhang Huaqiao, which have been appointed by the Board to advise the Independent Shareholders in respect of the Continuing Connected Transactions and the Annual Caps
“Independent Shareholders”	the shareholders of the Company other than Mr. Zhu Zhangjin and his associates
“Kezilesu Xinrong”	Kezilesu Xinrong Leather Co., Ltd, a limited liability company established in the PRC and a subsidiary of Sunbridge
“Latest Practicable Date”	3 January 2008, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Northwestern Annual Caps”	the annual cap amounts under the Northwestern Renewal Agreement
“Northwestern Companies”	Kezilesu Xinrong, Yili Horgos and Baiyin Kasen
“Northwestern Renewal Agreement”	the agreement entered into between the Group and the Northwestern Companies on 17 December 2007 regarding the purchase of wet blues by the Group from the Northwestern Companies
“PRC”	the People’s Republic of China, and for the purpose of this circular, excludes Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Prospectus”	the prospectus dated 10 October 2005 issued by the Company

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## DEFINITIONS

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“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	holder(s) of the Shares
“Shares”	ordinary share(s) with a par value of US\$0.00015 each in the issued share capital of the Company
“Sleep City”	Sleep City Holdings Limited, a company incorporated in Australia and an associate of Mr. Zhu Zhangjin
“Sleep City Agreement”	the agreement entered into between the Group and Sleep City on 17 December 2007 regarding the sale of upholstered furniture from the Group to Sleep City
“Sleep City Annual Caps”	the annual caps under the Sleep City Agreement
“Sleep City Group”	Sleep City and its subsidiaries
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the same meaning ascribed to it under the Listing Rules
“Sunbridge”	Zhejiang Sunbridge Industrial (Group) Co., Ltd., a company incorporated in the PRC and in which Mr. Zhu Zhangjin indirectly controls more than 30% of the voting power at the general meeting
“US\$”	United States dollars, the lawful currency of USA
“USA”	The United States of America
“Yili Horgos”	Yili Horgos Leather Co., Ltd., a company incorporated in the PRC and a subsidiary of Sunbridge
“%”	per cent.

\* for identification purposes only

*For the purpose of this circular, the exchange rates of RMB0.951 = HK\$1.00 and US\$1.00 = RMB7.4094 have been used for currency translation, where applicable. Such exchange rate is for illustration purposes and does not constitute a representation that any amount in RMB or HK\$ or US\$ have been, could have been or may be converted at such rate.*



**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 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

7 January 2008

*To the Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS**

**INTRODUCTION**

The Board announces that on 17 December 2007 that the Company entered into the Agreements with Sleep City and the Northwestern Companies in respect of the Continuing Connected Transactions. Sleep City and the Northwestern Companies are connected persons of the Company as Sleep City is owned as to 35% by Sunbridge whereas the Northwestern Companies are subsidiaries of Sunbridge, a company in which Mr. Zhu Zhangjin, a Director and a substantial shareholder of the Company, indirectly controls more than 30% of the voting power at its general meeting. Accordingly, the entering into of the Agreements between the Company and each of the Sleep City and the Northwestern Companies, constitutes continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

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## LETTER FROM THE BOARD

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As the percentage ratios in respect of the Annual Caps exceed the 2.5% threshold provided in Rule 14A.34 of the Listing Rules, the Continuing Connected Transactions will be subject to the reporting, announcement and Independent Shareholders' approval requirements pursuant to Rule 14A.35 of the Listing Rules. Mr. Zhu Zhangjin and his associates will abstain from voting in the EGM to be convened for the approval of, inter alia, the Continuing Connected Transactions and the Annual Caps.

The Independent Board Committee comprising the independent non-executive Directors, namely Mr. Lu Yungang, Mr. Chow Joseph and Mr. Zhang Huaqiao has been formed to advise the Independent Shareholders in respect of the Continuing Connected Transactions and the Annual Caps.

The independent financial adviser, China Merchants, has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions and the Annual Caps.

The purposes of this circular are:

- (i) to provide the Shareholders with details of the Agreements and the relevant cap amounts in relation to the Continuing Connected Transactions;
- (ii) to set out the opinion of the independent financial adviser in respect of the terms of the Agreements and the relevant cap amounts in relation to the Continuing Connected Transactions;
- (iii) to set out the recommendation of the Independent Board Committee in respect of the terms of the Agreements and the relevant cap amounts in relation to the Continuing Connected Transactions; and
- (iv) to give notice of the EGM to consider and, if thought fit, to approve the Agreements and the relevant cap amounts in relation to the Continuing Connected Transactions.

Your attention is hereby drawn to pages 35 to 36 of this circular where you will find a notice of the EGM to be held on 22 January 2008.

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## LETTER FROM THE BOARD

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### (1) SLEEP CITY AGREEMENT

- Date: 17 December 2007
- Parties: The Company  
Sleep City and its subsidiaries
- Subject: Pursuant to the Sleep City Agreement, the Company will, and will procure its associates, to sell upholstered furniture to Sleep City (“**Sleep City Transactions**”).
- Term: The Sleep City Agreement has a fixed term of three financial years ending on 31 December 2010.
- Price: The basis of determining the prices for the Sleep City Transactions will be in accordance with: (i) a comparable market price where the normal cost of billing of the furniture concerned will be taken into account; or (ii) by agreement between the parties based on prices no less favourable to/from third parties or reasonably agreed between the parties, if no comparable market price can be taken as a reference.
- Condition: The Sleep City Agreement is subject to approval by the Independent Shareholders.
- Payment: Payment for Sleep City Transactions will be settled by way of telegraphic transfer at credit terms to be agreed by the parties in accordance with their respective normal term of supplies to third parties.

It is proposed that the Sleep City Annual Caps for each of the financial years ending 31 December 2008, 2009 and 2010 will not exceed the followings:

	<b>2008</b>	<b>2009</b>	<b>2010</b>
	<i>US\$' million</i>	<i>US\$' million</i>	<i>US\$' million</i>
Sales of upholstered furniture	12	12	12

The cap amounts are determined with reference to the anticipated business volume of the Sleep City Group and the Group and the projected sales orders from Sleep City Group, taking into account of Sleep City Group’s recent launch of upholstered furniture as its new product line in Australia, for the three financial years ending 31 December 2010.



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## LETTER FROM THE BOARD

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### Reasons for the Sleep City Transactions

The Sleep City Group is principally engaged in retail sales of upholstered furniture in Australia. Sleep City is one of Australia's largest privately owned companies of specialty bedding stores and they are expanding their business to upholstered furnitures. Its demand for upholstered furnitures imported from China is big and continuous. The Directors consider that the Sleep City Transactions with the Sleep City Group are in the interest of the Company and the Shareholders as a whole because it would render regular sales to one of the largest privately owned companies of specialty bedding stores in Australia.

Sleep City is owned as to 35% by Sunbridge, a company in which Mr. Zhu Zhangjin, a Director and a substantial shareholder of the Company, indirectly controls more than 30% of the voting power at its general meeting. Accordingly, transactions between the Group and Sleep City constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. As the annual amount of the Sleep City Transactions exceed the 2.5% threshold provided in Rule 14A.34 of the Listing Rules, the Sleep City Transactions will be subject to the reporting, announcement and Independent Shareholders' approval requirements pursuant to Rule 14A.35 of the Listing Rules. Mr. Zhu Zhangjin and his associates will abstain from voting in the EGM to be convened for the approval of, inter alia, the Sleep City Transactions.

### (2) NORTHWESTERN RENEWAL AGREEMENT

Date:	17 December 2007
Parties:	The Company Northwestern Companies
Subject:	Pursuant to the Northwestern Renewal Agreement, the Company will, and will procure its associates, to purchase wet blues from Northwestern Companies (" <b>Northwestern Transactions</b> ").
Term:	The Northwestern Renewal Agreement has a fixed term of three financial years ending on 31 December 2010.
Price:	The basis of determining the prices for the Northwestern Transactions will be in accordance with: (i) a comparable market price; or (ii) by agreement between the parties based on prices no less favourable to/from third parties or reasonably agreed between the parties, if no comparable market price can be taken as a reference. In general, the Company would compare the quotations obtained from various potential suppliers and determine the price after taking into consideration the quality of the wet blues to be supplied by the relevant suppliers.

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## LETTER FROM THE BOARD

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Condition: The Northwestern Renewal Agreement is subject to approval by the Independent Shareholders.

Payment: Payments for the Northwestern Transactions shall be in the manner as reasonably requested by the parties.

It is proposed that the Northwestern Annual Caps for each of the financial years ending 31 December 2008, 2009 and 2010 will not exceed the followings:

	<b>2008</b>	<b>2009</b>	<b>2010</b>
	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>
Purchase of wet blues	212	212	212

The cap amounts are determined with reference to the historical transactional amounts between the Northwestern Companies and the Group for the two years ended 31 December 2006 and the 6 months ended 30 June 2007. The Group commenced retail sales of leather business in the PRC in October 2007 and for tax saving purposes, the Group increased the purchase of wet blues from suppliers in the PRC and reduced import sales from overseas suppliers. With the implementation of such business model and strategies, the Company anticipated an increase in the business volume of the Northwestern Companies and the Group for the three financial years ending 31 December 2010.

The Northwestern Companies and the Company entered into an agreement for a fixed term of three years ending 31 December 2007 (the “**Northwestern Agreement**”). Details of the transactions contemplated under the Northwestern Agreement were disclosed in the Prospectus and the Company had obtained waivers from Stock Exchange from strict compliance with the announcement and/or independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

As the Northwestern Agreement is expired on 31 December 2007, it is proposed that the Northwestern Renewal Agreement be entered to govern the Northwestern Transactions.

The historical transaction amounts between the Northwestern Companies and the Group for the two financial years ended 31 December 2006 and the six months ended 30 June 2007 were as follows:

	<b>2005</b>	<b>2006</b>	<b>For the first 6 months ended 30 June 2007</b>
	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>
Purchase of wet blues	293.18	163.32	66.77

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## LETTER FROM THE BOARD

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### Reasons for the Northwestern Transactions

The Northwestern Companies are the largest importer in Southern Xinjiang, Northern Xinjiang and Gansu Provinces which import raw cowhides purchased from Xinjiang, Gansu and Qinghai of Northwest China or neighboring countries, such as Kazakhstan, Tajikistan, Uzbekistan and Kyrgyzstan, and process such raw cowhides into wet blues. Although the Group has wet blues processing capacity, its tannery facility in Haining did not produce sufficient wet blues for its production needs and the Group had to source wet blues externally from time to time. There would also be an advantage in saving transportation and handling costs for us if the processing and enhancement of raw cowhides into wet blues were performed near the place of origin of the raw cowhides.

As the Northwestern Companies are subsidiaries of Sunbridge, a company which Mr. Zhu Zhangjin, a Director and a substantial shareholder of the Company, indirectly controls more than 30% of the voting power at general meetings, transactions between the Group and Northwestern Companies constitute connected transactions for the Company under the Listing Rules. As the percentage ratios of the annual cap amounts of the Northwestern Transactions exceed the 2.5% threshold provided in Rule 14A.34 of the Listing Rules, the Northwestern Transactions will be subject to the reporting, announcement and Independent Shareholders' approval requirements pursuant to Rule 14A.35 of the Listing Rules. Mr. Zhu Zhangjin and his associates will abstain from voting in the EGM to be convened for the approval of, inter alia, the Northwestern Transactions.

The entering into of the Agreements and the transactions contemplated thereby constitute continuing connected transaction of the Company under Chapter 14A of the Listing Rules. As the Annual Caps exceed 2.5% of the applicable percentage ratios and over HK\$10,000,000, these transactions are subject to the announcement, reporting and the independent shareholders' approval requirements under Rule 14A.34 of the Listing Rules.

### GENERAL

The Company is principally engaged in the manufacturing of upholstered furniture and leather products.

The Directors (including the independent non-executive Directors) consider that the Continuing Connected Transactions will be entered into in the usual and ordinary course of businesses of the Group and the terms of the Continuing Connected Transactions have been negotiated and will be conducted on an arm's length basis and on normal commercial terms, between the Group and each of Sleep City and the Northwestern Companies. The Directors (including the independent non-executive Directors) are of the view that as far as the Independent Shareholders are concerned, the terms of the Continuing Connected Transactions and the Annual Caps are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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The Company will therefore seek the approval by the Independent Shareholders of the Continuing Connected Transactions and the Annual Caps respectively pursuant to Rules 14A.37 to 14A.41 of the Listing Rules. The Company will re-comply with the publication and shareholders' approval requirements under Chapter 14A of the Listing Rules when and if any of the Annual Caps in the Sleep City Transactions and Northwestern Transactions are exceeded.

### EGM

A EGM will be convened at which ordinary resolutions will be proposed to consider and, if thought fit, approve the Sleep City Agreement, the Northwestern Renewal Agreement and the Annual Caps. The voting at the EGM will be by poll. As at the Latest Practicable Date, Mr. Zhu Zhangjin and his associates were interested in 328,867,019 shares, representing 33.22% in the issued share capital of the Company. Mr. Zhu Zhangjin and his associates will abstain from voting for the resolutions to be proposed at the EGM to approve the Agreements and the Annual Caps. Mr. Zhong Jian, a shareholder of the Company holding 0.28% voting power at the Company's general meeting, is a director and shareholder holding 23% issued share capital of Aries Capital Holding Limited ("**Aries Capital**") and Aries Capital is holding 13% indirect interests in Sleep City. As Mr. Zhong Jian is not a director nor an associate of Sleep City under the Listing Rules and the Sleep City Transactions confer no benefit, whether economic or otherwise, upon Mr. Zhong Jian, Mr. Zhong Jian is not required to abstain from voting for the resolution to be proposed at the EGM to approve the Sleep City Agreement and the Sleep City Annual Caps.

Save for Mr. Zhu Zhangjin and his associates, no other person has any material interests in the Agreements who is required to abstain from voting for the resolutions to be proposed at the EGM to approve the Agreements and the Annual Caps.

The Independent Board Committee comprising the independent non-executive Directors, namely Mr. Lu Yungang, Mr. Chow Joseph and Mr. Zhang Huaqiao, has been formed to advise the Independent Shareholders in respect of the Continuing Connected Transactions and the Annual Caps.

The independent financial adviser, China Merchants, has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions and the Annual Caps.

The notice convening the EGM to be held at 259 Qianjiang Road West, Haining, Zhejiang, China on 22 January 2008 is set out on pages 35 to 36 of this circular. At the EGM, an ordinary resolution will be proposed to approve the Agreement and the Annual Caps.

A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the meeting, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the office of the Company's share registrars, 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 not less than

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## LETTER FROM THE BOARD

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48 hours before the time appointed for holding the meeting or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting and any adjourned meeting (as the case may be) should you so wish.

### **PROCEDURES TO DEMAND 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 per cent. (5%) or more of the total voting rights at such meeting.

The Continuing Connected Transactions are subject to the reporting, announcement and the Independent Shareholders' approval requirements and the vote of the Independent Shareholders taken at the EGM will be taken by poll pursuant to the Listing Rules and Mr. Zhu Zhangjin and his associates will abstain from voting at the EGM.

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## LETTER FROM THE BOARD

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### RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 13 of this circular which contains its recommendation to the Independent Shareholders on the Agreements and the relevant cap amounts in relation to the Continuing Connected Transactions. Your attention is also drawn to the letter of advice received from China Merchants which contains, amongst other matters, its advice to the Independent Board Committee and the Independent Shareholders whether the Continuing Connected Transactions are (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; and (iii) fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Group and the Shareholders as a whole, and the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Group and the Shareholders as a whole. The letter from China Merchants is set out on pages 14 to 27 of this circular.

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

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



**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)**

Room 1605  
Tai Tung Building  
8 Fleming Road  
Wanchai  
Hong Kong

7 January 2008

*To the Independent Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular of the Company to the Shareholders dated 7 January 2008 (the “**Circular**”), in which this letter forms a part. Unless the context requires otherwise, capitalized terms used in this letter will have the same meanings given to them in the section headed “Definitions” of the Circular.

We have been authorised by the Board to form the Independent Board Committee to advise the Independent Shareholders in respect of the Continuing Connected Transactions and the Annual Caps.

We wish to draw your attention to the letter of advice from China Merchants as set out on pages 14 to 27 of the Circular and the letter from the Board set out on pages 4 to 12 of the Circular.

Having considered, among other matters, the factors and reasons considered by, and the opinion of China Merchants as stated in its letter of advice, we consider that the Continuing Connected Transactions are (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; and (iii) fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Group and the Shareholders as a whole, and the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Group and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution in relation to the Continuing Connected Transactions and the Annual Caps to be proposed at the EGM.

Yours faithfully,  
the Independent Board Committee

**Mr. Lu Yungang**  
*Independent non-executive  
Director*

**Mr. Chow Joseph**  
*Independent non-executive  
Director*

**Mr. Zhang Huaqiao**  
*Independent non-executive  
Director*

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## LETTER FROM CHINA MERCHANTS

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*The following is the text of the letter of advice from China Merchants to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.*



48th Floor,  
One Exchange Square,  
Central,  
Hong Kong

7 January 2008

Kasen International Holdings Limited  
Room 1605, Tai Tung Building  
8 Fleming Road, Wanchai  
Hong Kong

*To: the Independent Board Committee and the Independent Shareholders of  
Kasen International Holdings Limited*

Dear Sirs,

### CONTINUING CONNECTED TRANSACTIONS

#### INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions and the Annual Caps, details of which are contained in the letter from the Board (the “Letter from the Board”) of the circular dated 7 January 2008 (the “Circular”) issued by the Company to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

As referred to in the Letter from the Board, Sleep City is owned as to 35% by Sunbridge, a company in which Mr. Zhu Zhangjin, a Director and substantial shareholder of the Company, indirectly controls more than 30% of the voting power at its general meeting. The Northwestern Companies are subsidiaries of Sunbridge. Accordingly, the Sleep City Transactions and the Northwestern Transactions constitute connected transactions for the Company under Chapter 14A of the Listing Rules. As the Percentage Ratios in respect of the annual cap amounts for each of the Sleep City Transactions and the Northwestern Transactions exceeded the 2.5% threshold provided in Rule 14A.34 of the Listing Rules, the Sleep City Transactions and the Northwestern Transactions will be subject to the reporting, announcement and independent Shareholders’ approval requirements pursuant to Rule 14A.35 of the Listing Rules. The Continuing Connected Transactions are subject to the approval by the Independent Shareholders by way of poll at the EGM.



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## LETTER FROM CHINA MERCHANTS

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

### **BASIS OF OUR OPINION**

In formulating our advice and recommendation, we have relied on the accuracy of the information and facts supplied, and the opinions expressed by the Group, the Directors and the Group's management to us. We have assumed that all statements of belief and intention made by the Directors in the Circular were made after due enquiry. We have also assumed that all information, representations and opinion made or referred to in the Circular were true, accurate and complete at the time they were made and will continue to be true at the date of the EGM. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Group, the Directors and the Group's management, and have been advised by the Directors that no material facts have been omitted from the information provided by or referred to in the Circular.

In rendering our opinion, we have researched, analyzed and relied on information in relation to the Group and the Continuing Connected Transactions as set out below:

- (i) the Sleep City Agreement;
- (ii) the Northwestern Renewal Agreement;
- (iii) the annual report of the Company for the year ended 31 December 2005;
- (iv) the annual report of the Company for the year ended 31 December 2006;
- (v) the interim report of the Company for the six months ended 30 June 2007;
- (vi) the Prospectus; and
- (vii) the Circular.

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## LETTER FROM CHINA MERCHANTS

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We have also researched, analyzed and relied on information as set out below:

- (i) the industry report (the “CSIL China Report”) issued in June 2007 headed “The furniture industry in China including Hong Kong” issued by CSIL Milano (“CSIL”), an independent research and consulting company based in Italy which is specialized in the manufacturing sectors;
- (ii) the industry report (the “CSIL Market Report”) issued in July 2007 headed “Upholstered furniture: world market outlook” issued by CSIL; and
- (iii) the industry report (the “IBIS Report”) issued in December 2005 headed “Furniture manufacturing n.e.c. in Australia” issued by IBISWorld Pty Ltd., an independent market research organization which is headquartered in Australia and is specialized in forecasting of industries and the general business environment, and providing information for strategic planning and research purposes.

We have assumed such information to be accurate and reliable and have not carried out any independent verification on the accuracy of such information. Such relevant information provides us with a basis on which we have been able to formulate our independent opinion.

We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. 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 recommendation. We have not, however, conducted any form of in-depth investigations into the business affairs, financial position and future prospects of the Group and the parties to the Sleep City Agreement and the Northwestern Renewal Agreement, nor carried out any independent verification of the information supplied, representations made or opinions expressed by the Group, the Directors and the Group’s management.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

#### I. BACKGROUND

##### 1. Information on the Group

###### (i) *The Group’s principal business*

The Group is principally engaged in the manufacture of upholstered furniture and leather products. The Group’s products mainly comprised upholstered furniture, furniture leather and automotive leather.

## LETTER FROM CHINA MERCHANTS

From the year ended 31 December 2004 to the year ended 31 December 2006, the Group's audited turnover increased from approximately RMB2,852.4 million to approximately RMB3,916.5 million, representing a compound average growth rate ("CAGR") of approximately 17.2% per annum. As advised by the Directors, the growth in the Group's turnover was mainly attributable to (i) the increase of international trade between the PRC and other countries; and (ii) the increasing outsourcing trend for upholstered furniture from developed countries and regions, including the USA, Europe and Australia.

As referred to in the interim report of the Company for the six months ended 30 June 2007, the Group has experienced certain challenges in its operations, including foreign exchange risk, the increases in prices of raw materials, the cyclical demand for furniture, the reduction in export VAT rebates in the PRC, new impediments in relation to processing trade in the PRC as well as the tightening environmental policy in the PRC. As such, the Group has taken and would take new measures to improve its business performance, including the diversification into the European and Australian markets, as well as entry into sectors of furniture retailing and commercial real estate in the PRC.

*(ii) The Group's expansion of its upholstered business*

For each of the three years ended 31 December 2006 and the six months ended 30 June 2007, the total turnover and the sales of upholstered furniture of the Group are set out below:

	<b>Year ended 31 December</b>			<b>Six months ended 30</b>
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>June</b>
	<i>(RMB' million)</i>	<i>(RMB' million)</i>	<i>(RMB' million)</i>	<i>(RMB' million)</i>
	(Audited)	(Audited)	(Audited)	(Unaudited)
The Group's turnover: (A)	2,852.4	3,475.5	3,916.5	1,770.5
Sales of upholstered furniture of the Group: (B)	2,033.2	2,755.0	3,122.9	1,405.3
<b>Percentage to the Group's turnover: (B)/(A)</b>	<b>71.3%</b>	<b>79.3%</b>	<b>79.7%</b>	<b>79.4%</b>

## LETTER FROM CHINA MERCHANTS

We noted that the Group's sales of upholstered furniture as a percentage of the Group's turnover increased from approximately 71.3% for the year ended 31 December 2004 to approximately 79.7% for the year ended 31 December 2006. The Group's sales of upholstered furniture increased from approximately RMB2,033 million in the year ended 31 December 2004 to approximately RMB3,123 million in the year ended 31 December 2006, representing a CAGR of approximately 23.9% per annum.

For the six months ended 30 June 2007, the Group's sales of upholstered furniture amounted to approximately 79.4% of the Group's turnover.

### *(iii) The Group's sales by region*

For each of the two years ended 31 December 2006, the six months ended 30 June 2006 and the six months ended 30 June 2007, the sales of the Group by region expressed as a percentage of the Group's turnover are set out below:

	<b>For the year ended</b>		<b>For the six months</b>	
	<b>31 December</b>		<b>ended 30 June</b>	
	<b>2005</b>	<b>2006</b>	<b>2006</b>	<b>2007</b>
USA	68.6%	72.2%	75.2%	68.5%
China (including Hong Kong)	20.9%	18.8%	15.6%	18.7%
Europe	3.5%	4.1%	5.3%	8.3%
Australia	5.4%	3.1%	2.5%	2.9%
Other countries	1.6%	1.8%	1.4%	1.6%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

### **USA**

The Group's sales to the USA expressed as a percentage of the Group's turnover decreased from approximately 72.2% for the year ended 31 December 2006 to approximately 68.5% for the six months ended 30 June 2007. As advised by the Directors, such decrease was mainly attributable to the downturn in the residential property market in the USA, which had led to lower residential furniture sales. In addition, as a result of the devaluation of US\$, the selling price of the products manufactured by the Group increased in the USA market, in which the customers accordingly cut their outsourcing orders to the Group under the aforesaid price increases.

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## LETTER FROM CHINA MERCHANTS

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### *Europe*

The Group's sales to Europe as a percentage of the Group's turnover increased from approximately 3.5% for the year ended 31 December 2005 to approximately 8.3% for the six months ended 30 June 2007. As advised by the Directors, the Group's expansion to the European market is still at an early stage and they expect the Group's sales to Europe will increase in the coming years.

### *Australia*

The Group's sales to Australia as a percentage of the Group's turnover decreased from approximately 5.4% for the year ended 31 December 2005 to approximately 3.1% for the year ended 31 December 2006. As advised by the Directors, the Group's new strategy of working with retail customers in Australia had caused the termination of supply relationship with a major OEM customer since 2005, therefore resulting a decrease in the sales to Australia.

However, the Group's sales to Australia expressed as a percentage of the Group's turnover increased from approximately 2.5% for the six months ended 30 June 2006 to approximately 2.9% for the six months ended June 2007. As advised by the Directors, such increase was mainly attributable to the increasing sales to the retail sector in Australia. The Directors are in the view that the Group's sales to Australia will gradually increase in the coming years.

### *PRC*

The Group's sales to the PRC expressed as a percentage of the Group's turnover decreased from approximately 20.9% for the year ended 31 December 2005 to approximately 18.7% for the six months ended 30 June 2007. As advised by the Directors, the sales to the PRC market mainly involved furniture leather and automotive leather, which were not the core products of the Group in recent years.

#### *(iv) The Group's expansion to the Australian market*

From the above, the decrease in the Group's sales to the USA and the PRC (expressed as a percentage of the Group's turnover) and the increase in the Group's sales to Europe and Australia (expressed as a percentage of the Group's turnover) reflect an expansion of the Group's business to the European and the Australian markets. We consider that such phenomenon was in line with the Group's business plan of focusing its sales and marketing efforts on the business expansion in Australia and Europe, and demonstrated the Group's commitment to such strategy.

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## LETTER FROM CHINA MERCHANTS

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### 2. Information on Sleep City and the Northwestern Companies

Set out below is the information on each of Sleep City and the Northwestern Companies:

<b>Entities</b>	<b>Relationship with the Group</b>	<b>Principal activities</b>
Sleep City	Was owned as to 35% by Sunbridge as at the Latest Practicable Date	Retail sales of upholstered furniture in Australia
Kezilesu Xinrong	A subsidiary of Sunbridge as at the Latest Practicable Date	Sales of wet blues
Yili Horgos	A subsidiary of Sunbridge as at the Latest Practicable Date	Sales of wet blues
Baiyin Kasen	A subsidiary of Sunbridge as at the Latest Practicable Date	Sales of wet blues

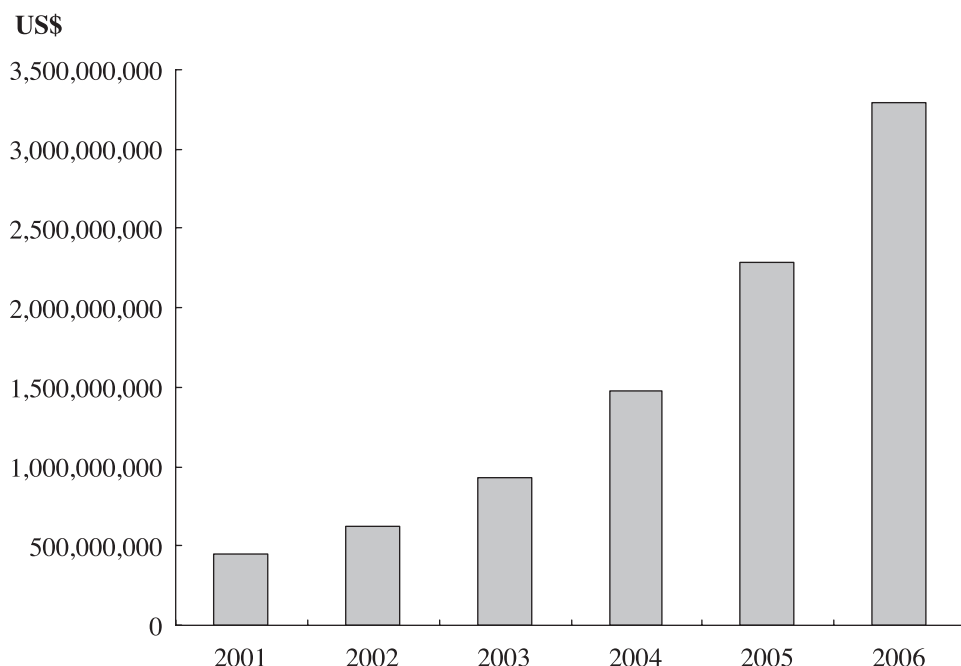
### 3. The upholstered furniture industry

#### *The PRC*

Based on the CSIL China Report, in 2004, the PRC became the world's second largest producer of furniture, and is also expected to overtake the USA in 2010 to become the world's largest furniture producer. The exports of upholstered furniture of the PRC increased from approximately US\$448 million in 2001 to approximately US\$3,297 million in 2006, representing a CAGR of approximately 49.1% per annum. Graph 1 depicts the exports of upholstered furniture of the PRC from 2001 to 2006:

**Graph 1**

**Exports of upholstered furniture of the PRC**



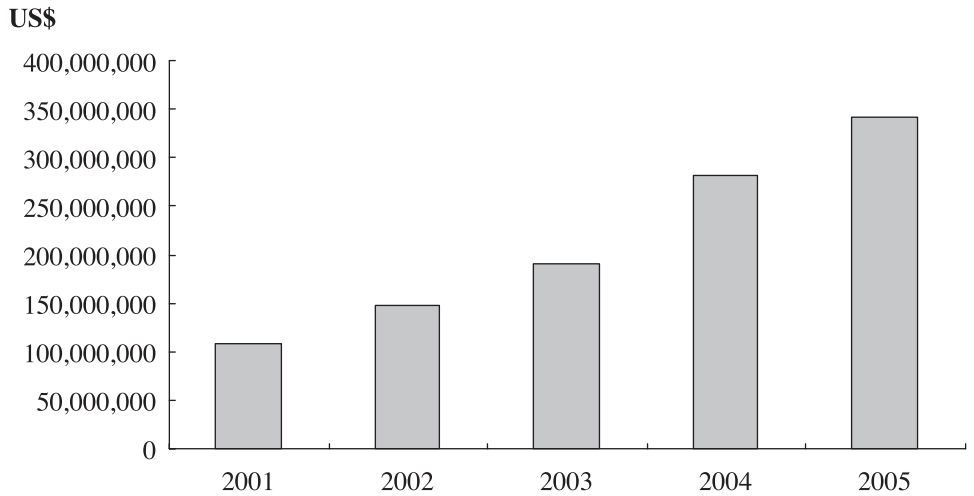
*Source:* CSIL China Report

#### *Australia*

Based on the CSIL Market Report, in Australia, (i) the imports of upholstered furniture increased from approximately US\$109 million in 2001 to approximately US\$341 million in 2005, representing a CAGR of approximately 33.0% per annum; and (ii) the consumption of upholstered furniture increased from approximately US\$483 million in 2001 to approximately US\$957 million in 2005, representing a CAGR of approximately 18.6% per annum. Graph 2 depicts the import of upholstered furniture in Australia from 2001 to 2005 and Graph 3 depicts the consumption of upholstered furniture in Australia from 2001 to 2005.

*Graph 2*

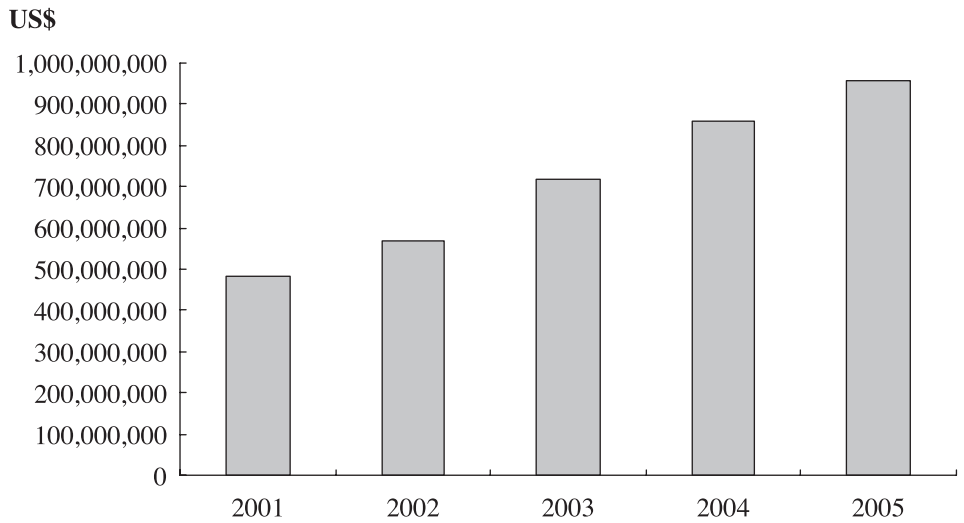
**Imports of upholstered furniture in Australia**



Source: CSIL Market Report

*Graph 3*

**Consumption of upholstered furniture in Australia**



Source: CSIL Market Report



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## LETTER FROM CHINA MERCHANTS

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### 4. The historical amount of the Group's purchases from the Northwestern Companies

The Northwestern Companies are importers in Southern Xinjiang, Northern Xinjiang and Gansu Provinces of the PRC, which purchase raw cowhides from Xinjiang, Gansu and Qinghai of Northwest China or neighboring countries, such as Kazakhstan, Tajikistan, Uzbekistan and Kyrgyzstan, and process such raw cowhides into wet blues. Although the Group has wet blues processing capacity, its tannery facility in Haining did not produce sufficient wet blues for its day-to-day production needs and the Group had to source wet blues externally from time to time. The Directors consider that such arrangements would save transportation and handling costs for the Group if the processing and enhancement of raw cowhides into wet blues are performed near the place of origin of the raw cowhides.

The historical transaction amounts between the Northwestern Companies and the Group for the two years ended 31 December 2006 and the six months ended 30 June 2007 were as follows:

	<b>Year ended 31 December 2005</b> <i>(RMB' million)</i>	<b>Year ended 31 December 2006</b> <i>(RMB' million)</i>	<b>For the six months ended 30 June 2007</b> <i>(RMB' million)</i>
Purchase of wet blues	293.18	163.32	66.77

As advised by the Directors, the decrease in purchases of wet blues of the Group from the Northwestern Companies was mainly attributable to (i) the increase in price of raw cowhides and wet blues by 20% to 30% as compared with their historical average prices; and (ii) the shortage of supply of such raw materials.

## II. THE SLEEP CITY AGREEMENT AND THE NORTHWESTERN RENEWAL AGREEMENT

### 1. Reasons for and benefits of the entering into of the Sleep City Agreement and the Northwestern Renewal Agreement

#### *The Sleep City Agreement*

As referred to in the Letter from the Board, the Sleep City Group is principally engaged in retail sales of upholstered furniture in Australia. As advised by the Directors, Sleep City is one of Australia's largest privately owned companies of specialty bedding stores, and is expanding its business to upholstered furniture. Its demand for upholstered furniture imported from the PRC is expected to be significant. The Directors consider that the Sleep City Transactions are in the interest of the Shareholders because it would render regular sales to an established specialty bedding store in Australia.

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## LETTER FROM CHINA MERCHANTS

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We consider that the entering into of the Sleep City Agreement:

- (i) is in line with the Group's business plan of geographical penetration into Australia, and demonstrates its commitment to such business plan; and
- (ii) would facilitate the Group's sales of upholstered furniture to Australia, which in turn will strengthen the Group's financial performance in the coming years.

### *The Northwestern Renewal Agreement*

As referred to in the "Business" section of the Prospectus, the Group had purchased wet blues from the Northwestern Companies since 2000. We note that the purchase of wet blues from the Northwestern Companies has constituted a necessary part of the day-to-day operations of the Group.

As referred to in the Letter from the Board, the Northwestern Companies and the Company entered into an agreement for a fixed term of three years ended 31 December 2007 (the "Northwestern Agreement") and the Company had obtained waivers from the Stock Exchange from strict compliance with the announcement and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules. As the Northwestern Agreement expired on 31 December 2007, the Northwestern Renewal Agreement is entered into to replace the Northwestern Agreement.

We note that upon expiry of the three years ended 31 December 2007, the Company is required to fully comply with the requirements of Chapter 14A of the Listing Rules in respect of the purchase of wet blues from the Northwestern Companies. We consider that the entering into of the Northwestern Renewal Agreement provides the Independent Shareholders with the opportunity to review and reconsider the terms as well as the annual caps of the purchase of wet blues from the Northwestern Companies.

## **2. The terms of the Sleep City Agreement and the Northwestern Renewal Agreement**

Set out below are the bases of pricing of the Sleep City Agreement and the Northwestern Renewal Agreement:

### *The Sleep City Agreement*

As referred to in the Letter from the Board, the Sleep City Agreement has a fixed term of three years ending on 31 December 2010. The prices for the Sleep City Transactions will be determined in accordance with (i) a comparable market price where the normal cost of billing of the furniture concerned will be taken into account; or (ii) by agreement between the parties based on prices no less favourable to/from third parties or reasonably agreed between the parties, if no comparable market price can be taken as a reference.

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## LETTER FROM CHINA MERCHANTS

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We consider that the aforesaid pricing basis, which is basically with reference to market prices, is fair and reasonable so far as the Independent Shareholders and the Group are concerned.

### *The Northwestern Renewal Agreement*

As referred to in the Letter from the Board, the Northwestern Renewal Agreement has a fixed term of three years ending on 31 December 2010. The basis of determining the prices for the Northwestern Transactions will be in accordance with: (i) a comparable market price; or (ii) by agreement between the parties based on prices no less favourable to/from third parties or reasonably agreed between the parties, if no comparable market price can be taken as a reference. In general, the Company would compare the quotations obtained from various potential suppliers and determine the price after taking into account the quality of the wet blues to be supplied by the relevant suppliers.

We have compared the prices of wet blues sold by the Northwestern Companies to the Group with the prices of wet blues sold by other independent suppliers during the year ended 31 December 2007 on a sampling basis. We found that the prices of wet blues sold by the Northwestern Companies were not higher than the prices of wet blues sold by other independent suppliers to the Group.

Based on the aforesaid, we consider that the pricing of the Continuing Connected Transactions which are based on the comparable market price, or based on prices no less favourable to/from third parties or reasonably agreed between the parties, are on normal commercial terms and is fair and reasonable so far as the Independent Shareholders are concerned.

Overall, we consider that the terms of the Continuing Connected Transactions are (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; and (iii) fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Group and the Shareholders as a whole.

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## LETTER FROM CHINA MERCHANTS

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### III. THE ANNUAL CAPS

Set out below are the Annual Caps for the three years ending 31 December 2010:

	<b>Year ending 31 December 2008</b>	<b>Year ending 31 December 2009</b>	<b>Year ending 31 December 2010</b>
The Sleep City Annual Caps	USD12,000,000	USD12,000,000	USD12,000,000
The Northwestern Annual Caps	RMB212,000,000	RMB212,000,000	RMB212,000,000

#### **The Sleep City Annual Caps**

As advised by the Directors, the Sleep City Annual Caps are determined with reference to the anticipated business volume of the Sleep City Group and the Group and the projected sales orders from the Sleep City Group for the three years ending 31 December 2010, taking into account the Sleep City Group's recent launch of upholstered furniture as its new product line in Australia.

We noted that the Sleep City Annual Caps, which will be USD12 million (equivalent to approximately RMB88,912,800) for each of the three years ending 31 December 2010, is equivalent to approximately 73% of the Group's sales to Australia in the year ended 31 December 2006 of approximately RMB122.3 million.

#### **The Northwestern Annual Caps**

For the year ended 31 December 2006, the purchases of wet blues by the Group from the Northwestern Companies amounted to approximately RMB163.3 million. As advised by the Directors, the Northwestern Annual Caps were determined based on the expected growth rate of the business for the coming years and the actual transactions between the Group and the Northwestern Companies for the two years ended 31 December 2006 and the six months ended 30 June 2007. The Northwestern Companies Annual Caps represent an increase of approximately 30% as compared with the actual purchases by the Group from the Northwestern Companies in the year ended 31 December 2006 of approximately RMB163.3 million.

The Group commenced retail sales of leather upholstered furniture business in the PRC in October 2007. As advised by the Directors, pursuant to the relevant custom regulations and the processing trade policies in the PRC, import duties will be levied on the imports of raw cowhides or wet blues if these raw materials are used for leather upholstered furniture products to be sold in the PRC. As such, the Group will use raw cowhides and wet blues purchased from domestic companies (such as the Northwestern Companies) for the production of leather upholstered furniture products to be sold in the PRC. As such, the Directors anticipated the increase in the business volume between the Northwestern Companies and the Group for the three years ending 31 December 2010.

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## LETTER FROM CHINA MERCHANTS

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We consider that the Sleep City Annual Caps and the Northwestern Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned, taking into account:

- (i) the Northwestern Annual Caps are based on the actual purchases by the Group from the Northwestern Companies for the two years ended 31 December 2006 and the six months ended 30 June 2007;
- (ii) the positive outlook of the upholstered furniture industry in the PRC and Australia;
- (iii) the development of the upholstered furniture's business of Sleep City would bolster the Group's sales of upholstered furniture to Australia;
- (iv) the historical growth in the Group's turnover; and
- (v) the volatility of the prices of wet blues and other raw materials, which give rise to the necessity of sufficient flexibility in the Annual Caps, which, accordingly, would be able to meet the maximum amount of purchases of web blues and sales of upholstered furniture in the three years ending 31 December 2010.

Based on the aforesaid, we consider that the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Group and the Shareholders as a whole.

### RECOMMENDATION

Having considered the above principal factors and reasons, we consider that the Continuing Connected Transactions are (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; and (iii) fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Group and the Shareholders as a whole, and the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Group and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution to approve the Continuing Connected Transactions and the Annual Caps at the EGM. We also recommend the Independent Shareholders to vote in favour of the ordinary resolution to approve the Continuing Connected Transactions and the Annual Caps at the EGM.

For and on behalf of  
**China Merchants Securities (HK) Co., Ltd.**  
**Tony Wu**  
*Executive 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:*

1. 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.
2. 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.
3. These share options represent personal interest held by the relevant participants as beneficial owner.
4. 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 <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%
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%

*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 <sup>4</sup> (Haining Oyi May Sofa Co., Ltd*)	Beneficial	28%
許月蓮 <sup>1</sup> (Xu Yuelian)	海寧歐意美沙發有限公司 <sup>4</sup> (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 <sup>4</sup> (Haining Oyi May Sofa Co., Ltd*)	Beneficial	21.50%
朱聖源 <sup>2</sup> (Zhu Shenyuan)	海寧歐意美沙發有限公司 <sup>4</sup> (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 <sup>5</sup> (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 <sup>5</sup> (Zhejiang Liema Furniture Co., Ltd*)	Beneficial	15.15%
王益煒 <sup>3</sup> (Wang Yiwei)	浙江獵馬傢俬有限公司 <sup>5</sup> (Zhejiang Liema Furniture Co., Ltd*)	Corporate	15.15%
海寧中國皮城股份有限公司 (Haining China Leather Market Company Limited*)	海寧皮革產業投資開發有限公司 <sup>6</sup> (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 海寧皮革產業投資開發有限公司 (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:

<b>Name</b>	<b>Qualifications</b>
China Merchants Securities (HK) Co., Ltd.	A licensed corporation under the SFO authorised to carry out Type 1 (dealing in securities), Type 2 (dealings in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO

**6. CONSENT**

China Merchants 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 Agreements;
- (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 dated 7 January 2008 from the Independent Board Committee, the text of which is set out on page 13 in this circular;
- (e) the letter of advice dated 7 January 2008 from China Merchants to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 14 to 27 in this circular;
- (f) the written consent of China Merchants referred to in the paragraph headed “Qualification of Expert” in the Appendix; and
- (g) this circular.



**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 IS HEREBY GIVEN** that an EGM of the shareholders of Kasen International Holdings Limited (the “**Company**”) will be held at 259 Qianjiang Road West, Haining, Zhejiang, China on 22 January 2008 at 9:30 a.m. for the purpose of considering and, if thought fit, passing the following resolution as an ordinary resolution of the Company:

**ORDINARY RESOLUTION**

**“THAT**

- (a) the Sleep City Agreement dated 17 December 2007 entered into between the Company and Sleep City Holdings Limited (“**Sleep City**”), a copy of which is tabled at the meeting and marked “A” and initialed by the chairman of the meeting for identification purpose, pursuant to which, the Company will, and will procure its associates, to sell upholstered furniture to Sleep City be and is hereby approved, ratified and confirmed;
- (b) the cap amounts in relation to the Continuing Connected Transactions for the three financial years ending 31 December 2010 of US\$12 million, US\$12 million and US\$12 million with Sleep City be and are hereby approved;
- (c) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is/are hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters contemplated in the Sleep City Agreement;
- (d) the Northwestern Renewal Agreement dated 17 December 2007 entered into between the Company and Kezilesu Xinrong, Yili Horgos and Baiyin Kasen (the “**Northwestern Companies**”) a copy of which is tabled at the meeting and marked “B” and initialed by the chairman of the meeting for identification purpose, pursuant to which, the Company will, and will procure its associates, to purchase wet blues from the Northwestern Companies (together with the Sleep City Agreement, the “**Continuing Connected Transactions**”), be and is hereby approved, ratified and confirmed;

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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- (e) the cap amounts in relation to the Continuing Connected Transactions for the three financial years ending 31 December 2010 of RMB212 million, RMB212 million and RMB212 million with the Northwestern Companies be and are hereby approved; and
- (f) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is/are hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters contemplated in the Northwestern Renewal Agreement.”

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

Hong Kong, 7 January 2008

*Notes:*

1. A form of proxy for use at the meeting is enclosed herewith.
2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his/her attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of any officer, attorney or other person authorised to sign the same.
3. Any member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him/her. A proxy need not be a member of the Company.
4. In order to be valid, the form of proxy, together with 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 at the office of the Company's share registrars, Computershare Hong Kong Investor Services Limited, at Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting thereof (as the case may be).
5. Completion and return of the form of proxy will not preclude members from attending and voting in person at the meeting or at any adjourned meeting thereof (as the case may be) should they so wish, and in such event, the form of proxy shall be deemed to be revoked.
6. Where there are joint registered holders of any share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the meeting, whether in person or by proxy, the joint registered holder present whose name stands first on the register of members in respect of the shares shall be accepted to the exclusion of the votes of the other registered holders.