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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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**If you are in any doubt** as to any aspect of this circular, 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, together with the enclosed form of proxy, to the purchaser or 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*



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A letter from the Board is set out on pages 4 to 10 of this circular and a letter from the Independent Board Committee is set out on page 11 of this circular. A letter from GF Capital (Hong Kong) Limited, 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 on the terms of the Starcorp Agreement and the relevant cap amounts under the Starcorp Agreement is set out on pages 12 to 20 of this circular.

A notice convening the Extraordinary General Meeting ("EGM") to be held at 259 Qianjiang Road West, Haining, Zhejiang, China on 14 April 2009 at 9:30 a.m. is set out on pages N-1 to N-2 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 branch share registrar and transfer office 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.

26 March 2009

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## DEFINITIONS

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

“associate”	has the meaning ascribed to it under the Listing Rules;
“Board”	the board of Directors;
“Company”	Kasen International Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability, the Shares 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 Starcorp Purchases Continuing Connected Transactions and the Starcorp Sales Continuing Connected Transactions;
“controlling shareholder”	has the same meaning ascribed to it under the Listing Rules;
“Directors”	the directors of the Company;
“EGM”	the extraordinary general meeting of the Company to be convened to approve the Starcorp Agreement and the relevant annual cap amounts in relation to the Continuing Connected Transactions, or any adjournment thereof;
“Group”	the Company and its subsidiaries;
“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 appointed by the Board to advise the Independent Shareholders on the Continuing Connected Transactions;

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## DEFINITIONS

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“Independent Financial Adviser” or “GF Capital”	GF Capital (Hong Kong) Limited, being licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the terms of the Starcorp Agreement and the relevant cap amounts under the Starcorp Agreement;
“Independent Shareholders”	the Shareholders other than Mr. Zhu Zhangjin and his associates;
“Latest Practicable Date”	23 March 2009, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“PRC”	the People’s Republic of China;
“Previous Continuing Connected Transactions”	the continuing connected transactions between the Group and Starcorp as contemplated under the Renewed Starcorp Agreement;
“Renewed Starcorp Agreement”	the agreement entered into between the Company and Starcorp on 31 December 2008 in relation to the sale of upholstered furniture by the Group to Starcorp;
“RMB”	Renminbi, the lawful currency of the PRC;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Share(s)”	ordinary shares with a par value of US\$0.00015 each in the capital of the Company;
“Shareholder(s)”	holder(s) of the Shares;
“Sofas UK”	Sofas UK Plc, a company incorporated and registered in England and a wholly-owned subsidiary of the Company as at the Latest Practicable Date;

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## DEFINITIONS

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“Starcorp”	Starcorp Corporation Pty. Ltd., a company incorporated under the laws of Australia which is owned, among others, as to 70% by Sunbridge, a company in which Mr. Zhu Zhangjin, a Director and the controlling shareholder of the Company, indirectly controls more than 30% of the voting power at its general meeting;
“Starcorp Agreement”	the master agreement entered into between the Company and Starcorp on 9 March 2009;
“Starcorp Purchases Continuing Connected Transactions”	the Starcorp Purchases contemplated under the Starcorp Agreement;
“Starcorp Sales Continuing Connected Transactions”	the Starcorp Sales contemplated under the Starcorp Agreement;
“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, a Director and the controlling shareholder of the Company, indirectly controls more than 30% of the voting power at its general meeting;
“US\$”	United States dollars, the lawful currency of the United States of America; and
“%”	per cent.

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LETTER FROM THE BOARD

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**KASEN INTERNATIONAL HOLDINGS LIMITED**

**卡森國際控股有限公司**

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

**(Stock Code: 496)**

*Executive Directors:*

ZHU Zhangjin

ZHOU Xiaosong

ZHANG Mingfa, Michael

*Independent non-executive Directors:*

LU Yungang

CHOW Joseph

GU Mingchao

*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

26 March 2009

*To the Shareholders*

Dear Sir/Madam,

**CONTINUING CONNECTED TRANSACTIONS**

**INTRODUCTION**

The Board announced that on 9 March 2009, the Company entered into the Starcorp Agreement with Starcorp in respect of the Continuing Connected Transactions.

Starcorp is owned as to 70% by Sunbridge, as to 1% by J.X. Family Corporation Pty. Ltd., as to 1% by Aries Capital Holdings Ltd., as to 3% by Quin Family Corporation Pty. Ltd., as to 20% by Shanghai Ke Mao Investment Co., Ltd. and as to 5% by Shanghai Chun Shen Jiang

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## LETTER FROM THE BOARD

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Enterprises Development Co., Ltd. Sunbridge is owned as to 60% by Li Shilun, an independent third party, 33% of which is held on trust for Mr. Zhu Zhangjin, a Director and the controlling shareholder of the Company, as to 5% by Yu Jintang, an independent third party, as to 4% by Haining Qingfeng Trading Co., Ltd., as to 25% by Russia Stimulus Co., Ltd., and as to 6% by Zhejiang Senqiao Real Estate Co., Ltd. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of J.X. Family Corporation Pty. Ltd., Aries Capital Holdings Ltd., Quin Family Corporation Pty. Ltd., Shanghai Ke Mao Investment Co., Ltd., Shanghai Chun Shen Jiang Enterprises Development Co., Ltd., Haining Qingfeng Trading Co., Ltd., Russia Stimulus Co., Ltd., Zhejiang Senqiao Real Estate Co., Ltd. and their respective ultimate beneficial owner(s) are third parties independent of the Group and its connected persons.

As Mr. Zhu Zhangjin indirectly controls more than 30% of the voting power at the general meeting of Sunbridge, Sunbridge is therefore an associate of Mr. Zhu Zhangjin and a connected person of the Company. As Starcorp is a subsidiary of Sunbridge, it is also a connected person of the Company for the purpose of the Listing Rules. Accordingly, the transactions contemplated under the Starcorp Agreement will constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Reference is made to the announcement of the Company dated 31 December 2008 in relation to the Previous Continuing Connected Transactions between the Group and Starcorp. The Previous Continuing Connected Transactions were subject to Independent Shareholders' approval and had been approved by the Independent Shareholders in an extraordinary general meeting of the Company held on 10 February 2009.

The Previous Continuing Connected Transactions and the Starcorp Purchases Continuing Connected Transactions are regarded as a series of continuing connected transactions which will be aggregated pursuant to Rule 14A.25 of the Listing Rules. As the aggregate annual amounts of the Previous Continuing Connected Transactions and the Starcorp Purchases Continuing Connected Transactions will exceed the 2.5% threshold provided in Rule 14A.34 of the Listing Rules, the Starcorp Purchases Continuing Connected Transactions will be subject to the reporting, announcement and Independent Shareholders' approval requirements under Rule 14A.35 of the Listing Rules.

As the annual amounts of the Starcorp Sales Continuing Connected Transactions will exceed the 2.5% threshold provided in Rule 14A.34 of the Listing Rules, the Starcorp Sales Continuing Connected Transactions will be subject to the reporting, announcement and Independent Shareholders' approval requirements under 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 the Continuing Connected Transactions.

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## LETTER FROM THE BOARD

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An Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders on the terms of the Starcorp Agreement and the relevant cap amounts in relation to the Continuing Connected Transactions, and GF Capital has been appointed as an independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the terms of the Starcorp Agreement and the relevant cap amounts under the Starcorp Agreement.

The purpose of this circular is to give you, among other things, (i) further details about the Starcorp Agreement and the relevant cap amounts under the Starcorp Agreement in relation to the Continuing Connected Transactions; (ii) a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders on the terms of the Starcorp Agreement and the relevant cap amounts under the Starcorp Agreement in relation to the Continuing Connected Transactions; (iii) the recommendation of the Independent Board Committee in respect of the terms of the Starcorp Agreement and the relevant cap amounts under the Starcorp Agreement in relation to the Continuing Connected Transactions; and (iv) a notice of the EGM to consider and, if thought fit, to approve the Starcorp Agreement and the relevant cap amounts under the Starcorp Agreement.

### STARCORP AGREEMENT

Date: 9 March 2009

Parties: The Company  
Starcorp

Subject: Pursuant to the Starcorp Agreement, the Group will purchase wooden furniture from Starcorp (“**Starcorp Sales**”) and the Group will in turn supply leather to Starcorp (“**Starcorp Purchases**”).

Term: The Starcorp Agreement has a fixed term commencing from 9 March 2009 to 31 December 2011, which shall be subject to the approval of the Independent Shareholders. Pending the Independent Shareholders’ approval of the Continuing Connected Transactions at the EGM, the Company will take close and regular monitor of the transaction amounts of the Starcorp Sales to ensure that the total transaction amounts of the Starcorp Sales to be entered into between the Group and Starcorp will not exceed the 2.5% threshold under Rule 14A.34 of the Listing Rules. The Company will only commence the Starcorp Purchases after approval of the Independent Shareholders is obtained by the Company at the EGM.



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## LETTER FROM THE BOARD

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- Price:** The basis for determining the prices for the Continuing Connected Transactions will be in accordance with (a) a comparable market price; or (b) by agreement between the parties based on prices no less favourable than that to/from third parties or as reasonably agreed between the parties, if no comparable market price may be taken as a reference.
- Condition:** The Starcorp Agreement is subject to the approval of the Independent Shareholders.
- Payment:** Payment for the Continuing Connected 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 cap amounts of the Continuing Connected Transactions for each of the financial years ending 31 December 2009, 2010 and 2011 will not exceed the followings:

	<b>2009</b>	<b>2010</b>	<b>2011</b>
	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>
Starcorp Sales	119	158	198
Starcorp Purchases	5	5	5

The cap amounts are determined with reference to the anticipated business volume of the Group for the three financial years ending 31 December 2011 and the projected sales and purchase orders to/from Starcorp, taking into account (i) the historical transaction amount of US\$5.4 million (equivalent to approximately RMB37 million) for the purchase of wooden furniture for one financial year ended 31 December 2008 between Sofas UK, a company which has purchased wooden furniture from Starcorp prior to the completion of the acquisition of the entire issued share capital of Sofas UK by a subsidiary of the Company, which took place on 2 March 2009 and as at the Latest Practicable Date, a wholly-owned subsidiary of the Company, and Starcorp. Sofas UK has been purchasing wooden furniture from Starcorp since 2004. As there was a significant decrease in purchase of wooden furniture by Sofas UK from Starcorp since 2008 due to the global economic downturn and given the current market conditions, no reference was therefore made to the historical transaction amounts prior to 2008 when determining the cap amounts; (ii) the anticipated retail sales plan of the Group (including Sofas UK) for the period commencing from 9 March 2009 to 31 December 2011; and (iii) based on discussion between the management of the Company and Starcorp, the anticipated increase in demand of leather to be used by Starcorp as assembly in the production of wooden furniture for the period commencing from 9 March 2009 to 31 December 2011, as compared to the annual consumption of leather by Starcorp in the production of wooden furniture in the previous years.

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## LETTER FROM THE BOARD

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### REASONS FOR THE CONTINUING CONNECTED TRANSACTIONS

The Group is a leading upholstered furniture and leather products manufacturer based in the PRC. It manufactures upholstered furniture products in accordance with the designs of its customers. Starcorp's core business is manufacture of wooden furniture, and retail sales of wooden and other upholstered furniture in Australia. Starcorp's demand for leather imported from the PRC is big and continuous. The Directors consider that the Continuing Connected Transactions with Starcorp are in the interests of the Shareholders as it would guarantee a stable source of supply of wooden furniture and regular sales of leather to Australia, through Starcorp.

### LISTING RULES IMPLICATIONS

Starcorp is owned as to 70% by Sunbridge, as to 1% by J.X. Family Corporation Pty. Ltd., as to 1% by Aries Capital Holdings Ltd., as to 3% by Quin Family Corporation Pty. Ltd., as to 20% by Shanghai Ke Mao Investment Co., Ltd. and as to 5% by Shanghai Chun Shen Jiang Enterprises Development Co., Ltd. Sunbridge is owned as to 60% by Li Shilun, an independent third party, 33% of which is held on trust for Mr. Zhu Zhangjin, a Director and the controlling shareholder of the Company, as to 5% by Yu Jintang, an independent third party, as to 4% by Haining Qingfeng Trading Co., Ltd., as to 25% by Russia Stimulus Co., Ltd. and as to 6% by Zhejiang Senqiao Real Estate Co., Ltd. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of J.X. Family Corporation Pty. Ltd., Aries Capital Holdings Ltd., Quin Family Corporation Pty. Ltd., Shanghai Ke Mao Investment Co., Ltd., Shanghai Chun Shen Jiang Enterprises Development Co., Ltd., Haining Qingfeng Trading Co., Ltd., Russia Stimulus Co., Ltd., Zhejiang Senqiao Real Estate Co., Ltd. and their respective ultimate beneficial owner(s) are third parties independent of the Group and its connected persons.

As Mr. Zhu Zhangjin indirectly controls more than 30% of the voting power at the general meeting of Sunbridge, Sunbridge is therefore an associate of Mr. Zhu Zhangjin and a connected person of the Company. As Starcorp is a subsidiary of Sunbridge, it is also a connected person of the Company for the purpose of the Listing Rules. Accordingly, the transactions contemplated under the Starcorp Agreement will constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Reference is made to the announcement of the Company dated 31 December 2008 in relation to the Previous Continuing Connected Transactions between the Group and Starcorp. The Previous Continuing Connected Transactions were subject to Independent Shareholders' approval and had been approved by the Independent Shareholders in an extraordinary general meeting of the Company held on 10 February 2009.

The Previous Continuing Connected Transactions and the Starcorp Purchases Continuing Connected Transactions are regarded as a series of continuing connected transactions which will be aggregated pursuant to Rule 14A.25 of the Listing Rules. As the aggregate annual amounts of the Previous Continuing Connected Transactions and the Starcorp Purchases Continuing Connected Transactions will exceed the 2.5% threshold provided in Rule 14A.34

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## LETTER FROM THE BOARD

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of the Listing Rules, the Starcorp Purchases Continuing Connected Transactions will be subject to the reporting, announcement and Independent Shareholders' approval requirements under Rule 14A.35 of the Listing Rules.

As the annual amounts of the Starcorp Sales Continuing Connected Transactions will exceed the 2.5% threshold provided in Rule 14A.34 of the Listing Rules, the Starcorp Sales Continuing Connected Transactions will be subject to the reporting, announcement and Independent Shareholders' approval requirements under Rule 14A.35 of the Listing Rules.

### GENERAL

The principal activity of each of J.X. Family Corporation Pty. Ltd., Aries Capital Holdings Ltd., Quin Family Corporation Pty. Ltd., Shanghai Ke Mao Investment Co., Ltd., Shanghai Chun Shen Jiang Enterprises Development Co., Ltd. and Russia Stimulus Co., Ltd. is investment holding. Haining Qingfeng Trading Co., Ltd. is principally engaged in the trading of textile products. Zhejiang Senqiao Real Estate Co., Ltd. is principally engaged in property development business.

The Starcorp Agreement was entered into on normal commercial terms. The Continuing Connected Transactions will be entered into in the usual and ordinary course of businesses of the Group. The Directors (including the independent non-executive Directors) consider that the terms of the Starcorp Agreement are fair and reasonable and in the interests of the Shareholders as a whole, and have been negotiated on an arm's length basis. The Continuing Connected Transactions between the Group and Starcorp will be conducted on normal commercial terms. The Directors (including the independent non-executive Directors) are also of the view that the relevant annual cap amounts under the Starcorp Agreement are fair and reasonable.

### EXTRAORDINARY GENERAL MEETING

A notice convening the EGM to be held at 259 Qianjiang Road West, Haining, Zhejiang, China on 14 April 2009 at 9:30 a.m. is set out on page N-1 of this circular for the purpose of considering and, if thought fit, passing the ordinary resolution as set out therein. As at the Latest Practicable Date, Mr. Zhu Zhangjin and his associates held 504,896,635 Shares, representing approximately 43.39% of the issued share capital of the Company. Mr. Zhu Zhangjin and his associates will abstain from voting in the EGM to be convened for the approval of the Continuing Connected Transactions.

A form of proxy for use by the Shareholders at the EGM is enclosed herewith. Whether or not you are able to attend the EGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and deposit with the Company's branch share registrar and transfer office 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 but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting 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 EGM or any adjourned meeting thereof (as the case may be) should you so wish.

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## LETTER FROM THE BOARD

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Pursuant to the amended Rule 13.39(4) of the Listing Rules which took effect on 1 January 2009, any vote of Shareholders at the EGM must be taken by poll. Accordingly, the Company will procure that the chairman of the EGM shall demand voting on the resolution set out in the notice of the EGM be taken by way of poll.

### RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on page 11 of this circular which contains its recommendation to the Independent Shareholders on the terms of the Starcorp Agreement and the relevant cap amounts in relation to the Continuing Connected Transactions. Your attention is also drawn to the letter of advice from GF Capital set out on pages 12 to 20 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Starcorp Agreement and the relevant cap amounts under the Starcorp Agreement in relation to the Continuing Connected Transactions and the principal factors and reasons considered by it in concluding its advice.

The Directors consider that the terms of the Starcorp Agreement have been negotiated on an arm's length basis and the Continuing Connected Transactions will be made on normal commercial terms and that the terms of the Starcorp Agreement are fair and reasonable, and in the interests of the Shareholders as a whole.

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that the Starcorp Agreement has been negotiated on an arm's length basis and the Continuing Connected Transactions will be made on normal commercial terms, and that the terms of the Starcorp Agreement and the relevant cap amounts under the Starcorp Agreement in relation to the Continuing Connected Transactions are fair and reasonable, and in the interests of the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Starcorp Agreement, the Continuing Connected Transactions and the relevant cap amounts in relation to the Continuing Connected Transactions.

Your attention is also drawn to the additional 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)**

26 March 2009

*To the Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular of the Company to the Shareholders dated 26 March 2009 (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 whether the terms of the Starcorp Agreement and the relevant cap amounts under the Starcorp Agreement in relation to the Continuing Connected Transactions are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

We wish to draw your attention to the letter of advice from GF Capital (Hong Kong) Limited (“**GF Capital**”), the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the terms of the Starcorp Agreement and the relevant cap amounts under the Starcorp Agreement as set out on pages 12 to 20 of the Circular and the letter from the Board set out on pages 4 to 10 of the Circular.

Having considered, among other matters, the factors and reasons considered by, and the opinion of GF Capital as stated in its letter of advice, we consider that the terms of the Starcorp Agreement and the relevant cap amounts under the Starcorp Agreement in relation to the Continuing Connected Transactions are fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole and accordingly recommend the Independent Shareholders to vote in favour of the ordinary resolution in relation to the Continuing Connected Transactions to be proposed at the EGM.

Yours faithfully,

**The Independent Board Committee of  
Kasen International Holdings Limited**

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

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

**Gu Mingchao**  
*Independent non-executive  
Director*

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## LETTER FROM GF CAPITAL

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*The following is the text of a letter of advice from GF Capital (Hong Kong) Limited, which has been prepared for the purpose of incorporation into this circular, setting out its advice to the Independent Board Committee and Independent Shareholders in connection with the Continuing Connected Transactions.*



**廣發融資(香港)有限公司**

**GF Capital (Hong Kong) Limited**

Suites 2301-5 & 2313, COSCO Tower

183 Queen's Road Central

Hong Kong

26 March 2009

*The Independent Board Committee  
and the Independent Shareholders*

Dear Sirs,

### CONTINUING CONNECTED TRANSACTIONS

#### INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and Independent Shareholders as to whether the Continuing Connected Transactions are on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interest of the Company and the Shareholders as a whole. Details of the Starcorp Agreement are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular to Shareholders dated 26 March 2009 (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

The Starcorp Agreement was entered into between the Company and Starcorp. As disclosed in the Letter from the Board, Starcorp is owned as to 70% by Sunbridge. As Mr. Zhu Zhangjin, a Director and the controlling shareholder of the Company, indirectly controls more than 30% of the voting power at the general meeting of Sunbridge, Sunbridge is therefore an associate of Mr. Zhu Zhangjin and a connected person of the Company. As Starcorp is a subsidiary of Sunbridge, it is also a connected person of the Company for the purpose of the Listing Rules.

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## LETTER FROM GF CAPITAL

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As disclosed in the Letter from the Board, the Previous Continuing Connected Transactions and the Starcorp Purchases Continuing Connected Transactions are regarded as a series of continuing connected transactions which will be aggregated pursuant to Rule 14A.25 of the Listing Rules. As the aggregate annual amounts of the Previous Continuing Connected Transactions and the Starcorp Purchases Continuing Connected Transactions will exceed the 2.5% threshold provided in Rule 14A.34 of the Listing Rules, the Starcorp Purchases Continuing Connected Transactions will be subject to the reporting, announcement and Independent Shareholders' approval requirements under Rule 14A.35 of the Listing Rules.

As the annual amounts of the Starcorp Sales Continuing Connected Transactions will exceed the 2.5% threshold provided in Rule 14A.34 of the Listing Rules, the Starcorp Sales Continuing Connected Transactions will be subject to the reporting, announcement and Independent Shareholders' approval requirements under 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 the Continuing Connected Transactions.

### **INDEPENDENT BOARD COMMITTEE**

The executive Directors are Mr. Zhu Zhangjin, Mr. Zhou Xiaosong and Mr. Zhang Mingfa, Michael; and the independent non-executive Directors are Mr. Lu Yungang, Mr. Chow Joseph and Mr. Gu Mingchao. The Independent Board Committee comprising all independent non-executive Directors has been formed to advise the Independent Shareholders on the terms of the Starcorp Agreement and the relevant cap amounts in relation to the Continuing Connected Transactions (the "**Proposed Caps**").

### **BASIS OF OUR OPINION**

In forming our opinion as to whether the terms of the Starcorp Agreement and the Proposed Caps are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Independent Shareholders as a whole, we have relied on the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true, accurate and complete at the time when they were made and continued to be true, accurate and complete as at the date of the Circular.

We have also assumed that all statements of belief, opinion and intention made by the Board contained in the Circular were reasonably made by them after their due enquiry and careful consideration and that there are no other facts the omission of which would make any statement in the Circular misleading in any material respect.

Our review and analyses were based upon the information provided by the Company which include, among other things, the Starcorp Agreement, sample invoices of Continuing Connected Transactions entered into by the Group with Starcorp as well as those to independent third parties for similar transactions, and the annual report of the Company for the year ended 31 December 2007.



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## LETTER FROM GF CAPITAL

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We consider that we have reviewed sufficient information to reach a reasonably informed view to justify our reliance on the accuracy of the information contained in the Circular as aforesaid and to provide reasonable grounds for our advice.

Furthermore, we have no reason to doubt the truth, accuracy and/or completeness of the information and representations as provided to us by the Company. We have not conducted any independent in-depth investigation into nor have we carried out any independent verification of the information supplied.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our recommendation in relation to the terms of the Starcorp Agreement and the Proposed Caps, we have considered the following principal factors and reasons:

#### **1. Background and reasons of the Continuing Connected Transactions**

We understand from the management of the Group that the Group is a leading upholstered furniture and leather products manufacturer based in the PRC. It is engaged in (i) the manufacture of upholstered furniture products in accordance with the designs of its customers; (ii) processing of raw cowhides and wet blues into finished leather or fully assembled leather products; and (iii) home furniture retail business in the PRC. The acquisition of Sofas UK was completed on 2 March 2009 and Sofas UK became an indirectly wholly-owned subsidiary of the Company. The Group then started engaging in the sale of home furniture in the United Kingdom. As the Group is not engaged in the manufacture of wooden furniture, to facilitate its home furniture retail business, the Group purchases wooden furniture from various suppliers, including but not limited to Starcorp.

Starcorp's core businesses are manufacture of wooden furniture and retail sales of wooden and other upholstered furniture in Australia. It demanded leather imported from the PRC for its production of wooden furniture.

The Directors consider that the Continuing Connected Transactions with Starcorp are in the interests of the Shareholders as (i) Starcorp Sales Continuing Connected Transactions would guarantee a stable source of supply of wooden furniture for the retail business of the Group; and (ii) Starcorp Purchases Continuing Connected Transactions would guarantee regular sales of leather by the Group to Australia through Starcorp.



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## LETTER FROM GF CAPITAL

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Pursuant to the research report named “Household Furniture Market Report 2008” published in June 2008 by Key Note Limited which is an independent market research publisher, it is anticipated that sales will only grow marginally in 2009 as economic growth and property sales remain sluggish since the economic downturn in 2008. We have discussed with the management of the Company and they are of the view that it is a good opportunity for the Group to expand its retail business under this situation because (i) the downfall of certain major furniture retailers will give the sector a boost with market share to be gained by others; (ii) the rental of commercial properties will become lower which leave retailers with opportunities to renegotiate the existing lease terms and rates with current landlords. Therefore the Continuing Connected Transactions are required to cope with the expansion plan of the Group. Further details of the business plan of the Group are set out in the section “3. Basis of determination of the Proposed Caps” below. Based on the above, we are of the view that the Continuing Connected Transactions are in the ordinary and usual course of business of the Company.

### **2. Terms of the Starcorp Agreement**

As disclosed in the Letter from the Board, the Starcorp Agreement has a fixed term commencing from 9 March 2009 to 31 December 2011. The basis for determining the prices for the Continuing Connected Transactions will be in accordance with (a) a comparable market price; or (b) by agreement between the parties based on prices no less favourable than that to/from third parties or as reasonably agreed between the parties, if no comparable market price may be taken as a reference.

We are of the view that the inclusion of aforesaid terms in the Starcorp Agreement is in compliance with the Listing Rules and are on normal commercial terms. In order to examine the executability of these terms, we have reviewed the past transactions of wooden furniture and leather of the Group with Starcorp and the independent third parties.

For the Starcorp Sales Continuing Connected Transactions, we have reviewed certain sample invoices for the purchase of wooden furniture by the Group from Starcorp as well as those from independent third parties and compared the terms thereof. Based on the information and documents reviewed which are provided by the Company, we note that the wooden furniture purchased varies in materials and styles and are not comparable directly. However we understand that it is the Group’s policy to obtain quotations from various suppliers and then choose the lowest quote for the final purchase decision. For the Starcorp Purchases Continuing Connected Transactions, as the Group had not supplied any leather to Starcorp in the past, no sample invoice could be provided for our review. Notwithstanding there is no invoice for the sale of leather to Starcorp, we have reviewed certain sample invoices for the sale of leather by the Group to independent third parties. The Directors confirmed that all Continuing Connected Transactions will be carried out in accordance with the Starcorp Agreement and will be on terms no less favourable to the Group than that to the independent third parties.

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## LETTER FROM GF CAPITAL

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In addition, according to the Starcorp Agreement, payment for the Continuing Connected 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. We have reviewed the credit terms of the Group and understand from the management of the Group that the credit terms for purchase from Starcorp in the past were generally longer than the terms available from independent third parties which is favourable to the Group. Despite the Group had not supplied any leather to Starcorp in the past and thus no relevant past settlement term could be reviewed, the Directors have confirmed that the settlement terms given by the Group to Starcorp for the Starcorp Purchases Continuing Connected Transactions will not be on terms more favourable than that to the independent third parties.

Accordingly, we are of the view that the terms of the Starcorp Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and the entering into of the Starcorp Agreement is in the interests of the Company and its Independent Shareholders as a whole. Further discussion on the measures governing the Company's future compliance in carrying out the Continuing Connected Transactions is set out in the section "4. Requirements of the Listing Rules" below.

### **3. Basis of determination of the Proposed Caps**

In assessing the fairness and reasonableness of the Proposed Caps, we have discussed with the management of the Company in respect of the basis of calculation as stated in the Letter from the Board.

#### *Starcorp Sales Continuing Connected Transactions*

Set out below are the Proposed Caps for the Starcorp Sales Continuing Connected Transactions:

	<b>For the year ending 31 December</b>		
	<b>2009</b>	<b>2010</b>	<b>2011</b>
Proposed Caps ( <i>RMB' million</i> )	119	158	198

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## LETTER FROM GF CAPITAL

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We note that there is a significant increase in the Proposed Caps for the Starcorp Sales for the year ending 31 December 2009 as compared with the actual transaction value for the year ended 31 December 2008 amounted to approximately RMB37 million. As discussed with the Company, we understand that the purchases of wooden furniture from Starcorp in 2008 were solely conducted by Sofas UK which is only engaged in the furniture retail business in the United Kingdom. There has been no purchase of wooden furniture from Starcorp for the Group's furniture retail business in the PRC. Therefore it would not be sufficient to only take into account the transaction value of wooden furniture of the Group, in particular Sofas UK, with Starcorp in 2008 when determining the Proposed Caps. In addition to the transaction value between Sofas UK and Starcorp in 2008, the Group has also made reference to its business plan when determining the Proposed Caps. According to the business plan of the Group, the Group will start expanding its home furniture retail business in both the PRC and the United Kingdom in 2009. In 2008, there were twenty one retail stores in UK operated by Sofas UK, of which two with better locations and larger floor areas were operated since late 2008. The Group expected that the retail business in 2009 will be boosted because (i) the two flagship stores aforesaid will enhance the sales in the year ending 2009; (ii) an additional new store will be opened in the United Kingdom in 2009; and (iii) two additional new stores were opened in the PRC in late 2008 which increased the Group's retail network in the PRC to three stores. To cope with the expansion plan of the Group's retail business, the Group would require an increase in the supply of wooden furniture. The Starcorp Sales could therefore guarantee a stable source of supply of wooden furniture for the retail business of the Group in both the United Kingdom and the PRC.

The Proposed Caps for the Starcorp Sales were determined based on the aforesaid retail sales plan of the Group and discussion between the management of the Company and Starcorp. For each of the year ending 31 December 2010 and 2011, the projection of the Group under the retail sales plan has further taken into account the four additional new stores planned to be opened in the United Kingdom in each of the coming year and the continue improvement of economic conditions in the United Kingdom. We have reviewed the purchases projections of wooden furniture of the Group in the United Kingdom and the PRC and note that the projections under the retail sales plan have also made reference to, among other things, the expected decrease in interest rates, the recovery pace of the housing market, the increase in market share of the Group, the projected sales of wooden furniture and gross margin. We consider that it is fair and reasonable for the Group to take these factors into account and adopt relevant assumptions when preparing the retail sales plan and the relevant projections. In addition, the management of the Group further confirm that the profit warning announced by the Company on 18 March 2009 do not affect the projections in relation to the Continuing Connected Transactions. Accordingly, we are of the view that the Proposed Caps for the Starcorp Sales are fair and reasonable.

However, as the business plan and the projections relate to future events and are based on assumptions which may not remain valid for the whole of the relevant period, the actual sales achieved may not necessarily correspond to the business plan and, accordingly, we express no opinion on how closely the sales eventually achieved will correspond with the business plan and the projections.

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## LETTER FROM GF CAPITAL

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### *Starcorp Purchases Continuing Connected Transactions*

Set out below are the Proposed Caps for the Starcorp Purchases Continuing Connected Transactions:

	<b>For the year ending 31 December</b>		
	<b>2009</b>	<b>2010</b>	<b>2011</b>
Proposed Caps ( <i>RMB' million</i> )	5	5	5

We note that the Proposed Caps for the Starcorp Purchases for the year ending 31 December 2009, 2010 and 2011 remains steady at RMB5 million. We understand from the Company that the Proposed Caps are determined primarily based on discussion between the management of the Company and Starcorp on the anticipated increase in demand of leather to be used by Starcorp as assembly in the production of wooden furniture for the period commencing from 9 March 2009 to 31 December 2011, as compared to the annual consumption of leather by Starcorp in the production of wooden furniture in the previous years.

We note from the 2007 annual report of the Company that the sales of furniture leather of the Group for the years ended 2006 and 2007 were RMB615.1 million and RMB461.3 million respectively. The relatively small Proposed Caps as compared to the existing sales scale of the Group indicates that the Starcorp Purchases will not exert significant pressure to the existing leather production of the Group. Accordingly, the benefit for starting the sale of leather to Starcorp should out-weight the cost of possible hindrance of existing production. We have also reviewed the forecast of leather to be purchased by Starcorp from the Group in 2009 prepared by Starcorp and their purchase order to the Group for April 2009 amounted to approximately RMB0.5 million. Accordingly, we are of the view that the Proposed Caps for the Starcorp Purchases are fair and reasonable.

#### **4. Requirements of the Listing Rules**

The Continuing Connected Transactions are subject to the following annual review requirements of Rule 14A.37 to 14A.41 of the Listing Rules:

- a. Each year the independent non-executive Directors must review the transactions contemplated under the Starcorp Agreement and confirm in the annual report and accounts that the Continuing Connected Transactions have been entered into:
  - (1) in the ordinary and usual course of business of the Company;
  - (2) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and

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## LETTER FROM GF CAPITAL

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- (3) in accordance with the Starcorp Agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.
- b. Each year the auditors must provide a letter to the Board (with a copy provided to the Stock Exchange at least 10 business days prior to the bulk printing of the Company's annual report), confirming that the Continuing Connected Transactions:
  - (1) have received the approval of the Board;
  - (2) are in accordance with the pricing policies of the Company if the Continuing Connected Transactions involve provision of goods or services by the Company;
  - (3) have been entered into in accordance with the Starcorp Agreement governing the Continuing Connected Transactions; and
  - (4) have not exceeded the Proposed Caps.
- c. The Company shall allow, and shall procure that the connected persons under the Continuing Connected Transactions shall allow, the auditors sufficient access to their records for the purpose of reporting on the Continuing Connected Transactions as set out in the Listing Rules. The Board must state in the annual report whether its auditors have confirmed the matters stated in (b) above.
- d. The Company shall promptly notify the Stock Exchange and publish an announcement in accordance with Rule 2.07C if it knows or has reason to believe that the independent non-executive Directors and/or the auditors will not be able to confirm the matters set out in (a) and/or (b) above respectively. The Company may have to re-comply with Rules 14A.35(3) and (4) of the Listing Rules and any other conditions the Stock Exchange considers appropriate.
- e. Upon any variation or renewal of the Starcorp Agreement, the Company must comply in full with all applicable reporting, disclosure and independent Shareholders' approval requirements of Chapter 14 of the Listing Rules in respect of all continuing connected transactions effected after such variation or renewal.

The aforesaid annual review requirements pursuant to Rules 14A.37 to 14A.41 of the Listing Rules can provide appropriate measures for the purpose of governing the Company in carrying out the Continuing Connected Transactions and safeguarding the interest of the Shareholders thereunder.

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## LETTER FROM GF CAPITAL

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### RECOMMENDATION

Having considered the above principal factors and reasons, we consider that (i) the terms of the Starcorp Agreement and the Proposed Caps are fair and reasonable so far as the Independent Shareholders are concerned and are on normal commercial terms; and (ii) the Continuing Connected Transactions are in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise (i) the Independent Board Committee to recommend to the Independent Shareholders, and (ii) the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed at the EGM in relation to the entering into of the Starcorp Agreement and the Proposed Caps.

For and on behalf of

**GF Capital (Hong Kong) Limited**

**Dino Ng**

*Managing Director and Co-Head of Corporate Finance*

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts 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 Issuers 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	1,604,000	503,292,635 (Note)	504,896,635	43.39%
Zhou Xiaosong	8,173,912	–	8,173,912	0.70%
Zhang Mingfa	1,980,000	–	1,980,000	0.17%

*Note:* 503,292,635 shares are beneficially owned by Joyview Enterprises Limited, a company wholly and beneficially owned by Mr. Zhu.

## (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 2008	Granted from 1 January 2008 to the Latest Practicable Date	Cancelled from 1 January 2008 to the Latest Practicable Date				
Zhu Zhangjin	2.38	1,000,000	–	–	1,000,000	0.08%	1/1/2007 to 8/3/2016	1,5,6
	2.38	1,000,000	–	–	1,000,000	0.08%	1/1/2008 to 8/3/2016	2,5,6
Zhou Xiaosong	2.38	1,000,000	–	–	1,000,000	0.08%	1/1/2007 to 8/3/2016	1,5,6
	2.38	1,000,000	–	–	1,000,000	0.08%	1/1/2008 to 8/3/2016	2,5,6
	1.18	–	500,000	–	500,000	0.04%	1/1/2009 to 4/5/2018	3,5,6
	1.18	–	500,000	–	500,000	0.04%	1/1/2010 to 4/5/2018	4,5,6
Zhu Jianqi (Note 7)	2.38	1,000,000	–	(1,000,000)	–	–	1/1/2007 to 8/3/2016	1,5,6
	2.38	1,000,000	–	(1,000,000)	–	–	1/1/2008 to 8/3/2016	2,5,6
	1.18	–	500,000	(500,000)	–	–	1/1/2009 to 4/5/2018	3,5,6
	1.18	–	500,000	(500,000)	–	–	1/1/2010 to 4/5/2018	4,5,6
Zhang Mingfa (Note 7)	2.38	500,000	–	–	500,000	0.04%	1/1/2007 to 8/3/2016	1,5,6
	2.38	500,000	–	–	500,000	0.04%	1/1/2008 to 8/3/2016	2,5,6
	1.18	–	250,000	–	250,000	0.02%	1/1/2009 to 4/5/2018	3,5,6
	1.18	–	250,000	–	250,000	0.02%	1/1/2010 to 4/5/2018	4,5,6
Lu Yungang	2.38	200,000	–	–	200,000	0.02%	1/1/2007 to 8/3/2016	1,5,6
	2.38	200,000	–	–	200,000	0.02%	1/1/2008 to 8/3/2016	2,5,6
	1.18	–	300,000	–	300,000	0.03%	1/1/2009 to 4/5/2018	3,5,6
	1.18	–	300,000	–	300,000	0.03%	1/1/2010 to 4/5/2018	4,5,6
Chow Joseph	2.38	200,000	–	–	200,000	0.02%	1/1/2007 to 8/3/2016	1,5,6
	2.38	200,000	–	–	200,000	0.02%	1/1/2008 to 8/3/2016	2,5,6
	1.18	–	300,000	–	300,000	0.03%	1/1/2009 to 4/5/2018	3,5,6
	1.18	–	300,000	–	300,000	0.03%	1/1/2010 to 4/5/2018	4,5,6
Zhang Huaqiao (Note 7)	1.18	–	500,000	(500,000)	–	–	1/1/2009 to 4/5/2018	3,5,6
	1.18	–	500,000	(500,000)	–	–	1/1/2010 to 4/5/2018	4,5,6



*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 were granted pursuant to the Scheme on 5 May 2008 and are exercisable at HK\$1.18 per Share from 1 January 2009 to 4 May 2018.
4. These share options were granted pursuant to the Scheme on 5 May 2008 and are exercisable at HK\$1.18 per Share from 1 January 2010 to 4 May 2018.
5. These share options represent personal interest held by the relevant participants as beneficial owner.
6. Except the cancelled share option stated above, up to the Latest Practicable Date, none of these share options were exercised nor lapsed.
7. On 10 November 2008, Mr. Zhu Jianqi resigned as executive director of the Company, and Mr. Zhang Mingfa, Michael was appointed as executive director of the Company. On 1 October 2008, Mr. Zhang Huaqiao resigned as independent non-executive director of the Company.

**Interests in the associated corporation of the Company**

<b>Name of Director</b>	<b>Associated Corporation</b>	<b>Number of shares</b>	<b>Approximate percentage of shareholding in associated corporation</b>
Zhu Zhangjin	Joyview Enterprises Limited	1	100%

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	–	503,292,635	503,292,635	43.25%
Warburg Pincus & Co. <sup>1</sup>	Interest of controlled corporation	–	185,989,966	185,989,966	15.98%
Warburg Pincus Partners LLC. <sup>1</sup>	Interest of controlled corporation	–	185,989,966	185,989,966	15.98%
Warburg Pincus Private Equity VIII L.P. <sup>1</sup>	Beneficial owner	–	90,120,988	90,120,988	7.74%
Warburg Pincus International Partners L.P. <sup>1</sup>	Beneficial owner	–	89,137,811	89,137,811	7.66%

*Notes:*

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

<b>Name of Shareholder</b>	<b>Subsidiary</b>	<b>Nature of interest</b>	<b>Percentage of interest in subsidiaries</b>
海寧中國皮革城股份有限公司 (Haining China Leather Market Company Limited*)	海寧皮革產業投資開發有限公司 (Haining Leather Industry Investment and Development Co., Ltd.*)	Beneficial	25%

*Note:*

- The Company has 75% 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.\*).

Save as disclosed above, so far as is known to the Directors or chief executive of the Company, as at the Latest Practicable Date, no other person (other than a Director or chief executive of the Company) had, or was deemed or taken to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or held any option in respect of such capital.

**3. DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had entered into a service contract with any member of the Group 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. MATERIAL ADVERSE CHANGE**

Save as disclosed in the announcement of the Company dated 18 March 2009, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2007, being the date to which the latest published audited financial statements of the Group were made up.

## 6. EXPERTS' QUALIFICATIONS AND CONSENTS

GF Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which it appears.

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

<b>Name</b>	<b>Qualification</b>
GF Capital	A licensed corporation to conduct Type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, GF Capital did not have any direct or indirect interest in any assets which had been acquired, disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group, since 31 December 2007, the date to which the latest audited financial statements of the Group was made up; and was not beneficially interested in the share capital of any member of the Group and did not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

## 7. LITIGATION

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

## 8. GENERAL

- (a) None of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group or proposed to be so acquired, disposed of by or leased to any member of the Group since 31 December 2007, being the date to which the latest published audited accounts of the Group were made up, and up to the Latest Practicable Date.
- (b) Save as disclosed in this circular, 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) The 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.

- (d) The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (e) The principal place of business of the Company in Hong Kong is at Room 1605, Tai Tung Building, 8 Fleming Road, Wanchai, Hong Kong.
- (f) The branch share registrar of the Company in Hong Kong is Computershare Hong Kong Investor Services Ltd.
- (g) The principal share registrar of the Company is Butterfield Fulcrum Group (Cayman) Limited (formerly known as Butterfield Fund Services (Cayman) Limited).
- (h) The English text of this circular shall prevail over their respective Chinese text for the purpose of interpretation.

## **9. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the Company's principal place of business in Hong Kong at Room 1605, Tai Tung Building, 8 Fleming Road, Wanchai, Hong Kong during normal business hours on any weekdays, except public holidays, from the date of this circular up to and including the date of the EGM:

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company for each of the two years ended 31 December 2007;
- (c) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 11 of this circular;
- (d) the letter of advice from GF Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 12 to 20 of this circular;
- (e) the written consent of GF Capital referred to in the paragraph headed "Experts' Qualifications and Consents" in this Appendix;
- (f) the Starcorp Agreement;
- (g) the circular of the Company dated 21 January 2009 in relation to certain continuing connected transactions;
- (h) this circular.

\* *For identification only*

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## NOTICE OF THE EGM

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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)**

**NOTICE IS HEREBY GIVEN** that the extraordinary general meeting (the “**EGM**”) of Kasen International Holdings Limited (the “**Company**”) will be held at 259 Qianjiang Road West, Haining, Zhejiang, China on 14 April 2009 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**

(1) “**THAT**

- (a) a master agreement (the “**Starcorp Agreement**”) dated 9 March 2009 entered into between Starcorp Corporation Pty. Ltd., and the Company, a copy of which is tabled at the meeting and marked “A” and initialled by the chairman of the meeting for identification purpose, and the transactions contemplated under the Starcorp Agreement (the “**Continuing Connected Transactions**”), be and are hereby approved, ratified and confirmed;
- (b) the cap amounts of the Continuing Connected Transactions as set out in the circular of the Company dated 26 March 2009 for each of the financial years ending 31 December 2011 be and are hereby approved; and
- (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 the Starcorp Agreement and 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 Starcorp Agreement.”

By order of the Board

**Kasen International Holdings Limited**

**Yiu Hoi Yan**

*Company Secretary*

Hong Kong, 26 March 2009

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## NOTICE OF THE EGM

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*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

*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 appointer or of his/her attorney duly authorised in writing or, if the appointer 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 branch share registrar and transfer office 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, 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.