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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Deson Development International Holdings Limited**, you should at once hand this circular to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or the transfer was effected for transmission to the purchaser or the transferee.

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DESON DEVELOPMENT INTERNATIONAL HOLDINGS LIMITED

迪臣發展國際集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 262)

**CONNECTED AND DISCLOSEABLE TRANSACTION
ACQUISITION OF FURTHER INTEREST
IN A NON-WHOLLY OWNED SUBSIDIARY**

A letter from the Board is set out on pages 4 to 8 of this circular.

* *For identification only*

7 February 2007

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DEFINITIONS

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

“Acquisition”	the acquisition of the Sale Equity and the Loan Assignment
“Agreement”	the sale and purchase agreement dated 16 January 2007 entered into between Winsome and Hainan Jingdu in relation to the Acquisition
“Announcement”	the announcement dated 17 January 2007 issued by the Company
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Days”	any day (other than Saturday, Sunday or a public holiday) on which banks in the PRC are generally open for business
“Company”	Deson Development International Holdings Limited, an exempted company incorporated in Bermuda with limited liability and the shares of which are listed on the main board of the Stock Exchange
“Completion”	completion of the Agreement pursuant to the Agreement
“connected person”	has the meaning ascribed to it under the Listing Rules
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“Hainan Jingdu” or “Vendor”	海南京都實業發展有限公司 (Hainan Jingdu Business Development Limited*), a limited liability company incorporated in the PRC which is wholly-owned by a PRC citizen
“Hainan Yahao”	海南亞豪置業有限公司 (Hainan Yahao Properties Limited*), a sino-foreign equity joint venture established in the PRC which is owned as to 70% by Winsome and as to 30% by Hainan Jingdu as at the date of this circular
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Hotel Lidu”	海南麗都假日酒店 (Hotel Lidu*), formerly known as 海南奧斯羅克大酒店 (Hotel Osroc*)
“Latest Practicable Date”	2 February 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information included in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan Assignment”	the assignment of the Shareholder’s Loan pursuant to a deed of loan assignment to be entered into by Hainan Jingdu (as assignor), Winsome (as assignee) and Hainan Yahao
“PRC”	the People’s Republic of China
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Sale Equity”	the 30% equity interest in Hainan Yahao currently held by Hainan Jingdu
“Shareholder’s Loan”	the interest free shareholder’s loan due and owing by Hainan Yahao to Hainan Jingdu as at the date of the Agreement
“Shareholders”	shareholders of the Company
“Share Options”	options granted under the share option scheme of the Company adopted on 14 August 2002
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Winsome” or “Purchaser”	Winsome Properties Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company
“m ² ”	square metre
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

DEFINITIONS

“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

For the purpose of this circular, the following exchange rate has been used for the conversion of Renminbi into Hong Kong dollars for indication only: RMB100 = HK\$100

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LETTER FROM THE BOARD



DESON DEVELOPMENT INTERNATIONAL HOLDINGS LIMITED

迪臣發展國際集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 262)

Executive Directors:

Mr. Wang Ke Duan (*Chairman*)

Mr. Tjia Boen Sien

(Managing Director and Deputy Chairman)

Mr. Wang Jing Ning

Mr. Keung Kwok Cheung

Mr. Ong Chi King

Independent non-executive Directors:

Dr. Ho Chung Tai, Raymond

Mr. Siu Man Po

Mr. Wong Shing Kay, Oliver

Registered office:

Canon's Court

22 Victoria Street

Hamilton HM12

Bermuda

*Head office and principal place
of business in Hong Kong:*

11th Floor

Nanyang Plaza

57 Hung To Road

Kwun Tong

Kowloon

Hong Kong

7 February 2007

To the Shareholders and for information only, holders of outstanding Share Options.

Dear Sirs,

CONNECTED AND DISCLOSEABLE TRANSACTION ACQUISITION OF FURTHER INTEREST IN A NON-WHOLLY OWNED SUBSIDIARY

INTRODUCTION

Reference is made to the Announcement in which the Board announced that on 16 January 2007, Winsome, a wholly-owned subsidiary of the Company (as the purchaser) entered into the Agreement with Hainan Jingdu (as the vendor) in relation to the acquisition of the Sale Equity and the Shareholder's Loan at a total consideration of HK\$9,500,000.

The Acquisition constitutes a connected and discloseable transaction for the Company under the Listing Rules. The purpose of this circular is to provide you with further information regarding the Acquisition and other information prescribed by the Listing Rules.

* For identification only

LETTER FROM THE BOARD

THE AGREEMENT

Date

16 January 2007

The Purchaser

Winsome, a wholly-owned subsidiary of the Company, which holds a 70% equity interests in Hainan Yahoo.

The Vendor

海南京都實業發展有限公司 (Hainan Jingdu Business Development Limited*), a PRC limited liability company which, by virtue of its holding of the remaining 30% equity interest in Hainan Yahoo (being the Sale Equity), a connected person of the Company within the meaning of the Listing Rules.

Assets to be acquired:

Pursuant to the Agreement, Winsome has conditionally agreed to purchase and Hainan Jingdu has conditionally agreed to sell the Sale Equity and the Shareholder's Loan at a total consideration of HK\$9,500,000. The Sale Equity represents a 30% equity interest in Hainan Yahoo. Upon Completion, Hainan Jingdu shall assign the Shareholder's Loan to Winsome or such person(s) as it may direct.

Consideration

The total consideration payable by Winsome to Hainan Jingdu for the Sale Equity and the Shareholder's Loan is HK\$9,500,000, which will be satisfied by way of cash in one lump sum upon Completion. The consideration will be financed by internal resources of the Group.

The consideration payable for the Sale Equity is HK\$2,000,000 and was determined after arm's length negotiations between the parties to the Agreement by reference to the unaudited net asset value of Hainan Yahoo of RMB9,572,000 (approximately HK\$9,572,000) as at 31 December 2006 in accordance with the accounting principles generally accepted in the PRC and taking into account that the Sale Equity represents a minority stake in Hainan Yahoo, a company already controlled by the Company.

The consideration payable for the Loan Assignment is HK\$7,500,000 and is equivalent to the outstanding balance of the Shareholder's Loan as at the date of the Agreement. The Shareholder's Loan is an interest free and unsecured loan repayable on demand. The Company expects that the outstanding amount of the Shareholder's Loan as at the date of Completion will not be materially different from that as at the date of the Agreement.

LETTER FROM THE BOARD

Conditions

Completion of the Agreement is conditional upon the following conditions being fulfilled:

- (i) all approvals, consents and waivers required by any applicable law, rules, regulations or governmental, administrative or regulatory bodies necessary for the parties to consummate the Acquisition and the transactions contemplated or incidental to the Agreement having been obtained; and
- (ii) Hainan Jingdu having performed the covenants and undertakings required to be performed by it under the Agreement on or before the date of Completion.

In the event that the above conditions are not fulfilled or (in the case of the condition set out in (ii) above only) waived by the Purchaser in writing on or before 20 March 2007 (or such later date as may be agreed between the parties to the Acquisition), the Agreement shall lapse.

Completion

As at the Latest Practicable Date, the above conditions have not been fulfilled. Completion shall take place on the third Business Day after the fulfillment of the above conditions, or such later date as the relevant parties may agree in writing prior to Completion. Completion is expected to take place no later than 31 March 2007.

Upon Completion, Hainan Yahao will become a wholly-owned subsidiary of the Company and its financial information will continue to be consolidated in the Group's financial statements.

INFORMATION ON HAINAN YAHAO

Hainan Yahao is a sino-foreign equity joint venture established in the PRC on 15 February 2006, which is currently owned as to 70% by Winsome and 30% by Hainan Jingdu. According to Hainan Yahao's business licence, its business scope includes tourism guest house management operations (including rental, sale and provision of after sale services) and tourism development.

The registered capital and total investment of Hainan Yahao are RMB10,000,000 (approximately HK\$10,000,000) and RMB20,000,000 (approximately HK\$20,000,000), respectively. The registered capital of Hainan Yahao has been fully paid up by its equity holders pursuant to their respective equity holdings in the registered capital in accordance with its articles: Winsome has paid RMB7,000,000 (approximately HK\$7,000,000) as its portion of the registered capital contribution to Hainan Yahao and Hainan Jingdu has paid the remaining proportion of the registered capital contribution to Hainan Yahao. The financial information of Hainan Yahao has already been consolidated into the Group's financial statements and based on the unaudited financial information of Hainan Yahao prepared in accordance with the accounting principles generally accepted in the PRC, the net loss of Hainan Yahao from 15 February 2006 (the date of its incorporation) to 31 December

LETTER FROM THE BOARD

2006 is RMB427,945.16. Upon Completion, Hainan Yahao will become a wholly-owned subsidiary of the Company and its financial information will continue to be consolidated in the Group's financial statements. The principal asset of Hainan Yahao is its entire interest in Hotel Lidu (formerly known as 海南奧斯羅克大酒店 (Hotel Osroc*)), which is a hotel located in Haikou, Hainan province.

INFORMATION ON THE GROUP

The Group is principally engaged in (i) the construction business, as a main contractor, as well as the provision of contracting intelligent building engineering and electrical and mechanical engineering services, mainly in Hong Kong and the PRC; (ii) the property development and investment; and (iii) the operation of fitness club and trading of fitness equipment.

INFORMATION ON HAINAN JINGDU

Hainan Jingdu is a limited liability company incorporated in the PRC, its principal activity is investment holding. The only investment in Hainan Jingdu is the 30% equity interest in Hainan Yahao.

REASONS FOR THE ACQUISITION

The Company announced on 10 March 2006 that a wholly-owned subsidiary of the Company had on 7 March 2006 entered into an agreement in relation to its acquisition of the entire issued share capital of Winsome and the obligation to contribute a loan to Winsome (the "Winsome Acquisition"). The Winsome Acquisition was completed on 1 April 2006, following which Winsome became a wholly-owned subsidiary of the Company.

Hainan Yahao is 70% owned by Winsome and will become a wholly-owned subsidiary of the Company upon Completion whereupon the Company will be able to exercise complete control over Hainan Yahao and thus the operations and business development of the hotel business operated by Hainan Yahao at Hotel Lidu, which is wholly-owned by Hainan Yahao. Hotel Lidu is located in Haikou, the capital of Hainan province. It first began operation in 1996 and is a three star hotel with a total of 208 guest rooms and suites with a gross floor area of 22,739.05 m². Hotel Lidu is currently under renovation, which is expected to be completed before the end of 2007. In view of the great potential which Hainan province has as an upscale tourist destination, the Group intends to make use of the Acquisition to further participate in the hotel business in Hainan, as they consider the growth prospects of this business to be promising.

The Directors (including the independent non-executive Directors) consider the terms of the Agreement and the transactions contemplated therein are on normal commercial terms and are fair and reasonable and in the interests of the Shareholders as a whole.

LETTER FROM THE BOARD

EFFECT OF THE TRANSACTION

Upon Completion, the Group's current assets will decrease as a result of payment of the consideration for the Acquisition funded from internal resources whereas the minority interest in Hainan Yahao will decrease by the value being acquired by the Group. The Acquisition after Completion will not have any impact on the revenue of the Group and the Group will share additional 30% of Hainan Yahao's net loss, which will result in a negative impact on the earnings of the Group. The Directors confirm that in view of the existing financial and operation conditions of the Company and taking into account payment of the consideration for the Acquisition, the Group will have sufficient working capital for the operation of its business after making such payment.

LISTING RULES IMPLICATIONS

Hainan Yahao is owned as to 70% by Winsome and hence a non-wholly owned subsidiary of the Company. As Hainan Jingdu owns the remaining 30% equity interest in Hainan Yahao (being the Sale Equity), it is a connected person within the meaning of the Listing Rules and the Acquisition constitutes a connected transaction of the Company.

As each of the applicable percentage ratios of the Acquisition, when aggregated with the Winsome Acquisition which was completed within the last 12 months, is more than 2.5% but less than 25% and the total consideration involved is less than HK\$10,000,000, pursuant to Rule 14A.32 of the Listing Rules, the Acquisition is exempted from the independent shareholders' approval requirement and is subject to the reporting and disclosure requirements in accordance with Rules 14A.45 to 14A.47 of the Listing Rules.

When aggregated with the Winsome Acquisition which was completed within the last 12 months, the Acquisition also constitutes a discloseable transaction for the Company under the Listing Rules.

ADDITIONAL INFORMATION

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

Yours faithfully,
For and on behalf of the Board
DESON DEVELOPMENT
INTERNATIONAL HOLDINGS LIMITED
Tjia Boen Sien
Managing Director and Deputy Chairman

A. 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.

B. DISCLOSURE OF INTERESTS

- (i) Save as disclosed below, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to the provisions under Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions which he would be deemed or taken to have under Sections 344 and 345 of the SFO) or the Model Code for Securities Transactions by Directors of Listed Companies, or which will have to be, pursuant to Section 352 of the SFO, entered in the register referred to herein:

Long positions in the Shares

Name of Director	Capacity	Number of shares	Approximate percentage of the Company's issued share capital
Mr. Tjia Boen Sien	Interest by attribution (<i>Note 1</i>)	226,250,000	39.51%
	Beneficial Owner	35,984,400	6.28%
Mr. Wang Jing Ning	Beneficial Owner	12,839,600	2.24%
Mr. Wang Ke Duan	Beneficial Owner	268,960	0.05%
Mr. Ong Chi King	Beneficial Owner	1,550,000	0.27%
Mr. Siu Man Po	Beneficial Owner	180,000	0.03%

Note 1: 226,250,000 shares are held by Sparta Assets Limited ("Sparta Assets"), a company incorporated in the British Virgin Islands which is wholly owned by Mr. Tjia Boen Sien. Mr. Tjia Boen Sien is also a director of Sparta Assets.

Long positions in the underlying Shares of the Company

Name	Capacity	Number of options	Exercise price HK\$	Exercise period
Dr. Ho Chung Tai, Raymond	Beneficial Owner	400,000	0.340	5 March 2006 to 4 March 2008
Mr. Siu Man Po	Beneficial Owner	400,000	0.340	5 March 2006 to 4 March 2008

- (ii) Save as disclosed below, the Directors or chief executive of the Company are not aware of any other person (other than a Director or chief executive whose interests are disclosed under (i) above) who, as at the Latest Practicable Date, had an interest or short position in the Shares or the 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 will be interested, directly or indirectly, 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:

Long positions in the Shares or underlying Shares

Name of Shareholder	Capacity	Number of shares	Number of underlying shares (under equity derivatives of the Company)	Aggregate interest	Approximate percentage of the Company's issued share capital
Sparta Assets	Beneficial Owner	226,250,000	–	226,250,000	39.51%
Penta Investment Advisers Limited (Note 2)	Investment Manager	97,965,000	35,000,000	132,965,000	23.22%
Mr. John Zwaanstra	Interest by attribution (Note 3)	97,965,000	35,000,000	132,965,000	23.22%

Note 2: Penta Investment Advisers Limited (“Penta”) entered into a convertible note subscription agreement with the Company on 4 April 2006 to subscribe HK\$15,750,000 convertible note from the Company. The convertible notes are convertible into shares at an initial conversion price at HK\$0.45 per share.

Note 3: Penta, a company incorporated in the British Virgin Islands and wholly owned by Mr. John Zwaanstra.

C. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or proposed Directors has entered into any existing or proposed service contracts with the Company or any other member of the Group save for those expiring or determinable by the relevant employer within one year without payment of compensation (other than statutory compensation).

D. MATERIAL LITIGATION

As far as the Directors are aware, save as disclosed below in respect of the outstanding pending litigations as at the Latest Practicable Date, no member of the Group is engaged in any litigation or claim of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Group.

- (i) On 7 December 2006, legal proceedings were instituted against Kenworth Engineering Limited (“Kenworth”), a 100%-owned subsidiary of the Company, by Watfield Technology Limited (“Watfield”), in respect of Kenworth Watfield Joint Venture Limited, a joint venture established in Hong Kong which is owned as to 50% by Kenworth and as to 50% by Watfield (the “Joint Venture”). In its Statement of Claim, Watfield averred that Kenworth is in breach of the joint venture agreement dated 13 November 2003. In addition to the claim for damages as a result of the alleged breach by Kenworth, Watfield is seeking for the court’s declaration that (1) Watfield is entitled to have the loan of HK\$2,500,000 provided by Watfield to set off, as first priority, against its credit balance in the Joint Venture accounts; (2) Kenworth holds on trust for the Joint Venture and Watfield all monies received by the Joint Venture from Kaden-Leader-Kenworth Joint Venture, a consortium formed by Kaden Construction Limited, Leader Civil Engineering Corporation Limited and Kenworth (the “Consortium”); (3) Kenworth shall deliver all other necessary accounts and enquiries for tracing all monies received by the Joint Venture from the Consortium; (4) Kenworth was in breach of its duty towards Watfield by failing to render full information in respect of the financial affairs of the Joint Venture; and (5) Kenworth do forthwith render all books and accounts kept by the Joint Venture and full information in respect of the financial affairs of the Joint Venture.
- (ii) On 9 January 2007, legal proceedings were instituted against Watfield by Kenworth, in respect of the outstanding working capital to be provided by Watfield and a loan provided by Kenworth under a loan facility. In its Statement of Claim, Kenworth averred that Watfield has not paid 50% of the total working capital in the sum of HK\$9,797,740.63 to the Joint Venture and Watfield owed Kenworth the amount of HK\$2,787,126.22 being the loan provided by Kenworth to Watfield under a loan facility for operation of the Joint Venture.

- (iii) On 7 December 2006, legal proceedings were instituted against Kenworth by Allied Electric Corporation Limited (“AEC”) in respect of the alleged work performed under a construction project. According to its Statement of Claim, AEC’s construction claims include outstanding payments, variation claims and claims in respect of loss and expenses in the total sum of HK\$16,408,884.92.

The Directors, after obtaining the advice in the letter from the Group’s legal counsel dated 30 December 2006, consider that Kenworth has valid defences against the above claims and are of the view that no material financial loss will be suffered by Kenworth.

E. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors or their respective associates has any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

As at the Latest Practicable Date, none of the Directors has any material interest in any contract or arrangement which is significant in relation to the business of the Group.

F. GENERAL

- (i) The Company’s registered office is at Canon’s Court, 22 Victoria Street, Hamilton HM12 Bermuda.
- (ii) The head office and principal place of business of the Company in Hong Kong is at 11th Floor, Nanyang Plaza, 57 Hung To Road, Kwun Tong, Kowloon, Hong Kong.
- (iii) The branch share registrar and transfer office of the Company in Hong Kong is Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Hong Kong.
- (iv) Mr. Ong Chi King is an executive director and the secretary of the Company. Mr. Ong holds a bachelor degree in Business Administration from the Hong Kong University of Science and Technology. He is a fellow of the Association of Chartered Certified Accountants and a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants.
- (v) Ms. Wong Ka Yan is the financial controller and qualified accountant of the Company. Ms. Wong holds a Bachelor degree in Commerce from the University of Adelaide, Australia and is a Certified Public Accountant of CPA Australia.
- (vi) The English text of this circular shall prevail over the Chinese text.