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**DAPHNE INTERNATIONAL HOLDINGS LIMITED**  
**達芙妮國際控股有限公司** \*  
(Incorporated in the Cayman Islands with limited liability)  
(Stock Code: 210)

**ISSUE OF RMB DENOMINATED  
USD SETTLED 3.125% CONVERTIBLE BONDS DUE 2014  
AND  
WARRANTS  
AND  
RESUMPTION OF TRADING**

**Financial Advisor to the Company**



**Merrill Lynch (Asia Pacific) Limited**

**Financial Advisor to the Investor**

**NOMURA**

**Nomura International (Hong Kong) Limited**

On 24 May 2009, the Company and the Investor entered into the Investment Agreement pursuant to which the Investor has agreed to subscribe for the Bonds and the Warrants.

Upon completion of the Investment Agreement and assuming full conversion of the Bonds and full exercise of the Warrants, the Investor would hold approximately 17.0% of the Company's existing issued share capital and approximately 14.5% of the Company's issued share capital as enlarged by the issue of the Relevant Shares.

The estimated net proceeds from the issue of the Bonds would be approximately HK\$612.6 million. The Board intends to apply the net proceeds from the issue of the Bonds to fund the continued expansion of the Group's store network in the PRC. Upon full exercise of the subscription rights attaching to the Warrants, net proceeds of approximately HK\$395.2 million will be raised and will be applied as general working capital of the Company.

Completion of the issue of the Bonds and the Warrants is subject to certain conditions which are set out in the paragraph headed "Conditions Precedent" below.

The Company will apply to the Stock Exchange for the listing of, and permission to deal in, the Relevant Shares.

**As the Investment Agreement may or may not complete, Shareholders and prospective investors are advised to exercise caution when dealing in the Shares.**

\* for identification purpose only

At the request of the Company, trading in the Shares on the Stock Exchange has been suspended since 9:30 a.m. on 25 May 2009 pending the release of this announcement, and an application has been made for the resumption of trading in the Shares on the Stock Exchange with effect from 9:30 a.m. on 26 May 2009.

## **THE INVESTMENT AGREEMENT**

The Company has entered into the Investment Agreement with the Investor on 24 May 2009 pursuant to which the Investor agrees to subscribe for (i) RMB denominated USD settled 3.125% convertible bonds due 2014 with a principal amount of RMB550,000,000 (equivalent to approximately HK\$624.8 million); and (ii) the Warrants.

### **Date of the Investment Agreement**

24 May 2009

### **Parties:**

- (1) The Company; and
- (2) TPG Premier, Ltd., a company incorporated in the Cayman Islands which is a subsidiary of TPG Asia V L.P., a Cayman Islands exempted limited partnership.

To the best knowledge, information and belief of the Directors, and having made all reasonable enquires, the Investor and its ultimate beneficial owners are independent third parties not connected with the Company or any of its connected persons.

### **Principal Terms of the Bonds**

Set out below is a summary of the principal terms of the Bonds:

Issuer	The Company
Principal amount	RMB550,000,000 (equivalent to approximately HK\$624.8 million)
Maturity date	The date falling on the fifth anniversary of the issue date of the Bonds.
Issue price	100% of the principal amount of the Bonds, payable by the Investor in full in USD at completion of the Investment Agreement.

Interest	<p>The Bonds bear interest from the issue date of the Bonds at the rate of 3.125% per annum on the principal amount of the Bonds outstanding. The interest will be payable by the Company semi-annually in arrears.</p> <p>If the amount of RMB interest accrued on each Bond (calculated by applying the rate of interest to the RMB principal amount) in any financial year (the “Aggregate Interest”) is less than the aggregate amount of the dividends attributable to the relevant financial year which would have been paid in respect of the number of Shares into which each Bond would convert (as at the record date for the final dividend for the relevant financial year, or if no final dividend is declared in respect of the relevant financial year, on the date of the announcement of the Company’s full year results for the relevant financial year) converted into RMB at the prevailing rate (the “Relevant Amount”), then the Company shall pay to each Bondholder the USD equivalent of the additional interest, which means an amount equal to the Relevant Amount minus the Aggregate Interest and multiplied by the number of Bonds held by the relevant Bondholder as at close of business on the last day of the financial year in question.</p>
Conversion period	<p>Each Bondholder has the right to convert the Bonds in whole or in part into Conversion Shares at any time on or after the issue date of the Bonds up to the maturity date.</p>
Conversion price	<p>HK\$3.50 per Conversion Share, subject to adjustment in accordance with the terms of the Bonds including, among other things, subdivision or consolidation of Shares, the making of a free distribution of Shares, bonus issue, the declaration of a dividend in Shares, capital distribution, issuance of options, rights or warrants, and other dilutive events such as issue of new Shares.</p>
Number of Conversion Shares issuable	<p>178,510,572 Conversion Shares will be issued upon full conversion of the Bonds based on the initial conversion price of HK\$3.50.</p>
Redemption at maturity	<p>Each Bond will be redeemed on maturity at a value equal to the USD equivalent of the aggregate of (1) 100% of the outstanding RMB principal amount; and (2) all amounts accrued thereon.</p>

Redemption at the option of the Company	The Company will not have an early redemption right, provided that if the principal amount of the Bonds outstanding falls below 10% of the initial amount of the Bonds, the Company will have the right to redeem all remaining Bonds at the USD equivalent of the RMB face value of the outstanding Bonds plus all accrued amounts thereon.
Redemption at the option of the Bondholder	The Bondholder will have the option to require the Company to redeem any Bond held by him upon the occurrence of (i) a Change of Control (as defined in the Bond Instrument); (ii) a delisting of the Company; (iii) an Event of Default (as defined in the Bond Instrument), in each case, at a value equal to the USD equivalent of the aggregate of (1) 130% of the aggregate outstanding amount of the Bonds in RMB and (2) all amounts accrued thereon;
Redemption at the option of the Investor	The Investor will have the option to require the Company to redeem any Bond held by it upon (i) any failure to give effect to the Investor's management rights; or (ii) termination of the Key Person by the Company without cause and without the Investor's prior written consent, in each case, at a value equal to the USD equivalent of the aggregate of (1) 130% of the aggregate outstanding amount of the Bonds in RMB and (2) all amounts accrued thereon.
Transferability	The Bonds will be transferable, subject to certain restrictions imposed pursuant to the terms of the Bonds.
Status	The Bonds will represent direct, unconditional, unsubordinated and unsecured obligations of the Company and will at all times rank <i>pari passu</i> with all existing and future unsubordinated and unsecured obligations of the Company.
Voting	A Bondholder will not be entitled to vote at any general meetings of the Company by reason only of it being a Bondholder.
Listing	No application will be made for the listing of the Bonds on the Stock Exchange or any other exchange.

## Comparison of Conversion Price

The initial conversion price of HK\$3.50 per Conversion Share was arrived at after arm's length negotiation between the Company and the Investor and represents:

- (i) a premium of approximately 7.7% over the closing price of the Shares of HK\$3.25 as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of 5.8% over the average closing price of HK\$3.31 per Share for the last 5 consecutive trading days up to and including the Last Trading Day; and
- (iii) a premium of 28.5% over the average closing price of HK\$2.72 per Share for the last 30 consecutive trading days up to and including the Last Trading Day.

## Conversion Shares

Assuming full conversion of the Bonds at the conversion price of HK\$3.50 per Conversion Share, the Bonds will be convertible into approximately 178,510,572 Conversion Shares, representing approximately 10.9% of the existing issued share capital of the Company and approximately 9.8% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares.

The Conversion Shares have a nominal value of HK\$17,851,057.20 and a market value of approximately HK\$580.2 million based on the closing price of the Shares of HK\$3.25 on 22 May 2009.

The Conversion Shares will rank *pari passu* in all respects with the Shares then in issue on the relevant conversion date.

## Principal Terms of the Warrants

Set out below is a summary of the principal terms of the Warrants:

Issuer	The Company
Number of Warrants to be issued	100 million
Subscription price	Nil
Exercise price	HK\$4.00 per Share, subject to adjustment in accordance with the terms of the Warrants including, among other things, subdivision or consolidation of Shares, the making of a free distribution of Shares, bonus issue, the declaration of a dividend in Shares, capital distribution, issuance of options, rights or warrants, and other dilutive events such as issue of new Shares.

Exercise period	The Warrants can be exercised at any time during the period commencing from the issue date of the Warrants to the fifth anniversary of the issuance of the Warrants.
Status	The Warrants will rank <i>pari passu</i> in all respects with one another.
Number of Shares issuable	Upon the full exercise of the Warrants, 100 million Shares will fall to be issued and represent approximately 6.1% of the existing issued share capital of the Company and approximately 5.8% of the issued share capital of the Company as enlarged by the allotment and issue of the Warrant Exercise Shares, and assuming full conversion of the Conversion Shares, approximately 5.2% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares and the Warrant Exercise Shares.
Transferability of subscription rights	The subscription rights will be transferable, subject to certain restrictions imposed pursuant to the terms of the Warrants.
Voting	A warrant holder will not be entitled to vote at any general meetings of the Company by reason only of it being a warrant holder.
Listing	No application will be made for the listing of the Warrants on the Stock Exchange or any other exchange.

### **Comparison of Exercise Price**

The initial exercise price of HK\$4.00 per Warrant Exercise Share (subject to adjustment) represents:

- (i) a premium of approximately 23.1% over the closing price of the Shares of HK\$3.25 as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 20.9% over the average closing price of HK\$3.31 per Share for the last 5 consecutive trading days up to and including the Last Trading Day; and
- (iii) a premium of approximately 46.9% over the average closing price of HK\$2.72 per Share for the last 30 consecutive trading days up to and including the Last Trading Day.

The Warrant Exercise Shares have a nominal value of HK\$10,000,000 and a market value of HK\$325.0 million based on the closing price of the Shares of HK\$3.25 on 22 May 2009.

The Warrant Exercise Shares will rank *pari passu* in all respects with the Shares then in issue on the relevant exercise date.

## **Conditions Precedent**

The obligations of the Investor under the Investment Agreement are conditional upon:

- (i) the Company shall have obtained from the Stock Exchange the listing approval and permission to deal in the Relevant Shares;
- (ii) the representations and warranties of the Company set out in the Investment Agreement remain true, accurate and correct in all material respects;
- (iii) the Company having performed all of its obligations under the Investment Agreement before the date of completion; and
- (iv) a Change of Control shall not have occurred in respect of the Company.

Completion of the Investment Agreement is expected to take place on the thirteenth business day from the date of the Investment Agreement. If the Conditions Precedent cannot be fulfilled (other than (i) above) or are otherwise waived by the Investor before such day, the Investment Agreement will cease to be of effect.

## **Termination of the Subscription Agreement**

The Investment Agreement will automatically terminate if the Investor ceases to hold the Governance Rights Proportion. In such an event, the parties shall be released and discharged from their respective obligations under this Agreement, save in respect of any antecedent breach.

## **Investor's Management Rights**

The Investor will be entitled to (i) nominate one Director to the Board (which currently consists of three executive Directors and three independent non-executive Directors) and each of the audit committee, the nomination committee and the remuneration committee of the Board; (ii) designate one observer to the Company's board meetings; and (iii) nominate candidates to be appointed as the chief financial officer of the Company and the head of supply chain, as long as the Investor holds the Governance Rights Proportion.

An annual advisory fee of US\$300,000 is payable to TPG Capital, L.P., an affiliate of the Investor for such time as the Investor holds the Governance Rights Proportion for advisory services provided to the Company.

## **GENERAL MANDATE**

No shareholders' approval is required for the proposed issue of the Bonds and Warrants, and the Relevant Shares will be issued under the general mandate granted to the Board at the annual general meeting of the Company held on 16 May 2008, which authorised the Directors to allot, issue or otherwise deal with 327,578,476 Shares, representing 20% of the issued share capital of the Company as at that date. As at the date hereof, no Shares had been issued pursuant to the aforesaid existing general mandate and the Company has no outstanding options, warrants or similar rights to subscribe or purchase any equity securities of the Company. The Conversion Shares and the Warrant Exercise Shares to be issued at the initial conversion price and the initial exercise price, respectively, will cover approximately 85.0% of such general mandate.

## **APPLICATION FOR LISTING**

The Company will apply to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Conversion Shares which may fall to be issued upon conversion of the Bonds and the Warrant Exercise Shares which may fall to be issued upon exercise of the subscription rights attaching to the Warrants. No listing application will be made for the Bonds and the Warrants on the Stock Exchange or any other stock exchange.

## **REASONS FOR THE INVESTMENT AGREEMENT AND USE OF PROCEEDS**

The Board considers the Investment Agreement to be part of the Group's effort in attracting independent and significant shareholders who share its business vision and can add considerable value by bringing international best practices in business strategy and corporate governance. TPG Asia V L.P. is known as an experienced partner to entrepreneurs and high-growth companies, and the Investment Agreement provides a solid foundation for the strategic relationship between the Investor and us.

The Investment Agreement also represents an opportunity to raise additional funds for the Group. The estimated net proceeds from the issue of the Bonds would be approximately HK\$612.6 million. The Board intends to apply the net proceeds from the issue of the Bonds to fund the continued expansion of the Group's store network in the PRC. Upon full exercise of the subscription rights attaching to the Warrants, the estimated net proceeds of approximately HK\$395.2 million will be raised and will be applied as general working capital of the Company.

## SHAREHOLDING OF THE COMPANY

The table below sets out the Company's shareholding structure as at the date of this announcement and upon the full conversion of the Bonds and full exercise of the subscription rights attaching to the Warrants.

	Shareholding as at the date of this announcement		Shareholding immediately after completion and upon full conversion of the Bonds but before any exercise of the Warrants		Shareholding immediately after completion and upon full conversion of the Bonds and full exercise of the Warrants	
	<i>No. of Shares</i>	<i>%</i>	<i>No. of Shares</i>	<i>%</i>	<i>No. of Shares</i>	<i>%</i>
Lucky Earn International Limited	424,019,995	25.9	424,019,995	23.3	424,019,995	22.1
Top Glory Assets Limited	200,846,895	12.3	200,846,895	11.1	200,846,895	10.5
Pushkin Holding Limited	147,738,920	9.0	147,738,920	8.1	147,738,920	7.7
Sansar Capital Management	230,449,400	14.1	230,449,400	12.7	230,449,400	12.0
The Investor	–	–	178,510,572	9.8	278,510,572	14.5
Other public Shareholders	634,837,174	38.7	634,837,174	35.0	634,837,174	33.2
Total	<u>1,637,892,384</u>	<u>100.0</u>	<u>1,816,402,956</u>	<u>100.0</u>	<u>1,916,402,956</u>	<u>100.0</u>

## GENERAL

The Company will promptly notify the Stock Exchange if it becomes aware of any dealings in the Bonds and the Warrants by any connected person (as defined in the Listing Rules) of the Company. The Company has not raised any funds from any issue of equity securities in the last 12 months.

## SUSPENSION AND RESUMPTION OF TRADING IN SHARES

Trading in the Shares was suspended at the request of the Company with effect from 9:30 a.m. on 25 May 2009, pending the release of this announcement. The Company has applied for resumption of trading in the Shares with effect from 9:30 a.m. on 26 May 2009.

## DEFINITIONS

“associate”	has the meaning given to it under the Listing Rules;
“Board”	the board of Directors;
“Bondholders”	holders of the Bonds;
“Bonds”	the 3.125% unlisted and unsecured RMB denominated USD settled convertible bonds due 2014 in the aggregate principal amount of RMB550,000,000 (equivalent to approximately HK\$624.8 million) to be issued by the Company;
“Bond Instrument”	the instrument constituting the Bonds;
“Company”	Daphne International Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Stock Exchange;
“Conditions Precedent”	the conditions precedent set out in the paragraph headed “Conditions Precedent” of this announcement;
“connected person”	has the meaning ascribed to it under the Listing Rules;
“Conversion Shares”	new Shares to be issued upon conversion of the Bonds;
“Directors”	the directors of the Company;
“Governance Rights Proportion”	means an interest in such number of Shares, whether directly or indirectly, by holding the legal and/or beneficial title to New Shares and/or through any holding of Securities, as is equal to or more than 50 per cent. of the number of New Shares if the Securities were to be converted and exercised immediately following completion of the Investment Agreement;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Investor”	TPG Premier, Ltd., a company incorporated in the Cayman Islands and a subsidiary of TPG Asia V L.P.;

“Investment Agreement”	the conditional agreement entered into between the Company and the Investor dated 24 May 2009, regarding the subscription by the Investor and the issue by the Company of the Bonds and the Warrants;
“Key Person”	Mr. Chen Ying-Chieh, the chairman of the Board and an executive Director;
“Last Trading Day”	22 May 2009, being the last full trading day immediately before the suspension of trading in the Shares pending the release of this announcement;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“PRC”	the People’s Republic of China;
“Relevant Shares”	the Conversion Shares and the Warrant Exercise Shares;
“RMB”	Renminbi, the lawful currency of the PRC;
“Shareholders”	registered holders of Shares from time to time;
“Shares”	shares of HK\$0.10 each in the capital of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“trading day”	the day on which the Stock Exchange is open for business;
“USD”	United States dollar, the lawful currency of the United States of America;
“Warrant Exercise Shares”	new Shares to be issued upon the exercise of the subscription rights attaching to the Warrants;
“Warrants”	the 100 million warrants to be issued by the Company entitling the holders thereof to subscribe 100 million new Shares at the initial exercise price of HK\$4.00 each (subject to adjustment); and
“%”	per cent.

*For illustration purposes, amounts in RMB and USD in this announcement have been translated into HK\$ at HK\$1.00 = RMB0.8803 and US\$1.00 = HK\$7.7522, respectively.*

By Order of the Board  
**Daphne International Holdings Limited**  
**Chen Ying-Chieh**  
*Chairman*

Hong Kong, 25 May 2009

*As at the date of this announcement, the Board comprises Mr Chen Ying-Chieh, Mr Chen Hsien Min, Mr Chang Chih-Kai being the executive directors and Mr Hsiao Hsi-Ming, Mr Huang Shun-Tsai and Mr Kuo Jung-Cheng being the independent non-executive directors.*