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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 about this circular or as to the action to be taken, you should consult a 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 Daphne International Holdings Limited (the “Company”), you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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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)**

**PROPOSED AMENDMENTS TO SHARE OPTION SCHEME**  
**AND**  
**NOTICE OF EXTRAORDINARY GENERAL MEETING**

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A letter from the board of directors of the Company is set out on pages 1 to 8 of this circular.

A notice convening an extraordinary general meeting of the Company in relation to the proposed amendments to the share option scheme adopted by the Company on 29 May 2003 to be held at Strategic Financial Relations Limited, Room 3203, 32nd Floor, Admiralty Centre 1, 18 Harcourt Road, Hong Kong on Monday, 7 December 2009 at 2:30 p.m. is set out on page 9 of this circular. A form of proxy for use by the shareholders of the Company at the EGM is also enclosed. Whether or not you intend to attend and vote at the EGM in person, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company’s share registrar in Hong Kong, Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Hong Kong as soon as practicable and in any event not less than 48 hours before the time appointed for holding the EGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM should you so wish.

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## LETTER FROM THE BOARD

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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)**

*Executive Directors:*

Mr Chen Ying-Chieh (*Chairman*)  
Mr Chen Hsien Min (*Managing Director*)  
Mr Chang Chih-Kai  
Mr Chang Chih-Chiao

*Registered Office:*

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

*Non-Executive Directors:*

Ms Ma Xuezheng  
Mr Kim Jin-Goon (*Alternate Director  
to Ms Ma Xuezheng*)

*Principal Place of Business in Hong Kong:*

17th Floor, Fung House  
19-20 Connaught Road Central  
Hong Kong

*Independent non-executive Directors:*

Mr Hsiao Hsi-Ming  
Mr Huang Shun-Tsai  
Mr Kuo Jung-Cheng

19 November 2009

*To the shareholders of the Company (the “Shareholders”)*

Dear Sir/Madam,

### PROPOSED AMENDMENTS TO SHARE OPTION SCHEME

#### INTRODUCTION

The share option scheme was approved and adopted by the Company pursuant to an ordinary resolution passed at an extraordinary general meeting held on 29 May 2003 (the “**Share Option Scheme**” or the “**Scheme**”).

On 17 June 2008, the total number of shares of the Company (the “**Shares**”) which may be issued upon exercise of all share options to be granted under the Share Option Scheme was refreshed in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (the “**Listing Rules**”). Currently, there are no share options outstanding under the Scheme.

The purpose of the Scheme is to provide incentives to its participants to contribute to the Company and to enable the Company to recruit high-calibre employees and attract or retain human resources that are available to the Group. The board of directors of the Company (the “**Board**”) has considered the terms of the Share Option Scheme and propose that certain amendments be made to the Scheme so as to better fulfill its aforementioned purpose.

The purpose of this circular is:

- (i) to provide the Shareholders with further details of the proposed amendments to the Share Option Scheme; and

\* *for identification purpose only*

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- (ii) to give notice of an extraordinary general meeting of the Company to be held at Strategic Financial Relations Limited, Room 3203, 32nd Floor, Admiralty Centre 1, 18 Harcourt Road, Hong Kong on 7 December 2009 at 2:30 p.m. (the “EGM”) to consider and, if thought fit, to approve the proposed amendments.

### PROPOSED AMENDMENTS

#### 1. Performance target

Clause 6.4 of the Share Option Scheme provides that the right to exercise an option is not subject to or conditional upon the achievement of any performance target.

To allow the Board to have more flexibility in the administration of the Share Option Scheme so that the long-term incentive purpose of the Scheme can be better achieved by providing additional incentives to key personnel to achieve performance goals and contribute to the long-term success of the Group, the Board proposes to amend Clause 6.4 of the Scheme and make consequential amendments to Clauses 1.1 and 6.3, as follows:

(i) *Definition “Option Period” in Clause 1.1*

The original wording of the definition “Option Period” in Clause 1.1, being:

““Option Period” a period not exceeding ten (10) years commencing on the Grant Date (subject to acceptances of the relevant Options in accordance with the Scheme);”

will be amended so that following such amendment, the definition shall be as follows (changed text highlighted):

““Option Period” a period not exceeding in respect of any particular Option, the period to be determined and notified by the Board to each Grantee during which the Grantee may exercise such Option, provided that such period shall end not later than ten (10) years commencing on from the Grant Date (subject to acceptances of the relevant Options in accordance with the Scheme and the provisions for early exercise and/or termination thereof contained herein);”

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(ii) *First paragraph of Clause 6.3*

The original wording of the first paragraph of Clause 6.3, being:

“Subject as hereinafter provided in this Scheme, the Option may be exercised by the Grantee at any time during the Option Period Provided That:–”

will be amended so that following such amendment, that paragraph shall be as follows (changed text highlighted):

“Subject as hereinafter provided in this Scheme, the Option may be exercised by the Grantee in accordance with the terms of the grant letter referred to in Clause 4.3 and the provisions of this Scheme at any time during the Option Period Provided That:–”

(iii) *Clause 6.4*

The original wording of Clause 6.4, being:

“The right to exercise an Option is not subject to or conditional upon the achievement of any performance target.”

will be amended so that following such amendment, Clause 6.4 shall be as follows (changed text highlighted):

~~“The right to exercise an Option is not subject to or conditional upon the achievement of any performance target. The Board may determine in its absolute discretion whether the right to exercise an Option is subject to or conditional upon the achievement of specified performance target(s) relating to the Company or to the Grantee and/or the satisfaction of such other conditions as the Board may in its absolute discretion determine to be appropriate. Any of the foregoing condition(s) as determined by the Board shall be set out in the grant letter referred to in Clause 4.3.”~~

For your reference, Clause 4.3 is set out in full below:

“A grant of an Option shall be made to a Participant by letter (the date of which shall be deemed to be the date on which the grant of an Option (subject to acceptance by the Grantee) is made) in such form as the Board may from time to time determine specifying, inter alia, the number of Shares comprised in and the Option Period in respect of the relevant Option and the Subscription Price and requiring the Participant to undertake to hold the Option on the terms on which it is granted and to be bound by the provisions of the Scheme. The grant shall be personal to the Participant concerned and not transferable and shall remain open for acceptance by the Participant for a period of 28 days from the Grant Date, provided that no such grant shall be open for acceptance after the expiry of the Scheme Period or after the Scheme has been terminated (if applicable).”

## 2. Cashless exercise

A cashless exercise of options is an arrangement which allows option holders to exercise his or her options without having to use their personal funds to pay the exercise price. In general terms, under the arrangement, a securities broker will (i) advance the consideration for the exercise price and pay it to the listed issuer on behalf

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of the option holder; (ii) sell, in the market, the shares receivable on exercise of the option on behalf of the option holder; and (iii) remit the balance of the sale proceeds, less any agreed costs such as interest on the exercise price, trading commissions, etc., to the option holder. In order to clarify that the cashless exercise of options may be permitted under the terms of the Share Option Scheme, clarifying amendments are proposed to be made to Clauses 6.1 and 6.2.

(i) *Clause 6.1*

The original wording of Clause 6.1, being:

“An Option shall be personal to the Grantee and shall not be assignable and no Grantee shall in any way sell, transfer, assign, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any Option or purport to do any of the foregoing. Any breach of the foregoing shall entitle the Company to cancel any outstanding Option, or any part thereof, in favour of such Grantee.”

will be amended so that following such amendment, Clause 6.1 shall be as follows (changed text highlighted):

“An Option shall be personal to the Grantee and shall not be assignable and no Grantee shall in any way sell, transfer, assign, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any Option or purport to do any of the foregoing (save that, for the avoidance of doubt, the Grantee may nominate a nominee to hold the Shares to be issued pursuant to the exercise of Options on trust for the sole benefit of such Grantee provided that evidence of such trust arrangement between the Grantee and the nominee shall be provided to the satisfaction of the Company). Any breach of the foregoing shall entitle the Company to cancel any outstanding Option, or any part thereof, in favour of such Grantee.”

(ii) *Clause 6.2*

The original wording of Clause 6.2, being:

“An Option may be exercised in whole or in part (but if in part only, in respect of a Board Lot or an integral multiple thereof) in the manner provided in Clause 6 by the Grantee (or, as the case may be, by his legal personal representative(s)) giving notice in writing to the Company stating that the Option is thereby exercised and the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the aggregate Subscription Price for the Shares in respect of which the notice is given. For the purposes of determining the date on or by which an Option is or has been exercised under the Scheme, an Option shall be regarded as exercised when a duly completed notice of exercise complying with the terms of the Scheme, accompanied by the appropriate remittance, where necessary, has actually been received by the Company. Within 60 days after receipt of the notice and the remittance and, where appropriate, receipt of the independent financial adviser’s or the Auditors’ confirmation pursuant to Clause 9.1, the Company shall allot the relevant Shares to the Grantee credited as fully paid and issue to the Grantee a share certificate in respect of the Shares so allotted.”

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will be amended so that following such amendment, Clause 6.2 shall be as follows (changed text highlighted):

“An Option may be exercised in whole or in part (but if in part only, in respect of a Board Lot or an integral multiple thereof) in the manner provided in Clause 6 by the Grantee (or, as the case may be, by his legal personal representative(s)) giving notice in writing to the Company stating that the Option is thereby exercised and the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the aggregate Subscription Price for the Shares in respect of which the notice is given. For the purposes of determining the date on or by which an Option is or has been exercised under the Scheme, an Option shall be regarded as exercised when a duly completed notice of exercise complying with the terms of the Scheme, accompanied by the appropriate remittance, where necessary, has actually been received by the Company. Within 60 days after receipt of the notice and the remittance and, where appropriate, receipt of the independent financial adviser’s or the Auditors’ confirmation pursuant to Clause 9.1, the Company shall allot the relevant Shares to the Grantee (or his nominee referred to in Clause 6.1) credited as fully paid and issue to the Grantee (or his nominee referred to in Clause 6.1) a share certificate in respect of the Shares so allotted.”

### **3. Extension of time for exercise of options on happening of certain events**

As is typical, Clause 6.3 of the Share Option Scheme provides for the early expiration of options in certain specified circumstances, such as: (a) in Clause 6.3.1, the Grantee (as defined in the Scheme) ceasing to be an employee, officer, agent or consultant for any reason other than death, ill health, disability or insanity or termination for cause; and (b) in Clause 6.3.2, the Grantee (as defined in the Scheme) ceasing to be an employee, officer, agent or consultant by reason of death, ill health, disability or insanity and there being no grounds to terminate he or she for cause. The Board proposes to amend Clauses 6.3.1 and 6.3.2 as follows:

- Clause 6.3.1 – to extend the minimum time period for exercising options before they expire from 2 months to 3 months and to exclude retirement so it is not covered by this Clause; and
- Clause 6.3.2 – to extend the minimum time period for exercising options before they expire from 6 months to 12 months, to include retirement so that it is covered by this Clause and to make a minor housekeeping amendment.

The specific amendments are as follows:

(i) *Clause 6.3.1*

The original wording of Clause 6.3.1, being:

“in the event of the Grantee ceasing to be an employee (including any executive director), officer (including non-executive director), agent or consultant of the Company or any Subsidiary for any reason, other than his death, ill health, disability or insanity or the termination of his employment, office, agency or consultancy on one or more of the grounds specified in Clause 7.5, then, if the Option Period has not at the date of such cessation commenced, the Option shall lapse; and if the Option Period has commenced, the Grantee may exercise the Option up to his entitlement at the date of cessation (to the extent not already

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exercised) until whichever is the earlier of the date of expiry of the Option Period or the last day of the period of 2 months (or such longer period as the Board may determine) following the date of such cessation, which date shall be the last actual day of employment, office, agency or consultancy with the Company or the relevant Subsidiary whether payment in lieu of notice is made or not (if applicable);”

will be amended so that following such amendment, Clause 6.3.1 shall be as follows (changed text highlighted):

“in the event of the Grantee ceasing to be an employee (including any executive director), officer (including non-executive director), agent or consultant of the Company or any Subsidiary for any reason, other than his death, ill health, disability or insanity or his retirement in accordance with the terms of his contract of employment or any statutory requirement or the termination of his employment, office, agency or consultancy on one or more of the grounds specified in Clause 7.5, then, if the Option Period has not at the date of such cessation commenced, the Option shall lapse; and if the Option Period has commenced, the Grantee may exercise the Option up to his entitlement at the date of cessation (to the extent not already exercised) until whichever is the earlier of the date of expiry of the Option Period or the last day of the period of 32 months (or such longer period as the Board may determine) following the date of such cessation, which date shall be the last actual day of employment, office, agency or consultancy with the Company or the relevant Subsidiary whether payment in lieu of notice is made or not (if applicable);”

(ii) *Clause 6.3.2*

The original wording of Clause 6.3.2, being:

“in the event of the Grantee ceasing to be an employee (including any executive director), officer (including non-executive director), agent or consultant of the Company or any Subsidiary by reason of death, ill health, disability or insanity and none of the events which would be a ground for termination of his employment specified in Clause 7.5 has occurred, the Grantee or the legal personal representative(s) of the Grantee shall be entitled after Grantee or the commencement of the Option Period until whichever is the earlier of the date of expiry of the Option Period or the last day of the period of 6 months from the date of cessation (or such longer period as the Board may determine) to exercise the Option (to the extent not already exercised) in full or to the extent specified in the notice to exercise such Option;”

will be amended so that following such amendment, Clause 6.3.2 shall be as follows (changed text highlighted):

“in the event of the Grantee ceasing to be an employee (including any executive director), officer (including non-executive director), agent or consultant of the Company or any Subsidiary by reason of death, ill health, disability or insanity or his retirement in accordance with the terms of his contract of employment or any statutory requirement and none of the events which would be a ground for termination of his employment specified in Clause 7.5 has occurred, then, if the Option Period has not at the date of such cessation commenced, the Option shall lapse; and if the Option Period has commenced, the Grantee or the legal personal representative(s) of the Grantee shall be entitled after ~~Grantee~~ ~~or~~ the



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will be amended so that following such amendment, Clause 15.5 shall be as follows (changed text highlighted):

“Any notice or other communication between the Company and a Grantee may be given by sending the same by prepaid post or by personal delivery to, in the case of the Company, its principal place of business in Hong Kong at ~~Room 608, Austin Tower, 22–26A Austin Avenue, Tsimshatsui, Kowloon, Hong Kong~~ as registered from time to time with the Registrar of Companies in Hong Kong or as notified to the Grantees from time to time and, in the case of the Grantee, his address in Hong Kong as notified to the Company from time to time.”

There are no other changes to be made to the terms of the Share Option Scheme save as mentioned above. The provisions of the proposed amended Share Option Scheme comply with all relevant requirements of Chapter 17 of the Listing Rules.

### **ACTIONS TO BE TAKEN**

As required by the Share Option Scheme and the Listing Rules, an ordinary resolution will be proposed at the EGM to approve the proposed amendments to the Scheme. A form of proxy for use by the Shareholders at the EGM is enclosed with this circular. Whether or not you intend to attend and vote at the EGM in person, you are requested to complete the form of proxy in accordance with the instructions set out therein and return it to the Company's share registrar in Hong Kong at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible and in any event, not less than 48 hours before the time appointed for holding the EGM or any adjourned meeting (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 (as the case may be) should you so wish.

### **VOTING BY POLL**

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll. The chairman of the meeting will therefore demand a poll for the resolution put to the vote of the EGM in accordance with the Articles of Association of the Company. The results of the poll shall be deemed to be the resolution of the general meeting in which the poll was demanded or required and the poll results will be published on the websites of Hong Kong Exchanges and Clearing Limited ([www.hkex.com.hk](http://www.hkex.com.hk)) and the Company ([www.daphneholdings.com](http://www.daphneholdings.com)).

### **RECOMMENDATION**

The Directors consider that the proposed amendments to the Share Option Scheme are in the best interests of the Company and Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM.

### **FURTHER INFORMATION**

Your attention is also drawn to the additional information set out in the notice of the EGM.

Yours faithfully,  
For and on behalf of the Board  
**Chen Ying-Chieh**  
*Chairman*

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## NOTICE OF EGM

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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)**

### NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting of Daphne International Holdings Limited (the “**Company**”) will be held at Strategic Financial Relations Limited, Room 3203, 32nd Floor, Admiralty Centre 1, 18 Harcourt Road, Hong Kong on Monday, 7 December 2009 at 2:30 p.m. to consider and, if thought fit, to pass the following resolution as a resolution of the Company, with or without amendment:

#### ORDINARY RESOLUTION

“**THAT** the proposed amendments to the Share Option Scheme (as defined in the circular (the “**Circular**”) to shareholders of the Company dated 19 November 2009, a copy of which has been produced to this meeting marked “A” and signed by the Chairman of this meeting for the purpose of identification) as set out in the section headed “Proposed Amendments” in the Circular, be and are hereby approved.”

By order of the Board  
**Daphne International Holdings Limited**  
**Chan Oi Chu**  
*Company Secretary*

Hong Kong, 19 November 2009

*Notes:*

1. Any shareholder 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. A proxy need not be a shareholder of the Company.
2. To be valid, a form of proxy together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof must be lodged with the Company’s share registrar in Hong Kong, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
3. Where there are joint holders of any share(s), any one of such persons may vote at any meeting, either in person or by proxy, in respect of such share(s) as if he/she were solely entitled thereto; but if more than one of such joint holders be present any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand first in the register of members in respect of the joint holding.

\* *for identification purpose only*