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# **GIORDANO**

## **GIORDANO INTERNATIONAL LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 709)**

### **CONNECTED AND DISCLOSEABLE TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS**

On June 27, 2008, the Company, the Purchaser and Mr. Cheung entered into the Sale and Purchase Agreement pursuant to which the Purchaser has agreed to acquire and the Company has agreed to sell 21% of the total issued share capital of Placita for the Consideration of HK\$22.9 million.

Placita is a non-wholly owned subsidiary of the Company, the principal assets of which are 100% indirect equity interests in various companies engaged in the manufacturing and trading of apparel products. The Placita Group supplies apparel products to both the Giordano Group and various third-party customers.

Upon Completion, the Purchaser shall procure that Placita redesignate 6,055,440 Shares representing the remaining 30% of the total issued share capital of Placita held by the Company into 6,055,440 Preference Shares in Placita. Furthermore, the Purchaser shall on Completion grant to the Company the Put Option and the Company shall grant to the Purchaser the Call Option.

The Purchaser is principally engaged in investment holding and is a 49% shareholder of Placita. The Purchaser is wholly and beneficially owned by Mr. Cheung, a director of Placita. Therefore, the Disposal, the Put Option and the Call Option constitute a connected and discloseable transaction within the meanings ascribed thereto under the Listing Rules. Completion of the Sale and Purchase Agreement, the Disposal, the Put Option and the Call Option is therefore subject to, inter alia, Independent Shareholders' approval at the SGM pursuant to Rule 14A.18 of the Listing Rules. Completion is expected on or about August 29, 2008 (or such other date as the parties may agree) and in any event no later than September 30, 2008.

Giordano Limited, a wholly-owned subsidiary of the Company, entered into the New Manufacturing Licence Agreements with Placita on June 27, 2008 and the said agreements will take effect upon Completion. Under the New Manufacturing Licence Agreements, the Placita Group has been appointed as an authorized non-exclusive manufacturer of Giordano-branded Merchandise. Placita will continue to be a connected person of the Company under the Listing Rules for a period of 12 months following Completion. Accordingly, the Purchases contemplated under the New Manufacturing Licence Agreements during the 12-month period following the expected Completion date of August 29, 2008 constitute continuing connected transactions of the Company and therefore require approval of the Independent Shareholders.

A circular containing details of the Sale and Purchase Agreement, the Disposal, the Put Option, the Call Option, the Continuing Connected Transactions, a letter from the independent board committee of the Company to the Independent Shareholders in connection with the terms of the Sale and Purchase Agreement, the Disposal, the Put Option, the Call Option, the Continuing Connected Transactions and a letter of advice from the independent financial adviser to the independent board committee of the Company and a notice of the SGM will be dispatched to Shareholders in accordance with the requirements of Rules 14.38 and 14A.49 of the Listing Rules as soon as possible.

An independent board committee comprising the independent non-executive Directors has been formed to advise the Independent Shareholders on the terms of the Sale and Purchase Agreement, the Disposal, the Put Option, the Call Option and the Continuing Connected Transactions. CIMB-GK Securities (HK) Ltd. has been appointed to advise the independent board committee of the Company and the Independent Shareholders in respect of the Sale and Purchase Agreement, the Disposal, the Put Option, the Call Option and the Continuing Connected Transactions.

**Shareholders and potential investors should note that the Disposal may or may not proceed to Completion and should exercise caution when dealing in the Shares.**

## **SALE AND PURCHASE AGREEMENT**

### **Date**

June 27, 2008

### **Parties**

- (a) the Company;
- (b) the Purchaser; and
- (c) Mr. Cheung, as guarantor of the Purchaser.

Under the Sale and Purchase Agreement, the Company would sell and the Purchaser would acquire 21% of the entire issued share capital of Placita for the Consideration of HK\$22.9 million.

### **Consideration**

The Consideration of HK\$22.9 million pursuant to the Sale and Purchase Agreement will be satisfied in full in cash on Completion.

Upon the signing of the Sale and Purchase Agreement, the Purchaser shall place the whole amount of the Consideration in escrow with an escrow agent agreed between the relevant parties to be released to the Company on Completion.

The Consideration was arrived on an arm's length commercial basis between the parties by reference to the net asset value of Placita attributable to the Sale Shares of HK\$10.5 million (the net asset value of Placita attributable to the Sale Shares of HK\$20.6 million as at December 31, 2007, adjusted for the interim dividend attributable to the Sale Shares of HK\$10.1 million declared and paid in June 2008). The Directors (excluding the independent non-executive Directors) consider that the Consideration is fair and reasonable. There is no premium paid by the Company or the Purchaser for the Put Option and the Call Option respectively.

## **Assets to be disposed**

Pursuant to the Sale and Purchase Agreement, the Company has agreed to sell and the Purchaser has agreed to acquire the Sale Shares, being 4,238,808 shares of US\$0.15 each in the share capital of Placita, representing 21% of the total issued share capital of Placita, free from any option, charge, lien, equity, encumbrance, rights of pre-emption or any other third party rights whatsoever and together with all rights attached to them at the date of Completion or subsequently becoming attached to them. Placita holds 100% indirect equity interests in a number of companies including Gloss Mind Hong Kong, PRC Co. A and PRC Co. B, all of whom are engaged in the manufacturing and trading of apparel, supplying both the Giordano Group and various third-party customers.

## **Conditions Precedent**

Completion is subject to the following conditions having been fulfilled and/or waived:

- (A) the clearance of all announcement(s) and circular(s) required to be issued by the Company under the Listing Rules and granting of all approvals, if necessary, by the Stock Exchange in respect of the transaction contemplated by the Sale and Purchase Agreement;
- (B) the passing by the Independent Shareholders at a special general meeting of the Company to be convened and held of resolutions to approve the Sale and Purchase Agreement, the Disposal, the Put Option, the Call Option, the Continuing Connected Transactions;
- (C) the warranties remaining true and accurate and not misleading at Completion as if repeated at Completion and at all times between the date of the Sale and Purchase Agreement and Completion; and
- (D) the Company having obtained a legal opinion from British Virgin Islands lawyers opining on the legality and validity of the Redesignation to its reasonable satisfaction.

In the event that not all the above conditions have been fulfilled or waived by the Purchaser (or the Company in relation to Condition (D)) only at its absolute discretion (other than conditions (A) and (B) which may not be waived) by September 30, 2008 (or by such later date(s) as the parties to the Sale and Purchase Agreement may agree in writing), the Sale and Purchase Agreement shall lapse and be of no further effect and no party to the Sale and Purchase Agreement shall have any claim against or liability or obligation (save as in respect of any antecedent breaches of the Sale and Purchase Agreement).

## **Completion**

Completion shall take place at 4:00 p.m. on the first Business Day after the last of the conditions of the Sale and Purchase Agreement having been fulfilled or at such other time as may be agreed between the Company, the Purchaser and Mr. Cheung.

Placita will cease to be a subsidiary of the Company following Completion.

On Completion, Placita shall and the Purchaser shall procure Placita to undergo the Redesignation whereby the balance 6,055,440 ordinary shares in Placita held by the Company shall be redesignated into 6,055,440 Preference Shares and to amend its articles of association to reflect the Redesignation. The reason the Redesignation is conducted is to pass management and control of Placita to the Purchaser whilst maintaining the financial benefit derived from Placita.

The Preference Shares to be issued to the Company following the Redesignation shall be entitled to a Preference Share Dividend at the rate of not less than HK\$0.43 per Preference Share per financial year payable in cash. The Company may set-off any residual or unpaid amount after the aforesaid cash payment of the Preference Share Dividend (“Preference Share Dividend Receivable”) against any Trade Balance in an amount up to the actual amount of Preference Share Dividend due and payable to the Company. Mr. Cheung has undertaken to pay to the Company on a dollar for dollar basis any residual or unpaid amount of the Preference Share Dividend Receivable after the aforesaid set-off against the Trade Balance. For the avoidance of doubt, HK\$0.43 shall be the minimum amount of Preference Share Dividend due or payable per Preference Share and if ordinary shares are entitled to any dividend in excess of HK\$0.43 per ordinary share, the holder of Preference Shares shall also be entitled to any such excess so that the Preference Share Dividend due or payable is equal to the dividend due or payable to ordinary shares of Placita.

Pursuant to the Sale and Purchase Agreement, the Purchaser has irrevocably and unconditionally granted to the Company the Put Option to require the Purchaser to purchase all the Preference Shares (in respect of which the Call Option has not been exercised) from the Company at the Put Option Price. The Put Option may be exercisable at any time two years after Completion. The Company shall comply with the requirements of the Listing Rules upon its exercise of the Put Option, if applicable.

Pursuant to the Sale and Purchase Agreement, the Company has irrevocably and unconditionally granted to the Purchaser the Call Option to require the Company to sell all the Preference Shares (in respect of which the Put Option has not been exercised) to the Purchaser at the Call Option Price at any time within a period of five years following Completion.

**Shareholders and potential investors should note that the Disposal may or may not proceed to Completion and should exercise caution when dealing in the Shares.**

## **INFORMATION ON PLACITA**

Placita is a non-wholly owned subsidiary of the Company engaged in investment holding. The principal assets of Placita include 100% indirect equity interests in a number of companies including Gloss Mind Hong Kong, PRC Co. A and PRC Co. B, all of whom are engaged in the manufacturing and trading of apparel products, supplying both the Giordano Group and various third-party customers.

## **FINANCIAL INFORMATION ON PLACITA**

Following are the financial information on Placita for the two years ended December 31, 2006 and December 31, 2007 extracted from the unaudited consolidated management accounts of Placita using Hong Kong Financial Reporting Standards:

	<b>For the year ended December 31, 2006 (HK\$ millions)</b>	<b>For the year ended December 31, 2007 (HK\$ millions)</b>
Turnover	611.6	828.2
Net profit before taxation and extraordinary items	6.6	1.6
Net profit after taxation and extraordinary items	5.1	0.5
Net Assets	111.5	98.1

Placita declared and paid an interim dividend of HK\$48.0 million in June 2008.

## **REASONS FOR THE DISPOSAL**

The Company has long considered its competitive advantage to rest with the design, merchandising and marketing rather than the manufacturing of apparel products. As such, it is the Company's long term strategy to focus on growing its more profitable retailing business. The past two years have seen rising raw material and operating costs progressively eroding Placita's profitability such that its net profit margin has decreased from 0.83% in 2006 to 0.06% in 2007. The situation has been further exacerbated by rising compliance costs related to the increasingly stringent labour and environmental legislation in the PRC and the steady appreciation of the RMB. In light of the above, the Board considers a move to reduce the Company's interest in Placita from 51% to 30% to be a positive step towards enhancing shareholder value.

Following the Disposal, the Company's remaining 30% interest in Placita will be redesignated into 6,055,440 Preference Shares that has a guaranteed minimum annual Preference Share Dividend of HK\$0.43 per share, totaling HK\$2.6 million per year. The Preference Shares will not carry any voting rights, however, the Company will not be obliged to make further capital contributions to Placita in the future. Furthermore, the Company has also acquired the Put Option, exercisable two years after Completion, to sell its Preference Shares to the Purchaser at the Put Option Price of HK\$27.8 million. At the same time, the Company has granted the Purchaser the Call Option to purchase the Preference Shares at the Call Option Price of HK\$32.7 million at any time within a period of five years following Completion. The foregoing is expected to mitigate the Company's downside risk with respect to its remaining 30% interest in Placita.

In view of the above, the Directors (excluding the independent non-executive Directors) are of the opinion that the Sale and Purchase Agreement, the Disposal, the Put Option and the Call Option are in the interest of the Group and the terms and conditions of the Sale and Purchase Agreement, the Disposal, the Put Option and the Call Option are on normal commercial terms, which are fair and reasonable, and are in the interest of the Company and the Shareholders as a whole.

## **FINANCIAL EFFECT OF DISPOSAL**

The Directors estimate that upon Completion, the Group will record a gain on disposal of approximately HK\$12.6 million with reference to the net asset value of Placita attributable to the Sale Shares of HK\$10.5 million (the net asset value of Placita attributable to the Sale Shares of HK\$20.6 million as at December 31, 2007, adjusted for the interim dividend attributable to the Sale Shares of HK\$10.1 million declared and paid in June 2008) and the release upon Disposal of approximately HK\$0.2 million in translation reserve that originated from exchange differences arising from the translation of the net investment in foreign (mainly PRC based) companies in the Placita Group. The Directors expect that upon Completion, the net assets value of the Group would be increased by approximately HK\$12.4 million as a result of the Disposal.

## **USE OF PROCEEDS**

The Directors expect that the proceeds from the Disposal of HK\$22.9 million will be used for general working capital of the Group.

The Directors expect the proceeds from the exercise of the Call Option of HK\$32.7 million, or the Put Option of HK\$27.8 million as the case may be, will be used for general working capital of the Group.

## **CONTINUING CONNECTED TRANSACTIONS**

It is the policy of the Giordano Group that all authorized manufacturers and suppliers are required to enter into a manufacturing licence agreement with it. The manufacturing licence agreement is a master agreement that sets out the general requirements that a manufacturer must comply as an authorized manufacturer of the Giordano Group and the operational requirements that such authorized manufacturer must comply when handling orders placed by the Giordano Group.

In accordance with the above policy, Giordano Limited and Bluestar Exchange Limited, two wholly-owned subsidiaries of the Company, entered into the Previous Manufacturing Licence Agreements with Placita on March 29, 2006. The Purchases governed by the Previous Manufacturing Licence Agreements constitute continuing connected transactions of the Company and the proposed maximum aggregate value of all Purchases for the three years ending December 31, 2008 (the "Previous Cap Amount(s)") were approved by the Independent Shareholders on May 9, 2006.

The standard manufacturing licence agreement is subject to revision from time to time by the Company to properly safeguard the Giordano Group's interest and was updated in June 2008. Following such update, Giordano Limited, a wholly-owned subsidiary of the Company, entered into the New Manufacturing Licence Agreements with Placita on June 27, 2008, the terms of which are essentially identical to the Previous Manufacturing Licence Agreements and which will take effect upon Completion. As such, the Purchases made by the Giordano Group from the Placita Group up to Completion will continue to be subject to the Previous Cap Amount(s).

Under the New Manufacturing Licence Agreements, the Giordano Group has appointed the Placita Group as an authorized non-exclusive manufacturer of Giordano-branded Merchandise. Following Completion, the entire voting capital of Placita will be owned by Gloss Mind Holdings Limited, which in turn is wholly-owned by Mr. Cheung, a director of Placita, and Placita is therefore considered a connected person of the Company under the Listing Rules for a period of 12 months following Completion. Accordingly, the Purchases contemplated under the New Manufacturing Licence Agreements during the 12-month period following Completion constitute continuing connected transactions of the Company and therefore require approval of the Independent Shareholders.

## **REASON FOR THE PURCHASES**

The Placita Group is engaged in the manufacturing and trading of clothing and accessory products, supplying both the Giordano Group and various third-party customers.

The principal business of the Giordano Group is the retail and distribution of Giordano-branded Merchandise. The Giordano Group purchases such merchandise according to its requirements from a number of authorized manufacturers and suppliers including the Placita Group. The price and payment terms for the Purchases from the Placita Group are negotiated on an order-by-order basis, based on arm's length negotiation and with reference to the prices of similar merchandise purchased by the Giordano Group from other independent manufacturers and suppliers.

The Directors (excluding the independent non-executive Directors) consider that the Purchases under the New Manufacturing Licence Agreements are on normal commercial terms, in the ordinary and usual course of business of the Giordano Group and on terms no more favorable than those available to independent third parties, and that such Purchases are in the interest of the Giordano Group.

## THE NEW CAP AMOUNTS

Under the Listing Rules, the Purchases contemplated under the New Manufacturing Licence Agreements for the 12-month period following Completion constitute continuing connected transactions of the Company. The Purchases that the Giordano Group made under the Previous Manufacturing Licence Agreements for the financial years ended December 31, 2006 and 2007 were HK\$268 million and HK\$307 million respectively, representing an increase of approximately 14.6%. In the first five months of 2008, the Giordano Group made Purchases of HK\$101 million, or an average of HK\$20.2 million per month. The proposed maximum aggregate value of all Purchases (“New Cap Amount(s)”) covering the 12-month period following Completion is estimated to be HK\$450 million, or an average of HK\$37.5 million per month to support the Giordano Group’s planned expansion in Mainland China and elsewhere in the region. Such amount is allocated between 2008 and 2009 as follows:

<b>Period</b>	<b>New Cap Amount</b> <i>(HK\$)</i>
From the day after Completion through December 31, 2008*	150 million
From January 1, 2009 through the first anniversary of Completion	300 million

\* The previous cap amount for the full year ending December 31, 2008 under the Previous Manufacturing Licence Agreements is HK\$484 million.

## GENERAL

The Company is principally engaged in retail and distribution of Giordano-branded Merchandise.

The Purchaser is principally engaged in investment holding and is a 49% shareholder of Placita. The Purchaser is wholly and beneficially owned by Mr. Cheung, a director of Placita. Therefore, the Disposal, the Put Option and the Call Option constitutes a connected and discloseable transaction within the meanings ascribed thereto under the Listing Rules. Completion of the Sale and Purchase Agreement is therefore subject to, inter alia, Independent Shareholders’ approval at the SGM pursuant to Rule 14A.18 of the Listing Rules.

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

A circular containing details of the Sale and Purchase Agreement, the Disposal, the Put Option, the Call Option, the Continuing Connected Transactions, a letter from the independent board committee of the Company to the Independent Shareholders in connection with the terms of the Sale and Purchase Agreement, the Disposal, the Put Option, the Call Option, the Continuing Connected Transactions and a letter of advice from the independent financial advisers to the independent board committee of the Company and a notice of the SGM will be dispatched to Shareholders in accordance with the requirements of Rules 14.38 and 14A.49 of the Listing Rules as soon as possible.

An independent board committee comprising the independent non-executive Directors has been formed to advise the Independent Shareholders on the terms of the Sale and Purchase Agreement, the Disposal, the Put Option, the Call Option and the Continuing Connected Transactions. CIMB-GK Securities (HK) Ltd. has been appointed to advise the independent board committee of the Company and the Independent Shareholders in respect of the Sale and Purchase Agreement, the Disposal, the Put Option, the Call Option and the Continuing Connected Transactions.

## **DEFINITIONS**

In this announcement, unless the context requires otherwise, the following expressions have the following meaning:

“Board”	board of Directors
“Business Day”	a day (not being a Saturday or days on which a typhoon signal No.8 or black rainstorm warning is hoisted in Hong Kong at 10:00 a.m.) on which banks are generally open for general banking business in Hong Kong
“Call Option”	the option granted by the Company to the Purchaser in relation to the Preference Shares
“Call Option Price”	HK\$32,700,000
“Company”	Giordano International Limited, a company incorporated in Bermuda with limited liability and whose securities are listed on the Stock Exchange

“Completion”	completion of the Disposal in accordance with the Sale and Purchase Agreement
“Consideration”	HK\$22,900,000
“Continuing Connected Transactions”	the transactions contemplated under the New Manufacturing Licence Agreements and the proposed New Cap Amounts under the New Manufacturing Licence Agreements
“Directors”	the directors of the Company
“Disposal”	the disposal of 21% of the entire issued share capital of Placita by the Company to the Purchaser pursuant to the Sale and Purchase Agreement
“Giordano-branded Merchandise”	Clothing and related accessory products under the brand <i>Giordano</i> , <i>Giordano Concepts</i> , <i>Giordano Ladies</i> , <i>Giordano Junior</i> , <i>BSX</i> and any other brands from time to time belonging to the Giordano Group
“Giordano Group”	the Company and its subsidiaries (excluding the Placita Group)
“Gloss Mind Hong Kong”	Gloss Mind Apparel (Hong Kong) Limited, an indirect wholly-owned subsidiary of Placita in Hong Kong engaged in the trading of apparel products and the provision of apparel sourcing services
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China

“Independent Shareholders”	Shareholders other than the Purchaser and its associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Cheung”	Mr. Cheung Kwok Leung, a director of non-wholly owned subsidiaries of the Company
“New Manufacturing Licence Agreements”	the two master manufacturing licence agreements dated June 27, 2008 entered into between Giordano Limited, a wholly-owned subsidiary of the Company, and Placita
“Placita”	Placita Holdings Limited, a non wholly-owned subsidiary of the Company incorporated in the British Virgin Islands owned as to 51% by the Company and 49% by Gloss Mind Holdings Limited
“Placita Group”	Placita, its subsidiaries and associate(s) (as defined in the Listing Rules)
“PRC”	The People’s Republic of China
“PRC Co. A”	深圳亮志服装有限公司 (Shenzhen Liangchi Clothing Company Limited), an indirect wholly-owned subsidiary of Placita in the PRC engaged in the manufacturing of apparel
“PRC Co. B”	東莞亮智服装有限公司 (Dongguan Liangzhi Clothing Company Limited), an indirect wholly-owned subsidiary of Placita in the PRC engaged in the manufacturing and trading of apparel
“Preference Shares”	preference shares of Placita with rights to the Preference Share Dividend but with no voting rights nor the right or obligation to make contributions to capital, loan and/or provision of security to or for the Placita and its subsidiaries

“Preference Share Dividend”	the payment attributable, payable and due to the Company as holder of the Preference Shares at the rate of not less than HK\$0.43 per Preference Share per financial year
“Previous Manufacturing Licence Agreements”	the two master manufacturing licence agreements dated March 29, 2006 entered into by Giordano Limited and Bluestar Exchange Limited, two wholly-owned subsidiaries of the Company, with Placita
“Purchaser”	Gloss Mind Holdings Limited
“Purchases”	the purchase of Giordano-branded Merchandise by the Giordano Group from the Placita Group, from time to time, pursuant to the Previous Manufacturing Licence Agreements and the New Manufacturing Licence Agreements
“Put Option”	the option granted by the Purchaser to the Company in relation to the Preference Shares
“Put Option Price”	HK\$27,800,000
“Redesignation”	the redesignation of the remaining 6,055,440 shares in Placita held by the Company into 6,055,440 Preference Shares
“Sale and Purchase Agreement”	the sale and purchase agreement dated June 27, 2008 and entered into among the Company, the Purchaser and Mr. Cheung in relation to the Sale Shares, the Put Option, the Call Option and the Redesignation
“Sale Shares”	4,238,808 ordinary shares in the issued share capital of Placita
“SGM”	the special general meeting of the Company to be convened for approving the transactions contemplated under the Sale and Purchase Agreement and the New Manufacturing Licence Agreements

“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Trade Balance”	amounts due from the Giordano Group to the Placita Group in the ordinary course of its trade business from time to time

By Order of the Board  
**LAU KWOK KUEN, PETER**  
*Chairman*

Hong Kong, June 30, 2008

As at the date of this announcement, the Board comprises three independent non-executive directors, namely, Mr. Barry John BUTTIFANT, Mr. KWONG Ki Chi and Dr. LEE Peng Fei, Allen; and three executive directors, namely, Dr. LAU Kwok Kuen, Peter, Mr. FUNG Wing Cheong, Charles and Mr. MAH Chuck On, Bernard.