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# **Hembly International Holdings Limited**

## **恒寶利國際控股有限公司**

*(Incorporated in Cayman Islands with limited liability)*  
(Stock Code: 3989)

### **CONNECTED TRANSACTION AND PROPOSED CONTINUING CONNECTED TRANSACTION AND RESUMPTION OF TRADING**

This announcement is published pursuant to Rule 13.09(1) of the Listing Rules.

On 24 May 2007, Mr. Ngok executed the Option Deed in favour of the Company. The Option Deed constitutes a connected transaction of the Company under Rule 14A.13.

Pursuant to the Lease Agreement, H4T shall take over the operation of the ST Business as from the date of the Court Decree, and subject to the Final Confirmation Decree of Arrangement with Creditors becoming final, H4T shall proceed to acquire the ST Business. The Sourcing Arrangement will accordingly constitute a continuing connected transaction of the Company under the Listing Rules.

Further details relating to the Option Deed and the Sourcing Arrangement are set out below.

Trading in the Shares on the Stock Exchange was suspended at the request of the Company from 2:30 p.m. on 23 May 2007 pending the release of this announcement. Application has been made to the Stock Exchange for the resumption of trading in the Shares at 9:30 a.m. on 28 May 2007.

This announcement is published pursuant to Rule 13.09(1) of the Listing Rules.

#### **OPTION DEED**

##### **Background**

Mr. Ngok is the chairman, an executive director and controlling shareholder of the Company and accordingly a connected person of the Company within the meaning of the Listing Rules.

On 2 May 2007, H4T and the Seller entered into the Lease Agreement and the Sale and Purchase Agreement whereby H4T shall lease from the Seller the ST Business and, subject to the Final Confirmation Decree of Arrangement with Creditors becoming final, H4T shall proceed to acquire the ST Business. Both the Lease Agreement and the Sale and Purchase Agreement were conditional upon the issue of the Court Decree, which said condition was fulfilled upon the issue of the Court Decree on 24 May 2007. The Sale and Purchase Agreement is further subject to the Final Confirmation Decree of Arrangement with Creditors.

On 24 May 2007, Mr. Ngok executed the Option Deed in favour of the Company pursuant to which Mr. Ngok granted to the Company an option for the acquisition of Mr. Ngok's interests in the ST Business via the acquisition of the Option Interests. Particulars relating to the Option Deed are described below.

**Particulars**

Date:	24 May 2007
Party:	Mr. Ngok
Nature of transaction:	Mr. Ngok granted to the Company an option for the acquisition of Mr. Ngok's interests in the ST Business via the acquisition of the Option Interests
Consideration:	Nil
Exercise period:	From the Effective Date up to the date falling 3 years from the Effective Date
Manner of exercise:	The Option may be exercised in whole or in part and more than once by the Company at any time during the exercise period and shall be exercisable by written notice from the Company to Mr. Ngok specifying the percentage or part of the Option Interests to which such notice relates
Exercise price:	Fair market value of the Option Interests (or such part thereof in respect of which the Company shall have exercised the Option) as at the date of the relevant written notice given by the Company of the Option Interests as between a willing buyer and a willing seller contracting on arm's length terms, having regard to the fair value of the ST Business as a going concern as at the date of the notice exercising the Option, but without taking into account (if it is the case) that the Option Interests represent a minority interest in H4T or the relevant company holding, directly or indirectly, Ngok's interests in the ST Business; or such other sum as Mr. Ngok and the Company may agree
First right of refusal:	the transfer, disposal and/or dilution of Mr. Ngok's interests in the ST Business whether by way of transfer of the Option Interests or otherwise shall be subject to, inter alia, a first right of refusal in favour of the Company

- Conditions precedent to acquisition: completion of sale and purchase of any Option Interests pursuant to the Option Deed shall be conditional upon:
- (a) completion of the acquisition of the ST Business by H4T;
  - (b) where required, the passing at a duly convened and held general meeting of shareholders of the Company of resolutions to approve the purchase of the Option Interests or any part thereof and the ancillary transactions contemplated under the Option Deed in compliance with the Listing Rules and any other relevant laws, regulations and rules whatsoever; and
  - (c) all necessary notification and filings having been made, the expiry, lapsing or termination of all applicable waiting periods (including extensions thereof) under any applicable legislation or regulations and all the licences, authorisations, orders, grants, confirmations, permissions, registrations and other approvals necessary for or in respect of the purchase of the Option Interests or any part thereof and the ancillary transactions contemplated under the Option Deed having been obtained from appropriate governments, governmental, supranational or trade agencies, courts or other regulatory bodies and such licences, authorisations, orders, grants, confirmations, permissions, registrations and other approvals, remaining in full force and effect

### **Reasons for the transaction**

Prior to pursuing the opportunity to acquire the ST Business, Mr. Ngok has introduced the very same opportunity to the Company and upon the very same terms. However, given the Seller was in extreme financial trouble, it was imperative for the Seller to secure an intended purchaser who can commit to the acquisition of the ST Business quickly. The Board was of the view that, before they could decide on whether the Company should commit into such acquisition, ample time of at least some months would be required for (i) the conduct of outstanding detailed due diligence on the ST Business; and (ii) the Company to obtain shareholders' approval on such acquisition. The Board unanimously resolved to decline the opportunity to acquire the ST Business.

The Board also noted that the ST Business mainly involves wholesale and retail sales of products bearing its own trademarks "Sergio Tacchini" and/or "ST" in the Europe market. Since the Group's distribution network is in the People's Republic of China (including Hong Kong and the Macao Special Administrative Region) and the Group only carries on retail business as a franchisee, the Board therefore considers that the ST Business does not fall within the scope of the non-competition undertaking which the controlling shareholders of the Company have given to the Company.

In the circumstances, Mr. Ngok resolved to acquire the ST Business in his personal capacity. But as Mr. Ngok also considers that acquisition by the Group of the ST Business would, in the long run, be beneficial to the growth of the Group's business, he therefore executed the Option Deed to grant to the Company, free of any consideration, a right of first refusal and the Option to acquire the Option Interests within the period of 3 years commencing from the Effective Date. Mr. Ngok believes that this will give flexibility to the Company and allow further time for the Company to decide on whether to acquire the Option Interests in future.

As the Option is granted to the Company free of any consideration, the Directors (including the independent non-executive Directors) consider that the terms of the Option Deed are fair and reasonable so far as the shareholders of the Company are concerned and are in the interests of the Company and its shareholders as a whole.

As no consideration is payable by the Company for the grant of the Option, the Option Deed constitutes a *de minimis* connected transaction exempt from the reporting, announcement and independent shareholders' approval requirements under Rule 14A.31 of the Listing Rules. The Company will comply with the relevant requirements under the Listing Rules if, in future, it should decide to exercise of the Option.

## **SOURCING ARRANGEMENT**

### **Background**

Currently the Seller is a customer of the Group under the Sourcing Arrangement and the amount of sales from the Group to the Seller amounted to approximately HK\$15,145,000 for the financial year ended 31 December 2006, representing approximately 2.5% of the Group's total sales for the same period.

Pursuant to the Lease Agreement, H4T shall take over the operation of the ST Business as from the date of the Court Decree. In order to continue to run the ST Businesses, H4T needs to and intends to continue the existing Sourcing Arrangement between the Seller and the Group and to scale-up the same.

H4T is a company wholly-owned by Mr. Ngok and hence a connected person of the Company within the meaning of the Listing Rules. The Sourcing Arrangement will be carried out on a continuing or recurring basis in the ordinary and usual course of business of the Group and will accordingly constitute a continuing connected transaction of the Company under the Listing Rules.

### **Reasons for the proposed transaction**

As confirmed by Mr. Ngok, currently the Group is only one of the many suppliers of the Seller for the ST Business in the Asian region. It is the intention of Mr. Ngok that after H4T takes over the operation the ST Business, H4T will gradually replace the other current suppliers for the ST Business with the Group and develop the Group into its exclusive sourcing supplier/agent in the Asian region. By increasing its size of orders with the Group for products' sourcing under the Sourcing Arrangement, H4T will definitely increase the revenue of the Group.

### **Annual caps and basis of annual caps**

Based on the projection provided by H4T with the projected maximum amount of order that it shall place with the Group in relation to products' sourcing for the ST Business, the Board estimates that the annual caps for the amount of sales by the Group to H4T pursuant to the Sourcing Arrangement for the 6-month period ending 31 December 2007 and for each of the 2 years ending 31 December 2009 would approximately be HK\$267,521,000, HK\$362,880,000 and HK\$415,682,000 respectively.

### **Listing Rules requirements**

As each of the relevant percentage ratios set out in the Listing Rules in respect of the maximum annual cap of the service charges payable under the Sourcing Arrangement is, on an annual basis, more than 2.5% and the annual consideration is estimated to be more than HK\$10,000,000, the Sourcing Arrangement will be classified as a non-exempt continuing connected transaction of the Company under Rule 14A.16(5) of the Listing Rules and will be subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

To comply with Rule 14A.35 of the Listing Rules, the Company will enter into a formal agreement in writing with H4T to set out the terms and conditions of the Sourcing Arrangement.

Further announcement will be made by the Company when the terms and conditions of the Sourcing Arrangement are finalised and the formal agreement in writing is signed, or when the value of transactions under the Sourcing Arrangement between H4T and the Group shall exceed the benchmarks for reporting and announcement requirement under Rule 14A.34 of the Listing Rules.

## **GENERAL**

The Group is principally engaged in the provision of supply chain services for its supply of apparel and accessories to international brand apparel makers and the distribution and retailing of apparel and footwear.

H4T is an Italian incorporated company set up for the purpose of operating and acquiring the ST Business which principal activities include, as far as the Directors are aware, the production (direct and indirect) and sale of clothing, shoes, accessories, perfumes, glasses and other products for sport and leisure and bearing the trademarks “Sergio Tacchini” and/or “ST”.

## **RESUMPTION OF TRADING**

Trading in the Shares on the Stock Exchange was suspended at the request of the Company from 2:30 p.m. on 23 May 2007 pending the release of this announcement. Application has been made to the Stock Exchange for the resumption of trading in the Shares at 9:30 a.m. on 28 May 2007.

## **DEFINITIONS**

“Board”	the board of Directors
“Company”	Hembly International Holdings Limited, a limited liability company incorporated in the Cayman Islands, the ordinary shares of which are listed on the Stock Exchange
“Court Decree”	the decree issued by the Court of Novara, Italy on 24 May 2007 admitting ST’s Arrangement with Creditors, by virtue of the issuance of which the Lease Agreement has become effective as of the same date and the lease period under the Lease Agreement for H4T to operate the ST Business has commenced
“Directors”	directors of the Company
“Effective Date”	the date of the Option Deed
“Final Confirmation Decree of Arrangement with Creditors”	the conclusion of ST’s Arrangement with Creditors whereupon the ST’s Arrangement with Creditors shall become conclusive and binding on all current creditors of the Seller in respect of the ST Business, which shall take place upon the publication of a decree by the Court of Novara, Italy to the effect that the ST’s Arrangement with Creditors is approved without challenge/appeal from any relevant persons, including the current creditors of the Seller
“Group”	the Company and its subsidiaries

“H4T”	H4T S.R.L., a company incorporated in Italy and indirectly wholly-owned by Mr. Ngok
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Lease Agreement”	the conditional lease agreement dated 2 May 2007 made between the Seller and H4T for the leasing of the ST Business and pursuant to which H4T shall take over the operation of the ST Business, and which has become unconditional upon the issue of the Court Decree
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Ngok”	Ngok Yan Yu, the chairman and an executive director and substantial shareholder of the Company
“Option”	the option granted by Mr. Ngok to the Company in relation to the Option Interests pursuant to the Option Deed
“Option Deed”	the deed dated 24 May 2007 executed by Mr. Ngok in favour of the Company, pursuant to which Mr. Ngok has granted to the Company an option to acquire the Option Interests subject to and upon the principal terms and conditions described above
“Option Interests”	the shares or other equity securities in H4T or the relevant company holding, directly or indirectly, Ngok’s interests in the ST Business from time to time held or beneficially owned by Mr. Ngok
“Sale and Purchase Agreement”	the conditional sale and purchase agreement dated 2 May 2007 made between the Seller and H4T for the sale and purchase of the ST Business, which will become unconditional upon the issue of the Final Confirmation Decree of Arrangement with Creditors
“Seller”	Tacchini Group S.R.L., a customer of the Group under the Sourcing Arrangement
“Shares”	the ordinary shares of HK\$0.1 each in the share capital of the Company
“Sourcing Arrangement”	the ongoing sourcing arrangement between the Group and the Seller whereby the Group sells products to the Seller for the purpose of the ST Business

“ST’s Arrangement with Creditors”	the proposed arrangement to be made by the Seller with its creditors in relation to the ST Business which has been admitted by the Court of Novara, Italy and which shall be subject to the approval of the majority of the creditors and thereafter to the final approval of the Court of Novara, Italy
“ST Business”	the assets and business to be acquired by H4T under the Sale and Purchase Agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

By order of the Board of  
**Hembly International Holdings Limited**  
**Ngok Yan Yu**  
*Chairman*

Hong Kong, 25 May 2007

As at the date of this announcement, the Board comprises six executive Directors, namely Mr. Ngok, Mr. Lam Hon Keung, Keith, Ms. Tang Chui Yi, Janny, Mr. Wong Ming Yeung, Mr. Piva Antonio and Mr. Appella Marcello; one non-executive Director, namely Mr. Je Kin Ming; and three independent non-executive Directors, namely Mr. Lo Ming Chi, Charles, Mr. Pao Ping Wing and Mr. Kwan Hung Sang, Francis.

Please also refer to the published version of this announcement in The Standard.