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GRANDTOP INTERNATIONAL HOLDINGS LIMITED
泓鋒國際控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2309)

**PROPOSED ISSUE OF CONVERTIBLE NOTES
AND RESUMPTION OF TRADING**

Further to the announcement of the Company dated 4 February 2008 made pursuant to Rule 13.09 of the Listing Rules in relation to the proposed issue of convertible notes, the Board is pleased to announce that on 7 May 2008, the Company and Pacific Capital entered into the Subscription Agreement, pursuant to which Pacific Capital has agreed to subscribe for the Convertible Notes for an aggregate principal amount of up to HK\$200,000,000 to be issued by the Company, on the terms and conditions set out in the Subscription Agreement.

The Convertible Notes will be convertible into Conversion Shares at the option of the Noteholder at any time during the Conversion Period at the Fixed Conversion Price or the Floating Conversion Price as selected by the relevant Noteholder at the time of exercising the conversion right. No application will be made for the listing of the Convertible Notes on any stock exchange.

None of the Convertible Notes are being offered to the public in Hong Kong and none of the Convertible Notes will be issued to any connected persons (as defined in the Listing Rules) of the Company.

The estimated net proceeds from the issue of the Convertible Notes amount to approximately HK\$187,000,000. The proceeds are currently intended to be used for future expansion, investments, potential corporate acquisitions and general working capital of the Group. The Directors confirm that no specific project has been identified by the Company and no agreement has been entered into by the Company in relation to any investments or corporate acquisitions and the Company will make relevant disclosure to the public in accordance with the Listing Rules when appropriate.

A circular containing, among other things, further details of the Subscription Agreement together with the notice convening the EGM will be despatched to Shareholders as soon as practicable.

* *for identification purpose only*

Completion of the subscription and issue of any tranche of the Convertible Notes is subject to the satisfaction and/or waiver of the conditions precedent therein. Please refer to the sub-section headed “Conditions Precedent” below for further information. In addition, the Subscription Agreement may be terminated in certain circumstances. Please refer to the sub-section headed “Termination” below for further information.

As the subscription and issue of any tranche of the Convertible Notes may or may not complete, Shareholders and prospective investors are advised to exercise caution when dealing in the Shares.

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 9:30 a.m. on 8 May 2008 pending the issue of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares from 9:30 a.m. on 23 May 2008.

1. SUBSCRIPTION AGREEMENT DATED 7 MAY 2008

Introduction

Further to the announcement of the Company dated 4 February 2008 made pursuant to Rule 13.09 of the Listing Rules in relation to the proposed issue of convertible notes, the Board is pleased to announce that on 7 May 2008, the Company and Pacific Capital entered into the Subscription Agreement, pursuant to which Pacific Capital has agreed to subscribe for the Convertible Notes for an aggregate principal amount of up to HK\$200,000,000 to be issued by the Company, on the terms and conditions set out in the Subscription Agreement.

Parties

- (a) the Company; and
- (b) Pacific Capital.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, Pacific Capital and its ultimate beneficial owners are all third parties independent from the Company and its connected persons (as defined in the Listing Rules). The Company and Pacific Capital have no prior business relationship.

Subject to the fulfilment of the conditions set out below under the sub-section headed “Conditions Precedent” and pursuant to the terms of the Subscription Agreement, Pacific Capital has agreed to subscribe for the Convertible Notes.

None of the Convertible Notes are being offered to the public in Hong Kong and none of the Convertible Notes will be issued to any connected persons (as defined in the Listing Rules) of the Company.

Conditions Precedent

Completion of the subscription and issue of any tranche of the Convertible Notes is conditional upon, among other things:—

- (a) the passing of an ordinary resolution by the Shareholders to approve the Subscription Agreement and the transactions contemplated thereunder, including, but not limited to, the issue of the Convertible Notes and the allotment and issue of the Conversion Shares, at the EGM;
- (b) the Stock Exchange granting listing of, and permission to deal in, the Conversion Shares;
- (c) the issuance of a legal opinion as to the laws of Hong Kong;
- (d) all the representations and warranties of the Company set out in the Subscription Agreement are accurate and correct in all material respects; and
- (e) there shall not have occurred an event, within the control of the Company, which will trigger a change in control in the Company.

The Stock Exchange has raised the concern that the conversion of the Convertible Notes may result in the situation that the Company may not maintain 25% public float of the Shares. The Company and Pacific Capital have agreed to enter into a supplemental agreement regarding the addition of a conversion restriction in the Terms and Conditions so that no conversion of the Convertible Notes can be made at any time when the Company cannot maintain 25% public float as a result of such conversion. The Company will make further announcement when the Company and Pacific Capital have executed the supplemental agreement.

Termination

The Subscription Agreement may be terminated in certain circumstances. In particular, Pacific Capital may terminate the Subscription Agreement by notice in writing to the Company at any time before payment of the net subscription monies to the Company for the relevant Convertible Notes on the relevant Closing Date. Such circumstances include, without limitation:—

- (a) if there comes to the notice of Pacific Capital any material breach of, or any event rendering untrue or incorrect in any material respect, any of the representations, warranties and undertakings contained in the Subscription Agreement or any material failure to perform any of the Company's undertakings or obligations in the Subscription Agreement; and
- (b) if there occurs (i) any change, or any development involving a prospective change, in the condition, financial or otherwise, or in the earnings, business or operations, or in or affecting the properties, of the Group; or (ii) an imposition of a new legal or regulatory restriction or any change in the interpretation of the existing legal or regulatory restrictions, that materially and adversely affects the financial conditions of the Group, or the offering, delivery of the Convertible Notes or the Conversion Shares.

Subject to the foregoing, completion of the subscription and issue of the relevant Convertible Notes shall take place on the relevant Closing Date.

Principal Terms of the Convertible Notes

The principal terms of the Convertible Notes are summarised as follows:–

- Issuer: the Company
- Subscriber: Pacific Capital and/or its nominees, being other investment fund(s) managed by Pacific Capital
- Principal Amount: up to HK\$200,000,000 in aggregate
- Maturity Date: thirty six (36) months from the Closing Date of tranche 1 of the Convertible Notes
- Issue Price: 100% of the face value of the principal amount of the Convertible Notes
- Interest: the Convertible Notes will not bear any interest
- Conversion: Subject to the relevant Noteholder complying with the procedures related to conversion, the Convertible Notes are convertible at any time during the Conversion Period into Conversion Shares at the Conversion Price (as described below)
- Conversion Price: The price at which Conversion Shares will be issued shall be either:–
- (a) 125% of the average of the Closing Day Price for the thirty (30) business days immediately prior to:–
 - (i) in respect of tranche 1 of the Convertible Notes, the date of the Subscription Agreement; and
 - (ii) in respect of the subsequent tranches of the Convertible Notes, the respective Closing Dates (the “**Fixed Conversion Price**”), subject to adjustment in accordance with the Terms and Conditions; or
 - (b) 90% of the average of the Closing Day Price on any five (5) consecutive business days (as selected by the relevant Noteholder) during the thirty (30) business days immediately preceding the relevant Conversion Date (the “**Floating Conversion Price**”)

as selected at the discretion of the relevant Noteholder at the time of exercising the conversion right in respect of the relevant tranche of the Convertible Notes provided always that the Conversion Price shall not in any event be less than HK\$0.05 per Conversion Share.

The Fixed Conversion Price will be subject to adjustment for, among other things, capital distribution in cash or specie, subdivision or consolidation of the Shares, bonus issues and other dilutive events such as capitalization of profits or reserves, rights issues, issue of new Shares and/or securities convertible into or exchangeable for Shares.

The overriding principle relating to the adjustment of the conversion price as set in the Stock Exchange's letter dated 5 September 2005 is that no adjustment to the exercise price or number of shares that benefits the share option scheme participants shall occur without prior Shareholders' approval. The Directors believe that the adjustment of the Conversion Price set out in the Subscription Agreement is in accordance with the principle.

- Redemption at Maturity: Unless previously redeemed, purchased, converted or cancelled in the circumstances set out in the Terms and Conditions, the Company will redeem the outstanding Convertible Notes on the Maturity Date (as described above) at 100% of the principal amount thereof.
- Redemption at the option of the Company: The Company may redeem those Convertible Notes presented by the Noteholder for conversion at the Conversion Redemption Amount (as defined in the Terms and Conditions) if on presentation of such Convertible Notes, the Fixed Conversion Price or the Floating Conversion Price (as the case may be) is less than or equal to 70% of the average of the Closing Day Price for the thirty (30) consecutive business days prior to the relevant Closing Date in respect of such Convertible Notes.
- Form and Denomination: The Convertible Notes will be issued in registered form and in denomination of HK\$500,000 or integral multiples thereof and will be serially numbered. A certificate will be issued to each Noteholder in respect of its registered holding of each Convertible Note.
- Status: The Convertible Notes will constitute direct, general, unconditional, unsubordinated, and (subject to the Negative Pledge as described below) unsecured obligations of the Company, ranking pari passu and rateably without any preference among themselves, and, save as otherwise provided under any applicable laws or regulations, equally with all other present and future unsecured obligations (other than subordinated obligations) of the Company.

Negative Pledge:	So long as any of the Convertible Notes remains outstanding, the Company and its Subsidiaries have agreed that, unless certain conditions are met, they will not create or allow the creation of any Security upon the whole or any part of their property or assets, present or future, to secure any existing or future Note Issues or any guarantee or indemnity or other like obligation in respect thereof.
Transferability:	The Convertible Notes are non-transferable and non-assignable.
Listing:	Application will be made for the listing of, and permission to deal in, the Conversion Shares on the Stock Exchange.
Governing Law:	The Convertible Notes and the Terms and Conditions shall be governed by, and shall be construed in accordance with, the laws of Hong Kong.

Conversion Shares

For illustrative purpose and assuming full conversion at the Conversion Price of HK\$0.05 per Conversion Share, the Convertible Notes with an aggregate principal amount of up to HK\$200,000,000 are convertible into 4,000,000,000 Conversion Shares, representing approximately 526.09% of the existing issued share capital of the Company and approximately 84.03% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares. Under the Terms and Conditions:–

- (a) the aggregate number of Shares held by all the Noteholders (including but not limited to the Conversion Shares) at any given time shall not exceed such number of Shares equivalent to 20% of the total number of Shares in issue at that relevant time; and
- (b) the aggregate number of Shares held by all the Noteholders (including but not limited to the Conversion Shares) together with such persons acting in concert (within the meaning of the Takeovers Code) at any given time shall not exceed such number of Shares equivalent to 29.9% of the total number of Shares in issue at that relevant time.

Ordinary resolutions will be proposed at the EGM for Shareholders to approve, among other things, the allotment and issue of the Conversion Shares.

Completion of subscription and issue of any tranche of the Convertible Notes is subject to the satisfaction and/or waiver of the conditions precedent contained in the Subscription Agreement. In addition, the Subscription Agreement may be terminated in certain circumstances. As the subscription and issue of any tranche of the Convertible Notes may or may not complete, Shareholders and prospective investors are advised to exercise caution when dealing in the Shares.

2. CHANGES IN THE SHAREHOLDING STRUCTURE OF THE COMPANY

To the best of the knowledge of the Directors, the shareholding of the existing substantial shareholders of the Company as at the date of this announcement and after the issue of the Conversion Shares are summarized as follows:–

Shareholders	Existing shareholding (as at the date of this announcement)		Assuming the Convertible Notes are converted at the Conversion Price of HK\$0.05 each (not exceeding 20%)		Assuming the Convertible Notes are fully converted at the Conversion Price of HK\$0.05 each	
	No. of Shares held	% of issued share capital of the Company	No. of Shares held	% of enlarged share capital of the Company	No. of Shares held	% of enlarged share capital of the Company
Great Luck Management Limited (<i>Note 1</i>)	115,200,000	15.15	115,200,000	12.12	115,200,000	2.42
Premier Rise Investments Limited ("Premier Rise") (<i>Note 2</i>)	96,000,000	12.63	96,000,000	10.10	96,000,000	2.02
Huge Gain Development Limited ("Huge Gain") (<i>Note 3</i>)	96,000,000	12.63	96,000,000	10.10	96,000,000	2.02
Mr. Yeung Ka Sing, Carson ("Mr. Yeung") (<i>Note 4</i>)	23,520,000	3.09	23,520,000	2.47	23,520,000	0.49
Ms. Leung Choi Fan ("Ms. Leung") (<i>Note 5</i>)	18,975,000	2.49	18,975,000	2.00	18,975,000	0.39
Noteholder(s)	—	0.00	190,080,000	20.00	4,000,000,000	84.03
Sub-total	<u>349,695,000</u>	<u>45.99</u>	<u>539,775,000</u>	<u>56.79</u>	<u>4,349,695,000</u>	<u>91.37</u>
Public	<u>410,625,000</u>	<u>54.01</u>	<u>410,625,000</u>	<u>43.21</u>	<u>410,625,000</u>	<u>8.63</u>
Total	<u><u>760,320,000</u></u>	<u><u>100.00</u></u>	<u><u>950,400,000</u></u>	<u><u>100.00</u></u>	<u><u>4,760,320,000</u></u>	<u><u>100.00</u></u>

Notes:

1. Great Luck Management Limited, a company incorporated in the British Virgin Islands and wholly owned by Mr. Yeung, an executive Director
2. Premier Rise, a company incorporated in the British Virgin Islands and wholly owned by Mr. Hui Ho Luek, Vico ("Mr. Hui"), an executive Director

3. The entire issued share capital of Huge Gain is owned by Nerine Trust Company Limited (“**Nerine Trust**”) which is the trustee of SB Unit Trust and holds properties for the benefit of holders of units issued by SB Unit Trust. All the units issued by SB Unit Trust were held by the family members of Mr. Siu Ban, co-founder of the Company and its Subsidiaries and the discretionary objects, Ms. Siu Bessie, an executive Director, and Ms. Tsai Lai Wa, Jenny have indirect interest in Nerine Trust
4. Mr. Yeung, the Chairman of the Company and an executive Director
5. Ms. Leung, spouse of Mr. Hui who wholly and beneficially owns Premier Rise

3. DILUTION EFFECT ON SHAREHOLDERS AS A RESULT OF CONVERSION OF ANY PART OF THE CONVERTIBLE NOTES

Assuming that the entire maximum principal amount of HK\$200,000,000 under the Convertible Notes is successfully issued and converted at the minimum conversion price of HK\$0.05 per Conversion Share, a total of 4,000,000,000 Conversion Shares, representing (i) approximately 526.09% of the existing issued share capital of the Company; and (ii) approximately 84.03% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares, will be issued.

In view of the future dilution effect on the shareholdings in the Company of the existing Shareholders on the exercise of the conversion rights attaching to the Convertible Notes, the Company will keep the Shareholders informed of the level of dilution and details of conversion as follows:—

- (a) the Company will make a monthly announcement (the “**Monthly Announcement**”) on the website of the Stock Exchange after the completion of the subscription for and issue of tranche 1 of the Convertible Notes. Such announcement will be made on or before the fifth business day following the end of each calendar month and will include the following details in a tabular form:
 - (i) whether there is any conversion of the Convertible Notes during the relevant month. If there is conversion, details of the conversion(s), including the Conversion Date, the number of Conversion Shares issued, Conversion Price for each conversion. If there is no conversion during the relevant month, a negative statement to that effect;
 - (ii) the number of outstanding principal amount of the Convertible Notes after the conversion(s), if any;
 - (iii) the total number of new Shares issued pursuant to other transactions during the relevant month, including new Shares issued pursuant to exercise of options under any share option scheme(s) of the Company (if any);
 - (iv) the total issued share capital of the Company as at the commencement and the last day of the relevant month; and

- (b) in addition to the Monthly Announcement, if the cumulative amount of the Conversion Shares issued reaches 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Convertible Notes (as the case may be) (and thereafter in a multiple of such 5% threshold), the Company will make an announcement on the website of the Stock Exchange including details as stated in (a) above for the period commencing from the date of the last Monthly Announcement or any subsequent announcement in respect of the Convertible Notes (as the case may be) up to the date on which the total amount of the Conversion Shares issued amounted to 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Convertible Notes (as the case may be).

4. INFORMATION ON PACIFIC CAPITAL

Pacific Capital is an investment fund company principally engaged in investing in listed and unlisted investments.

5. NET PROCEEDS, REASONS FOR THE ISSUE OF CONVERTIBLE NOTES AND USE OF PROCEEDS

The net proceeds from the issue of the Convertible Notes are estimated to be approximately HK\$187,000,000.

The Directors believe that the proceeds from the issue of the Convertible Notes will, upon completion, provide additional financing for future expansion, investments, potential corporate acquisitions, and general working capital of the Group. This will enhance the financing flexibility of the Group, which the Directors consider to be beneficial to the Group and the Shareholders taken as a whole. The Directors confirm that no specific project has been identified by the Company and no agreement has been entered into by the Company in relation to any investments or corporate acquisitions and the Company will make relevant disclosure to the public in accordance with the Listing Rules when appropriate.

The Directors have carefully considered different financing options including bank financing and other corporate financing arrangements. They believe the issue of the Convertible Notes is the best available option since it does not create any interest paying obligations on the Company and does not create security over any of the Company's assets.

The Directors are of the opinion that the terms of the Subscription Agreement (including the Terms and Conditions) and the issue of the Convertible Notes are fair and reasonable and on normal commercial terms and that the entering into of the Subscription Agreement and the issue of the Convertible Notes are in the interests of the Company and the Shareholders as a whole.

6. SUSPENSION AND RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 9:30 a.m. on 8 May 2008 pending the issue of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares from 9:30 a.m. on 23 May 2008.

As the subscription and issue of any tranche of the Convertible Notes may or may not complete, Shareholders and prospective investors are advised to exercise caution when dealing in the Shares.

7. GENERAL INFORMATION

As at the date of this announcement, the Board comprises executive Directors, namely Mr. Yeung Ka Sing, Carson, Mr. Hui Ho Luek, Vico, Mr. Steven McManaman, Mr. Fan Zhi Yi, Mr. Lee Yiu Tung, Mr. Ip Wing Lun, Ms. Wong Po Ling, Pauline and Ms. Siu Bessie and non-executive Directors, namely Mr. Christian Lali Karembou and Mr. Chan Wai Keung and independent non-executive Directors, namely Mr. Chang Kin Man, Mr. Zhou Han Ping, Mr. Yip Man Ki and Mr. Yau Yan Ming, Raymond.

The Company is an investment holding company. The Group is mainly engaged in apparel sourcing, apparel trading and sales support services.

A circular containing, among other things, further details of the Subscription Agreement together with the notice convening the EGM will be despatched to Shareholders as soon as practicable.

DEFINITIONS

“Board”	the board of Directors of the Company
“business day”	a day, ending at 4:30 p.m. (Hong Kong time), on which the Stock Exchange is open for trading
“Closing Date”	in respect of each tranche of Convertible Notes, the date on which such tranche is issued and subscribed for
“Closing Day Price”	the last reported transaction price per share of the Shares on the Stock Exchange for any business day, or if there has been no trading in the Shares on that day, the last reported transaction price per share of the Shares for the preceding business day
“Company”	GRANDTOP INTERNATIONAL HOLDINGS LIMITED (Stock code: 2309), an exempted company incorporated in the Cayman Islands with limited liability and whose shares are listed on the Main Board of the Stock Exchange

“Conversion Date”	the date, which shall be a business day, on which the conversion notice is faxed and received by the Company or the next business day if the conversion notice is received by the Company after 10:00a.m. (Hong Kong time)
“Conversion Period”	the period commencing on the respective Closing Dates of the Convertible Notes and ending on the 7th business day prior to the Maturity Date (both days inclusive)
“Conversion Share(s)”	the Share(s) to be allotted and issued upon conversion of the Convertible Note(s)
“Convertible Note(s)”	convertible note(s) denominated in Hong Kong dollars to be issued by the Company in twenty (20) equal tranches (of a principal amount of HK\$10,000,000 each) under the Subscription Agreement and on terms to be set out in the Terms and Conditions
“Directors”	directors of the Company
“EGM”	the extraordinary general meeting of the Company to be convened to approve, among other things, the Subscription Agreement, the issue of the Convertible Notes and the allotment and issue of the Conversion Shares
“Group”	the Company and its Subsidiaries
“HK\$” or “HK dollars”	Hong Kong Dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Maturity Date”	thirty six (36) months from the Closing Date of tranche 1 of the Convertible Notes
“Note Issue”	any issue of notes, notes or other similar securities of the Company or any Subsidiary to any other person but shall not include the indebtedness constituted by loan agreements from lenders not involving the issue of notes, notes or other similar securities
“Noteholder(s)”	the person(s) registered in the register of Noteholders of the Company as the holder(s) of the Convertible Notes
“Pacific Capital”	Pacific Capital Investment Management Limited, a company incorporated in the British Virgin Islands

“Security”	any mortgage, charge, pledge or any other security interest
“Share(s)”	fully paid ordinary share(s) at the par value of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	person(s) registered in the books of the Company as the holder(s) of Share(s) for the time being
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Agreement”	the subscription agreement dated 7 May 2008 and made between the Company and Pacific Capital in connection with the issue of the Convertible Notes
“Subsidiary”	a company whose financial statements is consolidated for the purposes of the Company’s financial reporting
“Takeovers Code”	“The Codes on Takeovers and Mergers and Share Repurchases” issued by the Securities and Futures Commission of Hong Kong
“Terms and Conditions”	the terms and conditions of the Convertible Notes to appear on the reverse of each of the definitive certificates evidencing the Convertible Notes
“%”	per cent.

By the Order of the Board
Ip Wing Lun
Executive Director and Chief Financial Officer

Hong Kong, 22 May 2008