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VICTORY CITY INTERNATIONAL HOLDINGS LIMITED

冠華國際控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 539)

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

CONNECTED TRANSACTION

The Board announces that V-Apparel, a wholly-owned subsidiary of the Company, entered into the Agreement on 25 February 2010 with Ford Glory, pursuant to which V-Apparel has agreed to sell, and Ford Glory has agreed to purchase, the Sale Shares which represented 100% of the total issued shares of Rocwide and the Sale Loan.

As at the date of this announcement, Ford Glory was owned as to 51% by Victory City Investments Limited, a wholly-owned subsidiary of the Company, and as to 49% by Merlotte Enterprise Limited, a company wholly-owned by Mr. Choi. Pursuant to Rule 14A.11(4) of the Listing Rules, Ford Glory, being an associate of Mr. Choi, is a connected person of the Company. Moreover, Ford Glory owned 40% of the equity interest of Jiangmen Factory, a non-wholly owned subsidiary of the Company, as at the date of this announcement, and Ford Glory, being a substantial shareholder of Jiangmen Factory, is a connected person of the Company under Rule 14A.11(1) of the Listing Rules.

Further, Ford Glory is a connected person of the Company under Rule 14A.11(5) of the Listing Rules by virtue of the fact that it is a non wholly-owned subsidiary of the Company where Mr. Choi is entitled to control the exercise of more than 10% of the voting power at general meetings of Ford Glory through his wholly-owned company, Merlotte Enterprise Limited.

Accordingly, the Transaction constitutes a connected transaction under Rule 14A.13(1)(a) of the Listing Rules for the Company.

As one of the applicable percentage ratios of the Transaction exceeds 2.5% and the Consideration is more than HK\$10 million, the Transaction is subject to the reporting, announcement and independent shareholders' approval requirements pursuant to the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

The Board also announces that on 25 February 2010, VC (Holdings), on its own behalf and as trustee for the benefit of other members of the VC Group, entered into the Master Agreements with Ford Glory, on its own behalf and as trustee for the benefit of other members of the FG Group, pursuant to which the VC Group has agreed to sell/supply, and the FG Group has agreed to purchase, (i) fabric products; (ii) steam and electricity; and (iii) yarn. The Master Agreements are all of a term from 1 April 2010 to 31 March 2013.

As Ford Glory is a connected person of the Company as illustrated above, all the transactions contemplated under the Master Agreements constitute continuing connected transactions for the Company. Given that the applicable percentage ratios for the Continuing Connected Transactions, when aggregated, will be more than 2.5% and the proposed annual caps for the three years ending 31 March 2013 will exceed HK\$10 million, the Continuing Connected Transactions are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company will seek the independent shareholders' approval for the Agreement, the Master Agreements and the proposed annual caps for the three years ending 31 March 2013 for the Continuing Connected Transactions at the SGM.

GENERAL

A circular containing, among other matters, (i) details of the Agreement; (ii) details of the Master Agreements; (iii) a letter from the independent committee of the Board setting out its recommendations to the independent shareholders of the Company in connection with the Transaction, the Continuing Connected Transactions and the related proposed annual caps; (iv) a letter from an independent financial adviser containing its advice to the independent committee of the Board and the independent shareholders of the Company in connection with the Transaction, the Continuing Connected Transactions and the related proposed annual caps; (v) further information of the Group; and (vi) the notice of the SGM, will be despatched to the shareholders of the Company as soon as practicable.

CONNECTED TRANSACTION

INTRODUCTION

The Board announces that V-Apparel, a wholly-owned subsidiary of the Company, entered into the Agreement on 25 February 2010 with Ford Glory, pursuant to which V-Apparel has agreed to sell, and Ford Glory has agreed to purchase, the Sale Shares which represented 100% of the total issued shares of Rocwide and the Sale Loan.

The major terms of the Agreement are set out below.

THE AGREEMENT

Parties

- (a) V-Apparel, an investment holding company incorporated in Hong Kong and wholly-owned by the Company, as vendor; and
- (b) Ford Glory, an investment holding company incorporated in the British Virgin Islands and a non-wholly owned subsidiary indirectly owned by the Company, as purchaser.

Assets to be acquired

The 10 shares of US\$1.00 each in the issued share capital of Rocwide and the loan to Rocwide by V-Apparel, which amounted to HK\$23,714,000 as at the date of this announcement.

Consideration

Pursuant to the Agreement, the Consideration of HK\$48 million shall be paid by Ford Glory to V-Apparel upon completion of the Agreement by cash or in such other manner as may be agreed by the parties to the Agreement. The Consideration is the aggregate sum of HK\$24,286,000 which represented the purchase price of the Sale Shares and HK\$23,714,000 which represented the purchase price of the Sale Loan.

The Consideration was determined after arm's length negotiations between V-Apparel and Ford Glory with reference to the consolidated net asset value of Rocwide of HK\$12,774,000 as at 30 September 2009 and the amount of the Sale Loan as at the date of the Agreement.

Conditions

Completion of the Agreement is conditional upon:

- (a) the independent shareholders of the Company approving, by way of ordinary resolution and on a poll at a general meeting, the Agreement and the Transaction and all other consents and acts required under the Listing Rules being obtained and completed or, as the case may be, the relevant waiver from compliance with any of such rules being obtained from the Stock Exchange; and
- (b) if necessary, all approvals, consents, authorisations and licences in relation to the change of beneficial ownership of Rocwide as contemplated by the Agreement having been obtained from the requisite government or regulatory authorities or any third parties.

Completion

Completion of the Agreement shall take place on the date when all the conditions are fulfilled (or waived) or such other date as V-Apparel and Ford Glory may agree in writing. Currently, completion of the Agreement is expected to take place on 31 March 2010.

INFORMATION OF ROCWIDE

As at the date of this announcement, Rocwide is a company incorporated in the British Virgin Islands with limited liability and has an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each, of which 10 shares were issued and owned by V-Apparel. Rocwide is an investment holding company. It owned 60% of the equity interest in Jiangmen Factory while Ford Glory owned 40% of the equity interest in Jiangmen Factory as at the date of this announcement. Jiangmen Factory is a company established in the People's Republic of China and is principally engaging in the manufacture of apparel. Upon completion of the Agreement, Rocwide and Jiangmen Factory will become wholly-owned subsidiaries of Ford Glory; and will remain indirect non-wholly owned subsidiaries of the Company through Ford Glory.

Based on the audited consolidated accounts of V-Apparel, the net total liabilities of Rocwide as at 31 March 2008 and 31 March 2009 were approximately HK\$377,000 and HK\$383,000 respectively. Rocwide's audited net profits before and after tax and extraordinary items for the year ended 31 March 2008 were both approximately HK\$320,000 and the net loss for the year ended 31 March 2009 was approximately HK\$5,000.

Based on the audited consolidated accounts of V-Apparel, the net total assets of Jiangmen Factory as at 31 March 2008 and 31 March 2009 were approximately HK\$44,845,000 and HK\$50,972,000 respectively. Jiangmen Factory's audited net profits before and after tax and extraordinary items for the year ended 31 March 2008 were both approximately HK\$8,606,000 and those for the year ended 31 March 2009 were approximately HK\$6,225,000 and HK\$5,120,000.

REASONS FOR THE TRANSACTION

The Company is an investment holding company. Its subsidiaries are principally engaged in the production and sale of knitted fabric and dyed yarn and garment products. The disposal of Rocwide will help streamline the Group's operation and structure whereby the garment segment of the Group will be held by Ford Glory.

After completion of the Transaction, Rocwide and Jiangmen Factory will become wholly-owned subsidiaries of Ford Glory, which in turn is a non-wholly owned subsidiary of the Company. As Rocwide and Jiangmen Factory will become non-wholly owned subsidiaries of the Company after the Transaction; no gain or loss is expected to be recognised in the consolidated financial statements of the Group as a result of the Transaction. As the consideration is expected to be paid by a subsidiary to another subsidiary of the Company, so far as the Group as a whole is concerned, no proceed will be generated from the Transaction.

The Directors (except the independent non-executive Directors whose view will be formed after obtaining the advice of the independent financial adviser) consider that the terms and conditions of the Agreement are fair and reasonable and are on normal commercial terms and that it is in the interests of the Group and the shareholders of the Company as a whole.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Ford Glory was owned as to 51% by Victory City Investments Limited, a wholly-owned subsidiary of the Company, and as to 49% by Merlotte Enterprise Limited, a company wholly-owned by Mr. Choi. Pursuant to Rule 14A.11(4) of the Listing Rules, Ford Glory, being an associate of Mr. Choi, is a connected person of the Company. Moreover, Ford Glory owned 40% of the equity interest of Jiangmen Factory, a non-wholly owned subsidiary of the Company, as at the date of this announcement, and Ford Glory, being a substantial shareholder of Jiangmen Factory, is a connected person of the Company under Rule 14A.11(1) of the Listing Rules.

Further, Ford Glory is a connected person of the Company under Rule 14A.11(5) of the Listing Rules by virtue of the fact that it is a non wholly-owned subsidiary of the Company where Mr. Choi is entitled to control the exercise of more than 10% of the voting power at general meetings of Ford Glory through his wholly-owned company, Merlotte Enterprise Limited.

Accordingly, the Transaction constitutes a connected transaction under Rule 14A.13(1)(a) of the Listing Rules for the Company.

As one of the applicable percentage ratios of the Transaction exceeds 2.5% and the Consideration is more than HK\$10 million, the Transaction is subject to the reporting, announcement and independent shareholders' approval requirements pursuant to the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

Ford Glory is a connected person of the Company as illustrated above. Upon completion of the Agreement (which is currently expected to take place on 31 March 2010), Jiangmen Factory will become a wholly-owned subsidiary of Ford Glory and will accordingly become a connected person of the Company under Rule 14A.11(6) of the Listing Rules and the existing transactions between Jiangmen Factory and the VC Group will become continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

In order to regulate the business relationship between the VC Group and the FG Group (including Jiangmen Factory), on 25 February 2010, VC (Holdings), on its own behalf and as trustee for the benefit of other members of the VC Group, and Ford Glory, on its own behalf and as trustee for the benefit of other members of the FG Group, entered into the Master Agreements.

The major terms of the Master Agreements are set out below.

THE MASTER AGREEMENTS

Parties:

All of the Master Agreements were entered into between the following parties:

- (i) VC (Holdings), an investment holding company, on its own behalf and as trustee for the benefit of other members of the VC Group, as vendor; and
- (ii) Ford Glory, on its own behalf and as trustee for the benefit of other members of the FG Group, as purchaser.

General terms

All of the Master Agreements are dated 25 February 2010 and for a term commencing from 1 April 2010 to 31 March 2013 (both days inclusive). For the Fabric Master Agreement and the Yarn Master Agreement, the purchase price, the quantity and specifications of products concerned, the time and place of delivery of the products concerned and other relevant matters will be negotiated by the parties with reference to the then prevailing market rates and in good faith which will be set out in the relevant purchase orders. In respect of the Steam and Electricity Agreement, instructions as to the electricity capacity and voltage required and the quantities, pressure, degree of saturation and other specifications of the steam required will be given to the supplier (i.e. a member of the VC Group (other than Jiangmen Factory) from time to time and a monthly fee will be charged.)

Pursuant to the Fabric Master Agreement and the Yarn Master Agreement, the purchase price of the products concerned shall be determined by the parties from time to time by reference to, among other factors, the then prevailing market prices of the raw materials and accessories required for the manufacture of the products concerned, as well as, where applicable, prevailing market prices of similar products. The purchase price and the other payment terms for the products will be set out in the relevant purchase orders to be placed under each of the Fabric Master Agreement and the Yarn Master Agreement. In respect of the Steam and Electricity Agreement, the supplier shall calculate the fees for electricity and steam on arm's length basis, based on, among other factors, the actual cost incurred, the cost incurred for generating electricity for the supply concerned, the quantity of electricity supplied and the maintenance cost involved.

(1) Fabric Master Agreement

Subject matter:

Pursuant to the Fabric Master Agreement, the VC Group has agreed to sell to the FG Group, and the FG Group has agreed to purchase from the VC Group, fabric products during the term of the Fabric Master Agreement.

Historical transaction amounts:

The historical transactions for the sale and purchase of fabric products were carried out by certain members of the VC Group (other than Jiangmen Factory) and Jiangmen Factory. The following table sets out the historical transaction amounts for the sale of fabric products by the VC Group (other than Jiangmen Factory) to Jiangmen Factory for the two years ended 31 March 2009 and the seven months ended 31 October 2009:

	Year ended 31 March		Seven months ended
	2008	2009	31 October
	(HK\$)	(HK\$)	2009
			(HK\$)
Historical transaction amounts (in million)	79.60	98.50	35.24

Proposed annual caps:

The following table sets out the proposed annual caps for the sale of fabric products by the VC Group to the FG Group for the three years ending 31 March 2013:

	Year ending 31 March		
	2011	2012	2013
	(HK\$)	(HK\$)	(HK\$)
Proposed annual caps (in million)	156.00	173.40	192.24

(2) Steam and Electricity Master Agreement

Subject matter:

Pursuant to the Steam and Electricity Master Agreement, the VC Group has agreed to supply to the FG Group, and the FG Group has agreed to obtain from the VC Group, steam and electricity during the term of the Steam and Electricity Master Agreement.

Historical transaction amounts:

The historical transactions for the supply of steam and electricity were carried out by a member of the VC Group (other than Jiangmen Factory) and Jiangmen Factory. The following table sets out the historical transaction amounts for the supply of steam and electricity from the VC Group (other than Jiangmen Factory) to Jiangmen Factory for the two years ended 31 March 2009 and the seven months ended 31 October 2009:

	Year ended 31 March		Seven months ended
	2008	2009	31 October
	(HK\$)	(HK\$)	2009
			(HK\$)
Historical transaction amounts (in million)	1.90	2.20	2.45

Proposed annual caps:

The following table sets out the proposed annual caps for the supply of steam and electricity from the VC Group to the FG Group for the three years ending 31 March 2013:

	Year ending 31 March		
	2011	2012	2013
	(HK\$)	(HK\$)	(HK\$)
Proposed annual caps (in million)	9.00	9.90	10.89

(3) Yarn Master Agreement

Subject matter:

Pursuant to the Yarn Master Agreement, the VC Group has agreed to sell to the FG Group, and the FG Group has agreed to purchase from the VC Group, yarn during the term of the Yarn Master Agreement.

Historical transaction amounts:

The historical transactions for the sale and purchase of yarn were carried out by a member of the VC Group (other than Jiangmen Factory) and Jiangmen Factory since 24 June 2009. The transaction amount for the sale of yarn by the VC Group (other than Jiangmen Factory) to Jiangmen Factory was HK\$900,000 for the period from 24 June 2009 (being the commencement date of sale and purchase of yarn between the VC Group (other than Jiangmen Factory) and Jiangmen Factory) to 31 October 2009.

Proposed annual caps:

The following table sets out the proposed annual caps for the sale of yarn by the VC Group to the FG Group for the three years ending 31 March 2013:

	Year ending 31 March		
	2011 (HK\$)	2012 (HK\$)	2013 (HK\$)
Proposed annual caps (in million)	9.17	10.09	11.10

BASIS OF THE PROPOSED ANNUAL CAPS OF THE MASTER AGREEMENTS

The proposed annual caps for the three years ending 31 March 2013 for the Continuing Connected Transactions are determined by reference to:

- (a) the historical transaction amounts for the Continuing Connected Transactions for the two years ended 31 March 2009 and the seven months ended 31 October 2009 (in respect of the Fabric Master Agreement and the Steam and Electricity Master Agreement) or for the period from 24 June 2009 to 31 October 2009 (in respect of the Yarn Master Agreement);
- (b) the expected growth in demand for the relevant products and services under the Master Agreements for the three years ending 31 March 2013; and
- (c) the prevailing market prices or rates of the relevant products and services under the Master Agreements.

REASONS FOR THE CONTINUING CONNECTED TRANSACTIONS

Both the FG Group and the VC Group are members of the Group and there has been a long-standing business relationship between members of the VC Group and members of the FG Group. The Directors are confident that the FG Group is a reliable business partner and the business cooperation with the FG Group (being non-wholly owned subsidiaries of the Group) will provide a steady income stream to the VC Group.

The Continuing Connected Transactions will be conducted in the ordinary and usual course of business of the Group.

The Directors (except the independent non-executive Directors whose view will be formed after obtaining the advice of the independent financial adviser) consider that:

- (a) the terms and conditions of each of the Master Agreements were negotiated between the parties on an arm's length basis and are normal commercial terms that are fair and reasonable;
- (b) the proposed annual caps in respect of each of the Master Agreements for the three years ending 31 March 2013 as referred to above are fair and reasonable; and
- (c) the Continuing Connected Transactions are and will be conducted in the ordinary and usual course of business of the Group and in the interest of the Company and the shareholders of the Company as a whole.

LISTING RULES IMPLICATIONS

Ford Glory is a connected person of the Company as illustrated above. Accordingly, all the transactions contemplated under the Master Agreements constitute continuing connected transactions for the Company. Given that the applicable percentage ratios for the Continuing Connected Transactions, when aggregated, will be more than 2.5% and the proposed annual cap amounts for the three years ending 31 March 2013 will exceed HK\$10 million, the Continuing Connected Transactions are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

GENERAL

The Company will seek the independent shareholders' approval for the Agreement, the Master Agreements and the proposed annual caps for the three years ending 31 March 2013 for the Continuing Connected Transactions at the SGM.

Mr. Choi, Ford Glory and their respective associates will abstain from voting on the resolutions approving the Agreement, the Master Agreements and the proposed annual caps for the three years ending 31 March 2013 for the Continuing Connected Transactions which will be proposed at the SGM. As at the date of this announcement, Mr. Choi held 7,980,000 shares in the Company, representing approximately 0.75% of the existing issued share capital of the Company. To the best knowledge, information and belief of the Directors, none of the persons (other than Mr. Choi) who are required to abstain from voting at the SGM is holding any shares in the Company as at the date of this announcement.

A circular containing, among other matters, (i) details of the Agreement; (ii) details of the Master Agreements; (iii) a letter from the independent committee of the Board setting out its recommendations to the independent shareholders of the Company in connection with the Transaction, the Continuing Connected Transactions and the related proposed annual caps; (iv) a letter from an independent financial adviser containing its advice to the independent committee of the Board and the independent shareholders of the Company in connection with the Transaction, the Continuing Connected Transactions and the related proposed annual caps; (v) further information of the Group; and (vi) the notice of the SGM, will be despatched to the shareholders of the Company as soon as practicable.

DEFINITIONS

“Agreement”	the sale and purchase agreement in relation to the Transaction entered into between V-Apparel as vendor and Ford Glory as purchaser on 25 February 2010
“Board”	the board of Directors
“Company”	Victory City International Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“Consideration”	the consideration for the Sale Shares and the Sale Loan
“Continuing Connected Transactions”	the transactions contemplated under the Master Agreements
“Directors”	the directors of the Company
“Fabric Master Agreement”	the master agreement dated 25 February 2010 and entered into between VC (Holdings) (on its behalf and as trustee for the benefit of other members of the VC Group) and Ford Glory (on its behalf and as trustee for the benefit of other members of the FG Group) in relation to the sale of fabric products by the VC Group to the FG Group

“FG Group”	Ford Glory and its subsidiaries from time to time
“Ford Glory”	Ford Glory Holdings Limited, a company incorporated in the British Virgin Islands and a non-wholly owned subsidiary of the Company, the purchaser under the Agreement and the purchaser under the Master Agreements
“Group”	the Company and its subsidiaries from time to time
“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
“Jiangmen Factory”	江門冠暉製衣有限公司, a company established in the People’s Republic of China and was owned as to 60% by Rocwide and 40% by Ford Glory as at the date of this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Master Agreements”	collectively, the Fabric Master Agreement, the Steam and Electricity Master Agreement and the Yarn Master Agreement
“Mr. Choi”	Mr. Choi Lin Hung, an executive Director
“Rocwide”	Rocwide Limited, a company incorporated in the British Virgin Islands
“Sale Loan”	such amount as equals 100% of the face value of the loan outstanding as at completion of the Agreement made by or on behalf of the V-Apparel to Rocwide; as at the date of this announcement, the loan from V-Apparel to Rocwide amounted to HK\$23,714,000
“Sale Shares”	10 shares of US\$1.00 each in the issued capital of Rocwide
“SGM”	the special general meeting to be convened for approving, among other matters, the Agreement, the Master Agreements and the proposed annual caps for the three years ending 31 March 2013 for the Continuing Connected Transactions

“Steam and Electricity Agreement”	the master agreement dated 25 February 2010 and entered into between VC (Holdings) (on its behalf and as trustee for the benefit of other members of the VC Group) and Ford Glory (on its behalf and as trustee for the benefit of other members of the FG Group) in relation to the supply of steam and electricity by the VC Group to the FG Group
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Transaction”	the transactions contemplated under the Agreement
“US\$”	United States dollars, the lawful currency of the United States of America
“V-Apparel”	V-Apparel International Limited (冠暉國際有限公司), a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company and the vendor under the Agreement
“VC Group”	VC (Holdings) and its subsidiaries from time to time
“VC (Holdings)”	Victory City Holdings Limited, a company incorporated in the British Virgin Islands, a wholly-owned subsidiary of the Company and the vendor under the Master Agreements
“Yarn Master Agreement”	the master agreement dated 25 February 2010 and entered into between VC (Holdings) (on its behalf and as trustee for the benefit of other members of the VC Group) and Ford Glory (on its behalf and as trustee for the benefit of other members of the FG Group) in relation to the sale of yarn by the VC Group to the FG Group
“%”	per cent.

By order of the Board
Victory City International Holdings Limited
Li Ming Hung
Chairman

As at the date of this announcement, the executive Directors are Mr. Li Ming Hung (Chairman), Mr. Chen Tien Tui (Chief Executive Officer), Mr. Lee Yuen Chiu Andy and Mr. Choi Lin Hung and the independent non-executive Directors are Mr. Kan Ka Hon, Mr. Phaisalakani Vichai and Mr. Kwok Sze Chi.

Hong Kong, 25 February 2010

* *For identification purposes only*