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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)

MEMORANDUM OF UNDERSTANDING RELATING TO A PROPOSED ACQUISITION

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This announcement is made pursuant to Rule 13.09 of the Listing Rules.

The Board announced that after the trading hours on 11 March 2011, the Purchaser entered into the Memorandum of Understanding with the Vendor, pursuant to which the Purchaser intended to acquire and the Vendor intended to sell the entire issued share capital of the Target Company and the Shareholder's Loan. The Target Group is principally engaged in the business of manufacture and sales of yarn.

The Memorandum of Understanding is non-legally binding save for certain provisions relating to the exclusivity, the confidentiality and the governing law of the Memorandum of Understanding.

As the Memorandum of Understanding may or may not lead to the entering into of the Formal Agreement and the Proposed Acquisition may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

In the event that the Proposed Acquisition materialises, it may constitute a notifiable and connected transaction for the Company under the Listing Rules. Further announcement(s) will be made by the Company in accordance with all applicable requirements of the Listing Rules as and when appropriate.

This announcement is made pursuant to Rule 13.09 of the Listing Rules.

The Board announces that on 11 March 2011 (after the trading hours), the Purchaser entered into the non-legally binding Memorandum of Understanding with the Vendor in relation to the Proposed Acquisition. After signing of the Memorandum of Understanding, the parties thereto shall enter into good faith negotiation for the Formal Agreement and other documentation and matters relating to the Proposed Acquisition and the provisions of the Memorandum of Understanding shall form the basis for the preparation of the said documents.

THE MEMORANDUM OF UNDERSTANDING

Date: 11 March 2011

Parties:

The Purchaser: Victory City Holdings Limited, a wholly-owned subsidiary of the Company

The Vendor: Time View Investments Limited, an investment holding company incorporated in the British Virgin Islands

The Vendor is indirectly wholly owned by Trustcorp Limited, a substantial shareholder of the Company. As at the date of this announcement, Trustcorp Limited was interested in the Vendor as to 50% as discretionary trustee for the family members of Mr. Li Ming Hung, an executive Director, and as to 50% as discretionary trustee for the family members of Mr. Chen Tien Tui, an executive Director. Accordingly, the Vendor is an associate of Trustcorp Limited, Mr. Li Ming Hung and Mr. Chen Tien Tui and a connected person of the Company under Chapter 14A of the Listing Rules.

Asset to be acquired

Pursuant to the Memorandum of Understanding, the Purchaser intended to acquire and the Vendor intended to sell the entire issued share capital of the Target Company and the Shareholder's Loan. The principal asset of the Target Company is its 100% direct equity interest in 南京新一棉紡織印染有限公司 (Nanjing Synergy Textiles Limited) ("**Nanjing Synergy**").

Consideration

Pursuant to the Memorandum of Understanding, the Consideration will be determined with reference to (i) the net asset value of Nanjing Synergy; and (ii) the property valuation of Nanjing Synergy; or other basis of determination mutually agreed by the Purchaser and the Vendor.

The Consideration may be satisfied by way of Consideration Shares (the issue price of which shall be the average closing price of the Shares for the five consecutive trading days immediately prior to the date of signing of the Memorandum of Understanding); or other methods to be determined by the parties to the Memorandum of Understanding upon further negotiations.

The final Consideration, the basis of determination of the Consideration, the settlement method and the time of payment of the Consideration shall be finalised by the parties to the Memorandum of Understanding upon finalisation of the Formal Agreement.

Conditions precedent

The Proposed Acquisition is conditional upon, amongst other things, the following conditions precedent:

- (a) the independent Shareholders approving the Proposed Acquisition and the related transactions contemplated thereunder;
- (b) the Stock Exchange and/or the Securities and Futures Commission having approved the issuance of the Consideration Shares;
- (c) the Company having satisfied with the results of its legal and financial due diligence review on Nanjing Synergy;
- (d) the Company having obtained the PRC legal opinion to be issued by a firm of PRC legal advisers approved by the Company confirming the following matters:
 - (i) the Target Company legally owns the entire equity interest of Nanjing Synergy in accordance with the PRC laws and regulations;
 - (ii) the due incorporation and valid subsistence of Nanjing Synergy;
 - (iii) Nanjing Synergy legally owns and operates its business; and
 - (iv) other matters reasonably requested by the Company;
- (e) the Vendor has not materially breached any representations, warranties and undertakings as set out in the Formal Agreement on or before completion date; and
- (f) the obtaining of all approvals required to be obtained on the part of either the Purchaser or the Vendor in relation to the Proposed Acquisition from the necessary PRC authorities (if any).

Non legally-binding effect

Save for the clause on the exclusivity, the confidentiality and the governing law of the Memorandum of Understanding, other terms of the Memorandum of Understanding do not constitute legally-binding commitment in respect of the Proposed Acquisition. The Proposed Acquisition will be subject to the execution and completion of the Formal Agreement.

Exclusivity

The Vendor agrees to grant an exclusive right to the Group under which, during the period of six months from the date of signing of the Memorandum of Understanding, the Vendor shall not, on its own or through any third parties, negotiate or reach any agreement with any third parties, regarding the sale of the entire or part of the issued share capital or the entire or part of the assets and/or business of the Target Company (either orally or in writing).

INFORMATION ON THE TARGET GROUP

The Target Company is an investment company incorporated in the British Virgin Islands. The Vendor currently holds the entire equity interest of the Target Company. The principal asset of the Target Company is its 100% direct equity interest in Nanjing Synergy, of which is principally engaged in the manufacture and sales of yarn.

On 9 October 2003, Nanjing Synergy was established in the PRC with a registered capital of US\$39,000,000 and a total investment of US\$49,800,000, respectively. Nanjing Synergy was wholly-owned by the Target Company. The registered business scope of Nanjiang Synergy included fabric-knitting, fabric-dyeing and finishing; textile fiber processing; garment and related business; and sales of own products. As at the date of this announcement, the registered capital of Nanjing Synergy has been fully paid-up.

REASONS FOR THE PROPOSED ACQUISITION

The Group is principally engaged in the production of and sale of knitted fabric and dyed yarn and garment products.

Nanjing Synergy is principally engaged in the manufacture and sales of yarn and has been a supplier of yarn of the Group for its fabric-dyeing and yarn-dyeing business since 2005.

Taking into account the anticipated growth in the demand of yarn by the Group in its fabric-dyeing and yarn-dyeing business in the coming years, the Company considers maintaining a consistent supply and ascertaining the good quality of yarn is essential to the growth of the Group's fabric-dyeing and yarn-dyeing business. Given Nanjing Synergy and the Group have established a long business relationship with each other and the Directors consider the supply of yarn by Nanjing Synergy is more stable and of a higher quality than that of other yarn suppliers and the ability of Nanjing Synergy to provide a larger variety of yarn count, the Directors consider that the Proposed Acquisition will be in the interest of the Group and the Shareholders as a whole. The Proposed Acquisition represents a good opportunity for the Group to vertically integrate its production process. As yarn is the main raw material for manufacturing fabric, the upstream vertical integration of producing yarn in the fabric supply chain enables the Group to gain cost benefit and flexibility in production schedule for fabric.

GENERAL

As the Memorandum of Understanding may or may not lead to the entering into of the Formal Agreement and the Proposed Acquisition may or may not proceed, Shareholders and potential investors are advised to exercise caution when trading in the Shares.

In the event that the Proposed Acquisition materialises, it may constitute a notifiable and connected transaction for the Company under the Listing Rules. Further announcement(s) will be made by the Company in accordance with all applicable requirements of the Listing Rules as and when appropriate.

DEFINITIONS

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

“Board”	the board of Directors
“Company”	Victory City International Holdings Limited, a company incorporated in Bermuda with limited liability, and the shares of which are listed on the Stock Exchange
“connected person”	has the meaning ascribed to it under the Listing Rules and the word “connected” shall be construed accordingly
“Consideration”	consideration payable by the Purchaser to the Vendor for the Proposed Acquisition
“Consideration Share(s)”	the Shares to be issued by the Company as Consideration for the Proposed Acquisition
“Director(s)”	the director(s) of the Company
“Formal Agreement”	the formal legally-binding sale and purchase agreement to be entered into between the Purchaser and the Vendor in the event that the parties proceeds with the Proposed Acquisition
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	party which is not a connected person of the Company and dependent of the Company and its connected person
“Memorandum of Understanding”	the non-legally binding (save for certain provisions relating to the exclusivity, the confidentiality and the governing law of the Memorandum of Understanding) memorandum of understanding dated 11 March 2011 entered into between the Purchaser and the Vendor in relation to the Proposed Acquisition

“PRC”	the People’s Republic of China excluding, for the purpose of this announcement, Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Proposed Acquisition”	the proposed acquisition of the entire issued share capital of the Target Company and the Shareholder’s Loan
“Purchaser”	Victory City Holdings Limited, a company incorporated in the British Virgin Islands, and a wholly-owned subsidiary of the Company
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Shareholder’s Loan”	the shareholder’s loan due to the Vendor by the Target Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Global Honour Investments Limited, a company incorporated in the British Virgin Islands with limited liability, the entire issued share capital is owned by Vendor
“Target Group”	the Target Company and its subsidiaries
“Vendor”	Time View Investments Limited, a company incorporated in the British Virgin Islands with limited liability
%	per cent

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

Hong Kong, 11 March 2011

As at the date of this announcement, the Board comprises Mr. Li Ming Hung, Mr. Chen Tien Tui, Mr. Lee Yuen Chiu, Andy and Mr. Choi Lin Hung as executive Directors and Mr. Kan Ka Hon, Mr. Phaisalakani Vichai and Mr. Kwok Sze Chi as independent non-executive Directors.

* *For identification purposes only*