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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)

CONTINUING CONNECTED TRANSACTIONS

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Reference is made to the announcement jointly issued by the Company and Highlight China dated 20 February 2013 and the circular jointly issued by the Company and Highlight China dated 14 March 2013 in relation to, among other matters, the Former Fabric Master Agreement and the Former Yarn Master Agreement.

The approved annual caps in respect of the transactions contemplated under the Former Fabric Master Agreement and the Former Yarn Master Agreement will expire on 31 March 2016.

The proposed annual cap in respect of the transactions contemplated under the Fabric Master Agreement for each of the three years ending 31 March 2019 is HK\$70 million. The proposed annual cap in respect of the transactions contemplated under the Yarn Master Agreement for each of the three years ending 31 March 2019 is HK\$10 million.

As FG Holdings is indirectly owned as to 51% by the Company and 49% by Merlotte Enterprise, which is in turn wholly-owned by Mr. Choi, an executive Director, FG Holdings is a connected person of the Company within the meaning of Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the Master Agreements will constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As the proposed annual caps for the transactions contemplated under the Master Agreements in aggregate for each of the three financial years ending 31 March 2019 will be more than HK\$3 million and each of the applicable ratios is more than 0.1% but less than 5%, the Continuing Connected Transactions are subject to the reporting and announcement requirements but are exempt from the circular (including independent financial advice) and shareholders' approval requirements pursuant to Rule 14A.76(2) of the Listing Rules.

Reference is made to the announcement jointly issued by the Company and Highlight China dated 20 February 2013 and the circular jointly issued by the Company and Highlight China dated 14 March 2013 in relation to, among other matters, the Former Fabric Master Agreement and the Former Yarn Master Agreement.

CONTINUING CONNECTED TRANSACTIONS

Fabric Master Agreement

Parties

- (i) Vendor: VC Holdings, an investment holding company, on its own behalf and as trustee for the benefit of other members of the VC Group.
- (ii) Purchaser: FG Holdings, on its own behalf and as trustee for the benefit of other members of the FG Group.

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.

General terms

The Fabric Master Agreement is dated 10 March 2016 and for a term commencing from 1 April 2016 to 31 March 2019 (both days inclusive).

Pursuant to the Fabric 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, the payment terms, 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 in good faith which will be set out in the relevant purchase orders to be placed under the Fabric Master Agreement.

Proposed new annual caps

The approved annual cap in respect of the transactions contemplated under the Former Fabric Master Agreement for each of the three years ending 31 March 2016 was HK\$185 million, HK\$225 million and HK\$266 million respectively and will expire on 31 March 2016.

The actual transaction amounts in respect of the transactions contemplated under the Former Fabric Master Agreement for each of the two years ended 31 March 2015 and the six months ended 30 September 2015 was approximately HK\$49 million, approximately HK\$55 million and approximately HK\$24 million respectively.

As far as the Directors are aware, the annual cap in respect of the transactions contemplated under the Former Fabric Master Agreement for the year ending 31 March 2016 has not been exceeded as at the date of this announcement.

The proposed annual cap in respect of the transactions contemplated under the Fabric Master Agreement for each of the three years ending 31 March 2019 is HK\$70 million.

Yarn Master Agreement

Parties

- (i) Vendor: VC Holdings, an investment holding company, on its own behalf and as trustee for the benefit of other members of the VC Group.
- (ii) Purchaser: FG Holdings, on its own behalf and as trustee for the benefit of other members of the FG Group.

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.

General terms

The Yarn Master Agreement is dated 10 March 2016 and for a term commencing from 1 April 2016 to 31 March 2019 (both days inclusive).

Pursuant to 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, the payment terms, 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 in good faith which will be set out in the relevant purchase orders to be placed under the Yarn Master Agreement.

Proposed new annual caps

The approved annual cap in respect of the transactions contemplated under the Former Yarn Master Agreement for each of the three years ending 31 March 2016 was HK\$6 million, HK\$6.5 million and HK\$7.2 million respectively and will expire on 31 March 2016.

The actual transaction amounts in respect of the transactions contemplated under the Former Yarn Master Agreement for each of the two years ended 31 March 2015 and the six months ended 30 September 2015 was approximately HK\$5.1 million, approximately HK\$6.1 million and approximately HK\$807,000 respectively.

As far as the Directors are aware, the annual cap in respect of the transactions contemplated under the Former Yarn Master Agreement for the year ending 31 March 2016 has not been exceeded as at the date of this announcement.

The proposed annual cap in respect of the transactions contemplated under the Yarn Master Agreement for each of the three years ending 31 March 2019 is HK\$10 million.

Basis of the proposed annual caps

The proposed annual caps for the three years ending 31 March 2019 for the Fabric Master Agreement and the Yarn Master Agreement are determined by reference to the following:

- (i) the historical transaction amounts under the Former Fabric Master Agreement and the Former Yarn Master Agreement;
- (ii) the expected demand for fabric products of the FG Group for the three years ending 31 March 2019 determined with reference to the expected turnover attributable to the production bases of the FG Group that use fabric as major raw material; and
- (iii) the expected demand for yarn of the FG Group for the three years ending 31 March 2019 determined with reference to the expected turnover attributable to the production base of the FG Group that uses yarn as major raw material.

REASONS FOR THE CONTINUING CONNECTED TRANSACTIONS

The Company is an investment holding company. The Group is principally engaged in the production and sale of knitted fabric, dyed yarn and garment products. FG Holdings and its subsidiaries are principally engaged in the manufacturing and sale of garment products.

The Group makes price comparisons for the sale of fabric and yarn on a regular basis. The prices of fabric and yarn sold by the VC Group to the FG Group are benchmarked against the prices of fabric and yarn of similar specifications sold to other customers independent of and not connected with the Group. The Group reviews the price comparisons regularly to carry out on-going monitoring of the Continuing Connected Transactions. In respect of the Continuing Connected Transactions, the internal monitoring measures include, among others, (i) gathering information for disclosure of such transactions pursuant to the Listing Rules; and (ii) monitoring of pricing procedures for such transactions to ensure prices to be determined are on normal commercial terms.

Taking into account (i) the internal monitoring measures as set out above; (ii) the long-standing business relationship between members of the VC Group and members of the FG Group; and (iii) that the independent non-executive Directors will review, among others, whether the Continuing Connected Transactions are conducted on normal commercial terms, the Directors (including the independent non-executive Directors) consider that:

- (a) the terms and conditions of the Master Agreements were negotiated between the parties to it on an arm's length basis and are normal commercial terms that are fair and reasonable;
- (b) the proposed annual caps in respect of the Continuing Connected Transactions for each of the three years ending 31 March 2019 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 Company and in the interests of the Company and the Shareholders as a whole.

In view of Mr. Choi's equity interest in Merlotte Enterprise, Mr. Choi is deemed to have a material interest in the Continuing Connected Transactions and abstained from voting at the Board meeting approving the Continuing Connected Transactions. Apart from Mr. Choi, no other Directors are required to abstain from voting at the Board meeting approving the Continuing Connected Transactions.

IMPLICATIONS UNDER THE LISTING RULES

As FG Holdings is indirectly owned as to 51% by the Company and 49% by Merlotte Enterprise, which is in turn wholly-owned by Mr. Choi, an executive Director, FG Holdings is a connected person of the Company within the meaning of Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the Master Agreements will constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As the proposed annual caps for the transactions contemplated under the Master Agreements in aggregate for each of the three financial years ending 31 March 2019 will be more than HK\$3 million and each of the applicable ratios is more than 0.1% but less than 5%, the Continuing Connected Transactions are subject to the reporting and announcement requirements but are exempt from the circular (including independent financial advice) and shareholders' approval requirements pursuant to Rule 14A.76(2) of the Listing Rules.

DEFINITIONS

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

“Board”	the board of Directors
“BVI”	the British Virgin Islands
“Company”	Victory City International Holdings Limited, a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on the Stock Exchange
“Continuing Connected Transactions”	the continuing connected transactions constituted by the transactions contemplated under the Master Agreements
“Directors”	the directors of the Company
“Fabric Master Agreement”	the master agreement dated 10 March 2016 and of a term commencing from 1 April 2016 to 31 March 2019 (both days inclusive) and entered into between VC Holdings (on its own behalf and as trustee for the benefit of other members of the VC Group) and FG Holdings (on its own 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”	FG Holdings and its subsidiaries from time to time
“FG Holdings”	Ford Glory Holdings Limited, a company incorporated in the BVI with limited liability and indirectly owned as to 51% by the Company and 49% by Merlotte Enterprise

“Former Fabric Master Agreement”	the master agreement dated 20 February 2013 and of a term commencing from 1 April 2013 to 31 March 2016 (both days inclusive) and entered into between VC Holdings (on its own behalf and as trustee for the benefit of other members of the VC Group) and FG Holdings (on its own 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
“Former Yarn Master Agreement”	the master agreement dated 20 February 2013 and of a term commencing from 1 April 2013 to 31 March 2016 (both days inclusive) and entered into between VC Holdings (on its own behalf and as trustee for the benefit of other members of the VC Group) and FG Holdings (on its own behalf and as trustee for the benefit of other members of the FG Group) in relation to the sales of yarn from the VC Group to the FG Group
“Group”	the Company and its subsidiaries
“Highlight China”	Highlight China IoT International Limited (formerly known as Ford Glory Group Holdings Limited), a company incorporated in Bermuda with limited liability and the issued shares of which are listed on the Stock Exchange (stock code: 1682)
“HK\$”	Hong Kong dollars
“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
“Master Agreements”	the Fabric Master Agreement and the Yarn Master Agreement
“Merlotte Enterprise”	Merlotte Enterprise Limited, a company incorporated in the BVI with limited liability and wholly owned by Mr. Choi
“Mr. Choi”	Mr. Choi Lin Hung, an executive Director and the beneficial owner of the entire issued share capital of Merlotte Enterprise and 49% indirect interest in FG Holdings
“Shareholders”	the holders of the Shares
“Shares”	ordinary shares of HK\$0.01 each in the issued share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“VC Group”	VC Holdings and its subsidiaries from time to time
“VC Holdings”	Victory City Holdings Limited, a company incorporated in the BVI and a direct wholly-owned subsidiary of the Company

“Yarn Master Agreement”

the master agreement dated 10 March 2016 and of a term commencing from 1 April 2016 to 31 March 2019 (both days inclusive) and entered into between VC Holdings (on its own behalf and as trustee for the benefit of other members of the VC Group) and FG Holdings (on its own behalf and as trustee for the benefit of other members of the FG Group) in relation to the sale of yarn products by the VC Group to the FG Group

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

Hong Kong, 10 March 2016

As at the date of this announcement, the Board comprises the following members:

Executive Directors:

Li Ming Hung (*Chairman*)
Chen Tien Tui (*Chief Executive Officer*)
Lee Yuen Chiu, Andy
Choi Lin Hung

Independent non-executive Directors:

Kan Ka Hon
Phaisalakani Vichai
Kwok Sze Chi

* *For identification purposes only*