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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)

(1) CONNECTED TRANSACTION: ISSUE OF CONVERTIBLE BONDS; (2) APPLICATION FOR WHITEWASH WAIVER; AND (3) CHANGE IN USE OF PROCEEDS

CONNECTED TRANSACTION: ISSUE OF CONVERTIBLE BONDS

On 25 April 2017 (after trading hours), the Company entered into the Subscription Agreement with the Subscribers in relation to, among others, the issue of the Convertible Bonds in an aggregate principal amount of HK\$400,000,000 due on the date falling 24 months after the date of issuance of the Convertible Bonds. The initial Conversion Price is HK\$0.30 per Conversion Share, subject to adjustments set out in the Convertible Bonds. The Convertible Bonds bear interest from and including the Issue Date at the rate of 5% per annum payable semi-annually.

Upon full conversion of the Convertible Bonds at the initial Conversion Price, a total of 1,333,333,334 Conversion Shares will be issued to the Subscribers, representing approximately 31.79% of the issued share capital of the Company as at the date of this announcement, and approximately 24.12% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares.

As at the date of this announcement, the Subscribers were interested in 1,285,464,000 Shares in aggregate, representing approximately 30.65% of the entire issued share capital of the Company. Upon full conversion of the Convertible Bonds, the Subscribers will be interested in 2,618,797,334 Shares in aggregate, representing approximately 47.38% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares (assuming that there is no other change to the issued share capital of the Company from the date of this announcement up to the date of full conversion of the Convertible Bonds).

The net proceeds from the issue of the Convertible Bonds of approximately HK\$397 million, together with the net proceeds from previous fund raising exercises, are intended to be used in the following manner: (i) construction of new warehouses; (ii) upgrading the wastewater treatment plant; (iii) upgrading existing production lines; (iv) modifying existing production facilities to accommodate the use of natural gas as an environmental-protection and energy-saving initiative; (v) acquiring new dyeing tanks; (vi) acquiring new production facilities for existing synthetic fabric manufacturing; (vii) establishing new printing production facilities; (viii) further expand the Group's production efficiencies and production capacity for existing synthetic fabric segment by pursuing appropriate acquisition opportunities in Taiwan and/or the PRC through acquiring technology or production plant; and (ix) as general working capital of the Group.

Completion of the subscription of the Convertible Bonds by the Subscribers is subject to the satisfaction and/or waiver of the conditions precedent set out in the Subscription Agreement. In addition, the Subscription Agreement may be terminated in certain circumstances.

CHANGE IN USE OF PROCEEDS

The Company had raised net proceeds of approximately HK\$257 million from a placing completed on 17 May 2016 and approximately HK\$344.5 million from the Rights Issue completed on 6 January 2017, intending to apply such proceeds for the planned expansion of the Group to establish new production facilities for fabric manufacturing in Vietnam.

After the withdrawal of the United States of America from the TPP, it is uncertain whether the TPP can bring the expected level of economic benefits to the signatories. The Directors are of the view that the preferential trading treatments that Vietnam could enjoy from the TPP could be adversely affected by the withdrawal. In light of the above reasons, the Directors believe that Vietnam might not be the most suitable location for the development of fabric manufacturing business of the Group.

The Directors wish to announce that in view of the withdrawal of the United States of America from the TPP and for the reasons stated below, the Board has resolved to change the allocation of the proceeds of approximately HK\$344.5 million obtained from the Rights Issue together with the remaining proceeds of approximately HK\$128.5 million obtained from the placing completed on 17 May 2016 in order to improve the efficiency and effectiveness of the deployment of the proceeds.

IMPLICATIONS UNDER THE LISTING RULES

Pearl Garden (being one of the Subscribers) is a substantial shareholder of the Company, holding 642,732,000 Shares (representing approximately 15.33% of the total issued share capital of the Company) as at the date of this announcement. Accordingly, Pearl Garden is a connected person of the Company under Chapter 14A of the Listing Rules.

Madian Star (being one of the Subscribers) is a substantial shareholder of the Company, holding 642,732,000 Shares (representing approximately 15.33% of the total issued share capital of the Company) as at the date of this announcement. Accordingly, Madian Star is a connected person of the Company under Chapter 14A of the Listing Rules.

Therefore, the issue of the Convertible Bonds to both Pearl Garden and Madian Star constitutes a connected transaction for the Company subject to the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules by way of poll at the SGM. Pearl Garden and Madian Star and their associates and parties acting in concert with them shall abstain from voting at the SGM to be convened to consider and, if thought fit, to approve the issue of the Convertible Bonds and the transactions contemplated under the Subscription Agreement (including the obtaining of the Specific Mandate). To the best of the Directors' information, belief and knowledge, save for Pearl Garden and Madian Star and their associates and parties acting in concert with them, no other parties have any material interest which is different from other Shareholders in relation to the Subscription Agreement and the grant of the Specific Mandate.

IMPLICATIONS UNDER THE TAKEOVERS CODE

Application for Whitewash Waiver

As at the date of this announcement, the Concert Group in aggregate are interested in 1,288,839,000 Shares, representing approximately 30.74% of the entire issued share capital of the Company.

Assuming the Convertible Bonds are converted in full at the initial Conversion Price of HK\$0.30 per Conversion Share and there is no other change in the issued share capital of the Company from the date of the Subscription Agreement and up to Completion, the Concert Group will be interested in 2,622,172,334 Shares, which in aggregate representing approximately 47.44% of the issued share capital of the Company as enlarged by the issuance of the Conversion Shares.

Accordingly, the Subscribers would, unless a waiver from strict compliance with Rule 26.1 of the Takeovers Code is granted by the Executive, be obliged to make a mandatory general offer for all the issued Shares not already owned or agreed to be acquired by the Subscribers pursuant to Rule 26.1 of the Takeovers Code as a result of the issue of Conversion Shares pursuant to the proposed conversion of the Convertible Bonds in full.

An application will be made to the Executive for the Whitewash Waiver, the granting of which will be conditional upon, among other things, the approval of the Independent Shareholders of the proposed resolution regarding the Whitewash Waiver by way of poll at the SGM.

GENERAL

The Independent Board Committee has been established to advise the Independent Shareholders in relation to the Subscriptions and the Whitewash Waiver. An independent financial adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders in this regard and an announcement will be made upon its appointment.

A circular containing, among other things, (i) details of the Subscriptions, transactions contemplated thereunder and the Whitewash Waiver; (ii) the letter of advice from the Independent Board Committee to the Independent Shareholders; (iii) the letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Subscriptions, transactions contemplated thereunder and the Whitewash Waiver; and (iv) the notice of the SGM and a form of proxy will be despatched to the Shareholders as soon as practicable and in compliance with the requirements of the Takeovers Code. It is estimated that the circular will be despatched to the Shareholders on or before 18 May 2017.

The SGM will be held to consider and, if thought fit, pass the resolutions to approve, among other things: (i) the Subscription Agreement and the transactions contemplated thereunder; (ii) the issue of the Convertible Bonds in accordance with the Subscription Agreement; (iii) the Specific Mandate under which, upon conversion of the Convertible Bonds, the Conversion Shares will be issued; and (iv) the Whitewash Waiver.

The resolutions in relation to the Subscription Agreement and the Whitewash Waiver at the SGM will be voted on by the Independent Shareholders by way of poll.

As the Concert Group is interested and/or involved in the Subscriptions and therefore will abstain from voting on the relevant ordinary resolutions to be proposed at the SGM to approve the Subscription Agreement and the Whitewash Waiver.

Warnings: the Subscriptions are subject to the fulfilment or waiver (as the case may be) of a number of conditions, including but not limited to approval of the Subscriptions and the Whitewash Waiver by the Independent Shareholders at the SGM, and the granting of the Whitewash Waiver by the Executive. As such, the Subscriptions may or may not proceed.

Shareholders and potential investors are advised to exercise caution when dealing in the Shares, and are recommended to consult their professional advisers if they are in any doubt about their position and as to actions that they should take.

On 25 April 2017 (after trading hours), the Company entered into the Subscription Agreement with the Subscribers pursuant to which the Company has conditionally agreed to issue, and the Subscribers have conditionally agreed to subscribe for, the Convertible Bonds of an aggregate principal amount of up to HK\$400,000,000.

A summary of the principal terms of the Subscription Agreement is set out below.

THE SUBSCRIPTION AGREEMENT

Date: 25 April 2017

Parties:

Issuer: The Company

The Subscribers: (1) Pearl Garden Pacific Limited; and
(2) Madian Star Limited

The Convertible Bonds will be subscribed by the Subscribers in the following proportion:

Subscriber	Amount (HK\$)	Number of Conversion Shares (subject to adjustment)
Pearl Garden	200,000,000	666,666,667
Madian Star	<u>200,000,000</u>	<u>666,666,667</u>
Total	<u><u>400,000,000</u></u>	<u><u>1,333,333,334</u></u>

Pearl Garden is an investment holding company incorporated in the BVI whose issued share capital is wholly owned by Cornice Worldwide Limited, the entire issued share capital of which is held by Fiducia Suisse SA as discretionary trustee for the family of Mr. Li. As at the date of this announcement, Pearl Garden is a substantial Shareholder of the Company and, accordingly, Pearl Garden is a connected person under the Listing Rules.

Madian Star is an investment holding company incorporated in the BVI whose issued share capital is wholly owned by Yonice Limited, the entire issued share capital of which is held by Fiducia Suisse SA as discretionary trustee for the family of Mr. Chen. As at the date of this announcement, Madian Star is a substantial Shareholder of the Company and, accordingly, Madian Star is a connected person under the Listing Rules.

As at the date of this announcement, the Subscribers were interested in 1,285,464,000 Shares in aggregate, representing approximately 30.65% of the entire issued share capital of the Company. Upon full conversion of the Convertible Bonds, the Subscribers will be interested in 2,618,797,334 Shares in aggregate, representing approximately 47.38% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares (assuming that there is no other change to the issued share capital of the Company from the date of this announcement and up to the date of full conversion of the Convertible Bonds).

Subject matter

Pursuant to the Subscription Agreement, the Company has conditionally agreed to issue and the Subscribers have conditionally agreed to subscribe for the Convertible Bonds in the aggregate principal amount of HK\$400,000,000 on the Completion Date.

Conditions precedent

The subscription by the Subscribers of the Convertible Bonds is conditional upon the following conditions being fulfilled (or waived, if applicable) at or before 5:00 p.m. on the Longstop Date:

- (1) the Listing Committee having granted listing of and permission to deal in the Conversion Shares to be issued upon the exercise of the conversion rights attaching to the Convertible Bonds;

- (2) the Company having performed all of its obligations under the Subscription Agreement to be performed on or before Completion and none of the warranties set out in the Subscription Agreement having been breached by the Company in any material respect (or, if capable of being remedied, has not been remedied), or is misleading or untrue in any material respect;
- (3) the Board approving and authorising the execution and completion of the Subscription Agreement and the instrument constituting the Convertible Bonds, the creation and issue of the Convertible Bonds and the allotment and issue of the Conversion Shares on the exercise of the conversion rights attaching to the Convertible Bonds;
- (4) the Executive or any delegate of the Executive having granted the Whitewash Waiver pursuant to the Takeovers Code and the satisfaction of any condition attached to the Whitewash Waiver, and the Whitewash Waiver not being revoked; and
- (5) the passing of all necessary Independent Shareholders' approval of the Company (as required), among other matters, regarding the issue of the Convertible Bonds, authorising the Board to allot and issue the Conversion Shares upon the exercise of Conversion Rights attaching to the Convertible Bonds and the Whitewash Waiver in compliance with the applicable requirements under the Listing Rules and Takeovers Code.

The Subscribers may, at their discretion and upon such terms as they think fit, waive compliance with the condition (2) set out above. Hence, among other things, if the Whitewash Waiver is not granted by the Executive or approved by the Independent Shareholders at the SGM, the Subscriptions will not proceed.

Completion

Completion will take place on the Completion Date after the fulfillment or waiver (as the case may be) of the conditions set out in the Subscription Agreement.

PRINCIPAL TERMS OF THE CONVERTIBLE BONDS

The principal terms of the Convertible Bonds were arrived at after arm's length negotiations between the Company and the Subscribers and are summarised as follows:

Issuer:	The Company
Principal amount:	HK\$400,000,000
Issue price:	100% of the principal amount of the Convertible Bonds
Interest rate:	5% per annum on the outstanding principal amount of the Convertible Bonds, which shall be payable in arrears on 30 June and 31 December of each year from the Issue Date until the Maturity Date.
Maturity Date:	The date falling 24 months after the Issue Date or, if that is not a Business Day, the first Business Day thereafter.

Status: The Convertible Bonds will (subject to any obligations preferred by mandatory provisions of law) rank *pari passu* with all other present and future direct, unconditional and unsubordinated obligations of the Company.

Conversion right: Subject as provided in the terms of the Convertible Bonds, the Convertible Bonds are convertible in whole or in part into new Shares any time during the period commencing from the Business Day immediately following the first anniversary of the Issue Date, at the Conversion Price, subject to adjustment in accordance with the terms of the Convertible Bonds. Any conversion shall be made in amounts of not less than a whole multiple of HK\$1,000,000 and no fraction of a Share shall be issued on conversion.

If the issue of Conversion Shares following the exercise by a Bondholder of the conversion rights attaching to the Convertible Bonds held by such Bondholder would result in:

- (i) such Bondholder and parties acting in concert with it (within the meaning of the Takeovers Code), taken together, directly or indirectly (i) controlling or being interested in 30% or more of the entire issued voting share capital of the Company (or such other percentage as may from time to time be specified in the Takeovers Code as being the level of triggering a mandatory general offer) as at the date of conversion; or (ii) exceeding 2% creeper rule under Rule 26.1 of the Takeovers Code within any 12 month period from a holding of voting rights of between 30% and 50% and a mandatory general offer obligation will be triggered under the Takeovers Code, unless either (i) such Bondholder and parties acting in concert with it comply with the Takeovers Code and make a general offer to acquire for all the Shares not already owned by them; or (ii) a whitewash waiver to waive the requirement for such Bondholder and parties acting in concert with it to make the mandatory general offer is approved by the Independent Shareholders and is granted by the Executive before the date of completion of the conversion; or
- (ii) a mandatory general offer obligation being triggered under the Takeovers Code in respect of any other Shareholder and the parties acting in concert with it (within the meaning of the Takeovers Code), unless either (i) such Shareholder and parties acting in concert with it comply with the Takeovers Code and make a general offer to acquire for all the Shares not already owned by them; or (ii) a whitewash waiver to waive the requirement for such Shareholder and parties acting in concert with it to make the mandatory general offer is approved by the Independent Shareholders and is granted by the Executive before the date of completion of the conversion; or

- (iii) any of the Controlling Shareholders and the parties acting in concert with it (within the meaning of the Takeovers Code), taken together, (i) directly or indirectly, controlling or being interested in less than 30% of the entire issued voting share capital of the Company (or such other percentage as may from time to time specified in the Takeovers Code as being the level falling below which any further acquisition of voting rights of the Company by such Controlling Shareholder and parties acting in concert with it would trigger a mandatory general offer obligation on part of such Controlling Shareholder and parties acting in concert with it under the Takeovers Code); or (ii) would cease to be a Controlling Shareholder under the Listing Rules (the “**Controlling Shareholder’s Shareholding Level Requirement**”); or
- (iv) the Company not meeting the Public Float Requirement immediately after the conversion,

then the number of Conversion Shares to be issued pursuant to such conversion shall be limited to the maximum number of Shares issuable by the Company which would not in the reasonable opinion of the Company result in a breach of the Public Float Requirement or a breach of the Controlling Shareholder’s Shareholding Level Requirement or mandatory general offer being triggered under the Takeovers Code (as the case may be) and the balance of the conversion rights attaching to the Convertible Bonds which the Bondholder sought to convert shall be suspended until such time when the Company is able to issue additional Shares in satisfaction of the exercise of the said balance of conversion rights attaching to the Convertible Bonds and at the same time comply with the Public Float Requirement or without triggering a mandatory general offer under the Takeovers Code or breach the Controlling Shareholder’s Shareholding Level Requirement (as the case may be) or the general offer is made by such Bondholder or Shareholder and parties acting in concert with it respectively or a whitewash waiver is approved and granted (as the case may be) as set out above (the “**Takeovers Code and Listing Rules Implications Condition**”).

- Conversion period: The holder(s) of the Convertible Bonds shall have the right to convert the whole or part of the principal amount of the Convertible Bonds into Conversion Shares for the period commencing from the Business Day immediately following the first anniversary of the Issue Date up to 4:00 p.m. on the Maturity Date.
- Conversion Price: The Conversion Price is initially HK\$0.30 per Conversion Share, subject to adjustment provisions as summarised below.

Comparison of
Conversion Price

The Conversion Price of HK\$0.30 per Conversion Share represents:

- (a) a premium of approximately 11.11% over the closing price of the Shares of HK\$0.270 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a premium of approximately 12.78% over the average closing price of the Shares of approximately HK\$0.266 per Share based on the closing prices of the Shares as quoted on the Stock Exchange for the 5 consecutive trading days up to and including the Last Trading Day;
- (c) a premium of approximately 13.21% over the average closing price of the Shares of approximately HK\$0.265 per Share based on the closing prices of the Shares as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Day; and
- (d) a discount of approximately 77.78% to the unaudited consolidated net asset value per Share of approximately HK\$1.35 as at 30 September 2016, calculated based on the Group's unaudited consolidated net assets of approximately HK\$5,656,982,000 as at 30 September 2016 and the 4,193,744,205 Shares in issue as at the date of this announcement.

The Conversion Price was arrived at after arm's length negotiations between the Company and the Subscribers with reference to the prevailing market prices of the Shares as shown above.

Adjustments to
Conversion Price:

The Conversion Price will be adjusted in accordance with the relevant provisions under the terms and conditions of the Convertible Bonds in the event of any alteration in the capital structure of the Company whether arising by reason of a capitalisation of profits or reserves, rights issue or other offer of securities to holder of Shares (including any securities convertible into share capital or warrants or options to subscribe for any share capital of the Company), consolidation, subdivision or reduction of the share capital of the Company or otherwise howsoever except where any such event is specifically exempted under the terms and conditions of the Convertible Bonds, including but not limited to any issue or grant of Shares, options or other securities of the Company or any of its subsidiaries wholly or partly convertible into, or rights to acquire, Shares to the Directors or employees of the Company or any of its subsidiaries or their personal representatives pursuant to an employee share scheme of the Company or any of its subsidiaries.

In any such alteration in the capital structure of the Company, the Directors shall make an adjustment to the Conversion Price in such manner as an Approved Professional Adviser certifies to be, in its opinion, appropriate.

Conversion Shares to be issued under the Convertible Bonds:	<p>The number of Shares to be issued upon conversion of the Convertible Bonds shall be determined by dividing the principal amount of the relevant Convertible Bonds to be converted by the Conversion Price in effect on the relevant conversion date.</p> <p>Upon exercise of the conversion rights under the Convertible Bonds in full at the initial Conversion Price of HK\$0.30 per Conversion Share, a total of 1,333,333,334 Conversion Shares will be issued, representing:</p> <ul style="list-style-type: none"> (i) approximately 31.79% of the issued share capital of the Company as at the date of this announcement; and (ii) approximately 24.12% of the issued share capital of the Company as enlarged by the issue of Conversion Shares.
Redemption upon maturity:	Any Convertible Bond which remains outstanding by 4:00 p.m. (Hong Kong time) on the Maturity Date shall be redeemed by the Company at a redemption amount equal to the principal amount of the outstanding Convertible Bonds together with interest accrued thereon.
Redemption by the Company:	The Company may at any time during the period commencing from the Issue Date and expiring on the Maturity Date redeem the whole or part of the outstanding Convertible Bonds by giving the Bondholders not less than seven Business Days' prior notice at the redemption amount which is 100% of the principal amount of the outstanding Convertible Bonds to be redeemed together with interest accrued until payment in full.
Redemption by the Bondholders	Each Bondholder will have the unconditional right at any time during the period commencing from the Issue Date and expiring on the Maturity Date to require the Company to redeem the whole or part of the outstanding Convertible Bonds by giving the Company not less than 60 days prior notice at the redemption amount which is 100% of the principal amount of the outstanding Convertible Bonds to be redeemed together with interest accrued to the relevant date of redemption.
Redemption upon events of default:	Upon the occurrence of an event of default as described below and at any time thereafter, each of the Bondholders may, unless such event of default has been waived in writing by it, by notice in writing (" Default Redemption Notice ") requires the Company to redeem the whole (but not part) of the outstanding principal amount of the Convertible Bonds at the redemption amount provided in the instrument constituting the Convertible Bonds whereupon such sum shall become due and payable in the manner provided in the instrument constituting the Convertible Bonds on the Business Day falling after seven Business Days of the date of such notice.
Voting rights:	The Convertible Bonds shall not confer on the Bondholder(s) the right to vote at any general meetings of the Company.

- Listing:** No application has been or will be made for the listing of the Convertible Bonds on the Stock Exchange or any other stock exchange.
- Transferability:** Subject to the satisfaction of warranties stipulated in the instrument constituting the Convertible Bonds (or, if capable of being remedied, has been remedied) and subject to the Company's prior written consent, the Convertible Bonds may be transferred to any person in whole multiples of HK\$1,000,000 (or such lesser amount as may represent the entire principal amount thereof). A transfer shall be effected by delivery of a certificate issued in the name of the Bondholder issued in respect of that Convertible Bond, with an instrument of transfer duly completed and signed by both the transferor and the transferee. No transfer of title to any Convertible Bond will be effective unless and until entered on the register of Bondholders.
- Subject to the Listing Rules, the Convertible Bonds may not be transferred to connected persons of the Company.
- Events of default:** If, among others, any of the following events occurs, the holders of the Convertible Bonds may give notice to the Company that the Convertible Bonds are immediately due and payable at their principal amount together with interest accrued:
- (1) **Payment default:** a default is made in the payment of interest due on the Convertible Bonds when due and such default shall not have been cured by payment by the Company within 15 days after the due date; or
 - (2) **Other default:** a default is made by the Company in the performance or observance of any covenant, condition or provision contained in the instrument constituting the Convertible Bonds or in the Convertible Bonds and on its part to be performed or observed (other than the covenant to pay the principal, premium (if any) and interest in respect of any of the Convertible Bonds) and such default continues for the period of 14 days next following the service by any holder of the Convertible Bonds on the Company of notice specifying brief details of such default and requiring such default to be remedied; or
 - (3) **Breach of Subscription Agreement:** a material breach of any of the terms of the Subscription Agreement, including a breach of any warranty therein which is not discovered until after the issue and delivery of the Convertible Bonds; or

- (4) **Dissolution of the Company and Disposals:** a resolution is passed or an order of a court of competent jurisdiction is made that the Company be wound up or dissolved or the Company disposes of all or substantially all of its assets, otherwise, in any such case, than for the purposes of or pursuant to and followed by a consolidation, amalgamation, merger or reorganisation, the terms of which shall have previously been approved in writing by an ordinary resolution of holders of the Convertible Bonds; or
- (5) **Encumbrances:** an encumbrancer takes possession or a receiver is appointed of the whole or a material part of the assets or undertaking of the Company; or
- (6) **Distress etc.:** a distress, execution or seizure before judgment is levied or enforced upon or sued out against a material part of the assets or undertaking or property of the Company and is not discharged within seven days thereof; or
- (7) **Trading suspension and delisting:** if the Shares are suspended by the Stock Exchange for a period of 90 consecutive trading days or listing of the Shares on the Stock Exchange are being revoked or withdrawn; or
- (8) **Insufficient share capital:** save and except where otherwise provided, if there is not a sufficient number of Shares available for the fulfilment of the obligations regarding the conversion of the Convertible Bonds.

Undertakings by the Company:

The Company has covenanted to the Bondholders, among other things, that so long as any Convertible Bonds remains outstanding:

- (i) it will notify the Bondholders in writing immediately upon becoming aware of the occurrence of any event of default;
- (ii) it will send to the Bondholders as soon as reasonably practicable and in any event within five (5) days after being so requested in writing by any Bondholders a certificate of the Company signed by any two of its directors on behalf of the Company setting out, based on the register of Bondholders maintained by or on behalf of the Company, the total number of Convertible Bonds which, at the date of such certificate, were held by or on behalf of the Company or its subsidiaries and which had not been cancelled;
- (iii) it will comply with and perform and observe all the provisions of the instrument constituting the Convertible Bonds which are expressed to be binding on it;
- (iv) upon the exercise of any conversion rights attached to the Convertible Bonds pursuant to the conditions set out in the instrument constituting Convertible Bonds, it will allot the number of Shares in respect of which conversion rights are exercised subject to and in accordance with such conditions; and

- (v) it will ensure that all Shares allotted pursuant to an exercise of the conversion rights attached to the Convertible Bonds shall rank *pari passu* in all respects with the fully paid Shares in issue on the relevant registration date and shall accordingly entitle the holders to participate in full in all dividends or other distributions paid or made on the Shares after the relevant registration date other than any dividend or other distribution previously declared, or recommended or resolved to be paid or made if the record date therefor falls on or before the relevant registration date and notice of the amount and record date for which shall have been given to the Stock Exchange, and the Bondholders prior to the relevant registration date and, for this purpose, the notice to the Bondholders may take the form of sending a copy of the relevant announcement published on the Stock Exchange to them; and
- (vi) it will at all times use its reasonable endeavours to ensure that the minimum public shareholding requirement of the Listing Rules is complied with.

REASONS FOR THE ISSUE OF CONVERTIBLE BONDS AND USE OF PROCEEDS

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.

The Directors consider raising funds by issuing Convertible Bonds provides an opportunity for the Company to enhance its working capital and strengthen its capital base and financial position. The Directors consider that the issue of the Convertible Bonds is an appropriate means of raising additional capital for the Company since it will not have an immediate dilution effect on the shareholding of the existing Shareholders.

The Directors (not including the independent non-executive Directors who will express their view in a separate letter to be included in the circular relating to the issue of the Convertible Bonds) consider that the terms of the Subscription Agreement, which were arrived at after arm's length negotiations between the Company and the Subscribers, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

The gross proceeds from the issue of the Convertible Bonds will be HK\$400,000,000. The net proceeds from the issue of the Convertible Bonds of approximately HK\$397 million are intended to be used in the following manner: (i) construction of new warehouses; (ii) upgrading the wastewater treatment plant; (iii) upgrading existing production lines; (iv) modifying existing production facilities to accommodate the use of natural gas as an environmental-protection and energy-saving initiative; (v) acquiring new dyeing tanks; (vi) acquiring new production facilities for existing synthetic fabric manufacturing; (vii) establishing new printing production facilities; and (viii) further expand the Group's production efficiencies and production capacity for synthetic fabric segment by pursuing appropriate acquisition opportunities in Taiwan and/or the PRC through acquiring technology or production plant; and (ix) as general working capital of the Group. The net price for each Conversion Share is approximately HK\$0.298.

CHANGE IN USE OF PROCEEDS

The Company had raised net proceeds of approximately HK\$257 million from a placing completed on 17 May 2016 and approximately HK\$344.5 million from the Rights Issue completed on 6 January 2017, intending to apply such proceeds for the planned expansion of the Group to establish new production facilities for fabric manufacturing in Vietnam.

Intended use of proceeds

As disclosed in the circular of the Company dated 13 April 2016 (the “**Circular**”) regarding a placing of Shares, the Company intended to utilise the net proceeds of approximately HK\$257 million for (i) the expansion of the Group’s existing fabric manufacturing facilities; and (ii) the planned expansion of the Group to establish new production facilities for fabric manufacturing in Vietnam. Approximately 50% of the net proceeds (i.e. approximately HK\$128.5 million) from such placing are intended to be applied for the planned expansion of the Group to establish new production facilities for fabric manufacturing in Vietnam.

As disclosed in the prospectus of the Company dated 12 December 2016 (the “**Prospectus**”) regarding the Rights Issue, the Company intended to apply the net proceeds of approximately HK\$344.5 million from the Rights Issue to (i) establish new production facilities for fabric manufacturing in Vietnam in view of the potential lower tariffs and few trade barriers to goods and services brought by the expected implementation of the TPP and the market assess of Vietnam to major TPP countries; and (ii) further expand the Group’s production efficiencies and production capacity for synthetic fabric segment by pursuing appropriate acquisition opportunities in Taiwan and/or the PRC through acquiring technology or production plant. The Company intended to apply such proceeds together with the remaining proceeds of approximately HK\$128.5 million from the placing completed on 17 May 2016 and internal resources of the Group to establish new production facilities for fabric manufacturing in Vietnam and to further expand the Group’s synthetic fabric production.

Change in use of proceeds and the reasons thereof

After the withdrawal of the United States of America from the TPP, it is uncertain whether the TPP can bring the expected level of economic benefits to the signatories. The Directors are of the view that the preferential trading treatments that Vietnam could enjoy from the TPP could be adversely affected by the withdrawal. In light of the above reasons, the Directors believe that Vietnam might not be the most suitable location for the development of fabric manufacturing business of the Group. As disclosed in the Prospectus, the Group will allocate the proceeds from the Rights Issue together with the remaining proceeds from the placing completed on 17 May 2016 for acquiring synthetic fabric production plant in Taiwan and/or the PRC if TPP is not implemented.

The Board has resolved to withhold the plan to develop fabric manufacturing business in Vietnam for the time being and reallocate (i) the remaining proceeds of approximately HK\$128.5 million from the placing completed on 17 May 2016; (ii) the net proceeds of approximately HK\$344.5 million from the Rights Issue; and (iii) the net proceeds of approximately HK\$397 million from the issue of the Convertible Bonds, totalling approximately HK\$870 million in the following manner:

- (i) as to approximately HK\$80 million for construction of new warehouses;
- (ii) as to approximately HK\$70 million for upgrading the wastewater treatment plant;

- (iii) as to approximately HK\$60 million for upgrading existing production lines;
- (iv) as to approximately HK\$25 million for modifying existing production facilities to accommodate the use of natural gas as an environmental-protection and energy-saving initiative;
- (v) as to approximately HK\$35 million for acquiring new dyeing tanks;
- (vi) as to approximately HK\$50 million for acquiring new production facilities for existing synthetic fabric manufacturing;
- (vii) as to approximately HK\$200 million for establishing new printing production facilities (with approximately HK\$50 million to the establish the new printing production plant and approximately HK\$150 million to acquire necessary equipments); and
- (viii) as to approximately HK\$250 million for as general working capital of the Group.

The remaining of such proceeds of approximately HK\$100 million will be utilised to further expand the Group's production efficiencies and production capacity for synthetic fabric segment by pursuing appropriate acquisition opportunities in Taiwan and/or the PRC through acquiring technology or production plant. The Board considers that the above change in use of proceeds will improve efficiency and effectiveness of its deployment which is advantageous to the development of the Group. The Directors (including the independent non-executive Directors) consider that the above change in use of proceeds is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

EFFECT ON THE SHAREHOLDING STRUCTURE

The shareholding structure of the Company (i) as at the date of this announcement; and (ii) upon full conversion of the Convertible Bonds (on the assumptions that the Convertible Bonds are converted at the initial Conversion Price being HK\$0.30 and there is no other change in the issued share capital of the Company from the date of this announcement up to the date of full conversion of the Convertible Bonds) is as follows:

	As at the date of this announcement		Upon full conversion of the Convertible Bonds	
	No. of Shares	Approximate %	No. of Shares	Approximate %
Subscribers and parties acting in concert with them				
Pearl Garden (<i>Note 1</i>)	642,732,000	15.33	1,309,398,667	23.69
Madian Star (<i>Note 2</i>)	642,732,000	15.33	1,309,398,667	23.69
Mr. Chen (<i>Note 3</i>)	3,375,000	0.08	3,375,000	0.06
Sub-total of Subscribers	1,288,839,000	30.74	2,622,172,334	47.44
Directors				
Mr. Choi Lin Hung (<i>Note 3</i>)	12,750,000	0.30	12,750,000	0.23
Mr. Phaisalakani Vichai (<i>Note 4</i>)	1,236,000	0.03	1,236,000	0.02
Other public Shareholders	2,890,919,205	68.93	2,890,919,205	52.31
Total:	4,193,744,205	100.00	5,527,077,539	100.00

Notes:

1. These Shares were held by Pearl Garden. Pearl Garden is wholly owned by Cornice Worldwide Limited, the entire issued share capital of which is held by Fiducia Suisse SA as discretionary trustee for the family members of Mr. Li, an executive Director.
2. These Shares were held by Madian Star. Madian Star is wholly owned by Yonice Limited, the entire issued share capital of which is held by Fiducia Suisse SA as discretionary trustee for the family members of Mr. Chen, an executive Director.
3. Each of Mr. Chen and Mr. Choi Lin Hung is an executive Director. Mr. Choi Lin Hung has not and will not take part in the negotiation or the process of the issue of the Convertible Bonds.
4. Mr. Phaisalakani Vichai is an independent non-executive Director. Mr. Phaisalakani Vichai has not and will not take part in the negotiation or the process of the issue of the Convertible Bonds.

FUND RAISING ACTIVITIES IN THE PAST TWELVE-MONTH PERIOD

Apart from the fund raising activities set out below, the Company had not conducted any other fund raising activities in the past 12 months immediately preceding the date of this announcement:

Date of announcement/ circular	Event	Net proceeds (approximate)	Intended use of proceeds as announced	Actual use of proceeds
18 March 2016, 13 April 2016, 29 April 2016 and 17 May 2016	Placing of new Shares	HK\$257 million	Approximately 50% of the net proceeds for the expansion of the Group's existing fabric manufacturing facilities in the PRC and the remaining approximately 50% for the planned expansion of the Group to establish new production facilities for fabric manufacturing in Vietnam	Approximately HK\$128.5 million had been used for the expansion of the Group's existing fabric manufacturing facilities in the PRC and the remaining HK\$128.5 million will be used together with the net proceeds of the Rights Issue for the establishment of new production facilities for fabric manufacturing in Vietnam and expansion of synthetic fabric production Details are set out in the paragraph headed "Change in use of proceeds".
8 November 2016, 12 December 2016 and 5 January 2017	Rights Issue	HK\$344.5 million	For the establishment of new production facilities for fabric manufacturing in Vietnam and further expansion of the Group's synthetic fabric production by pursuing appropriate acquisition opportunities in Taiwan and/or the PRC through acquiring technology or production plant	Details are set out in the paragraph headed "Change in use of proceeds".

MANDATE TO ISSUE THE CONVERSION SHARES

The Subscription Agreement and the transactions contemplated thereunder, including the issue and allotment of the Conversion Shares under the Specific Mandate of the Company, are subject to the approval of the Independent Shareholders at the SGM.

Application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

IMPLICATIONS UNDER THE LISTING RULES

Pearl Garden (being one of the Subscribers) is a substantial shareholder of the Company, holding 642,732,000 Shares (representing approximately 15.33% of the total issued share capital of the Company) as at the date of this announcement. Accordingly, Pearl Garden is a connected person of the Company under Chapter 14A of the Listing Rules.

Madian Star (being one of the Subscribers) is a substantial shareholder of the Company, holding 642,732,000 Shares (representing approximately 15.33% of the total issued share capital of the Company) as at the date of this announcement. Accordingly, Madian Star is a connected person of the Company under Chapter 14A of the Listing Rules.

Therefore, the issue of the Convertible Bonds to both Pearl Garden and Madian Star constitutes a connected transaction for the Company subject to the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules by way of poll at the SGM. The Concert Group shall abstain from voting at the SGM to be convened to consider and, if thought fit, to approve the issue of the Convertible Bond and the transactions contemplated under the Subscription Agreement (including the obtaining of the Specific Mandate). To the best of the Directors' information, belief and knowledge, save for Pearl Garden and Madian Star and their associates and parties acting in concert with them, no other parties have any material interest which is different from other Shareholders in relation to the Subscription Agreement and the grant of the Specific Mandate.

IMPLICATIONS UNDER THE TAKEOVERS CODE

Application for Whitewash Waiver

As at the date of this announcement, the Concert Group in aggregate are interested in 1,288,839,000 Shares, representing approximately 30.74% of the entire issued share capital of the Company.

Assuming the Convertible Bonds are converted in full at the initial Conversion Price of HK\$0.30 per Conversion Share and there is no other change in the issued share capital of the Company from the date of the Subscription Agreement and up to Completion, the Concert Group will be interested in 2,622,172,334 Shares, which in aggregate representing approximately 47.44% of the issued share capital of the Company as enlarged by the issuance of the Conversion Shares.

Accordingly, the Subscribers would, unless a waiver from strict compliance with Rule 26.1 of the Takeovers Code is granted by the Executive, be obliged to make a mandatory general offer for all the issued Shares not already owned or agreed to be acquired by the Subscribers pursuant to Rule 26.1 of the Takeovers Code as a result of the issue of Conversion Shares pursuant to the proposed conversion of the Convertible Bonds in full.

An application will be made to the Executive for the Whitewash Waiver, the granting of which will be conditional upon, among other things, the approval of the Independent Shareholders of the proposed resolution regarding the Whitewash Waiver by way of poll at the SGM.

As at the date of this announcement, the Company does not believe that the Subscriptions give rise to any concerns in relation to compliance with other applicable rules or regulations (including the Listing Rules). If a concern should arise after the release of this announcement, the Company will endeavour to resolve the matter to the satisfaction of the relevant authority as soon as possible but in any event before the despatch of the circular relating to the

Subscriptions and the Whitewash Waiver. The Company notes that the Executive may not grant the Whitewash Waiver if the Subscriptions do not comply with other applicable rules and regulations.

Further information on the Concert Group

As at the date of this announcement:

- a. save as disclosed under the paragraph headed “Effect on the shareholding structure” in this announcement, none of the members of the Concert Group owns or has control or direction over any existing Shares, rights over Shares, convertible securities, warrants, options or derivatives in respect of the Shares;
- b. none of the members of the Concert Group has any dealings in any securities of the Company in the six-month period preceding the date of the Subscription Agreement;
- c. none of the members of the Concert Group has received any irrevocable commitment to vote for or against the proposed resolution approving the Subscriptions or the Whitewash Waiver at the SGM;
- d. there is no arrangement (whether by way of option, indemnity or otherwise) under Note 8 to Rule 22 of the Takeovers Code in relation to the Shares or shares of the Subscribers which may be material to the Subscriptions or the Whitewash Waiver;
- e. there is no arrangement or agreement to which any member of the Concert Group is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a condition to the Subscriptions or the Whitewash Waiver; and
- f. there is no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company which any member of the Concert Group has borrowed or lent.

GENERAL

The Independent Board Committee has been established to advise the Independent Shareholders in relation to the Subscriptions and the Whitewash Waiver. An independent financial adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders in this regard and an announcement will be made upon its appointment.

A circular containing, among other things, (i) details of the Subscriptions, transactions contemplated thereunder and the Whitewash Waiver; (ii) the letter of advice from the Independent Board Committee to the Independent Shareholders; (iii) the letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Subscriptions, transactions contemplated thereunder and the Whitewash Waiver; and (iv) the notice of the SGM and a form of proxy will be despatched to the Shareholders as soon as practicable and in compliance with the requirements of the Takeovers Code. It is estimated that the circular will be despatched to the Shareholders on or before 18 May 2017.

The SGM will be held to consider and, if thought fit, pass the resolutions to approve, among other things: (i) the Subscription Agreement and the transactions contemplated thereunder; (ii) the issue of the Convertible Bonds in accordance with the Subscription Agreement; (iii) the Specific Mandate under which, upon conversion of the Convertible Bonds, the Conversion Shares will be issued; and (iv) the Whitewash Waiver.

The resolutions in relation to the Subscription Agreement and the Whitewash Waiver at the SGM will be voted on by the Independent Shareholders by way of poll.

As the Concert Group is interested and/or involved in the Subscriptions and therefore will abstain from voting on the relevant ordinary resolutions to be proposed at the SGM to approve the Subscriptions and the Whitewash Waiver.

Warnings: the Subscriptions are subject to the fulfilment or waiver (as the case may be) of a number of conditions, including but not limited to approval of the Subscriptions and the Whitewash Waiver by the Independent Shareholders at the SGM, and the granting of the Whitewash Waiver by the Executive. As such, the Subscriptions may or may not proceed.

Shareholders and potential investors are advised to exercise caution when dealing in the Shares, and are recommended to consult their professional advisers if they are in any doubt about their position and as to actions that they should take.

DEFINITIONS

Unless the context requires otherwise, the following terms have the following meanings in this announcement:

“acting in concert”	has the meaning ascribed to it by the Takeovers Code and the expression “concert party(ies)” shall be construed accordingly
“Approved Professional Adviser”	an independent firm of merchant bank or audit firm of international repute in the opinion of the Company appointed in accordance with the provisions of the instrument constituting the Convertible Bonds
“associates”	has the meaning ascribed thereto in the Listing Rules
“Board”	board of the Directors
“Bondholder(s)”	a person in whose name a Convertible Bond is registered in the register of Bondholders, and “holder” in relation to a Convertible Bond has a corresponding meaning
“Business Day”	a day (other than a Saturday, Sunday or statutory holiday and days on which a typical cyclone warning signal no. 8 or above or a black rainstorm warning signal is hoisted in Hong Kong) on which licensed banks in Hong Kong are generally open for ordinary banking business throughout their normal business hours
“BVI”	the British Virgin Islands
“Company”	Victory City International Holdings Limited, a company incorporated in Bermuda whose shares are listed on the Main Board of the Stock Exchange

“Completion”	the completion of the Subscriptions and shall take place on the Completion Date
“Completion Date”	the fifth Business Day following the date on which the conditions precedent set out in the Subscription Agreement are fulfilled (or such other date as the Company and the Subscribers may agree in writing)
“Concert Group”	the Subscribers, their ultimate beneficial owners and parties acting in concert with any of them, including but not limited to Mr. Li and Mr. Chen
“connected persons”	has the meaning ascribed thereto in the Listing Rules
“Controlling Shareholders”	Mr. Chen, Mr. Li, Pearl Garden and Madian Star
“Conversion Price”	the conversion price per Conversion Share at which Conversion Shares will be issued upon exercise of the conversion rights attaching to the Convertible Bonds, being initially HK\$0.30 per Conversion Share, subject to adjustments pursuant to the terms and conditions of the Convertible Bonds
“Conversion Share(s)”	new Share(s) to be allotted and issued by the Company pursuant to the exercise of the conversion rights attached to the Convertible Bonds pursuant to the terms and conditions of the Convertible Bonds
“Convertible Bonds”	the HK\$400,000,000 five (5) per cent. convertible bonds due 2019 to be issued by the Company to the Subscribers
“Director(s)”	director(s) of the Company
“Executive”	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission or any delegate of the Executive Director
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent board committee of the Board established by the Board, comprising all the independent non-executive Directors, namely Mr. Kan Ka Hon, Mr. Phaisalakani Vichai and Mr. Kwok Sze Chi, to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Subscription Agreement and the Whitewash Waiver and as to voting at the SGM
“Independent Shareholders”	Shareholders, other than the Concert Group and those parties who are involved or interested in the Subscriptions and/or the Whitewash Waiver
“Independent Third Party(ies)”	party(ies) who is (are) independent of and not connected with the Company and its connected persons

“Issue Date”	the date of first issue of the Convertible Bonds
“Last Trading Day”	25 April 2017, being the last trading day for the Shares before the entering into of the Subscription Agreement
“Listing Committee”	the listing committee of the Stock Exchange for considering applications for listing and the granting of listing
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Longstop Date”	24 October 2017 or such other date as the Company and the Subscribers shall agree in writing
“Madian Star”	Madian Star Limited, an investment holding company incorporated in the BVI with limited liability, and is wholly owned by Yonice Limited, the entire issued share capital of which is held by Fiducia Suisse SA as discretionary trustee for the family of Mr. Chen, being the subscriber under the Subscription Agreement
“Maturity Date”	second anniversary of the date of issuance of the Convertible Bonds
“Mr. Chen”	Mr. Chen Tien Tui, an executive Director of the Company
“Mr. Li”	Mr. Li Ming Hung, an executive Director of the Company
“Pearl Garden”	Pearl Garden Pacific Limited, an investment holding company incorporated in the BVI with limited liability, and is wholly owned by Cornice Worldwide Limited, the entire issued share capital of which is held by Fiducia Suisse SA as discretionary trustee for the family of Mr. Li, being the subscriber under the Subscription Agreement
“PRC”	the People’s Republic of China
“Public Float Requirement”	the requirement under the Listing Rules applicable to the Company that not less than a specified percentage of the Shares which are listed on the Stock Exchange shall be held by the public for the purpose of the Listing Rules
“Rights Issue”	the rights issue of the Company completed on 6 January 2017
“SFC”	the Securities and Futures Commission of Hong Kong
“SGM”	a special general meeting of the Company to be convened and held to consider and, if thought fit, approve the Subscription Agreement and the transactions contemplated thereunder, including (among other matters) the allotment and issue of Convertible Bonds and the Conversion Shares falling to be issued upon conversion of the Convertible Bonds, and the Whitewash Waiver (or any adjournment thereof)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company

“Shareholder(s)”	holder(s) of the issued Share(s)
“Specific Mandate”	the specific mandate to be granted to the Directors by the Independent Shareholders at the SGM to allot and issue the Conversion Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber(s)”	Pearl Garden and Madian Star, being the subscribers under the Subscription Agreement
“Subscriptions”	the subscriptions of the Convertible Bonds pursuant to the terms of the Subscription Agreement
“Subscription Agreement”	the conditional subscription agreement dated 25 April 2017 and entered into among the Company and the Subscribers in relation to the Subscriptions
“substantial Shareholder(s)”	has the meaning ascribed thereto in the Listing Rules
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“TPP”	Trans-Pacific Strategic Economic Partnership Agreement, a free trade agreement which was signed in February 2016 involving 12 countries aiming to remove export barriers and facilitate trades between the countries
“Whitewash Waiver”	a waiver from the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code in respect of the obligations of the Subscribers to make a mandatory general offer for all the securities of the Company not already owned or acquired by the Subscribers and parties acting in concert with any of them under Rule 26 of the Takeovers Code which would otherwise arise as a result of the issue of Conversion Shares to the Subscribers pursuant to the conversion of the Convertible Bonds
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

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

Hong Kong, 25 April 2017

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.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this announcement and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any statement in this announcement misleading.

** for identification purposes only*