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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

The Board announces that on 1 April 2007, six Master Agreements were entered into between the Group and various connected persons of the Company to regulate the supplier/provider and customer relationships between the parties to the Master Agreements, all of which are for a term commencing from 1 April 2007 and ending on 31 March 2010 (both days inclusive). The transactions contemplated under the Master Agreements constitute Continuing Connected Transactions for the Company under Chapter 14A of the Listing Rules.

Based on their expected annual caps for the three years ending 31 March 2010, the Continuing Connected Transactions, when aggregated, 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 Master Agreements and the related expected annual caps for the three years ending 31 March 2010 at the SGM.

A circular including, among other information, (1) a letter from the Board containing further details of the Master Agreements; (2) a letter from the independent committee of the Board setting out its recommendations to the Independent Shareholders in connection with the Continuing Connected Transactions and the related expected annual caps; (3) a letter from an independent financial adviser containing its advice to the independent committee of the Board and the Independent Shareholders in connection with the Continuing Connected Transactions and the related expected annual caps; and (4) notice of the SGM will be despatched to the Shareholders as soon as practicable.

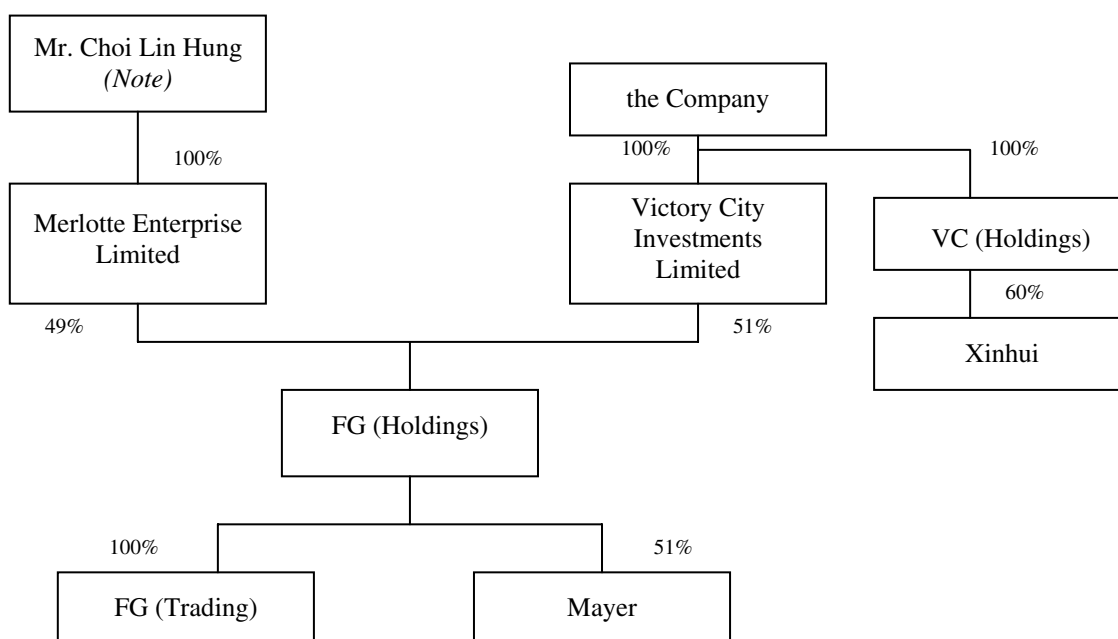
* *for identification purposes only*

INTRODUCTION

The Board announces that on 1 April 2007, six Master Agreements were entered into between the Group and various connected persons of the Company to regulate the supplier/provider and customer relationships between the parties to the Master Agreements, all of which are for a term commencing from 1 April 2007 and ending on 31 March 2010 (both days inclusive). The transactions contemplated under the Master Agreements constitute Continuing Connected Transactions for the Company under Chapter 14A of the Listing Rules.

SIMPLIFIED CORPORATE STRUCTURE OF THE GROUP

A simplified corporate structure of the Group showing the relationships between the parties to the Master Agreements (other than Kimberly) is as follows:



Note: Mr. Choi Lin Hung is an executive Director.

CONTINUING CONNECTED TRANSACTIONS

FG (Holdings) 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 Lin Hung, an executive Director, is entitled to control the exercise of more than 10% of the voting power at general meetings of FG (Holdings) through his wholly-owned company, Merlotte Enterprise Limited. Hence, FG (Trading) and Mayer, being subsidiaries of FG (Holdings), are all connected persons of the Company under Rule 14A.11(6) of the Listing Rules.

On the other hand, Kimberly is owned by a director of a subsidiary of the Company and his wife and therefore is an associate of such director and a connected person of the Company under Rule 14A.11(4) of the Listing Rules.

Accordingly, all the transactions contemplated under the Master Agreements constitute Continuing Connected Transactions for the Company under Chapter 14A of the Listing Rules. Based on their expected annual caps for the three years ending 31 March 2010, the Continuing Connected Transactions, when aggregated, 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 Master Agreements and the related expected annual caps for the three years ending 31 March 2010 at the SGM. Mr. Choi Lin Hung, Kimberly, FG (Holdings) and its subsidiaries and their associates will abstain from voting on the resolutions approving the Master Agreements and the related expected annual caps which will be proposed at the SGM. As at the date of this announcement, Mr. Choi Lin Hung holds 3,228,000 shares in the Company, representing approximately 0.49% of the existing issued share capital of the Company. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, none of the persons (other than Mr. Choi Lin Hung) who is required to abstain from voting at the SGM is holding any shares in the Company as at the date of this announcement.

MASTER AGREEMENTS

General terms

All the Master Agreements are dated 1 April 2007 and for a term commencing from 1 April 2007 to 31 March 2010 (both days inclusive). For all the Master Agreements, the purchase price (being the cost of materials), the quantity and specifications of products concerned, the time and place of delivery of the products concerned and/or (as the case may be) the relevant terms of the services to be provided 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 or (as the case may be) orders.

Payment terms

Parties to each of the Master Agreements have acknowledged under the relevant Master Agreement that the purchase price of the products concerned or (as the case may be) the service fee concerned will 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. The payment terms for the products or service fee will be set out in the relevant purchase orders or orders to be placed under each of the Master Agreements.

(1) KIMBERLY-MAYER MASTER AGREEMENT

Parties

- (i) Kimberly, principally engaged in the manufacture of apparel products, as vendor; and
- (ii) Mayer, principally engaged in the trading of apparel products, as purchaser.

Subject matter

Pursuant to the Kimberly-Mayer Master Agreement, Kimberly has agreed to sell to Mayer, and Mayer has agreed to purchase from Kimberly, apparel products during the term of the Kimberly-Mayer Master Agreement.

Expected annual caps

The purchases of apparel products by Mayer from Kimberly during the year ended 31 March 2007 and for the period from 1 April 2007 to 30 June 2007 amounted to approximately HK\$23.4 million and HK\$15.6 million respectively. Based on the amount for the three months ended 30 June 2007, when considered alone, the Continuing Connected Transactions under such Master Agreement are subject to the reporting and announcement requirements under Rule 14A.34 of the Listing Rules but not the independent shareholders' approval requirement under Rule 14A.35 of the Listing Rules. The following table sets out the expected annual caps for the purchases of apparel products by Mayer from Kimberly for the three years ending 31 March 2010:

	Year ending 31 March		
	2008	2009	2010
Expected annual caps	HK\$149.76 million	HK\$224.64 million	HK\$336.96 million

(2) MAYER-FG (HOLDINGS) MASTER AGREEMENT

Parties

- (i) Mayer, principally engaged in the trading of apparel products, as vendor; and
- (ii) FG (Holdings), an investment holding company, on its own behalf and as trustee for the benefit of other members of the FG Group (excluding Mayer), as purchaser.

Subject matter

Pursuant to the Mayer-FG (Holdings) Master Agreement, Mayer has agreed to sell to the FG Group (excluding Mayer), and the FG Group (excluding Mayer) has agreed to purchase from Mayer, apparel products during the term of the Mayer-FG (Holdings) Master Agreement.

Expected annual caps

The purchases of apparel products by the FG Group (excluding Mayer) from Mayer during the year ended 31 March 2007 and for the period from 1 April 2007 to 30 June 2007 amounted to approximately HK\$34.32 million and HK\$21.84 million respectively. Based on the amount for the three months ended 30 June 2007, when considered alone, the Continuing Connected Transactions

under such Master Agreement are subject to the reporting and announcement requirements under Rule 14A.34 of the Listing Rules but not the independent shareholders' approval requirement under Rule 14A.35 of the Listing Rules. The following table sets out the expected annual caps for the purchases of apparel products by the FG Group (excluding Mayer) from Mayer for the three years ending 31 March 2010:

	Year ending 31 March		
	2008	2009	2010
Expected annual caps	HK\$187.2 million	HK\$280.8 million	HK\$421.2 million

(3) VC (HOLDINGS)-FG (HOLDINGS) MASTER AGREEMENT

Parties

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

Subject matter

Pursuant to the VC (Holdings)-FG (Holdings) Master Agreement, VC (Holdings) and its subsidiaries from time to time have agreed to sell to the FG Group, and the FG Group has agreed to purchase from VC (Holdings) and its subsidiaries from time to time, fabrics during the term of the VC (Holdings)-FG (Holdings) Master Agreement.

Expected annual caps

The purchases of fabrics by the FG Group from VC (Holdings) and its subsidiaries from time to time during the year ended 31 March 2007 and for the period from 1 April 2007 to 30 June 2007 amounted to approximately HK\$4 million and HK\$0.24 million respectively. Based on the amount for the three months ended 30 June 2007, when considered alone, the Continuing Connected Transactions under such Master Agreement are exempt from the reporting, announcement and independent shareholders' approval requirements under Rule 14A.33 of the Listing Rules. The following table sets out the expected annual caps for the purchases of fabrics by the FG Group from VC (Holdings) and its subsidiaries from time to time for the three years ending 31 March 2010:

	Year ending 31 March		
	2008	2009	2010
Expected annual caps	HK\$5 million	HK\$6 million	HK\$8 million

(4) XINHUI-FG (TRADING)-FG (HOLDINGS) MASTER AGREEMENT

Parties

- (i) Xinhui, principally engaged in the manufacture of garment, and FG (Trading), principally engaged in sourcing and exporting of apparel products, as vendors; and
- (ii) FG (Holdings), an investment holding company, on its own behalf and as trustee for the benefit of other members of the FG Group, as purchaser.

Subject matter

Pursuant to the Xinhui-FG (Trading)-FG (Holdings) Master Agreement, each of Xinhui and FG (Trading) has agreed to sell to the FG Group, and the FG Group has agreed to purchase from Xinhui and FG (Trading), apparel products, fabrics products and related accessories during the term of the Xinhui-FG (Trading)-FG (Holdings) Master Agreement.

Expected annual caps

The purchases of apparel products, fabrics products and related accessories by the FG Group from Xinhui and FG (Trading) during the year ended 31 March 2007 and for the period from 1 April 2007 to 30 June 2007 amounted to approximately HK\$134 million and HK\$34 million respectively. Based on the amount for the three months ended 30 June 2007, when considered alone, the Continuing Connected Transactions under such Master Agreement are subject to the reporting and announcement requirements under Rule 14A.34 of the Listing Rules but not the independent shareholders' approval requirement under Rule 14A.35 of the Listing Rules. The following table sets out the expected annual caps for the purchases of apparel products, fabrics products and related accessories by the FG Group from Xinhui and FG (Trading) for the three years ending 31 March 2010:

	Year ending 31 March		
	2008	2009	2010
Expected annual caps	HK\$392.2 million	HK\$569.8 million	HK\$836.2 million

(5) XINHUI-FG (HOLDINGS) MASTER PROCESSING AGREEMENT

Parties

- (i) Xinhui, principally engaged in the manufacture of garment, as provider; and
- (ii) FG (Holdings), an investment holding company, on its own behalf and as trustee for the benefit of other members of the FG Group, as customer.

Subject matter

Pursuant to the Xinhui-FG (Holdings) Master Processing Agreement, Xinhui has agreed to provide to the FG Group, and the FG Group has agreed to engage Xinhui to provide, the processing service in relation to the manufacture of apparel products during the term of the Xinhui-FG (Holdings) Master Processing Agreement.

Expected annual caps

The service fee paid by the FG Group to Xinhui during the year ended 31 March 2007 and for the period from 1 April 2007 to 30 June 2007 amounted to approximately HK\$4 million and HK\$1.5 million respectively. Based on the amount for the three months ended 30 June 2007, when considered alone, the Continuing Connected Transactions under such Master Agreement are exempt from the reporting, announcement and independent shareholders' approval requirements under Rule 14A.33 of the Listing Rules. The following table sets out the expected annual caps for the service fee to be paid by the FG Group to Xinhui for the three years ending 31 March 2010:

	Year ending 31 March		
	2008	2009	2010
Expected annual caps	HK\$8 million	HK\$12 million	HK\$18 million

(6) FG (HOLDINGS)-XINHUI MASTER AGREEMENT

Parties

- (i) FG (Holdings), an investment holding company, on its own behalf and as trustee for the benefit of other members of the FG Group, as vendor; and
- (ii) Xinhui, principally engaged in the manufacture of garment, as purchaser.

Subject matter

Pursuant to the FG (Holdings)-Xinhui Master Agreement, the FG Group has agreed to sell to Xinhui, and Xinhui has agreed to purchase from the FG Group, fabrics products and related accessories during the term of the FG (Holdings)-Xinhui Master Agreement.

Expected annual caps

The purchases of fabrics products and related accessories by Xinhui from the FG Group during the year ended 31 March 2007 and for the period from 1 April 2007 to 30 June 2007 amounted to approximately HK\$20 million and HK\$7.5 million respectively. Based on the amount for the three months ended 30 June 2007, when considered alone, the Continuing Connected Transactions under such Master Agreement are subject to the reporting and announcement requirements under Rule 14A.34 of the Listing Rules but not the independent shareholders' approval requirement under Rule 14A.35 of the Listing Rules. The following table sets out the expected annual caps for the purchases of fabrics products and related accessories by Xinhui from the FG Group for the three years ending 31 March 2010:

	Year ending 31 March		
	2008	2009	2010
Expected annual caps	HK\$50.4 million	HK\$75.6 million	HK\$113.4 million

Based on the total transaction amount of approximately HK\$80.7 million for the three months ended 30 June 2007, the Continuing Connected Transactions under all the Master Agreements are subject to the reporting, announcement and independent shareholders' approval requirements under Rule 14A.35 of the Listing Rules. Since the approval of the Independent Shareholders' approval has not been obtained as at the date of this announcement, such requirements have not been fully complied with.

Basis of expected annual caps

Kimberly-Mayer Master Agreement and Mayer-FG (Holdings) Master Agreement

These two Master Agreements are inter-related as Mayer will place purchase orders with Kimberly based on the sales orders received by FG (Holdings) from its customers. The arrangements between Kimberly and Mayer started in 2006. The expected annual caps for these two Master Agreements for the year ending 31 December 2008 are determined by reference to (i) the historical amount of sales order of the apparel products received by FG (Holdings) from its customers during the year ended 31 March 2007 and for the period from 1 April 2007 to 30 June 2007; and (ii) the expected growth in demand for the apparel products from customers of FG (Holdings) for the years ending 31 March 2008. The growth in the expected annual caps for each of the two years ending 31 December 2010 are determined by reference to the expected annual expansion of up to approximately 50% of

Kimberly's existing production capacity during these two years. Growth in the sales volume of the existing clients of Kimberly as well as from Kimberly's expanded clientele and the prevailing market prices of the apparel products also contribute to the determination of the expected annual caps.

Other Master Agreements

The Continuing Connected Transactions contemplated under other Master Agreements are entered into between subsidiaries of the Company, including FG (Holdings) (a company owned as to 51% indirectly by the Company), FG (Trading) (a wholly-owned subsidiary of FG (Holdings)), VC (Holdings) (a wholly-owned subsidiary of the Company) and Xinhui (a company owned as to 60% by VC (Holdings)). They constitute intra-group transactions and are carried out in connection with sourcing of fabrics and accessories and the supply of the Group's products to the customers of the Group. Hence, with the increase in the Group's turnover, the volume of the Continuing Connected Transactions will also increase accordingly. The transactions conducted between the subsidiaries of the Company as contemplated under these Master Agreements commenced in 2006. In this regard, the Directors have taken into account the following principal factors in determining the expected annual caps for the Continuing Connected Transactions contemplated under these Master Agreements:

- (i) the historical amount of sourcing of fabrics and accessories by the relevant vendors from the independent suppliers for the purchases under the relevant Master Agreements during the year ended 31 March 2007 and for the period from 1 April 2007 to 30 June 2007 (where there is such historical figure for reference);
- (ii) the expected continuous growth in demand for the Group's apparel products, and hence the corresponding increase in demand for the sourcing of fabric products and related accessories, for the three years ending 31 March 2010 based on the latest increased indications as noted from the customers of the Group for the Group's products as compared to the corresponding period in 2006;
- (iii) the Group's intention to expand its production facilities (including the factory operated by Xinhui and the factory in Indonesia under the FG Group) to increase its overall production capacity which will lead to increase in the volume of the Continuing Connected Transactions; and
- (iv) the prevailing market prices of the fabrics, accessories and garments involved under the Continuing Connected Transactions.

Reasons for the Continuing Connected Transactions contemplated under the Master Agreements

The Group is principally engaged in the production and sale of knitted fabric and dyed yarn and provision of related subcontracting services, trading and manufacturing of garment products and provision of quality inspection services. All the Master Agreements were entered into by the respective parties in the ordinary course of business.

The executive Directors 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 expected annual caps in respect of each of the Master Agreements for the three years ending 31 March 2010 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 as a whole.

GENERAL

A circular including, among other information, (1) a letter from the Board containing further details of the Master Agreements; (2) a letter from the independent committee of the Board setting out its recommendations to the Independent Shareholders in connection with the Continuing Connected Transactions and the related expected annual caps; (3) a letter from an independent financial adviser containing its advice to the independent committee of the Board and the Independent Shareholders in connection with the Continuing Connected Transactions and the related expected annual caps; and (4) notice of the SGM will be despatched to the Shareholders as soon as practicable.

DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“BVI”	the British Virgin Islands
“Company”	Victory City International Holdings Limited, an exempted company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Continuing Connected Transactions”	collectively, the continuing connected transactions constituted by the transactions contemplated under the Master Agreements
“Director(s)”	the director(s) of the Company

“FG Group”	FG (Holdings) and its subsidiaries from time to time
“FG (Holdings)”	Ford Glory Holdings Limited, a company incorporated under the laws of the BVI and owned as to 51% by Victory City Investments Limited, a wholly-owned subsidiary of the Company
“FG (Holdings)-Xinhui Master Agreement”	the master agreement dated 1 April 2007 and entered into between FG (Holdings) (on its behalf and as trustee for the benefit of other members of the FG Group) and Xinhui in relation to the purchase of fabrics products and related accessories from the FG Group by Xinhui
“FG (Trading)”	Ford Glory International Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of FG (Holdings)
“Group”	collectively, 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 PRC
“Independent Shareholders”	Shareholders other than Mr. Choi Lin Hung, Kimberly, the members of the FG Group and their associates;
“Kimberly”	加美(清遠)制衣有限公司 (Kimberly (Qing Yuan) Garment Limited, being its unofficial English name), a company incorporated under the laws of the PRC and held by a director of a subsidiary of the Company and his wife
“Kimberly-Mayer Master Agreement”	the master agreement dated 1 April 2007 and entered into between Kimberly and Mayer in relation to the purchase of apparel products from Kimberly by Mayer
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Master Agreements”	collectively, <ul style="list-style-type: none"> (i) the Kimberly-Mayer Master Agreement; (ii) the Mayer-FG (Holdings) Master Agreement; (iii) the VC (Holdings)-FG (Holdings) Master Agreement; (iv) the Xinhui-FG (Trading)-FG (Holdings) Master Agreement; (v) the Xinhui-FG (Holdings) Master Processing Agreement; and (vi) the FG (Holdings)-Xinhui Master Agreement

“Mayer”	Mayer Apparel Limited, a company incorporated under the laws of Hong Kong and owned as to 51% by FG (Holdings) and 49% by an independent third party
“Mayer-FG (Holdings) Master Agreement”	the master agreement dated 1 April 2007 and entered into between Mayer and FG (Holdings) (on its behalf and as trustee for the benefit of other members of the FG Group (other than Mayer)) in relation to the purchase of apparel products from Mayer by the FG Group (other than Mayer)
“PRC”	the People’s Republic of China which, for the purposes of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“SGM”	the special general meeting to be convened for approving the Master Agreements and the related expected annual caps for the three years ending 31 March 2010 for the Continuing Connected Transactions
“Shareholders”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“VC (Holdings)”	Victory City Holdings Limited, a company incorporated under the laws of the BVI and a wholly-owned subsidiary of the Company
“VC (Holdings)-FG (Holdings) Master Agreement”	the master agreement dated 1 April 2007 and entered into between VC (Holdings) (on its behalf and as trustee for the benefit of its subsidiaries from time to time) and FG (Holdings) (on its behalf and as trustee for the benefit of other members of the FG Group) in relation to the purchase of fabrics from VC (Holdings) and its subsidiaries from time to time by the FG Group
“Xinhui”	江門冠暉製衣有限公司 (Jiangmen V-Apparel Manufacturing Ltd., being its unofficial English name), a company incorporated under the laws of the PRC and owned as to 60% by VC Holdings
“Xinhui-FG (Trading)-FG (Holdings) Master Agreement”	the master agreement dated 1 April 2007 and entered into between Xinhui, FG (Trading) and FG (Holdings) (on its behalf and as trustee for the benefit of other members of the FG Group) in relation to the purchase of apparel products, fabrics products and related accessories from Xinhui and FG (Trading) by the FG Group

“Xinhui-FG (Holdings) Master Processing Agreement” the master processing agreement dated 1 April 2007 and entered into between Xinhui and FG (Holdings) (on its behalf and as trustee for the benefit of other members of the FG Group) in relation to the provision of the processing service by Xinhui to the FG Group in relation to the manufacture of apparel products

“%” per cent.

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

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

Hong Kong, 12 September 2007