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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 Directors announce that on 27 October 2008, Xinhui Victory City, a wholly-owned subsidiary of the Company, entered into the New Master Supply Agreement with Nanjing Synergy pursuant to which Nanjing Synergy has agreed to sell, and Xinhui Victory City has agreed to purchase, yarn during the term of the New Master Supply Agreement. The actual amount, specifications and price of yarn to be supplied under the New Master Supply Agreement will be subject to individual orders placed by Xinhui Victory City with Nanjing Synergy. In the event that there is any arrangement as to the payment of deposit or instalment payment of the purchase price, relevant details will be set out in such individual order upon agreement between the parties. The arrangement as to the payment of deposit or instalment payment, which could ensure a stable supply of yarn (both in terms of quantity and quality), is in line with the practice between the Group and other yarn suppliers and in the Group's ordinary usual course of business. The amount (whether it will be a percentage of the contract amount based on the relevant order or not), the timing for payment and settlement as well as the mode of payment of the deposits or instalment payment will be negotiated between Nanjing Synergy and Xinhui Victory City on a case by case basis. Unless otherwise agreed, such amount of deposit or instalment payment of the purchase price will not be more than 30% of the consideration for the relevant transaction and will be made according to each specific order placed to Nanjing Synergy.

Nanjing Synergy is a supplier of yarn of the Group for its fabric-dyeing and yarn-dyeing businesses. In view of the relationship more particularly set out in the paragraph headed "Listing Rules implications" below, Nanjing Synergy is a connected person of the Company under Chapter 14A of the Listing Rules. Given that the applicable percentage ratios (as prescribed under Chapter 14 of the Listing Rules) will be more than 2.5% and the expected annual cap amounts for the three years ending 31 March 2011 will exceed HK\$10 million, the supply of yarn as contemplated under the New Master Supply Agreement will constitute non-exempt Continuing Connected Transactions for the Company and will be subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Trustcorp Limited, Mr Li Ming Hung and Mr Chen Tien Tui, who currently hold 222,504,000, 120,412,000 and 121,526,000 shares in the Company respectively (representing approximately 32.55%, 17.61% and 17.78% of the issued share capital of the Company respectively as at the date of this announcement), and their respective associates will abstain from voting in respect of the ordinary resolution to be proposed to approve the Continuing Connected Transactions to be taken by poll at the SGM.

A circular containing, among other things, information relating to the Continuing Connected Transactions, a letter from the independent financial adviser, the recommendation of the independent board committee, and a notice convening the SGM will be despatched to the shareholders of the Company as soon as practicable.

INTRODUCTION

As disclosed in the announcement and circular of the Company dated 9 September 2005 and 3 October 2005 respectively, on 9 September 2005, Xinhui Victory City, a wholly-owned subsidiary of the Company, entered into the Former Master Supply Agreement with Nanjing Synergy pursuant to which Nanjing Synergy has agreed to sell, and Xinhui Victory City has agreed to purchase, yarn during the term of the Former Master Supply Agreement, being 9 September 2005 to 31 March 2008.

Nanjing Synergy is, and was during the term of the Former Master Supply Agreement, a connected person of the Company under Chapter 14A of the Listing Rules. The continuing connected transactions as contemplated under the Former Master Supply Agreement were approved by the Independent Shareholders at the special general meeting of the Company held on 20 October 2005. The Former Master Supply Agreement expired on 31 March 2008 and shall be renewable upon further agreement by the parties (subject to compliance with the Listing Rules). From 1 April 2008 up to the date of this announcement, nil amounts have been incurred regarding the continuing connected transactions between Nanjing Synergy and Xinhui Victory City in relation to the supply of yarn.

On 27 October 2008, Xinhui Victory City entered into the New Master Supply Agreement with Nanjing Synergy pursuant to which Nanjing Synergy has agreed to sell, and Xinhui Victory City has agreed to purchase, yarn during the term of the New Master Supply Agreement.

TERMS OF THE NEW MASTER SUPPLY AGREEMENT

Date

27 October 2008

Parties

- (i) Nanjing Synergy, whose relationship with the Company is more particularly set out in the paragraph headed “Listing Rules implications” below; and
- (ii) Xinhui Victory City, a wholly-owned subsidiary of the Company

Supply of yarn

Pursuant to the New Master Supply Agreement, Nanjing Synergy has agreed to supply, and Xinhui Victory City has agreed to purchase, yarn for the fabric-dyeing and yarn-dyeing businesses of the Group. The actual amount, specifications and price will be subject to individual orders placed by Xinhui Victory City with Nanjing Synergy. In the event that there is any arrangement as to the payment of deposit or instalment payment of the purchase price, relevant details will be set out in such individual order upon agreement between the parties. The arrangement as to the payment of deposit or instalment payment, which could ensure a stable supply of yarn (both in terms of quantity and quality), is in line with the practice between the Group and other yarn suppliers and in the Group's ordinary usual course of business. The amount (whether it will be a percentage of the contract amount based on the relevant order or not), the timing for payment and settlement as well as the mode of payment of the deposits or instalment payment will be negotiated between Nanjing Synergy and Xinhui Victory City on a case by case basis. Unless otherwise agreed, such amount of deposit or instalment payment of the purchase price will not be more than 30% of the consideration for the relevant transaction and will be made according to each specific order placed to Nanjing Synergy.

Both Nanjing Synergy and Xinhui Victory City have covenanted that the supply of yarn under the New Master Supply Agreement will be on normal commercial terms and the prices payable by Xinhui Victory City to Nanjing Synergy for the purchase of yarn will be agreed between the parties by reference to the prevailing market prices of yarn at the relevant time. Nanjing Synergy has undertaken that it will sell yarn to Xinhui Victory City pursuant to the New Master Supply Agreement on terms and conditions not less favourable than it will sell to its independent customers. Pursuant to the New Master Supply Agreement, Nanjing Synergy has granted a credit period of at least 60 days to Xinhui Victory City to make payment of the purchase price (or the remaining balance of the purchase price if a deposit has been paid). It is expected that Xinhui Victory City will make payment of the purchase price by telegraphic transfers under most circumstances.

Term

From 27 October 2008 to 31 March 2011 renewable upon further agreement by the parties (subject to compliance with the Listing Rules)

HISTORICAL FIGURES AND CAPS FOR THE CONTINUING CONNECTED TRANSACTIONS

Historical figures and the past caps

The following table sets out the sales amounts of yarn from Nanjing Synergy to Xinhui Victory City during each of three financial years ended 31 March 2008:

	For the financial year ended 31 March 2006	For the financial year ended 31 March 2007	For the financial year ended 31 March 2008
Sales amounts	HK\$65,711,000	HK\$167,644,000	HK\$329,642,000

The following table sets out the past annual cap amounts of sales of yarn from Nanjing Synergy to Xinhui Victory City for each of the three years ending 31 March 2008:

	For the period from the date of the Former Master Supply Agreement up to 31 March 2006	For the financial year ended 31 March 2007	For the financial year ended 31 March 2008
Past annual cap amounts	HK\$124,808,000	HK\$471,058,000	HK\$508,654,000

Proposed new caps

The following table sets out the expected annual cap amounts of sales of yarn from Nanjing Synergy to Xinhui Victory City for each of the period from the date of the New Master Supply Agreement up to 31 March 2009 and the two years ending 31 March 2011:

	For the period from the date of the New Master Supply Agreement up to 31 March 2009	For the financial year ending 31 March 2010	For the financial year ending 31 March 2011
Expected annual cap amounts	RMB210,000,000 (equivalent to approximately HK\$241,380,000)	RMB420,000,000 (equivalent to approximately HK\$482,760,000)	RMB420,000,000 (equivalent to approximately HK\$482,760,000)

Basis for the proposed new caps

The aforesaid caps are determined by reference to the historical amounts of sales of yarn from Nanjing Synergy to Xinhui Victory City as shown above, taking into account the anticipated growth in the demand of yarn by the Group in its fabric-dyeing and yarn-dyeing businesses for the three years ending 31 March 2011 and the annual maximum production capacity of Nanjing Synergy assuming that Xinhui Victory City will fully purchase the yarn produced by Nanjing Synergy. In order to maintain a consistent supply and ascertain the good quality of yarn for the Group's growing fabric-dyeing and yarn-dyeing businesses, the Company considers that it will be in the interest of the Group and the Shareholders as a whole to increase its purchase of yarn from Nanjing Synergy.

REASONS FOR THE CONTINUING CONNECTED TRANSACTIONS

The Company is an investment holding company. Its subsidiaries are principally engaged in the production and sale of knitted fabric and dyed yarn and garment products. Xinhui Victory City is principally engaged in the business of knitting, dyeing and finishing of fabric.

Nanjing Synergy is principally engaged in the manufacture and sale of yarn and is a supplier of yarn of the Group for its fabric-dyeing and yarn-dyeing businesses.

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

Due to the expiry of the Former Master Supply Agreement, there were no continuing connected transactions regarding the supply of yarn between Nanjing Synergy and Xinhui Victory City from 1 April 2008 to the date of this announcement. Since Xinhui Victory City and Nanjing Synergy have established long business relationship with each other, the Directors has confidence in the co-operation with and the quality of yarn supplied by Nanjing Synergy. The Directors consider that the supply of yarn by Nanjing Synergy is more stable and of a higher quality than that of the other yarn suppliers and Nanjing Synergy provides a large variety of yarn count which offers more flexibility to the Group. Upon discussion and negotiation with Nanjing Synergy, the Group has decided to reactivate the continuing connected transactions regarding the supply of yarn between Nanjing Synergy and Xinhui Victory City. Pursuant to the New Master Supply Agreement, the Group has confidence in ensuring a stable supply of yarn (both in terms of quantity and quality). The Directors consider that the terms and conditions of New Master Supply Agreement (including the arrangement as to the payment of deposit or instalment payment) were negotiated between Xinhui Victory City and Nanjing Synergy on an arm's length basis and are normal commercial terms that are fair and reasonable. The Directors also consider that the Continuing Connected Transactions are in the interests of the Company and its shareholders as a whole.

LISTING RULES IMPLICATIONS

Nanjing Synergy is indirectly wholly owned by Trustcorp Limited, a substantial shareholder of the Company. Trustcorp Limited is holding Nanjing Synergy as to 50% as discretionary trustee for the family members of Mr Li Ming Hung, a Director, and as to 50% as discretionary trustee for the family members of Mr Chen Tien Tui, a Director. Accordingly, Nanjing Synergy is an associate of Trustcorp Limited, Mr Li Ming Hung and Mr Chen Tien Tui and a connected person of the Company under Chapter 14A of the Listing Rules. Given that the applicable percentage ratios (as prescribed under Chapter 14 of the Listing Rules) will be more than 2.5% and the expected annual cap amounts for the three years ending 31 March 2011 will exceed HK\$10 million, the supply of yarn as contemplated under the New Master Supply Agreement will constitute non-exempt Continuing Connected Transactions for the Company and will be subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Trustcorp Limited, Mr Li Ming Hung and Mr Chen Tien Tui, who currently hold 222,504,000, 120,412,000 and 121,526,000 shares in the Company respectively (representing approximately 32.55%, 17.61% and 17.78% of the issued share capital of the Company respectively as at the date of this announcement), and their respective associates will abstain from voting in respect of the ordinary resolution to be proposed to approve the Continuing Connected Transactions to be taken by poll at the SGM.

A circular containing, among other things, information relating to the Continuing Connected Transactions, a letter from the independent financial adviser, the recommendation of the independent board committee, and a notice convening the SGM will be despatched to the shareholders of the Company as soon as practicable.

DEFINITIONS

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

“associate”	has the meaning as ascribed thereto under the Listing Rules
“Company”	Victory City International Holdings Limited, a company incorporated in Bermuda with limited liability, whose shares are listed on the Main Board of the Stock Exchange
“connected person”	has the meaning as ascribed thereto under the Listing Rules
“Continuing Connected Transactions”	the continuing connected transactions between Nanjing Synergy and Xinhui Victory City as contemplated under the New Master Supply Agreement

“Directors”	the directors of the Company
“Former Master Supply Agreement”	the master sale and purchase agreement entered into between Nanjing Synergy and Xinhui Victory City on 9 September 2005 and which expired on 31 March 2008
“Group”	collectively, the Company and its subsidiaries from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Shareholders”	shareholders of the Company, other than Trustcorp Limited, Mr Li Ming Hung, Mr Chen Tien Tui and their respective associates
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Nanjing Synergy”	南京新一棉紡織印染有限公司 (Nanjing Synergy Textiles Limited), a wholly-foreign-owned enterprise established in the PRC
“New Master Supply Agreement”	the new master sale and purchase agreement dated 27 October 2008 and made between Nanjing Synergy and Xinhui Victory City
“PRC”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“SGM”	a special general meeting of the Company to be convened for the purpose of considering, and if thought fit, approving the Continuing Connected Transactions and the related annual cap amounts by the Independent Shareholders
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Xinhui Victory City” 江門市新會區冠華針織廠有限公司 (Xinhui Victory City Co., Ltd.)
(being its unofficial English translation), a wholly-owned subsidiary
of the Company established in the PRC

“HK\$” Hong Kong dollars, the lawful currency of Hong Kong

For the purpose of this announcement, unless otherwise specified, conversion of RMB into Hong Kong dollars is based on the approximate exchange rate of RMB0.87 to HK\$1.00.

LIST OF DIRECTORS AS AT THE DATE OF THIS ANNOUNCEMENT

Executive Directors:

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

Independent non-executive Directors:

Kan Ka Hon
Phaisalakani Vichai
Kwok Sze Chi

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

Hong Kong, 27 October 2008

* *For identification purposes only*