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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: 0539)

PROPOSED CONNECTED TRANSACTIONS

The Directors wish to announce that VCCL, VCOL (both of which are wholly-owned subsidiaries of the Company), Ford Glory and the Company propose to provide the Guarantees in favour of the Lenders in respect of the Facilities to be granted by the Lenders to Ford Glory and Glory Time in the manner set out below in this announcement. Each of Ford Glory and Glory Time is a non-wholly-owned subsidiary of the Company engaged in the production and trading of garment products.

Merlotte Enterprise, a company wholly-owned by Mr Choi, an executive Director, will provide pro rata counter indemnities in favour of VCCL, VCOL or the Company (as the case may be) in respect of the Guarantees.

Ford Glory is wholly-owned by FG Holdings which is in turn held as to 51% indirectly by the Company and 49% directly by Merlotte Enterprise, a company wholly-owned by Mr Choi who is an executive Director. Glory Time is owned as to 70% by FG Holdings. Given that the financial assistance to be provided by VCCL, VCOL, Ford Glory and the Company by way of the Guarantees to each of Ford Glory and Glory Time will exceed the proportional interest of the Company in Ford Glory or Glory Time (as the case may be) and that the aggregate limit of the amount to be secured by the Guarantees exceeds HK\$10 million, the provision of the Guarantees will constitute non-exempt connected transactions for the Company under Rule 14A.63 of the Listing Rules. Accordingly, the provision of the Guarantees is subject to the reporting, announcement and Independent Shareholders' approval requirements under Rule 14A.63 of the Listing Rules.

Although the proposed provision of the Guarantees will not constitute connected transactions for the Company under Chapter 14A of the Listing Rules until the Guarantees are executed after the Independent Shareholders' approval has been obtained, an application has been made by the Company to the Stock Exchange for a waiver to allow the Company to comply with the announcement and independent shareholders' approval requirements of Rule 14A.63 of the Listing Rules regarding the provision of the Guarantees before they are executed.

* *for identification purposes only*

Ordinary resolutions will be proposed at the SGM for approving the Proposed Connected Transactions. Mr Choi, who currently holds 3,228,000 shares in the Company (which represents approximately 0.49% of the issued share capital of the Company as at the date of this announcement), and his associates will abstain from voting on the resolutions regarding the Proposed Connected Transactions at the SGM.

A circular containing, among others, details of the Proposed Connected Transactions, a letter from the Independent Board Committee to the Independent Shareholders, a letter from an independent financial adviser to the Independent Board Committee and the Independent Shareholders, together with a notice of the SGM, will be despatched to the Shareholders as soon as possible.

INTRODUCTION

VCCL, VCOL (both of which are wholly-owned subsidiaries of the Company), Ford Glory (a non-wholly-owned subsidiary of the Company) and the Company propose to provide the Guarantees in favour of the Lenders in respect of the Facilities in the aggregate maximum amount of approximately HK\$578.8 million to be granted by the Lenders to Ford Glory and Glory Time in the manner set out below.

PROPOSED CONNECTED TRANSACTIONS

DBS Guarantee

On 13 December 2006, DBS indicated they were prepared to consider making available or continuing to make available the DBS Facilities of up to HK\$70 million to Ford Glory. Under the terms of the DBS Facilities, each of the Company and VCCL is required to provide the DBS Guarantee for an unlimited amount in favour of DBS to secure the DBS Facilities.

Ford Glory will not provide to the Company and VCCL any guarantee fee or security in respect of the DBS Guarantees. Other than the DBS Guarantees, no guarantee nor security will be given in favour of DBS in respect of the DBS Facilities.

Merlotte Enterprise will provide a pro rata counter indemnity to the Company and VCCL in respect of the DBS Guarantees.

Wing Hang Guarantee

On 9 January 2007, Wing Hang confirmed that they were prepared to extend the Wing Hang Facilities to Ford Glory to the extent of HK\$50.4 million. Under the terms of the Wing Hang Facilities, the Company is required to provide the Wing Hang Guarantee for HK\$50 million together with accrued interest in favour of Wing Hang to secure the Wing Hang Facilities. The Wing Hang Facilities will also be secured by an existing corporate guarantee signed by Top Star Limited, a company wholly-owned by FG Holdings, in favour of Wing Hang for all monies together with accrued interest.

Ford Glory will not provide to the Company any guarantee fee or security in respect of the Wing Hang Guarantee. Other than the Wing Hang Guarantee and the existing corporate guarantee given by Top Star Limited as mentioned above, no guarantee nor security will be given in favour of Wing Hang in respect of the Wing Hang Facilities.

Merlotte Enterprise will provide a pro rata counter indemnity to the Company in respect of the Wing Hang Guarantee.

BOA Guarantee

On 13 March 2007, BOA indicated that they would consider to extend the BOA Facilities of up to US\$20 million (equivalent to approximately HK\$156 million) to Ford Glory. Under the terms of BOA Facilities, the Company is required to provide the BOA Guarantee in favour of BOA to secure the obligations of Ford Glory in respect of the BOA Facilities.

Ford Glory will not provide to the Company any guarantee fee or security in respect of the BOA Guarantee. Other than the BOA Guarantee, no guarantee nor security will be given in favour of BOA in respect of the BOA Facilities.

Merlotte Enterprise will provide a pro rata counter indemnity to the Company in respect of the BOA Guarantee.

BNP Guarantee

On 11 April 2007, BNP placed the BNP Facilities of up to HK\$50 million at the disposal of Ford Glory. Under the terms of the BNP Facilities, the Company is required to execute the BNP Guarantee for HK\$50 million in favour of BNP in respect of the BNP Facilities. The BNP Facilities shall also be secured by a deed of charge over receivables to be executed by Ford Glory.

Ford Glory will not provide to the Company any guarantee fee or security in respect of the BNP Guarantee. Other than the BNP Guarantee and the deed of charge to be executed by Ford Glory as mentioned above, no guarantee nor security will be given in favour of BNP in respect of the BNP Facilities.

Merlotte Enterprise will provide a pro rata counter indemnity to the Company in respect of the BNP Guarantee.

Hang Seng (Ford Glory) Guarantee

On 25 June 2007, Hang Seng offered the Hang Seng (Ford Glory) Facilities of up to HK\$130 million to Ford Glory. Under the terms of the Hang Seng (Ford Glory) Facilities, each of the Company and VCOL is required to execute a Hang Seng (Ford Glory) Guarantee for HK\$80 million in favour of Hang Seng in respect of the Hang Seng (Ford Glory) Facilities. The Hang Seng (Ford Glory) Facilities shall also be secured by an undertaking for repayment of overdraft to be executed by Ford Glory, a deed of guarantee for HK\$50 million already executed by the Company and a deed of guarantee for HK\$50 million

already executed by VCOL. Such deeds of guarantee for HK\$50 million executed by the Company and VCOL constitute non-exempt connected transactions for the Company and have been approved by the Independent Shareholders at the special general meeting of the Company held on 29 August 2003. Mr. Choi has provided a pro rata counter indemnity to the Company and VCOL in respect of their contingent liabilities under such guarantees. It is intended that Merlotte Enterprise will replace Mr Choi to provide such counter indemnity. The pro rata counter indemnity by Merlotte Enterprise, when given, will constitute connected transaction for the Company which, under Rule 14A.65(4) of the Listing Rules, is exempt from the reporting, announcement and Independent Shareholders' approval requirements of Rule 14A.63 of the Listing Rules.

Ford Glory will not provide to the Company and VCOL any guarantee fee or security in respect of the Hang Seng (Ford Glory) Guarantees. Other than the Hang Seng (Ford Glory) Guarantees, an undertaking for repayment of overdraft to be executed by Ford Glory, a deed of guarantee for HK\$50 million already executed by the Company and a deed of guarantee for HK\$50 million already executed by VCOL, no guarantee nor security will be given in favour of Hang Seng in respect of the Hang Seng (Ford Glory) Facilities.

Merlotte Enterprise will provide a pro rata counter indemnity to the Company and VCOL in respect of the Hang Seng (Ford Glory) Guarantees.

Hang Seng (Glory Time) Guarantee

On 25 June 2007, Hang Seng offered the Hang Seng (Glory Time) Facilities of up to HK\$20 million to Glory Time. Under the terms of the Hang Seng (Glory Time) Facilities, each of the Company and Ford Glory is required to execute a Hang Seng (Glory Time) Guarantee in favour of Hang Seng in respect of the Hang Seng (Glory Time) Facilities for all sums due owing and/or payable to Hang Seng by Glory Time together with accrued interest and all commissions, fees, costs, expenses, disbursements and payment liable to be reimbursed or otherwise payable to Hang Seng.

Glory Time will not provide to the Company and Ford Glory any guarantee fee or security in respect of the Hang Seng (Glory Time) Guarantees. Other than the Hang Seng (Glory Time) Guarantees and the deed of guarantee to be executed by Ford Glory as mentioned above, no guarantee nor security will be given in favour of Hang Seng in respect of the Hang Seng (Glory Time) Facilities.

Merlotte Enterprise will provide a pro rata counter indemnity to the Company and Ford Glory in respect of the Hang Seng (Glory Time) Guarantees.

HSBC Guarantee

On 10 July 2007, HSBC confirmed their agreement to grant the HSBC Facilities of up to US\$8 million (equivalent to approximately HK\$62.4 million) (or equivalent amount in HK\$) to Ford Glory. Under the terms of the HSBC Facilities, the Company is required to provide the HSBC Guarantee for US\$8 million (equivalent to approximately HK\$62.4 million) in favour of HSBC in respect of the HSBC Facilities.

Ford Glory will not provide to the Company any guarantee fee or security in respect of the HSBC Guarantee. Other than the HSBC Guarantee and the letter of indemnity to be executed by Ford Glory in favour of HSBC pursuant to which Ford Glory shall, among others, keep HSBC indemnified at all times against all actions, proceedings, claims, loss, damage, costs and expenses which may be brought against HSBC or suffered or incurred by HSBC in connection with its accepting instructions from Ford Glory and acting thereon, whether or not the same is confirmed in writing by Ford Glory, no guarantee nor security will be given in favour of HSBC in respect of the HSBC Facilities.

Merlotte Enterprise will provide a pro rata counter indemnity to the Company in respect of the HSBC Guarantee.

BOC Guarantee

On 26 July 2007, BOC granted the BOC Facilities of up to HK\$40 million to Ford Glory. Under the terms of the BOC Facilities, the Company is required to provide the BOC Guarantee in favour of BOC in respect of the BOC Facilities for HK\$40 million together with accrued interest and all commissions, fees, costs, expenses, disbursements and payment payable to or recoverable by BOC under the BOC Facilities and the BOC Guarantee.

Ford Glory will not provide to the Company any guarantee fee or security in respect of the BOC Guarantee. Other than the BOC Guarantee, no guarantee nor security will be given in favour of BOC in respect of the BOC Facilities.

Merlotte Enterprise will provide a pro rata counter indemnity to the Company in respect of the BOC Guarantee.

INTENDED USE OF THE FACILITIES GRANTED TO FORD GLORY AND GLORY TIME

The principal business of each of Ford Glory and Glory Time is the production and trading of garment products. Ford Glory and Glory Time are responsible for the majority of the trading of garment products of the Group.

The Facilities include term loan and normal trade lines (such as letters of credit and trust receipts) for the existing business activities of Ford Glory and Glory Time and they will be used to finance the general operation of Ford Glory and Glory Time. The aggregate maximum amount of the Facilities has been arrived at having regard principally to the requirement by the Group of banking facilities to finance the general operation of Ford Glory and Glory Time in the foreseeable future.

REASONS FOR THE PROVISION OF THE GUARANTEES

Under the terms of the Facilities, the Company, VCCL, VCOL and Ford Glory are required to provide the Guarantees in the manner set out in the section headed “Proposed Connected Transactions” above. The Directors consider that the Group will benefit from the provision of the Guarantees in terms of the facilitation of the growth of the business of Ford Glory and Glory Time to be afforded by the Facilities.

Given that Ford Glory and Glory Time are responsible for the majority of the trading of garment products of the Group, the Directors consider that the exposure of the Group to the liabilities under the Guarantees is commercially justifiable and is therefore in the interest of the Company to assist each of Ford Glory and Glory Time to obtain the Facilities. In view that Merlotte Enterprise will give a pro rata counter-indemnity in respect of the Guarantees, the Directors are of the view that the granting of the Guarantees is on normal commercial terms and is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

LISTING RULES REQUIREMENTS

Ford Glory is wholly-owned by FG Holdings which is in turn held as to 51% indirectly by the Company and 49% directly by Merlotte Enterprise, a company wholly-owned by Mr Choi who is an executive Director. Glory Time is owned as to 70% by FG Holdings.

Given that the financial assistance to be provided by VCCL, VCOL, Ford Glory and the Company by way of the Guarantees to each of Ford Glory and Glory Time will exceed the proportional interest of the Company in Ford Glory or Glory Time (as the case may be) and that the aggregate limit of the amount to be secured by the Guarantees exceeds HK\$10 million, the provision of the Guarantees will constitute non-exempt connected transactions for the Company under Rule 14A.63 of the Listing Rules. Accordingly, the provision of the Guarantees is subject to the reporting, announcement and Independent Shareholders' approval requirements under Rule 14A.63 of the Listing Rules. As at the date of this announcement, the Guarantees have not been given. It is intended that the Guarantees will be executed shortly after the approval of the Independent Shareholders for the giving of the Guarantees is obtained at the SGM.

Although the proposed provision of the Guarantees will not constitute connected transactions for the Company under Chapter 14A of the Listing Rules until the Guarantees are executed after the Independent Shareholders' approval has been obtained, an application has been made by the Company to the Stock Exchange for a waiver to allow the Company to comply with the announcement and independent shareholders' approval requirements of Rule 14A.63 of the Listing Rules regarding the provision of the Guarantees before they are executed.

The reasons of the Company for applying for such waiver are as follows:

- (a) the Guarantees are not connected transactions for the Company until the Guarantees have been executed. The Company would not be allowed to obtain prior Independent Shareholders' approval in respect of the Possible Connected Transactions before the Guarantees have been signed as full compliance with the shareholders' approval requirements under Rule 14A.63 of the Listing Rules. Accordingly, before their execution, the Guarantees do not fall within the scope of Rule 14A.63 of the Listing Rules and are not subject to the reporting, announcement and independent shareholders' approval requirements under that rule;

- (b) the Company is of the view that all the information on the material terms of the Guarantees, other than the date of the Guarantees as required under Rules 14.58(3) and 14A.56(1) of the Listing Rules, has been disclosed in this announcement; and
- (c) the Company finds it extremely difficult, if not impossible, to negotiate with the seven Lenders for the incorporation of the condition that notwithstanding execution, the Guarantees will take effect only after Independent Shareholders' approval is obtained.

The Stock Exchange has granted such waiver, which is subject to the following conditions:

- (a) the board of Directors shall confirm that the information contained in this announcement, taking into account the exclusion of the date of the Guarantees, still complies with the requirements under Rule 2.13 of the Listing Rules;
- (b) the Company will issue a separate announcement disclosing the date of the Guarantees as required under Rules 14.58(3) and 14A.56(1) of the Listing Rules when such information is available upon the execution of the Guarantees; and
- (c) if there is any material variation of the terms of the Guarantees subsequent to the Independent Shareholders' approval, the Company is required to re-comply with all applicable requirements of Chapter 14A of the Listing Rules (including the independent shareholders' approval requirement) for the Guarantees.

The Company is prepared to comply with the conditions above and in particular, the board of Directors is of the view that this announcement complies with Rule 2.13 of the Listing Rules.

The pro rata counter indemnities to be given by Merlotte Enterprise in respect of the Guarantees will constitute connected transactions for the Company which, under Rule 14A.65(4) of the Listing Rules, are exempt from the reporting, announcement and Independent Shareholders' approval requirements of Rule 14A.63 of the Listing Rules.

Ordinary resolutions will be proposed at the SGM for approving the Proposed Connected Transactions. Mr Choi, who currently holds 3,228,000 shares in the Company (which represents approximately 0.49% of the issued share capital of the Company as at the date of this announcement), and his associates will abstain from voting on the resolutions regarding the Proposed Connected Transactions at the SGM.

GENERAL

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.

A circular containing, among others, details of the Proposed Connected Transactions, a letter from the Independent Board Committee to the Independent Shareholders, a letter from an independent financial adviser to the Independent Board Committee and the Independent Shareholders, together with a notice of the SGM, will be despatched to the Shareholders as soon as possible.

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

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

DEFINITIONS

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

“associates”	has the meaning as ascribed thereto under the Listing Rules
“BNP”	BNP Paribas, Hong Kong Branch
“BNP Facilities”	the facilities of up to HK\$50 million placed by BNP at the disposal of Ford Glory on 11 April 2007
“BNP Guarantee”	the deed of guarantee and indemnity to be executed by the Company for HK\$50 million in favour of BNP to secure the BNP Facilities
“BOA”	Bank of America, N.A.
“BOA Facilities”	the facilities of up to US\$20 million (equivalent to approximately HK\$156 million) to be extended by BOA to Ford Glory on 13 March 2007
“BOA Guarantee”	the unconditional 100% continuing guarantee to be executed by the Company in favour of BOA to secure the obligations of Ford Glory in respect of the BOA Facilities
“BOC”	Bank of China (Hong Kong) Limited
“BOC Facilities”	the facilities of up to HK\$40 million granted by BOC to Ford Glory on 26 July 2007
“BOC Guarantee”	the continuing corporate guarantee to be given by the Company in favour of BOC in respect of the BOC Facilities for HK\$40 million together with accrued interest and all commissions, fees, costs, expenses, disbursements and payment payable to or recoverable by BOC under the BOC Facilities and the BOC Guarantee

“Company”	Victory City International Holdings Limited, a company incorporated in Bermuda and the shares of which are listed on the Main Board of the Stock Exchange
“DBS”	DBS Bank (Hong Kong) Limited
“DBS Facilities”	the facilities of up to HK\$70 million made available by DBS to Ford Glory on 13 December 2006
“DBS Guarantee”	the continuing guarantee and indemnity to be given by each of the Company and VCCL for an unlimited amount in favour of DBS to secure the DBS Facilities
“Directors”	the directors of the Company
“Facilities”	the DBS Facilities, the Wing Hang Facilities, the BOA Facilities, the BNP Facilities, the Hang Seng (Ford Glory) Facilities, the Hang Seng (Glory Time) Facilities, the HSBC Facilities and the BOC Facilities
“FG Holdings”	Ford Glory Holdings Limited, a company incorporated in the British Virgin Islands and owned as to 51% indirectly by the Company and 49% directly by Merlotte Enterprise
“Ford Glory”	Ford Glory International Limited, a company incorporated in Hong Kong and a 51% subsidiary of the Company
“Guarantees”	the DBS Guarantees, the Wing Hang Guarantee, the BOA Guarantee, the BNP Guarantee, the Hang Seng (Ford Glory) Guarantees, the Hang Seng (Glory Time) Guarantees, the HSBC Guarantee and the BOC Guarantee
“Glory Time”	Glory Time Limited, a company incorporated in Hong Kong and a non-wholly-owned subsidiary of the Company which is owned as to 70% by FG Holdings
“Hang Seng”	Hang Seng Bank Limited
“Hang Seng (Ford Glory) Facilities”	the facilities of up to HK\$130 million offered by Hang Seng to Ford Glory on 25 June 2007
“Hang Seng (Ford Glory) Guarantee”	the deed of guarantee to be executed by each of the Company and VCOL for HK\$80 million in favour of Hang Seng to secure the Hang Seng (Ford Glory) Facilities

“Hang Seng (Glory Time) Facilities”	the facilities of up to HK\$20 million offered by Hang Seng to Glory Time on 25 June 2007
“Hang Seng (Glory Time) Guarantee”	the unlimited deed of guarantee to be executed by each of the Company and Ford Glory in favour of Hang Seng in respect of the Hang Seng (Glory Time) Facilities for all sums due owing and/or payable to Hang Seng by Glory Time together with accrued interest and all commissions, fees, costs, expenses, disbursements and payment liable to be reimbursed or otherwise payable to Hang Seng
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“HSBC”	The Hongkong and Shanghai Banking Corporation Limited
“HSBC Facilities”	the facilities of up to US\$8 million (equivalent to approximately HK\$62.4 million) (or equivalent amount in HK\$) agreed to be granted by HSBC to Ford Glory on 10 July 2007
“HSBC Guarantee”	the corporate guarantee to be provided by the Company for US\$8 million (equivalent to approximately HK\$62.4 million) in favour of HSBC to secure the HSBC Facilities
“Independent Shareholders”	Shareholders other than Mr Choi and his associates
“Lenders”	DBS, Wing Hang, BOA, BNP, Hang Seng, HSBC and BOC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Merlotte Enterprise”	Merlotte Enterprise Limited, a company incorporated in the British Virgin Islands and wholly-owned by Mr Choi
“Mr Choi”	Mr Choi Lin Hung, an executive Director
“Proposed Connected Transactions”	the proposed provision of financial assistance by VCCL, VCOL, Ford Glory and the Company to Ford Glory and Glory Time under the Guarantees
“SGM”	the special general meeting of the Company to be convened for considering, among other matters, the Proposed Connected Transactions
“Shareholders”	the shareholders of the Company

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“VCCL”	Victory City Company Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company
“VCOL”	Victory City Overseas Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company
“US\$”	United States dollars, the lawful currency of the United States of America
“Wing Hang”	Wing Hang Bank Limited
“Wing Hang Facilities”	the renewed and revised facilities to the extent of HK\$50.4 million to be extended by Wing Hang to Ford Glory on 9 January 2007
“Wing Hang Guarantee”	the corporate guarantee to be provided by the Company for HK\$50 million together with accrued interest in favour of Wing Hang to secure the Wing Hang Facilities
“%”	per cent.

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

Hong Kong, 3 September 2007

In this announcement, for the purpose of illustration only, the equivalent amounts quoted in HK\$ have been converted from US\$ into HK\$ at the rate of US\$1.00 to HK\$7.80, and vice versa. Such exchange rate has been used, where applicable, for the purposes of illustration only and does not constitute a representation that any amounts were or may have been exchanged at such rate or any other rates or at all.