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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: PROPOSED AMENDMENT TO THE TERMS AND CONDITIONS OF CONVERTIBLE BONDS; (2) APPLICATION FOR WHITEWASH WAIVER; AND (3) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

**Independent Financial Adviser to the Independent Board Committee and
the Independent Shareholders**



CONNECTED TRANSACTION: PROPOSED AMENDMENTS TO THE TERMS AND CONDITIONS OF THE CONVERTIBLE BONDS

On 23 October 2020 (after trading hours), the Company entered into the Deed of Amendment with Pearl Garden and Madian Star, pursuant to which the Company, Pearl Garden and Madian Star have conditionally agreed to (i) change the conversion price of the Convertible Bonds from the initial conversion price of HK\$0.106 per Conversion Share (which has been adjusted to HK\$1.045 per Conversion Share due to share consolidation and rights issue) to the Adjusted Conversion Price of HK\$0.135 per Conversion Share; and (ii) to revise the conversion restriction to permit Pearl Garden and Madian Star, and parties acting in concert with them, to hold 30% or more of the entire issued voting share capital of the Company, or exceeding 2% creper as specified in Rule 26.1 of the Takeovers Code following conversion of the Convertible Bonds, and other conversion restrictions as further stipulated in the paragraph headed “The Deed of Amendment”. All other principal terms of the Convertible Bonds shall remain unchanged and valid.

As at the date of this announcement, no Conversion Shares have been issued pursuant to the Convertible Bonds. Assuming the Convertible Bonds are converted in full based on the Adjusted Conversion Price of HK\$0.135 per Conversion Share, 1,481,481,481 Shares and 1,481,481,481 Shares will be issued to Pearl Garden and Madian Star respectively, representing (i) approximately 63.56% and 63.56% of the issued share capital of the Company as at the date of this announcement, respectively; and (ii) approximately 27.99% and 27.99% of the issued share capital of the Company as enlarged by the issue and allotment of the Conversion Shares, respectively. The Conversion Shares will be issued under the Specific Mandate.

PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

The Board proposes that the authorised share capital of the Company be increased from HK\$400,000,000 divided into 4,000,000,000 Shares to HK\$1,000,000,000 divided into 10,000,000,000 Shares by the creation of an additional 6,000,000,000 Shares.

IMPLICATIONS UNDER THE LISTING RULES

Pursuant to Rule 28.05 of the Listing Rules, any alterations in the terms of convertible debt securities after issue must be approved by the Stock Exchange, except where the alterations take effect automatically under the existing terms of such convertible debt securities. The Company will apply to the Stock Exchange for its approval of the Proposed Amendment pursuant to the requirements under the Listing Rules.

Pearl Garden (being one of the subscribers to the Convertible Bonds) is a substantial shareholder of the Company, holding 313,702,200 Shares (representing approximately 13.46% 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 to the Convertible Bonds) is a substantial shareholder of the Company, holding 313,702,200 Shares (representing approximately 13.46% 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 entering into of the Deed of Amendment with 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 Deed of Amendment and the transactions contemplated thereunder (including the obtaining of the Specific Mandate). To the best of the Directors' information, belief and knowledge, save for the Concert Group, no other parties have any material interest which is different from other Shareholders in relation to the Deed of Amendment.

IMPLICATIONS UNDER THE TAKEOVERS CODE

Application for the Whitewash Waiver

As at the date of this announcement, the Concert Group in aggregate is interested in 629,051,400 Shares, representing approximately 26.99% of the entire issued share capital of the Company.

Based on the Adjusted Conversion Price of HK\$0.135 per Conversion Share, assuming the Convertible Bonds are converted in full and there is no other change in the issued share capital of the Company from the date of this announcement and up to Completion, the Concert Group will be interested in 3,592,014,362 Shares, representing approximately 67.85% of the issued share capital of the Company as enlarged by the issue and allotment of the Conversion Shares.

Accordingly, Pearl Garden and Madian Star 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 Pearl Garden and Madian Star 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 (as amended by the Deed of Amendment) in full. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, approval of at least 75% of the votes cast by the Independent Shareholders in respect of the Whitewash Waiver and more than 50% of the votes cast by the Independent Shareholders in respect of the Deed of Amendment at the SGM by way of poll.

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 Deed of Amendment and the Whitewash Waiver by way of poll at the SGM.

The Whitewash Waiver shall only be valid for the first two-year term of the Convertible Bonds (as amended by the Deed of Amendment). Accordingly, for conversions made during the extended three-year term (if any) of the Convertible Bonds, the Subscribers would, unless a new 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 Concert Group 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 (as amended by the Deed of Amendment) in full.

In the event that the Whitewash Waiver is not granted by the Executive or not approved by at least 75% of the votes cast by the Independent Shareholders, the Deed of Amendment will lapse and the Proposed Amendment will not proceed. In such case, the Convertible Bonds will continue to take effect under the existing terms and conditions without the Proposed Amendment.

GENERAL

The Independent Board Committee has been established to advise the Independent Shareholders in relation to the Deed of Amendment and the Whitewash Waiver. Gram Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard and the appointment of Gram Capital has been approved by the Independent Board Committee.

The SGM will be held to consider and, if thought fit, pass the resolutions to approve, among other things, (i) the Deed of Amendment and the transactions contemplated thereunder; (ii) the issue and allotment of the Conversion Shares upon full conversion of the Convertible Bonds (as amended by the Deed of Amendment) under the Specific Mandate; (iii) the Whitewash Waiver; and (iv) the Increase in Authorised Share Capital.

The resolutions in relation to the Deed of Amendment, the Specific Mandate and the Whitewash Waiver at the SGM will be voted on by the Independent Shareholders by way of poll, whereas the resolutions in relation to the Increase in Authorised Share Capital will be voted on by the Shareholders by way of poll.

As the Concert Group is interested and/or involved in the Deed of Amendment and therefore will abstain from voting on the relevant resolutions to be proposed at the SGM to approve the Deed of Amendment and the Whitewash Waiver. In addition, Mr. Choi Lin Hung (an executive Director) was involved in the Subscriptions and the Deed of Amendment, and will also abstain from voting at the relevant resolutions to be proposed at the SGM to approve the Deed of Amendment and the Whitewash Waiver.

A circular containing, among other things, (i) details of the Deed of Amendment, the Whitewash Waiver and the Increase in Authorised Share Capital; (ii) the letter of advice from the Independent Board Committee to the Independent Shareholders in relation to the Deed of Amendment and the Whitewash Waiver; (iii) the letter of advice from Gram Capital to the Independent Board Committee and the Independent Shareholders in relation to the Deed of Amendment 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 within 21 days from the date of this announcement in compliance with the requirements of the Takeovers Code. It is estimated that the circular will be despatched to the Shareholders on or before 13 November 2020.

Warnings: the Proposed Amendment is subject to the fulfilment of a number of conditions, including but not limited to the approval of the Deed of Amendment and the Whitewash Waiver by the Independent Shareholders at the SGM, and the granting of the Whitewash Waiver by the Executive. As such, the Proposed Amendment 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.

INTRODUCTION

Reference is made to the announcements of the Company dated 26 April 2019 and 28 June 2019, and the circular of the Company dated 5 June 2019 in relation to, among others, the issue of the Convertible Bonds by the Company to Pearl Garden and Madian Star. The Convertible Bonds in an aggregate principal amount of HK\$400,000,000 has been issued to Pearl Garden and Madian Star on 28 June 2019.

On 23 October 2020, the Company entered into the Deed of Amendment with Pearl Garden and Madian Star, to (i) to amend the conversion price per Conversion Share of the Convertible Bonds; and (ii) to revise the conversion restriction to permit Pearl Garden and Madian Star, and parties acting in concert with them, to hold 30% or more of the entire issued voting share capital of the Company following conversion of the Convertible Bonds, and other conversion restrictions as further stipulated in the paragraph headed “The Deed of Amendment”.

PRINCIPAL TERMS OF THE CONVERTIBLE BONDS

The current principal terms of the Convertible Bonds have been summarised in the announcement of the Company dated 26 April 2019 and the circular of the Company dated 5 June 2019. A summary of the major terms of the Convertible Bonds which will not be amended by the Deed of Amendment is 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 date of issue until the maturity date of the Convertible Bonds

Maturity Date:	The date falling two years (which can, by agreement between the bondholders and the Company, be extended to five years) after the date of issue or, if that is not a business day, the first business day thereafter
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 date of issue up to 4:00 p.m. on the maturity date of the Convertible Bonds
Redemption upon maturity:	Any Convertible Bond which remains outstanding by 4:00 p.m. (Hong Kong time) on the maturity date of the Convertible Bonds 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

THE DEED OF AMENDMENT

On 23 October 2020 (after trading hours), the Company entered into the Deed of Amendment with Pearl Garden and Madian Star, pursuant to which the Company, Pearl Garden and Madian Star have conditionally agreed to amend certain terms and conditions of the Convertible Bonds. Below is the comparison of differences between the original conditions and the Proposed Amendment as contemplated under the Deed of Amendment:

	Original terms and conditions	Amendment of terms and conditions as contemplated under the Deed of Amendment
Conversion price:	The conversion price per Share shall be HK\$0.106 subject to adjustment in the manner provided in the Subscription Agreement (which has been adjusted to HK\$1.045 per conversion share due to share consolidation and rights issue)	The conversion price per Share shall be HK\$0.135 subject to adjustment in the manner provided in the Subscription Agreement
Conversion rights:	If the issue of Conversion Shares following the exercise by a bondholder of the conversion rights relating to any of the bonds held by such bondholder would result in:	If the issue of Conversion Shares following the exercise by a bondholder of the conversion rights relating to any of the bonds held by such bondholder would result in:

- (a) 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; or
- (a) 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

- (b) 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 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.

- (b) 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

- (c) any of 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 the 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 (“**Controlling Shareholder’s Shareholding Level Requirement**”); or

- (d) 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, 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.

Save as disclosed above, all other principal terms of the Convertible Bonds shall remain unchanged and valid.

Conditions Precedent

The Deed of Amendment is conditional upon the following conditions:

- (a) the obtaining of all necessary Independent Shareholders' approval of the Company (as required), among other matters, approving the Deed of Amendment, transactions contemplated thereunder and the Whitewash Waiver in compliance with the applicable requirements under the Listing Rules and Takeovers Code;

- (b) the Executive having granted the Whitewash Waiver pursuant to the Takeovers Code and the satisfaction of any condition attached to the Whitewash Waiver granted, and the Whitewash Waiver not being revoked;
- (c) the Stock Exchange has granted its approval for the amendment as set out in the Deed of Amendment pursuant to Rule 28.05 of the Listing Rules; and
- (d) the Listing Committee of the Stock Exchange having granted listing of and permission to deal in the Shares to be issued upon the exercise of the conversion rights attaching to the Convertible Bonds as amended by the amendment as set out in the Deed of Amendment.

None of the above conditions are waivable. If any of the conditions above are not fulfilled by the Longstop Date or such other date as the Company, Pearl Garden and Madian Star shall agree in writing, the parties to the Deed of Amendment will not be bound to proceed with the transactions contemplated under the Deed of Amendment and the Deed of Amendment will cease to have any effect. In such case, the Convertible Bonds will continue to take effect under the existing terms and conditions without the Proposed Amendment.

Adjusted Conversion price

The Adjusted Conversion Price of HK\$0.135 per Conversion Share represents:

- (a) a premium of approximately 29.81% over the closing price of the Shares of HK\$0.104 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a premium of approximately 29.56% over the average closing price of the Shares of approximately HK\$0.1042 per Share based on the closing prices of the Shares as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day;
- (c) a premium of approximately 27.12% over the average closing price of the Shares of approximately HK\$0.1062 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 95.23% to the audited net asset value per Share of approximately HK\$2.831 as at 31 March 2020, calculated based on the Group's audited consolidated net assets of approximately HK\$6,598.0 million as at 31 March 2020 and the 2,330,735,943 Shares in issue as at the date of this announcement.

Conversion Shares

As at the date of this announcement, no Conversion Shares have been issued pursuant to the Convertible Bonds.

Assuming the Convertible Bonds are converted in full based on the current adjusted conversion price of HK\$1.045 per Conversion Share, 191,387,560 Shares and 191,387,560 Shares will be issued to Pearl Garden and Madian Star respectively, representing (i) approximately 8.21% and 8.21% of the issued share capital of the Company as at the date of this announcement, respectively; and (ii) approximately 7.05% and 7.05% of the issued share capital of the Company as enlarged by the issue and allotment of the Conversion Shares, respectively.

Assuming the Convertible Bonds are converted in full based on the Adjusted Conversion Price of HK\$0.135 per Conversion Share, 1,481,481,481 Shares and 1,481,481,481 Shares will be issued to Pearl Garden and Madian Star respectively, representing (i) approximately 63.56% and 63.56% of the issued share capital of the Company as at the date of this announcement, respectively; and (ii) approximately 27.99% and 27.99% of the issued share capital of the Company as enlarged by the issue and allotment of the Conversion Shares, respectively. The Conversion Shares will be issued under the Specific Mandate.

APPLICATION OF LISTING

No application has been or will be made by the Company for the listing of the Convertible Bonds. Application will be made by the Company to the Listing Committee for the listing of, and permission to deal in, the Conversion Shares that may be issued by the Company under the terms and conditions of the Convertible Bond (as amended by the Deed of Amendment) under the Specific Mandate.

FUND RAISING ACTIVITIES INVOLVING ISSUE OF SECURITIES IN THE PAST 12 MONTHS

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/prospectus	Event	Net proceeds (approximate)	Intended use of proceeds as announced	Actual use of proceeds
14 October 2019 and 23 October 2019	Issue of convertible bonds	HK\$64.7 million	All net proceeds reserved for the Group's plan to construct of a manufacturing base in Bangladesh for fabric production (the "Expansion").	All net proceeds will be used for the Expansion.

Date of announcement/ circular/prospectus	Event	Net proceeds (approximate)	Intended use of proceeds as announced	Actual use of proceeds
18 December 2019, 7 February 2020 and 13 March 2020	Rights issue	HK\$412.5 million	Approximately HK\$206.2 million for the Expansion; and approximately HK\$206.3 million for the repayment of bank loans.	Such rights issue was not approved by the Independent Shareholders and was not completed.
11 May 2020, 18 June 2020, 23 July 2020 and 13 August 2020	Rights issue	HK\$212.2 million	Approximately HK\$200.0 million for the repayment of the syndicated loan; and approximately HK\$12.2 million as general working capital of the Group.	All net proceeds have been used as intended.

REASONS FOR THE DEED OF AMENDMENT

Since January 2020, the Company's share price has been on a downward trend from approximately HK\$0.250 per Share to HK\$0.104 per Share as at the date of this announcement. The Company's closing share price was mostly below HK\$0.135 per Share since mid-August 2020 up to the date of this announcement, and the average closing share price from 1 October 2020 up to the date of this announcement is approximately HK\$0.107 per Share. In view of the recent drop in the share price of the Company, the Company has negotiated with Pearl Garden and Madian Star to amend the conversion price of the Convertible Bonds with reference to the prevailing market price of the Shares so that it is more feasible for each of them to exercise the conversion rights attaching to the respective Convertible Bonds at the Adjusted Conversion Price. Furthermore, in relation to the Convertible Bonds, the Company is of the view that the amendment to the conversion restrictions as further stipulated in the paragraph headed "The Deed of Amendment" above can provide flexibility to the Concert Group in exercising their conversion rights attaching to the respective Convertible Bonds. Due to the outbreak of COVID-19, the Group's operation has been disrupted with a decrease in revenue for the six months ended 30 September 2020 as compared to that of the corresponding period in 2019 and delay in repayment of the Group's receivables by the Group's customers, which has affected the working capital of the Group. As the extension of the Convertible Bonds for further three years is subject to the consent of holders of the Convertible Bonds, in the event such consent is not granted, the Company is obliged to redeem the Convertible Bonds in June 2021, which will greatly reduce the working capital of the Group. As at 31 March 2020, the total amount of bank borrowings due within one year and all the convertible bonds issued by the Company amounted to approximately HK\$2,983 million. Despite the Group has completed a rights issue on 14

August 2020, the bank balances and cash as at 31 March 2020, as adjusted by the net proceeds of such rights issue of approximately HK\$212 million, amounted to approximately HK\$1,503 million. The bank balances and cash as at 30 September 2020 has further dropped as a result of the impact of the COVID-19 pandemic and the repayment of bank borrowings. As such, there is a shortfall in cash in repaying the Group's bank borrowings due within one year and convertible bonds (if extension is not granted) when they fall due. The reduction in conversion price of the Convertible Bonds can provide a more realistic alternative to holders of the Convertible Bonds to capitalise the debt owed by the Company. Given the financial pressure and economic uncertainty brought about by the COVID-19 pandemic, the management considers it is prudent to negotiate with the holders of the Convertible Bonds at an earlier stage since (i) the Proposed Amendment and the Whitewash Waiver are subject to approval of the Independent Shareholders, and the Proposed Amendment is expected to be completed only in January 2021, which is less than six months prior to the maturity date of the Convertible Bonds if extension for a further three years is not granted; and (ii) the Proposed Amendment, if being approved, the Group needs time to further negotiate with the holders of the Convertible Bonds to either convert the Convertible Bonds or extend the Convertible Bonds. Given (i) the financial impact brought by COVID-19 pandemic, including the decrease in inflow of cash due to drop in revenue and delay in repayment by the Group's customers; (ii) the comparatively low cash position of the Group as compared to its bank borrowings due within one year and convertible bonds issued by the Company; and (iii) the recurring overheads and expenses incurred to maintain operation during the COVID-19 pandemic leading to the increase in operating cash outflow, the management considers that more working capital is required to be maintained. When each of the respective Convertible Bonds holders exercises their conversion rights for issue of the Conversion Shares, it allows the Company to free up financial resources from repayment of the Convertible Bonds which can be used for other working capital and operating purposes and to strengthen the capital base of the Company.

Given the recent unpredictability of the global economy and the financial pressure brought by the COVID-19 pandemic, the management is of the view that more working capital has to be reserved for the Group's operation. Accordingly, the Expansion has been deferred. As at the date of this announcement, the Expansion has not been implemented and no commitment in respect of the Expansion has been reached or entered into by the Company. The management will closely monitor the economic impact caused by the COVID-19 pandemic and will assess the viability of the Expansion when the COVID-19 pandemic is contained.

The Proposed Amendment is arrived at after arm's length negotiation between the Company and each of the subscribers of the Convertible Bonds. The Directors (excluding the independent non-executive Directors who will express their view in a separate letter to be included in the circular relating to the Proposed Amendment) consider that the terms and conditions of the Deed of Amendment are fair and reasonable, and the Proposed Amendment is in the interests of the Company and the Shareholders as a whole.

INFORMATION OF THE GROUP

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.

As at the date of this announcement, there are (i) 2,330,735,943 Shares in issue; (ii) 25,918,310 outstanding share options, which are exercisable during the period from 12 October 2016 to 11 October 2021; (iii) 38,848,501 outstanding share options, which are exercisable during the period from 18 April 2019 to 17 April 2024; (iv) the Convertible Bonds in the aggregate amount of HK\$400,000,000, which 382,775,120 Shares will be issued upon exercise of the conversion rights under the Convertible Bonds in full at the current adjusted conversion price of HK\$1.045 per Conversion Share; (v) the convertible bonds issued on 13 August 2019 in the amount of HK\$64,000,000, which 101,426,307 Shares will be issued upon exercise of the conversion rights under such convertible bonds in full at the current adjusted conversion price of HK\$0.631 per conversion share; and (vi) the convertible bonds issued on 23 October 2019 in the amount of HK\$65,000,000, which 101,404,056 Shares will be issued upon exercise of the conversion rights under such convertible bonds in full at the current adjusted conversion price of HK\$0.641 per conversion share.

INFORMATION OF THE CONCERT GROUP

Pearl Garden, one of the subscribers, is 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 Mr. Li's family members. As at the date of this announcement, Pearl Garden is interested in 313,702,200 Shares (representing approximately 13.46% of the total issued share capital of the Company).

Cornice Worldwide Limited is an investment holding company incorporated in the BVI with limited liability.

Mr. Li is the Chairman of the Company, an executive Director and a co-founder of the Group. He has over 43 years' experience in the textile industry and is responsible for the overall strategic planning of the corporate as well as business development of the Group.

Madian Star, one of the subscribers, is 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 Mr. Chen's family members. As at the date of this announcement, Madian Star is interested in 313,702,200 Shares (representing approximately 13.46% of the total issued share capital of the Company).

Yonice Limited is an investment holding company incorporated in the BVI with limited liability.

Mr. Chen is the Chief Executive Officer of the Company, an executive Director and a co-founder of the Group. He has over 41 years' experience in the textile industry and is responsible for the day-to-day operation in respect of production, sales and marketing of the Group.

Both Mr. Li and Mr. Chen are parties acting in concert with Pearl Garden and Madian Star. Apart from the interest in the Company held by Pearl Garden and Madian Star, Mr. Chen is directly interested in 1,647,000 Shares (representing approximately 0.07% of the total issued share capital of the Company) as at the date of this announcement. The Concert Group in aggregate is interested in 629,051,400 Shares (representing approximately 26.99% of the entire issue share capital of the Company) as at the date of this announcement.

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 (based on the Adjusted Conversion Price); assuming there is no other change in the issued share capital of the Company from the date of this announcement and up to Completion, is as follows:

	As at the date of this announcement		Upon full conversion of the Convertible Bonds	
	<i>Number of Shares</i>	<i>Approximate % (Note 1)</i>	<i>Number of Shares</i>	<i>Approximate % (Note 1)</i>
Subscribers and parties acting in concert with them				
Pearl Garden (Note 2)	313,702,200	13.46	1,795,183,681	33.91
Madian Star (Note 3)	313,702,200	13.46	1,795,183,681	33.91
Mr. Chen (Note 4)	<u>1,647,000</u>	<u>0.07</u>	<u>1,647,000</u>	<u>0.03</u>
Sub-total of the Concert Group	629,051,400	26.99	3,592,014,362	67.85
Directors				
Mr. Choi Lin Hung (Note 5)	6,300,000	0.27	6,300,000	0.12
Mr. Phaisalakani Vichai (Note 6)	3,744,000	0.16	3,744,000	0.07
Other shareholders				
FMR LLC (Note 7)	234,436,898	10.06	234,436,898	4.43
Public shareholders	<u>1,457,203,645</u>	<u>62.52</u>	<u>1,457,203,645</u>	<u>27.53</u>
Total:	<u><u>2,330,735,943</u></u>	<u><u>100.00</u></u>	<u><u>5,293,698,905</u></u>	<u><u>100.00</u></u>

Notes:

1. Certain percentages above have been subject to rounding adjustments. Accordingly, figures shown as totals may not be an arithmetic aggregation of the figures preceding them.

2. 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 Mr. Li's family members.
3. 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 Mr. Chen's family members.
4. Mr. Chen is an executive Director and is a member of the Concert Group.
5. Mr. Choi Lin Hung is an executive Director. Mr. Choi Lin Hung was involved in the Subscriptions and the Deed of Amendment and will abstain from voting at the relevant resolutions to be proposed at the SGM to approve the Deed of Amendment and the New Whitewash Waiver. Save for taking up the pro rata entitlement of 4,200,000 Shares by Mr. Choi Lin Hung under the rights issue of the Company completed on 14 August 2020, Mr. Choi Lin Hung did not have any dealings in any securities of the Company in the six-month period preceding the date of this announcement.
6. Mr. Phaisalakani Vichai is an independent non-executive Director. Save for taking up the pro rata entitlement of 2,496,000 Shares by Mr. Phaisalakani Vichai under the rights issue of the Company completed on 14 August 2020, Mr. Phaisalakani Vichai did not have any dealings in any securities of the Company in the six-month period preceding the date of this announcement.
7. Based on the disclosure of interests form filed by FMR LLC on 25 August 2020, these Shares were held by companies controlled by FMR LLC.

IMPLICATIONS UNDER THE LISTING RULES

Pursuant to Rule 28.05 of the Listing Rules, any alterations in the terms of convertible debt securities after issue must be approved by the Stock Exchange, except where the alterations take effect automatically under the existing terms of such convertible debt securities. The Company will apply to the Stock Exchange for its approval of the Proposed Amendment pursuant to the requirements under the Listing Rules.

Pearl Garden (being one of the subscribers to the Convertible Bonds) is a substantial shareholder of the Company, holding 313,702,200 Shares (representing approximately 13.46% 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 to the Convertible Bonds) is a substantial shareholder of the Company, holding 313,702,200 Shares (representing approximately 13.46% 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 entering into of the Deed of Amendment with 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 Deed of Amendment and the transactions contemplated thereunder (including the obtaining of the Specific Mandate). To the best of the Directors' information, belief and knowledge, save for the Concert Group, no other parties have any material interest which is different from other Shareholders in relation to the Deed of Amendment.

IMPLICATIONS UNDER THE TAKEOVERS CODE

Application for the Whitewash Waiver

As at the date of this announcement, the Concert Group in aggregate is interested in 629,051,400 Shares, representing approximately 26.99% of the entire issued share capital of the Company.

Based on the Adjusted Conversion Price of HK\$0.135 per Conversion Share, assuming the Convertible Bonds are converted in full and there is no other change in the issued share capital of the Company from the date of this announcement and up to Completion, the Concert Group will be interested in 3,592,014,362 Shares, representing approximately 67.85% of the issued share capital of the Company as enlarged by the issue and allotment of the Conversion Shares.

Accordingly, Pearl Garden and Madian Star 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 Pearl Garden and Madian Star 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 (as amended by the Deed of Amendment) in full. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, approval of at least 75% of the votes cast by the Independent Shareholders in respect of the Whitewash Waiver and more than 50% of the votes cast by the Independent Shareholders in respect of the Deed of Amendment at the SGM by way of poll.

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 Deed of Amendment and the Whitewash Waiver by way of poll at the SGM.

The Whitewash Waiver shall only be valid for the first two-year term of the Convertible Bonds (as amended by the Deed of Amendment). Accordingly, for conversions made during the extended three-year term (if any) of the Convertible Bonds, the Subscribers would, unless a new 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 Concert Group 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 (as amended by the Deed of Amendment) in full.

In the event that the Whitewash Waiver is not granted by the Executive or not approved by at least 75% of the votes cast by the Independent Shareholders, the Deed of Amendment will lapse and the Proposed Amendment will not proceed. In such case, the Convertible Bonds will continue to take effect under the existing terms and conditions without the Proposed Amendment.

As at the date of this announcement, the Company does not believe that the Proposed Amendment 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 Deed of Amendment and the Whitewash Waiver. The Company notes that the Executive may not grant the Whitewash Waiver if the Proposed Amendment 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 (i) disclosed under the paragraph headed “Effect on the shareholding structure” in this announcement; (ii) the Conversion Shares to be issued upon conversion of the Convertible Bonds by Pearl Garden and Madian Star; (iii) each of 40,568 underlying Shares (being Shares to be allotted upon exercise of share options granted under the share option scheme of the Company) being granted to each of Mr. Li and Mr. Chen, 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. save for taking up the respective pro rata entitlement of 209,134,800 Shares by Pearl Garden, 209,134,800 Shares by Madian Star and 1,098,000 Shares by Mr. Chen under the rights issue of the Company completed on 14 August 2020, 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 of this announcement;
- c. none of the members of the Concert Group has received any irrevocable commitment to vote for or against the proposed resolution approving the Deed of Amendment 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 Pearl Garden and Madian Star which may be material to the Deed of Amendment 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 Deed of Amendment 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.

There is no understanding, arrangement or agreement or special deal between (1) any Shareholder; and (2) either (a) Pearl Garden, Madian Star or any party acting in concert with them; or (b) the Company or the Company's subsidiaries or associated companies.

PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

The existing authorised share capital of the Company is HK\$400,000,000 divided into 4,000,000,000 ordinary Shares of HK\$0.1 each, of which 2,330,735,943 Shares were in issue as at the date of this announcement.

In order to accommodate future expansion and growth of the Group and to provide the Company with greater flexibility to raise funds by allotting and issuing Shares in the future as and when necessary, the Directors proposes to increase the authorised share capital of the Company to HK\$1,000,000,000 divided into 10,000,000,000 Shares by the creation of an additional 6,000,000,000 new Shares which shall rank *pari passu* with each other and with the existing Shares in all respects upon issue.

The Increase in Authorised Share Capital is conditional upon the passing of an ordinary resolution by the Shareholders at the SGM.

GENERAL

The Independent Board Committee has been established to advise the Independent Shareholders in relation to the Deed of Amendment and the Whitewash Waiver. Gram Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard and the appointment of Gram Capital has been approved by the Independent Board Committee.

The SGM will be held to consider and, if thought fit, pass the resolutions to approve, among other things, (i) the Deed of Amendment and the transactions contemplated thereunder; (ii) the issue and allotment of the Conversion Shares upon full conversion of the Convertible Bonds (as amended by the Deed of Amendment) under the Specific Mandate; (iii) the Whitewash Waiver; and (iv) the Increase in Authorised Share Capital.

The resolutions in relation to the Deed of Amendment, the Specific Mandate and the Whitewash Waiver at the SGM will be voted on by the Independent Shareholders by way of poll, whereas the resolutions in relation to the Increase in Authorised Share Capital will be voted on by the Shareholders by way of poll.

As the Concert Group is interested and/or involved in the Deed of Amendment pursuant to the Deed of Amendment and therefore will abstain from voting on the relevant resolutions to be proposed at the SGM to approve the Deed of Amendment and the Whitewash Waiver. In addition, Mr. Choi Lin Hung (an executive Director) involved in

the Subscriptions and the Deed of Amendment, and will also abstain from voting at the relevant resolutions to be proposed at the SGM to approve the Deed of Amendment and the Whitewash Waiver.

A circular containing, among other things, (i) details of the Deed of Amendment, the Whitewash Waiver and the Increase in Authorised Share Capital; (ii) the letter of advice from the Independent Board Committee to the Independent Shareholders in relation to the Deed of Amendment and the Whitewash Waiver; (iii) the letter of advice from Gram Capital to the Independent Board Committee and the Independent Shareholders in relation to the Deed of Amendment 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 within 21 days from the date of this announcement in compliance with the requirements of the Takeovers Code. It is estimated that the circular will be despatched to the Shareholders on or before 13 November 2020.

Warnings: the Proposed Amendment is subject to the fulfilment of a number of conditions, including but not limited to the approval of the Deed of Amendment and the Whitewash Waiver by the Independent Shareholders at the SGM, and the granting of the Whitewash Waiver by the Executive. As such, the Proposed Amendment 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
“Adjusted Conversion Price”	HK\$0.135, being the adjusted conversion price per Conversion Share at which Conversion Shares will be issued upon exercise of the conversion rights attaching to the Convertible Bonds pursuant to the Deed of Amendment, subject to adjustments pursuant to the terms and conditions of the Convertible Bonds
“associates”	has the meaning ascribed thereto in the Listing Rules
“Board”	board of the Directors
“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”	completion of the Proposed Amendment pursuant to the Deed of Amendment
“Concert Group”	Pearl Garden and Madian Star, their ultimate beneficial owners and parties acting in concert with any of them, including but not limited to Mr. Li and Mr. Chen
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“controlling Shareholder(s)”	has the meaning ascribed thereto in the Listing Rules
“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 respective Convertible Bonds
“Convertible Bonds”	the convertible bonds in the aggregate amount of HK\$400,000,000 issued by the Company to Pearl Garden and Madian Star on 28 June 2019 under specific mandate
“COVID-19”	a coronavirus identified as the cause of an outbreak of respiratory illness that was first detected in 2019 and declared by the World Health Organisation as a “Global Pandemic” on 11 March 2020
“Deed of Amendment”	the deed of amendment dated 23 October 2020 and entered into among the Company, Pearl Garden and Madian Star in relation to the Proposed Amendment
“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
“Increase in Authorised Share Capital”	the proposed increase in authorised share capital of the Company from HK\$400,000,000 divided into 4,000,000,000 Shares to HK\$1,000,000,000 divided into 10,000,000,000 Shares by the creation of an additional 6,000,000,000 Shares

“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 Deed of Amendment and the Whitewash Waiver and as to voting at the SGM
“Independent Financial Adviser” or “Gram Capital”	Gram Capital Limited, a licensed corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser appointed by the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders with regard to the Deed of Amendment and the Whitewash Waiver
“Independent Shareholders”	Shareholders, other than the Concert Group and those parties who are involved or interested in the Deed of Amendment and/or the Whitewash Waiver
“Last Trading Day”	23 October 2020, being the last trading day for the Shares before the entering into of the Deed of Amendment
“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”	28 February 2021 or such later date as the Company and each of the subscribers in each of the Convertible Bonds 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
“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
“Proposed Amendment”	the proposed amendment of certain terms and conditions of the Convertible Bonds pursuant to the Deed of Amendment
“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
“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 Deed of Amendment, the transactions contemplated thereunder and the Whitewash Waiver (or any adjournment thereof)
“Share(s)”	ordinary share(s) of HK\$0.1 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
“Subscriptions”	the subscriptions of the Convertible Bonds by Pearl Garden and Madian Star pursuant to the terms of the Subscription Agreement
“Subscription Agreement”	the conditional subscription agreement dated 26 April 2019 and entered into among the Company, Pearl Garden and Madian Star in relation to the Subscriptions and was completed on 28 June 2019
“substantial Shareholder(s)”	has the meaning ascribed thereto in the Listing Rules
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers

- “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 Pearl Garden and Madian Star, being holders of the Convertible Bonds to make a mandatory general offer for all the securities of the Company not already owned or acquired by Pearl Garden and Madian Star 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 Pearl Garden and Madian Star, pursuant to the conversion of the Convertible Bonds (as amended by the Deed of Amendment) during the first two-year term of the Convertible Bonds (as amended by the Deed of Amendment)
- “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, 23 October 2020

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*