

INDEPENDENT REVIEW REPORT

TO THE BOARD OF DIRECTORS OF
VICTORY CITY INTERNATIONAL HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

INTRODUCTION

We have been instructed by Victory City International Holdings Limited (the "Company") to review the interim financial report set out on pages 2 to 12.

DIRECTORS' RESPONSIBILITIES

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards No. 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 September 2004.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 8 December 2004

INTERIM DIVIDEND

The Directors have resolved to declare an interim dividend of HK5.5 cents (2004: HK4.5 cents) per share of the Company for the year ending 31 March 2005. The interim dividend will be payable in cash on 25 February 2005 to shareholders whose names appear on the register of members of the Company on 7 January 2005 with a scrip alternative to elect to receive such interim dividend wholly or partly by allotment of new shares credited as fully paid in lieu of cash.

A circular containing details of the scrip dividend scheme together with an election form will be sent to the shareholders of the Company as soon as practicable. The scrip dividend scheme is subject to the following conditions: (a) the issue price of a new share of the Company to be issued pursuant thereto being not less than the nominal value of a share of the Company; and (b) the granting by the Listing Committee of The Stock Exchange of Hong Kong Limited of the listing of and permission to deal in the new shares of the Company to be issued pursuant thereto.

BUSINESS REVIEW AND PROSPECTS

For the six months ended 30 September 2004, the Group's total turnover reached HK\$1.28 billion, representing an increase of 60% over the same period last year. Boosted by the strong turnover growth, net profit for the period rose substantially by 41% to HK\$103 million. Basic earnings per share increased from 14.8 cents to 18.4 cents for the period under review.

Production and sale of knitted fabric and dyed yarn remained as the principal operation of the Group and accounted for 71% of the consolidated turnover. For the period under review, turnover of this segment achieved HK\$910 million, signifying an increase of 86%. The upsurge was mainly contributed to the commencement of the yarn dyeing operation since late August 2003. Equipped with the most advanced machineries, the yarn dyeing facility increased its monthly production capacity from 4 million pounds to 5 million pounds in September 2004, which further enhanced the Group's competitiveness by providing comprehensive and quality services to our customers. It is expected that the yarn dyeing business will continue to contribute to both turnover and profit growth in the second half of the financial year.

Apart from the yarn dyeing operation, production and sale of knitted fabric continued to demonstrate strong growth during the period under review. Improvements in production efficiency and product quality together with the dedicated effort of the marketing teams in developing new customers and exploiting new markets contributed to the increase in both turnover and net profit. By investing in the up-to-date models of machineries, the monthly production capability of our Xinhui factory was doubled from 6 million pounds to 12 million pounds since October 2004. It is expected that the growth momentum in this business segment will be sustained and this is well-substantiated by the amount of orders on-hand.

