

Chairman's Statement

On behalf of the Board of Directors (the "Directors") of Victory City International Holdings Limited (the "Company") and its subsidiary companies (the "Group"), it gives me great pleasure to present our encouraging results for the year ended 31 March 2005, being another year of continual success.

DIVIDENDS

The Directors have resolved to recommend the payment of a final dividend of HK5.5 cents per share (each a "Share") of HK\$0.01 each of the Company in respect of the year ended 31 March 2005 to shareholders whose names appear on the register of members of the Company on 25 August 2005 and also to recommend the offer to the shareholders the right to elect as an alternative, to receive such final dividend wholly or partly by allotment of new Shares credited as fully paid in lieu of cash (the "Scrip Dividend Scheme"), subject to the approval of the shareholders on the payment of final dividend at the annual general meeting of the Company and the granting by The Stock Exchange of Hong Kong Limited of the listing of, and permission to deal in, the Shares to be issued pursuant thereto.

The Shares to be issued pursuant to the Scrip Dividend Scheme will rank pari passu in all respects with the Shares in issue on the date of allotment and issue of such Shares save that they will not be entitled to the final dividend for the year ended 31 March 2005.

On condition that the payment of the above final dividend is approved by the shareholders at the annual general meeting of the Company, a circular containing details of the Scrip Dividend Scheme will be despatched to the shareholders of the Company shortly after the annual general meeting of the Company.

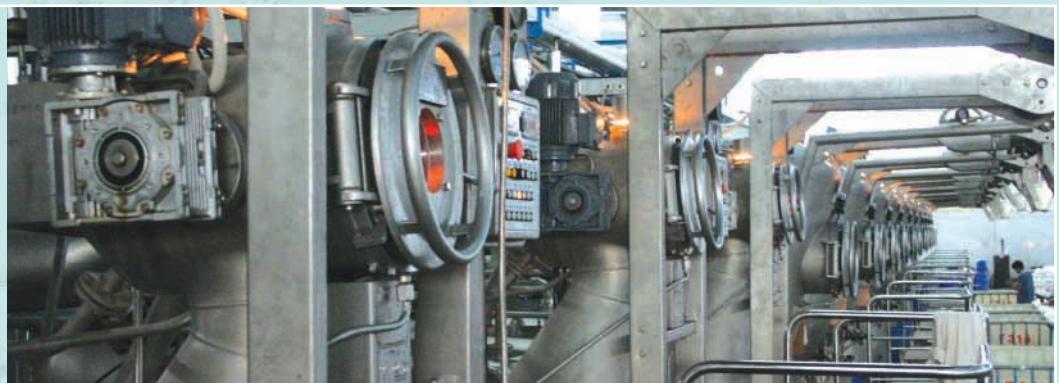


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BUSINESS REVIEW

With the consolidated efforts of all concerned, we report 2004/05 as a fruitful year, bringing higher returns to our shareholders. Both turnover and net profit achieved a consecutive seventh year record high in the history of the Group. Total turnover surged to HK\$2.4 billion, representing a growth of 40% as compared with the previous year. Operating profit

Indeed, we attribute the encouraging results to a series of well-elaborated strategies over the years which emphasized on integrated growth of our core businesses, and at the same time seeking opportunities complementary to our goals. Our strategies to improve the productivity and the profit margins are: product and market geographical diversification, well-in-advanced infra-structure investments and planning,



strengthened to HK\$253.3 million whereas net profit rose substantially by 33% to HK\$203.7 million. Basic earnings per share also increased from 30.4 cents in 2004 to 36.3 cents in 2005.

incessant costs control, continual machinery upgrading programmes, in-house management re-engineering programmes and selected recruitments of talented human resources. With the management's long term vision, the Group has become a vertical

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dynamic enterprise, providing customers with an efficient and effective "one-stop" integrated service, from the operation of yarn dyeing and manufacturing of knitted fabric to sourcing and exporting of garment apparels. Our efforts have been reflected in the performance of each individual segment, and as we look ahead, we will continue to emphasize innovation in our response to the rapid changes in trends and market conditions and fulfil our commitment to customers.

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. Turnover of this segment reached HK\$1.7 billion, signifying an increase of 56% as compared with the



previous year. The upsurge was mainly contributed to our enhancement of monthly production capability of knitted fabric from 6 million pounds to 12 million since October 2004. Improvements of production efficiency and product quality were achieved through our investment in the up-to-date models of machineries. Together with the dedicated effort of the marketing teams in exploring new markets and developing new customers, both turnover and net profit for the year under review were increased significantly.

Our yarn dyeing business, which commenced operation in August 2003 also contributed to both turnover and profit growth. The yarn dyeing plant is equipped with the most advanced machineries and has a monthly production capacity of 5 million pounds. The Group's competitiveness was further strengthened with this manufacturing facility, by providing comprehensive and quality services to our customers in an efficient manner.

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To reckon and well-prepare for the importance of continual and cost-competitive power supply in China, in addition to the existing coal-fired generator, the second new coal-fired facility within our factory premises commenced operation in late August 2004.

This new designed coal-fired facility with more than double output comparing the existing one, not only stabilizes the power supply to our production plants

resulted in a slight drop in profit margin. For further growth on this business segment, we will capitalize on and strengthen our existing diversified worldwide sourcing network to meet various customers' need and also diversify our customers as well as product ranges.

During the year under review, the Group has successfully secured a syndicated loan from 27 banks



but also help to further reduce the fuel costs.

Despite the uncertainties regarding the quota issue, our garment trading business continued to demonstrate steady growth during the year under review. Turnover of this segment which accounted for 29% of the consolidated turnover, achieved a 13% growth to HK\$701.8 million. Keen price competition during the transitional period of the quota-free era

of HK\$688 million with a tenor of 4¹/₂ years, bearing a competitive interest margin of HIBOR + 0.55% per annum. The proceeds of the loan facility had been used to refinance the syndicated loan of HK\$288 million raised in June 2003 so as to reduce the finance costs and the balance for general corporate purposes. The Group's future expansion was timely-planned with the loan in place.

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The past year was full of changes and challenges and the business environment experienced an increase in competition and higher expectation from customers. Our management is well-prepared to strengthen our market position against rigorous market conditions. Our encouraging performances achieved once again demonstrated the hard work and commitment of our staff throughout the year.

OUTLOOK

In the years to come, the Group will dedicate its effort to achieve our corporate vision of being a worldwide premier supplier of choice for textile and garment products. Measures and endeavors will also be made to fine-tune the Group's business portfolio and to exploit larger market share with a view to improving its competitive edges and profitability.

Reckoning the issues on elimination of garment quota in 2005 and its related impacts, the Group decided to capture the opportunities arose and commence our garment manufacturing business in late 2004. Production facilities have been established in China

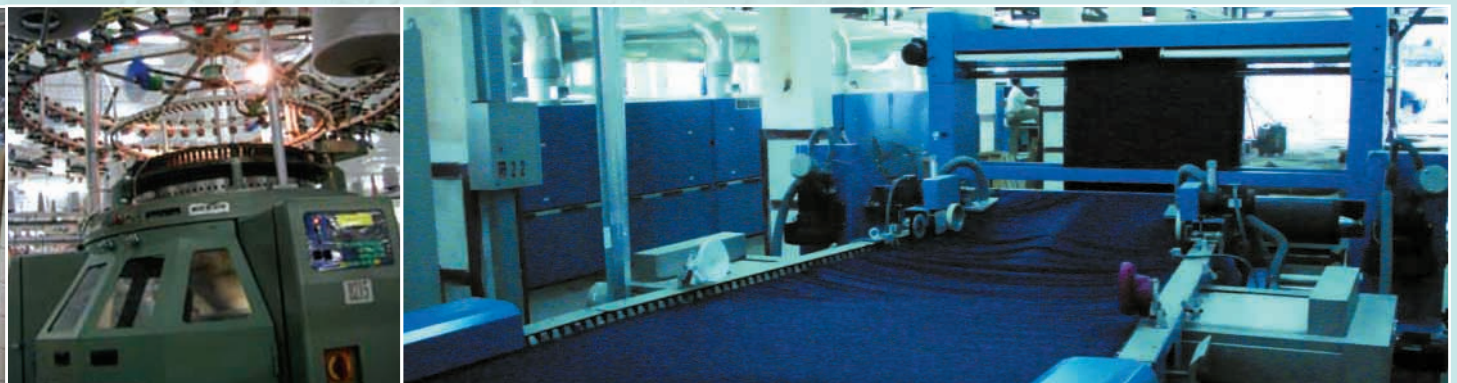
and selected offshore countries. This new business segment is managed by a team of expertise with strong and solid experience in garment manufacturing, merchandising, marketing as well as logistic services. The Group is well-positioned to capitalize on core strength of multi-location production capacities and make flexible and effective production planning in order to alleviate the negative impact of the challenges



and adverse conditions. We are of great confidence that the new garment manufacturing business will enhance the vertical-integrated competitive advantage of the Group and contribute to the driving force of our corporate development in the coming years.

Our strategic approach and investments made over recent years have successfully created steady earnings growth through increased turnover and net profit. We are well-positioned to aim higher and to capitalize on any strategic opportunities that fits our corporate vision so as to maintain our uninterrupted record of growth for our shareholders.

force in the years to come. Without their dedicated efforts, we cannot achieve such a great success in the year under review. I would also like to express my sincere thanks to our customers, suppliers, bankers, business partners and shareholders for their constant and continuous support.



APPRECIATION

Finally, on behalf of the Board, I would like to extend my gratitude to the management and staff for their commitment and contribution to the Group. We treasure our employees as a valuable asset and driving

Li Ming Hung

Chairman

Hong Kong

20 July 2005