VICTORY CITY INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)
(Stock Code: 0539)

ANNOUNCEMENT OF RESULTS
FOR THE YEAR ENDED 31 MARCH 2006

RESULTS

The directors ("Directors") of Victory City International Holdings Limited (the "Company") are pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2006 (which have been reviewed by the audit committee of the Company) with comparative figures for the previous year as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31 March

	Notes	**2006** **HK$'000**	2005 HK$'000 (restated)
Revenue	*3*	**2,833,111**	2,403,384
Cost of sales		**(2,254,661)**	(1,935,110)
Gross profit		**578,450**	468,274
Other income		**31,080**	11,507
Distribution costs		**(92,431)**	(75,193)
Administrative expenses		**(179,305)**	(150,290)
Amortisation of goodwill		**–**	(646)
Finance costs	*4*	**(36,135)**	(17,983)
Profit before taxation		**301,659**	235,669
Income tax expense	*5*	**(27,941)**	(15,657)
Profit for the year	*6*	**273,718**	220,012
Attributable to:			
Equity holders of the Company		**250,269**	202,655
Minority shareholders		**23,449**	17,357
		273,718	220,012
Distributions	*7*	**75,947**	62,132
Earnings per share	*8*		
Basic		**43.4 cents**	36.1 cents
Diluted		**43.3 cents**	35.7 cents

CONSOLIDATED BALANCE SHEET
At 31 March

	Notes	2006 *HK$'000*	2005 *HK$'000* (restated)
Non-current assets			
Property, plant and equipment		**1,405,800**	997,719
Prepaid lease payments		**22,654**	23,889
Investments properties		**92,870**	45,930
Goodwill		**6,185**	644
Deposits paid for acquisitions of property, plant and equipment		**3,398**	–
		1,530,907	1,068,182
Current assets			
Inventories		**860,729**	712,894
Trade receivables	*9*	**706,632**	454,070
Deposits, prepayments and other receivables		**167,914**	121,484
Prepaid lease payments		**783**	793
Derivative financial instruments		**461**	–
Bank balances and cash		**370,762**	225,833
		2,107,281	1,515,074
Current liabilities			
Trade payables	*10*	**474,964**	352,647
Other payables		**71,151**	52,596
Dividend payable		**97**	72
Taxation payable		**35,898**	18,580
Obligations under finance leases – amount due within one year		**2,618**	5,265
Bank borrowings-amount due within one year		**837,287**	351,785
Derivative financial instruments		**3,144**	–
		1,425,159	780,945
Net current assets		**682,122**	734,129
		2,213,029	1,802,311
Capital and reserves			
Share capital		**6,436**	5,673
Reserves		**1,540,726**	1,065,430
Equity attributable to equity holders of the Company		**1,547,162**	1,071,103
Minority interests		**55,525**	37,570
Total equity		**1,602,687**	1,108,673
Non-current liabilities			
Obligations under finance leases – amount due after one year		**–**	2,601
Bank borrowings-amount due after one year		**601,191**	687,283
Deferred tax liabilities		**9,151**	3,754
		610,342	693,638
		2,213,029	1,802,311

Notes:

1. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") and Interpretations ("INT(s)") (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and the consolidated statement of changes in equity. In particular, the presentation of minority interests have been changed. The changes in presentation have been applied retrospectively.

The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting years are presented:

(i) Business Combinations

HKFRS 3 "Business Combinations" is effective for business combinations for which the agreement date is on or after 1 January 2005. The Group has not entered into any agreement between the period from 1 January 2005 to 31 March 2005. On 1 April 2005, the Group has applied the transitional provisions of HKFRS 3. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous years, goodwill arising on acquisitions prior to 1 April 2001 was held in reserves, and goodwill arising on acquisitions after 1 April 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in reserves of approximately HK$1,452,000 has been transferred to the Group's accumulated profits on 1 April 2005. With respect to goodwill previously capitalised on the balance sheet, the Group on 1 April 2005 eliminated the carrying amount of the related accumulated amortisation of approximately HK$2,584,000 with a corresponding decrease in cost of goodwill. The Group has discontinued amortising such goodwill from 1 April 2005 onwards and such goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after 1 April 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year. Comparative figures for 2005 have not been restated.

(ii) Share-based Payments

In the current year, the Group has applied HKFRS 2 "Share-based Payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 April 2005. In relation to share options granted before 1 April 2005, the Group chooses not to apply HKFRS 2 with respect to those share options granted on or before 7 November 2002 and vested before 1 April 2005. As there were no unvested share options at 1 April 2005, there is no financial impact to the Group for the prior and current periods.

(iii) Financial Instruments

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current or prior accounting periods. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Financial assets and financial liabilities other than debt and equity securities

From 1 April 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition. There is no financial impact to the Group for the prior and current periods.

Derivative financial instruments

From 1 April 2005 onwards, all derivative financial instruments that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date. Under HKAS 39, derivative financial instruments are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. Changes in fair values of such derivative financial instruments are recognised in profit or loss for the period in which they arise. Net gain arising from changes in fair value of derivative financial instruments of approximately HK$2,054,000 has been recognised in profit and loss for the year.

Derecognition
HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous periods. Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively for transfers of financial assets on or after 1 April 2005. As a result, the Group's bill receivables discounted with full recourse and debt factored with full recourse which were derecognised prior to 1 April 2005 have not been restated. As at 31 March 2006, the Group's bills receivables discounted with full recourse and debt factored with full recourse have not been derecognised. Instead, the related borrowings of approximately HK$191,248,000 as at 31 March 2006 have been recognised on the balance sheet date. This change in accounting policy has had no material effect on the results for the year.

(iv) Owner-occupied Leasehold Interest in Land
In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see Note 2 for the financial impact). Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

(v) Investment Properties
In the current year, the Group has, for the first time, applied HKAS 40 "Investment Property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise. In previous years, investment properties under the predecessor Standard were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and a revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1 April 2005 onwards. The amount held in investment property revaluation reserve at 1 April 2005 of approximately HK$2,657,000 has been transferred to the Group's accumulated profits (see Note 2 for the financial impact).

(vi) Deferred Taxes related to Investment Properties
In previous years, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor Interpretation. In the current year, the Group has applied HK(SIC) Interpretation 21 "Income Taxes – Recovery of Revalued Non-Depreciable Assets" which removes the presumption that the carrying amount of investment properties is to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HK(SIC) Interpretation 21, this change in accounting policy has been applied retrospectively. Comparative figures for 2005 have been restated (see Note 2 for the financial impact).

The Group has not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments or interpretation will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]
HK(IFRIC) – INT 8	Scope of HKFRS 2[5]
HK(IFRIC) – INT 9	Reassessment of embedded derivatives[6]

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 January 2006.
[3] Effective for annual periods beginning on or after 1 December 2005.
[4] Effective for annual periods beginning on or after 1 March 2006.
[5] Effective for annual periods beginning on or after 1 May 2006.
[6] Effective for annual periods beginning on or after 1 June 2006.

2. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior years are as follows:

	Effect of	2006	2005
		HK$'000	*HK$'000*
Non-amortisation of goodwill	HKFRS 3	**923**	–
Decrease in depreciation	HKAS 17	**334**	334
Changes in fair value of derivative financial instruments	HKAS 39	**(2,054)**	–
Changes in fair value of investment properties	HKAS 40	**17,539**	–
Increase in deferred tax liabilities relating to investment properties	HK(SIC) 21	**(3,194)**	(1,334)
Increase (decrease) in profit		**13,548**	(1,000)

The effect of the application of the new HKFRSs as at 31 March 2005 and 1 April 2005 are summarised below:

Balance sheet items	As at 31 March 2005 (originally stated)	Effect of HKAS 17	Effect of HK(SIC) 21	As at 31 March 2005 (restated)	Effect of HKAS 39	Effect of HKAS 40	Effect of HKFRS 3	As at 1 April 2005 (restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Property, plant and equipment	1,021,537	(23,818)	–	997,719	–	–	–	997,719
Prepaid lease payments	–	24,682	–	24,682	–	–	–	24,682
Derivative financial instruments								
– assets	–	–	–	–	765	–	–	765
– liabilities	–	–	–	–	(1,394)	–	–	(1,394)
Deferred tax liabilities	–	–	(3,754)	(3,754)	–	–	–	(3,754)
Total effect on assets and liabilities	1,021,537	864	(3,754)	1,018,647	(629)	–	–	1,018,018
Accumulated profits	484,506	864	(3,754)	481,616	(629)	2,657	(1,452)	482,192
Investment property revaluation reserve	2,657	–	–	2,657	–	(2,657)	–	–
Goodwill reserve	(1,452)	–	–	(1,452)	–	–	1,452	–
Total effect on equity	485,711	864	(3,754)	482,821	(629)	–	–	482,192

The financial effects of the application of the new HKFRS to the Group's equity at 1 April 2004 are summarised below:

	As originally stated	Effect of HKAS 17	Effect of HK(SIC) 21	As restated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Accumulated profits and total effect on equity	342,983	530	(2,420)	341,093

3. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business Segments

The Group is currently engaged in two business activities: (i) production and sale of knitted fabric and dyed yarn and provision of related subcontracting services; and (ii) trading of garment products and provision of quality inspection services. These activities are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

Year ended 31 March 2006

	Production and sale of knitted fabric and dyed yarn and provision of related subcontracting services	**Trading of garment products and provision of quality inspection services**	**Consolidated**
	HK$'000	***HK$'000***	***HK$'000***
REVENUE			
External sales	**1,825,340**	**1,007,771**	**2,833,111**
RESULT			
Segment result	**275,038**	**51,935**	**326,973**
Unallocated corporate income			**22,608**
Unallocated corporate expenses			**(11,787)**
Finance costs			**(36,135)**
Profit before taxation			**301,659**
Income tax expense			**(27,941)**
Profit for the year			**273,718**

Year ended 31 March 2005

	Production and sale of knitted fabric and dyed yarn and provision of related subcontracting services	Trading of garment products and provision of quality inspection services	Consolidated
	HK$'000	*HK$'000*	*HK$'000* (restated)
REVENUE			
External sales	1,701,619	701,765	2,403,384
RESULT			
Segment result	222,372	39,243	261,615
Unallocated corporate income			3,428
Unallocated corporate expenses			(11,391)
Finance costs			(17,983)
Profit before taxation			235,669
Income tax expense			(15,657)
Profit for the year			220,012

Geographical Segments

The Group's operations are mainly located in Hong Kong, other regions of the People's Republic of China (the "PRC") and United States of America ("USA").

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

	Sales revenue by geographical market **2006** *HK$'000*	2005 *HK$'000*
Hong Kong	**883,278**	856,144
Other regions of the PRC	**698,163**	605,183
USA	**692,160**	531,849
Others	**559,510**	410,208
	2,833,111	2,403,384

4. FINANCE COSTS

	2006 *HK$'000*	2005 *HK$'000*
Interest on:		
– bank borrowings wholly repayable within five years	**41,881**	19,386
– bank borrowings not wholly repayable within five years	**969**	263
– finance leases	**251**	208
Total borrowing costs	**43,101**	19,857
Less: amounts capitalised	**(6,966)**	(1,874)
	36,135	17,983

5. INCOME TAX EXPENSE

	2006 *HK$'000*	2005 *HK$'000* (restated)
The tax charge comprises:		
Current tax:		
Hong Kong Profits Tax calculated at 17.5% of the estimated assessable profit for the current year		
– current year	**6,324**	5,111
– (over)underprovision in prior year	**(773)**	228
	5,551	5,339
Enterprise income tax in the PRC attributable to a subsidiary	**16,808**	8,877
Overseas income tax	**185**	107
	22,544	14,323
Deferred tax:		
Current year	**5,397**	1,334
	27,941	15,657

Taxation arising in jurisdictions other than Hong Kong and PRC is calculated at the rates prevailing in the respective jurisdictions.

6. PROFIT FOR THE YEAR

	2006 HK$'000	2005 HK$'000 (restated)
Profit for the year has been arrived at after charging:		
Directors' remuneration	**15,867**	12,557
Other staff costs	**225,267**	113,474
Total staff costs	**241,134**	126,031
Auditors' remuneration		
– current year	**1,844**	1,035
– underprovision in prior years	**199**	48
	2,043	1,083
Release of prepaid lease payments	**793**	793
Depreciation of property, plant and equipment	**98,079**	63,503
Operating expenses paid to a joint venture partner in the PRC for the use of plant and equipment	**3,901**	3,774
Changes in fair value of derivative financial instruments	**2,054**	–
and after crediting:		
Gross rental income from investment properties and property, plant and equipment	**3,681**	2,167
Less: Outgoings	**(586)**	(345)
Net property rental income	**3,095**	1,822
Changes in fair value of investment properties	**17,539**	–
Surplus on revaluation of investment properties	**–**	1,186
Gain on disposal of property, plant and equipment	**1,539**	194
Interest income	**1,940**	866

7. DISTRIBUTIONS

	2006 HK$'000	2005 HK$'000
Interim dividend of HK6.5 cents (2005: HK5.5 cents) per ordinary share	**37,331**	30,932
Proposed final dividend of HK6.0 cents (2005: HK5.5 cents) per ordinary share	**38,616**	31,200
	75,947	62,132

The amount of dividends recognised as distributions to equity holders of the Company was HK$68,531,000 (2005: HK$56,032,000) for the year ended 31 March 2006.

The amount of the final dividend proposed for the year ended 31 March 2006, which will be in cash form with a scrip dividend option, has been calculated by reference to the 643,601,133 issued ordinary shares outstanding as at the date of these financial statements.

The final dividend of HK6.0 cents (2005: HK5.5 cents) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the equity holders of the Company for the year is based on the following data:

	2006	2005
	HK$'000	*HK$'000*
		(restated)
Profit for the year attributable to equity holders of the Company	**250,269**	202,655

	Number of shares	
Weighted average number of ordinary shares for the purposes of basic earnings per share	**576,662,264**	560,612,293
Effect of dilutive potential ordinary shares in respect of share options	**677,126**	7,835,563
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**577,339,390**	568,447,856

9. TRADE RECEIVABLES

The Group allows an average credit period of 90 – 120 days to its trade customers.

The following is an aged analysis of trade receivables at the balance sheet date:

	2006	2005
	HK$'000	*HK$'000*
0 – 60 days	**527,271**	309,672
61 – 90 days	**80,826**	60,673
91 – 120 days	**56,242**	37,035
Over 120 days	**42,293**	46,690
	706,632	454,070

10. TRADE PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	2006	2005
	HK$'000	*HK$'000*
0 – 60 days	**377,796**	319,293
61 – 90 days	**44,425**	17,257
Over 90 days	**52,743**	16,097
	474,964	352,647

DIVIDENDS

The Directors have resolved to recommend the payment of a final dividend of HK6.0 cents per share (each a "Share") of HK$0.01 each of the Company in respect of the year ended 31 March 2006 to shareholders whose names appear on the register of members of the Company on Friday, 25 August 2006 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 2006.

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.

BUSINESS REVIEW

Over the past years, we have experienced satisfactory business growth, and the financial year under review continued our trajectory, propelled by growth in each of our business segment. Although the industry faced with various unfavourable conditions including the increase in fuel and finance costs, trade disputes between PRC and United States and European countries and pressure on general expenses exerted by Renminbi appreciation, our results for the past twelve months were encouraging.

The Group's turnover rose steadily by 18% to HK$2.8 billion and net profit for the year attributable to equity holders of the Company surged to HK$250.3 million, signifying an increase of 23% as compared with the previous year. Basic earnings per share increased from 36.1 cents in 2005 to 43.4 cents in 2006.

Production and sales of knitted fabric and dyed yarn remained as the principal operation of the Group and accounted for 64% of the consolidated revenue. Our enhanced monthly production capacity together with the dedicated effort of the marketing teams contributed to the turnover growth. Improvements in production efficiency and product quality through our investment in highly advanced machinery, together with incessant cost controls, contributed to the profit growth. Gross profit margin for the textile segment increased from 22.6% in 2005 to 24.4% in 2006. It is envisaged that the growth in both revenue and profit will be sustained in the coming years.

The garment segment continued to demonstrate satisfactory performance during the year under review by achieving a 44% growth in revenue to HK$1.0 billion, accounted for 36% of the consolidated revenue. Despite the trade disputes and uncertainties arising from the abolition of garment quotas in 2005, the diversified global sourcing base of our garment segment has been well-prepared for these challenges and opportunities and has also successfully diversified our clientele base as well as product ranges. As a forward integrated expansion and recognising the performance of certain customers and brand names to outsource production to companies with their own manufacturing facilities, our garment manufacturing facilities were established in Jordan, PRC and Indonesia during the year. The Group is well-positioned to capitalise on the core strength of multi-location production capabilities with flexible and effective production plannings. We are confident that this 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.

The past year was full of changes and challenges and the business environment experienced an increase in competition and higher expectation from customers. Our Group's results underscored the strategies that have been taken in the past years and the strong capabilities of our management and operating team in meeting the most demanding expectations in the intensely competitive global environment.

OUTLOOK

In today's challenging and dynamic environment the critically important competencies essential to survival include efficient and effective delivery of quality products and services to the customers. Throughout our years of effort, we have become vertically integrated, from yarn dyeing, knitted fabric manufacturing to garment sourcing, manufacturing and exporting, providing customers with comprehensive and integrated services.

The clearance of textile and garment uncertainties through the signing of trade agreements between PRC and United States and European countries provided steady and predictable growth for the export of Chinese textile products. It is anticipated that PRC will emerge as the largest exporter of textile products. In addition, the economic growth in PRC together with improvement in living standards of residents boost more purchasing demand for garment apparels. Notably, orders from PRC branded customers have been increasing substantially throughout the year and we are well-positioned to increase our domestic market share in PRC.

To cope with both the export and domestic growing demand of our quality fabric, our monthly production capacity of knitted fabric will be further enhanced from 12 million pounds to around 15 million pounds by the end of July 2006. Together with our low cost structure, superior product quality, streamlined manufacturing process and long-term relationships with customers, we believe we are well-equipped to strengthen our position as one of the leading manufacturers in the textile and garment industry, providing comprehensive services to both international and PRC domestic customers.

Our strategic approach and investments have successfully created steady earnings growth in recent years. While the year ahead will be a challenging one, we believe that with our solid foundation and committed focus of management team, the Group is well-prepared to enhance its competitiveness and to meet the new challenges ahead. We intend to capitalise on all strategic opportunities to maintain our uninterrupted record of growth and bring the most satisfactory returns to our shareholders.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31 March 2006, the Group had total assets of HK$3,638,188,000 (2005: HK$2,583,256,000) which were financed by current liabilities of HK$1,425,159,000 (2005: HK$780,945,000), long term liabilities of HK$610,342,000 (2005: HK$693,638,000) and shareholders' equity of HK$1,547,162,000 (2005: HK$1,071,103,000). The current ratio was approximately 1.5 (2005: 1.9) and the gearing ratio, being the ratio of total borrowings (net of bank balances and cash) to shareholders funds was 57% (2005: 76%). All of the Group's borrowings were at floating rate basis.

The Group services its debts primarily through cash earned from its operations. The Directors believe that the Group has maintained sufficient working capital for its operation and future expansion. Should other opportunities arise requiring additional funding, the Directors believe that the Group is in a good position to obtain financing on favourable terms.

Exposure to Fluctuation in Foreign Exchange

The Group's monetary assets and liabilities were principally denominated in Hong Kong dollar, Chinese Renminbi and US dollar. Inasmuch as the Hong Kong dollar is pegged to the US dollar, and that there has been minimal fluctuation in exchange rate between Hong Kong dollar and Chinese Renminbi, the Group's exposure to currency exchange risk was minimal.

Capital Expenditure

During the year, the Group invested approximately HK$449 million in fixed assets, of which 23% was used for purchase of plant and machinery and 74% for acquisition of property and construction of new factory plants, workers' dormitory, water treatment plants and enhancement of the coal-fired facilities.

At 31 March 2006, the Group had capital commitments of approximately HK$75 million in respect of acquisition of property, plant and equipment.

Charges on Assets

At 31 March 2006, investment properties and certain property, equipment, plant and machinery of the Group with net book value of approximately HK$112 million were pledged to banks to secure banking facilities granted.

Employee Information

As at 31 March 2006, total number of employees of the Group were approximately 290 in Hong Kong and Macau (2005: 220), approximately 10 (2005: 10) in the US and Canada, approximately 1,200 in Jordan (2005: nil), approximately 700 in Indonesia (2005: nil) and approximately 5,300 in the People's Republic of China (2005: 4,800). Remuneration packages are generally structured by reference to market terms and individual qualifications. Salaries and wages are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Bonuses are normally paid to management staff based on individuals' merits as well as the results of the Group. Other benefits to the staff include a provident fund scheme as well as medical insurance.

The Company maintains a share option scheme, pursuant to which share options are granted to selected eligible executives, with a view to providing senior management an appropriate incentive interest for the growth of the Group.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 22 August 2006 to Friday, 25 August 2006 (both days inclusive), during which period no transfer of Shares can be registered. In order to qualify for the final dividend for the year ended 31 March 2006, all transfer of Shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration by not later than 4:30 p.m. on Monday, 21 August 2006.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries, purchased, sold or redeemed any of the Company's listed securities.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company had complied throughout the year ended 31 March 2006 with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Rules ("Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, except for (i) code provision A.2.1 which stipulates that the roles of the chairman of the board of Directors and the chief executive officer of the Group should be separate and should not be performed by the same individual, (ii) B.1.1 which stipulates that the Company should establish a remuneration committee with specific written terms of reference, and (iii) C.3.3 which stipulates certain duties that should be included in the terms of reference of the audit committee of the Company. As at 31 March 2006, the above code provisions had been complied with by the Company.

To further align with the code provisions contained in Appendix 14 to the Listing Rules entitled "Code of Corporate Governance Practices" and to comply with the amended Appendix 3 to the Listing Rules, which became effective on 1 January 2005, a special resolution will be proposed at the forthcoming annual general meeting of the Company to approve certain amendments to the bye-laws of the Company.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted a code of conduct ("Code of Conduct") regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, all Directors have confirmed that they had complied with the required standard set out in the Code of Conduct during the year ended 31 March 2006.

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

Hong Kong, 12 July 2006

As at the date of this announcement, the executive directors of the Company are Mr. Li Ming Hung, Mr. Chen Tien Tui, Mr. So Kam Wah, 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.

Please also refer to the published version of this announcement in The Standard.