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If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Victory City International Holdings Limited, you should at once hand this circular with the accompanying form of election to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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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)

Executive Directors:

Li Ming Hung (*Chairman*)
Chen Tien Tui (*Managing Director*)
So Kam Wah
Lee Yuen Chiu, Andy
Choi Lin Hung

Registered office:

Clarendon House
Church Street
Hamilton HM 11
Bermuda

Independent non-executive Directors:

Kan Ka Hon
Phaisalakani Vichai
Kwok Sze Chi

*Head office and principal place
of business in Hong Kong:*

Unit D, 3rd Floor
Winfield Industrial Building
3 Kin Kwan Street
Tuen Mun, New Territories
Hong Kong

8 September 2006

To the shareholders of the Company ("**Shareholders**")

Dear Sirs,

SCRIP DIVIDEND SCHEME

INTRODUCTION

By the announcement of the Company dated 12 July 2006, the board of directors ("**Directors**") of Victory City International Holdings Limited ("**Company**", together with its subsidiaries, the "**Group**") announced the final results of the Group for the year ended 31 March 2006 and recommended, among

* For identification purpose only

other matters, the payment of a final dividend (“**Final Dividend**”) of HK\$0.06 per share (each a “**Share**”) of HK\$0.01 each in the share capital of the Company by way of cash with an option to elect to receive wholly or partly an allotment and issue of new Shares (“**Scrip Shares**”), credited as fully paid, in lieu of cash payment (“**Scrip Dividend Scheme**”). The Final Dividend is payable to the Shareholders (“**Qualifying Shareholders**”) whose names appeared on the register of members of the Company on 25 August 2006 (“**Record Date**”).

At the annual general meeting of the Company held on 25 August 2006, the Final Dividend and the Scrip Dividend Scheme were approved by the Shareholders.

SCRIP DIVIDEND SCHEME

Particulars of the Scrip Dividend Scheme

Under the Scrip Dividend Scheme, each Qualifying Shareholder has an option to elect to receive the Final Dividend:

- (a) by way of cash payment; or
- (b) by way of an allotment and issue of the Scrip Shares; or
- (c) by way of a combination of (a) and (b) above.

The number of Scrip Shares to be allotted and issued to a Qualifying Shareholder who elects either (b) or (c) above will be calculated with reference to the amount arrived at by dividing the total amount of the Final Dividend which he/she/it elects to be made payable to him/her/it by way of Scrip Shares by the average closing price of the Shares on The Stock Exchange of Hong Kong Limited (“**Stock Exchange**”) for the five consecutive trading days ended 25 August 2006 less a discount of five per cent. of such average closing price or the par value of the Shares, whichever is the higher.

The Scrip Shares to be allotted and 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 the Scrip Shares save that they will not be entitled to the Final Dividend. In particular, they will rank in full for all future dividends and distributions which may be declared, made or paid after the date of allotment and issue of the Scrip Shares, the Final Dividend or any other distribution in respect of the year ending 31 March 2007.

Basis of allotment and issue of Scrip Shares

For the purpose of calculating the number of Scrip Shares to be allotted and issued under the Scrip Dividend Scheme, the price per Scrip Share has been fixed by the Directors at HK\$2.3427 per Share after taking into account a five per cent. discount to HK\$2.466, being the average closing price of the Shares on the Stock Exchange for the five consecutive trading days ended 25 August 2006.

No Shareholder is entitled to be allotted and issued any fraction of a Scrip Share under the Scrip Dividend Scheme. Fractional entitlements to Scrip Shares will be aggregated and sold for the benefit of the Company.

For the purpose of reference only, Qualifying Shareholders who elect to receive Scrip Shares will receive such number of Scrip Shares (rounded down to the nearest whole number) calculated on the following basis:

$$\begin{array}{rclclcl} \text{Number of} & & \text{Number of existing Shares} & & & & \\ \text{Scrip Shares} & = & \text{for which share election} & \times & \frac{\text{HK\$0.06}}{\text{HK\$2.466}} & \times & \frac{100}{95} \\ \text{to be received} & & \text{is made} & & & & \end{array}$$

The basis of allotment and issue of the Scrip Shares under the Scrip Dividend Scheme was set out in the Company's announcement dated 25 August 2006.

Advantages of the Scrip Dividend Scheme

In arriving at the decision to recommend to the Qualifying Shareholders the Scrip Dividend Scheme, the Directors consider that, while the Company should declare the Final Dividend, the retention of cash, which would otherwise have been paid to the Qualifying Shareholders as cash dividend, within the Group would enhance the continuous growth, maintain the financial stability and reduce the financing costs of the Group. In addition, the Scrip Dividend Scheme will give the Qualifying Shareholders who wish to further invest in the Company the opportunity to increase their equity investment in the Company without incurring brokerage fees, stamp duty and related costs of dealings.

The form of election

Enclosed with this circular is a form of election. No action is required if you wish to receive the Final Dividend to which you are entitled wholly in cash.

If you wish to elect to receive the Final Dividend either wholly or partly in Scrip Shares, you must complete the form of election in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, **Secretaries Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Wednesday, 27 September 2006**. No acknowledgement of receipt of the form of election will be issued.

Please note that if you sign the form of election but do not specify the number of Shares in respect of which you wish to receive your Final Dividend in Scrip Shares or, if you elect for payment of the Final Dividend in Scrip Shares in respect of a greater number of Shares than your registered holding of Shares, then in either case you will be deemed to have exercised your election for Scrip Shares in lieu of cash in respect of all the Shares registered in your name.

If you do not complete and return the form of election before the time and in the manner stated above, you will receive the whole of your Final Dividend in cash.

Qualifying Shareholders

As at the Record Date, no Shareholders had a registered address outside Hong Kong as appeared on the register of members of the Company. Accordingly, all Shareholders whose names appeared on the register of members of the Company on the Record Date fall within the definition of Qualifying Shareholders and are therefore eligible to participate in the Scrip Dividend Scheme.

Listing of the Scrip Shares and despatch of certificates of the Scrip Shares

Application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Scrip Shares to be allotted and issued pursuant to the Scrip Dividend Scheme. No part of the Company's securities is listed or dealt in on any other stock exchange and no such listing or permission to deal is being, or is proposed to be sought.

It is expected that certificates for the Scrip Shares will be posted to the Qualifying Shareholders at their own risk on or about Friday, 13 October 2006. On this basis, dealings in the Scrip Shares are expected to commence on or about Tuesday, 17 October 2006.

Recommendation and advice

Whether or not it is to your advantage to receive the Final Dividend wholly in cash or in Scrip Shares or partly in cash and partly in Scrip Shares depends upon your own individual circumstances and on the movement of the Company's share price in the market. The decision in this regard and all consequences resulting therefrom are the sole responsibility of each Shareholder. If you are in any doubt as to what to do, you should consult your own professional adviser. This applies particularly to the Qualifying Shareholders who are trustees, who are recommended to seek professional advice as to whether they have the powers to make any relevant election and as to the effect of the election having regard to the terms of the relevant trust instrument.

Disclosure of Interests

Qualifying Shareholders should note that an acquisition of Scrip Shares under the Scrip Dividend Scheme may give rise to notification requirements under Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). Qualifying Shareholders who are in any doubt as to how these provisions may affect them are recommended to seek their own professional advice.

Yours faithfully,
For and on behalf of the board of Directors of
Victory City International Holdings Limited
Lee Chung Shing
Company Secretary