



VICTORY CITY INTERNATIONAL HOLDINGS LIMITED

冠華國際控股有限公司

## Results

The Directors of Victory City International Holdings Limited (the “Company”) are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2001 together with comparative figures for the previous period as follows:

### Condensed Consolidated Income Statement

	<i>Notes</i>	<b>Six months ended</b>	
		<b>30 September</b>	
		<b>2001</b>	2000
		<i>HK\$'000</i>	<i>HK\$'000</i>
		<b>(unaudited)</b>	(unaudited)
Turnover	3	<b>410,574</b>	287,624
Cost of sales		<b>(342,677)</b>	(239,355)
Gross profit		<b>67,897</b>	48,269
Other revenue		<b>1,612</b>	3,023
Distribution costs		<b>(11,980)</b>	(10,415)
Administrative expenses		<b>(33,003)</b>	(20,611)
Amortisation of goodwill		<b>(323)</b>	—
Profit from operations	4	<b>24,203</b>	20,266
Finance costs		<b>(5,288)</b>	(5,154)
Profit before taxation		<b>18,915</b>	15,112
Taxation	5	<b>(1,473)</b>	(615)
Profit after taxation		<b>17,442</b>	14,497
Minority interests		<b>(1,157)</b>	(5)
Net profit for the period		<b><u>16,285</u></b>	<u>14,492</u>
Basic earnings per share	6	<b><u>5.2 cents</u></b>	<u>6.2 cents</u>

There was no recognised gains or losses other than the net profit for the period.

## Condensed Consolidated Balance Sheet

		<b>30 September</b>	31 March
		<b>2001</b>	2001
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		<b>(unaudited)</b>	<b>(audited)</b>
<b>Non-current assets</b>			
Property, plant and equipment	7	<b>268,333</b>	251,360
Investment properties	8	<b>1,890</b>	1,890
Goodwill	9	<b>2,905</b>	—
		<u><b>273,128</b></u>	<u>253,250</u>
<b>Current assets</b>			
Inventories		<b>178,945</b>	153,684
Trade receivables	10	<b>216,348</b>	166,578
Deposits, prepayments and other receivables		<b>16,474</b>	15,187
Taxation recoverable		<b>55</b>	258
Bank balances and cash		<b>24,842</b>	11,207
		<u><b>436,664</b></u>	<u>346,914</u>
<b>Current liabilities</b>			
Trade payables	11	<b>114,395</b>	83,775
Other payables		<b>21,198</b>	28,553
Taxation payable		<b>5,995</b>	4,914
Obligations under finance leases — amount due within one year		<b>13,119</b>	14,581
Bank borrowings — amount due within one year		<b>138,632</b>	84,686
		<u><b>293,339</b></u>	<u>216,509</u>
<b>Net current assets</b>		<u><b>143,325</b></u>	<u>130,405</u>
		<u><b>416,453</b></u>	<u><b>383,655</b></u>
<b>Capital and reserves</b>			
Share capital	12	<b>3,318</b>	2,765
Reserves		<b>373,644</b>	344,226
		<u><b>376,962</b></u>	<u>346,991</u>
<b>Minority interests</b>		<u><b>6,991</b></u>	<u>974</u>
<b>Non-current liabilities</b>			
Obligations under finance leases — amount due after one year		<b>10,518</b>	14,661
Bank borrowings — amount due after one year		<b>21,982</b>	21,029
		<u><b>32,500</b></u>	<u>35,690</u>
		<u><b>416,453</b></u>	<u><b>383,655</b></u>

## Condensed Consolidated Cash Flow Statement

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2001</b>	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(unaudited)</b>	(unaudited)
Net cash outflow from operating activities	<b>(1,908)</b>	(3,086)
Net cash outflow from returns on investments and servicing of finance	<b>(5,637)</b>	(4,482)
Taxation (paid) refunded	<b>(742)</b>	430
Net cash outflow from investing activities	<b>(29,718)</b>	(8,958)
	<hr/>	<hr/>
Net cash outflow before financing	<b>(38,005)</b>	(16,096)
Net cash inflow from financing	<b>44,656</b>	13,607
	<hr/>	<hr/>
Increase (decrease) in cash and cash equivalents	<b>6,651</b>	(2,489)
Cash and cash equivalents at beginning of the period	<b>8,641</b>	13,213
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Cash and cash equivalents at end of the period	<b>15,292</b>	10,724
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## Notes to the Condensed Financial Statements

### 1. Basis of Preparation

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

### 2. Principal Accounting Policies

The condensed financial statements have been prepared under the historical cost convention as modified for the revaluation of investments properties.

The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2001, except for the change in inventories cost method and for the first time adoption of a number of new and revised SSAPs, which has resulted in new/revised accounting policy as described below.

#### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs to complete production and the estimated costs necessary to make the sale.

In previous years, cost of inventories was calculated using the first-in, first-out method. With effect from 1 April 2001, cost of inventories is calculated using the weighted average method, which is a more appropriate method to reflect the cost of inventories in the Group’s circumstances. This change in calculation basis has not had any significant effect on the results for the current or prior accounting period.

#### Goodwill

In the current period, the Group has adopted SSAP 30 “Business Combinations” and has elected not to restate goodwill previously eliminated against reserves. Accordingly, goodwill arising on acquisitions prior to 1 April 2001 is held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions after 1 April 2001 is capitalised and amortised over its estimated useful life of five years.

Adoption of other new/revised accounting policies has not had any significant effect on the results for the current or prior accounting periods.

### 3. Segmental Information

	Turnover		Profit from operations	
	Six months ended		Six months ended	
	30 September		30 September	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Business segments</b>				
Provision of fabric knitting, dyeing and finishing services	290,569	287,624	21,568	20,266
Sales of garments	120,005	—	2,635	—
	<u>410,574</u>	<u>287,624</u>	<u>24,203</u>	<u>20,266</u>
<b>Geographical segments</b>				
Hong Kong and other regions in the People's Republic of China	223,987	232,590	18,769	18,611
United States of America	106,431	55,034	2,409	1,655
Others	80,156	—	3,348	—
Amortisation of goodwill	—	—	(323)	—
	<u>410,574</u>	<u>287,624</u>	<u>24,203</u>	<u>20,266</u>

### 4. Profit from Operations

	Six months ended	
	30 September	
	2001	2000
	HK\$'000	HK\$'000
Profit from operations for the current period has been arrived at after charging (crediting):		
Depreciation	14,503	11,846
Interest income	<u>(162)</u>	<u>(672)</u>

## 5. Taxation

Six months ended 30 September	
2001	2000
<i>HK\$'000</i>	<i>HK\$'000</i>

The tax charge comprises:

Hong Kong Profits Tax calculated at 16% of the estimated

assessable profit for the period

(924)

(325)

Taxation in other jurisdictions

(549)

(290)

(1,473)

(615)

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

## 6. Basic Earnings Per Share

The calculation of basic earnings per share is based on the net profit for the period of HK\$16,285,000 (2000: HK\$14,492,000) and on the weighted average number of 311,531,016 shares (2000: 233,925,248 shares) in issue during the period. The basic earnings per share for 2000 has been adjusted for the bonus issue in January 2001.

## 7. Additions to Property, Plant and Equipment

During the period, the Group spent approximately HK\$29,113,000 on additions to property, plant and equipment.

## 8. Investment Properties

At 30 September 2001, the directors have considered the carrying amounts of the Group's investment properties carried at the revalued amounts and have estimated that the carrying amounts as at 30 September 2001 do not differ significantly from the open market value of those properties as at 30 September 2001. Consequently, no revaluation surplus or deficit has been recognised in the current period.

## 9. Goodwill

*HK\$'000*

### COST

Arising on acquisition of a subsidiary during the period and

balance at 30 September 2001

3,228

### AMORTISATION

Provided for the period and balance at 30 September 2001

(323)

### CARRYING AMOUNT

At 30 September 2001

2,905

**10. Trade Receivables**

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

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

	<b>30 September 2001 HK\$'000</b>	31 March 2001 HK\$'000
0-60 days	139,349	88,913
61-90 days	39,923	41,402
Over 90 days	37,076	36,263
	<u>216,348</u>	<u>166,578</u>

**11. Trade Payables**

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

	<b>30 September 2001 HK\$'000</b>	31 March 2001 HK\$'000
0-60 days	81,745	44,810
61-90 days	13,983	10,153
Over 90 days	18,667	28,812
	<u>114,395</u>	<u>83,775</u>

**12. Share Capital**

Ordinary shares of HK\$0.01 each

*Authorised:*

At 1 April 2001 and 30 September 2001	<u>40,000,000,000</u>	<u>400,000</u>
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*Issued and fully paid:*

At 1 April 2001	276,480,000	2,765
Issue of new shares ( <i>note</i> )	<u>55,296,000</u>	<u>553</u>
At 30 September 2001	<u>331,776,000</u>	<u>3,318</u>

*Note:* Pursuant to a placing agreement dated 24 May 2001, an aggregate of 55,296,000 ordinary shares of HK\$0.01 each in the Company were placed by Pearl Garden Pacific Limited and Madian Star Limited, two controlling shareholders of the Company, to independent investors at the price of HK\$0.25 per share. On completion of placing, Pearl Garden Pacific Limited and Madian Star Limited together subscribed for an aggregate of 55,296,000 new shares in the Company at the price of HK\$0.25 per share.



### 13. Acquisition of a Subsidiary

On 1 April 2001, the Group acquired 51% of the issued share capital of Ford Glory International Limited, a private limited company incorporated in Hong Kong and engaged in garments trading, for a cash consideration of approximately HK\$8.3 million. This transaction has been accounted for using the acquisition method of accounting.

The effect of the acquisition is summarised as follows:

	<i>HK\$'000</i>
Net assets acquired	9,918
Minority interests	(4,860)
	<u>5,058</u>
Goodwill	3,228
	<u>8,286</u>
Cash consideration	<u>8,286</u>
Net cash outflow arising on acquisition:	
Cash consideration	(8,286)
Bank balances and cash acquired	4,807
	<u>(3,479)</u>

The subsidiary acquired during the period contributed HK\$120,005,000 to the Group's turnover and HK\$2,958,000 to the Group's profit from operations.

### 14. Contingencies and Capital Commitments

	<b>30 September</b>	31 March
	<b>2001</b>	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bills discounted with recourse	<u>4,588</u>	<u>6,329</u>
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements	<u>38,731</u>	<u>40,387</u>

## Interim Dividend

The Directors have resolved not to declare any interim dividend for the year ending 31 March 2002 (2001: nil).

## Business Review and Prospects

During the period under review, total turnover was HK\$411 million, representing a growth of 42.7% as compared to HK\$288 million in the corresponding period last year. Net profit for the period increased by 12.4% to HK\$16.3 million and basic earnings per share was 5.2 cents (2000: 6.2 cents).

The increase in turnover was mainly due to the consolidation of the result of the newly acquired 51%-owned garment trading subsidiary, Ford Glory International Limited. The acquisition was perceived by the Directors as an appropriate way to diversify the business risk and capitalise on the Group's existing expertise by exploring related business opportunities.

The business environment in the period under review remained similar as the second half of last financial year. Slowdown of worldwide economy and fierce market competition continued to intensify margin pressures. Fortunately, interest rate began to fall and together with the management's tight rein over cost and inventory control, the Group was able to maintain its level of profitability.

The United States market is one of the core markets of the Group's customers. The United States economy is currently experiencing a slowdown with weak consumer spending especially after the terrorist attacks. Although there is no significant impact on the current orders on hand, the Group must be well-prepared for the unfavourable market conditions and to remain competitiveness by means of cost rationalisation and provision of comprehensive services and high quality products.

Confronted with the adverse condition of the local and external economies, the Group is committed to deliver value and return to shareholders with all strengths. The Directors are creating the right structure to underpin the development of business and to achieve economies of scale. The management strongly believe that the Group's business will continue to provide positive return in the second half of the financial year.

## Liquidity and Financial Resources

As at 30 September 2001, the Group had total assets of HK\$709,792,000 (31 March 2001: HK\$600,164,000) which were financed by current liabilities of HK\$293,339,000 (31 March 2001: HK\$216,509,000), long term liabilities of HK\$32,500,000 (31 March 2001: HK\$35,690,000) and shareholders' equity of HK\$376,962,000 (31 March 2001: HK\$346,991,000) The current ratio was approximately 1.5 (31 March 2001: 1.6) and the gearing ratio, being the ratio of total borrowings (net of bank balances and cash) to shareholders' funds was 42.3% (31 March 2001: 35.7%). The Directors are comfortable to maintain the ratios at this level. 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.

## Charges on Assets

At 30 September 2001, investment properties and certain property, equipment, plant and machinery of the Group with net book value of approximately HK\$37 million (31 March 2001: approximately HK\$39 million) were pledged to banks to secure banking facilities granted.

## Contingent Liabilities

The Group's contingent liabilities as at 30 September 2001 were HK\$4,588,000 (31 March 2001: HK\$6,329,000) in relation to bills discounted with recourse.

## Employee Information

As at 30 September 2001, total number of employees of the Group were approximately 85 in Hong Kong, approximately 5 in the United States and approximately 1,300 in the People's Republic of China. 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 provide senior management with an appropriate incentive interest in the growth of the Group.

## Directors' Interests in Securities

At 30 September 2001, the interests of the directors in the shares of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Hong Kong's Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

Name of director	Number of shares of HK\$0.01 each	
	Personal interests	Other interests
Mr. Li Ming Hung ( <i>Note (1)</i> )	—	60,000,000
Mr. Chen Tien Tui ( <i>Note (2)</i> )	461,600	60,000,000
Mr. Phaisalakani Vichai (Andy Hung)	400,000	—

*Notes:*

- (1) These shares were owned by Pearl Garden Pacific Limited, a company beneficially owned by a discretionary trust the objects of which include Mr. Li Ming Hung and his family.
- (2) The shares described as "other interests" were owned by Madian Star Limited, a company beneficially owned by a discretionary trust the objects of which include Mr. Chen Tien Tui and his family.

No director held an interest in the securities of any subsidiaries of the Company or any of its associated corporations as defined in the SDI Ordinance as at 30 September 2001 except for the following:

- (a) One nominee share in each of Victory City Company Limited, Grace Link Enterprises Limited and Best Color Development Limited is held by Mr. Li Ming Hung in trust for the Group;
- (b) Each of Messrs. Li Ming Hung and Chen Tien Tui holds 4,000,000 non-voting deferred shares in Victory City Company Limited;
- (c) Each of Messrs. Li Ming Hung and Chen Tien Tui holds 1,300 redeemable non-voting preference shares in Victory City Overseas Limited; and
- (d) Mr. Choi Lin Hung holds 2,450,000 ordinary shares in Ford Glory International Limited and 700 redeemable non-voting preference shares in Victory City Overseas Limited.

Other than as disclosed above, none of the directors, or their associates, had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance, and none of the directors, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

### **Substantial Shareholders**

As at 30 September 2001, the register of substantial shareholders maintained by the Company under Section 16(1) of the SDI Ordinance showed that, other than the interests disclosed above in respect of the directors, the Company has not been notified of any interests representing 10% or more of the Company's issued share capital.

### **Purchase, Sale or Redemption of the Company's Listed Securities**

During the six months ended 30 September 2001, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

### **Audit Committee**

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim financial statements.

## Code of Best Practice

None of Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 September 2001, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

By Order of the Board

**Li Ming Hung**

*Chairman*

Hong Kong, 6 December 2001



VICTORY CITY INTERNATIONAL HOLDINGS LIMITED

冠華國際控股有限公司

Incorporated in Bermuda with limited liability 於百慕達註冊成立之有限公司