



On behalf of the Board of Directors of Victory City International Holdings Limited (the "Company") and its subsidiaries (the "Group"), I am pleased to announce our accomplishments to the shareholders for the financial year ended 31 March 2002, being its fourth consecutive year of increase in both turnover and net profit.

### DIVIDENDS

The Directors have resolved to recommend the payment of a final dividend of HK3.0 cents per share (each a "Share") of HK\$0.01 each of the Company in respect of the year ended 31 March 2002 to shareholders whose names appear on the register of members of the Company on 23 August 2002 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, 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.



### BUSINESS REVIEW

Over the past few years, the Group has experienced steady growth in business, and this financial year was no exception. Despite the slowdown of the worldwide economy, the Group has experienced yet another year crowned with success.



The Group has further reaped the benefits of the management's decisive cost cutting measures, aggressive marketing strategy and diversification of fabric-related business. Total turnover for the year surged to HK\$873 million, representing a growth of 44.6% as compared with that in the previous year. Net profit for the year rose substantially by 41.1% to HK\$33.7 million. Basic earnings per share increased slightly from 9.4 cents to 10.2 cents.

2001/2002 was a year of excitement and challenges. It started with the acquisition of a 51%-owned garment subsidiary in April 2001, signifying the Group's forward integration of fabric-related business. The "September 11" incident added pressure and uncertainty to the global economy. Close to the end of 2001, the construction work of the coal-fired facility for producing steam and electricity was completed, indicating that a major cost-saving measure was achieved.

The increase in total turnover was mainly attributable to the result of the garment trading subsidiary, Ford Glory International Limited ("Ford Glory"). Ford Glory is engaged in sourcing and trading of a wide range of garment apparels. The customers are reputable department/chain stores and importers in the major markets of the United States ("US"), United Kingdom, Canada and Mexico. The Directors considered the acquisition of Ford Glory an active step to further integrate its business and add contribution to the Group's result.

During the year under review, a steady growth in sales of knitted fabric was achieved despite the global economic recession and the "September 11" incident. Severe market competition continuously put pressure on product prices. In fact, sales in terms of output quantities did increase by 17% as compared with the previous year whereas sales in terms of monetary value recorded only a 5% increase due to the downward adjustment of product prices. Since material costs also came down during the year, profit margin was not much affected. In addition, the Group has shortened manufacturing lead time through improvements in production capacity and efficiency. The sale teams adopted a more aggressive marketing strategy and developed new customers in both local and overseas markets. The management continued to exercise tight cost and inventory control. As a result, the gross profit margin for the fabric-sale business increased from 15% in 2001 to 20% in 2002.





Additional cost savings were generated with the implementation of the new coal-fired facility in December 2001. This favourable impact will be intensified in the coming years.

In January 2002, the Company announced the proposed acquisition of 25% interest in Zhangjiajie Tsinghua Science Park Green Pharmaceutical Co., Ltd for a consideration of RMB8 million. Up to the date of this report, the consideration has not yet paid as the medium stage of testing on the extraction technology and the production of the puerarin pharmaceutical products are still in trial.

### OUTLOOK

Despite the durability of recovery to the global economy has not yet been verified, considering the optimistic evidences to the circumstances up to now, the Directors believe that the turnover of the Group for the coming year will increase considerably according to the existing orders on hand and our enhanced competitive advantages. Efforts will be made to increase productivity in order to cope with market demand. The Group will invest approximately HK\$60 million to expand and upgrade its production facilities so as to enhance production capabilities and to further reduce the manufacturing lead time. The production capability of the Xinhui factory will be doubled to monthly output of 6 million pounds when all the new machines are installed.

Regarding the business of Ford Glory, the management expects substantial growth as a result of expanding sales to existing reputable clients and to new clientele bases in both the US and European markets. Competitive advantages of Ford Glory have also been enhanced by its effort to conclude direct sales to the US and Canadian buyers under landed-duty-paid programmes.



The business environment saw an increase in competition, bringing higher expectation from customers. In order to fulfil the requirements of the customers, the Group will dedicate its effort to improve the quality of the products and services. The Xinhui factory has obtained the ISO quality assurance certificate in July 2002. The Directors believe that more orders can be obtained by providing satisfactory services to customers.

The strategic approach over recent years has successfully created steady earnings growth through increased turnover and profits. The Group will continue to pursue the further development of existing core business while also diversifying product range and geographical sales base. The Directors will strive to further control cost structure and to improve management skill so as to provide superior products and services. The Group is well positioned to aim higher and to capitalise on any strategic opportunities that can bring value to shareholders and to maintain the growth record.

### APPRECIATIONS

Finally, I would like to express my appreciation to all our shareholders, business partners and customers for their continued support and confidence in the Group. I would also like to thank our management team and staff for their efforts and significant contributions in the past and in the years to come.

**Li Ming Hung**

*Chairman*

Hong Kong

16 July 2002

