

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of Victory City International Holdings Limited (the “Company”) and its subsidiaries (the “Group”), I have pleasure to report that the Group has achieved another year of growth.

Results

For the year ended 31 March 2001, with the dedication and hard work of the management and all staff, total turnover reached HK\$603 million, an increase of 23.7% over the previous year. Net profit for the year slightly increased by 1.5% to HK\$23.9 million and basic earnings per share was 9.4 cents (2000: 10.2 cents).

Dividends

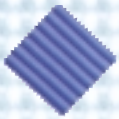
The Directors have resolved not to declare any final dividend for the year ended 31 March 2001 (2000: nil). This is the Group’s strategy to retain sufficient working capital for the operation and development in the current year.

Business Review and Prospects

The continuous increase in turnover last year was encouraging but it was disappointing that such growth momentum was not reflected in profitability. Despite the fact that the Group had increased its production efficiency and adopted more aggressive marketing strategies to obtain more orders, the keen market competition placed margins under pressure. The situation was intensified in the second half of the financial year when the economy of the United States slowed down abruptly. Low margin orders had to be considered in order to absorb overheads.

Apart from the aforesaid, as the market outlook in the United States remained uncertain, the buyers shortened the ordering lead time so as to minimize carrying costs of inventory. The Group’s effort to provide more comprehensive and flexible services to the customers led to increase in operating costs. This, together with the rapid increase in oil price, has brought detrimental effect on the Group’s profit. As a result of all these, the gross profit margin was reduced from 17% in previous year to 15% for the period under review.

In view of the difficult trading conditions and uncertainties of the worldwide economy, the management strove to control its production overheads harshly in order to maintain a favourable profit margin and to increase competitiveness of the Group. In January 2001, the construction work of a coal-fired facility for producing steam and electricity was commenced. The new plant will, upon completion in October 2001, reduce approximately 30-40% of the existing fuel costs and lessen the burden of possible oil price fluctuations in the future.



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The Group continued to concentrate its efforts on cultivating Hong Kong and previously untapped markets such as Japan, Taiwan, South East Asia and the PRC to broaden its customer base. Besides, the Group had formed extensive strategic alliance with a few esteemed and financially sounded garment manufacturers so as to maintain a long-term relationship and a reliable source of income.

Subsequent to the balance sheet date, the Group acquired 51% interest in a garment trading company at a consideration of approximately HK\$8 million. The Directors considered this an opportunity for the Group to obtain new customers as well as to diversify the business.

In face of market uncertainties and vigorously changing trading environment, the Group will continue to take a positive approach to meet the challenges. The Directors and the staff are dedicating all their efforts to strengthen the Group in order to bring more returns to the shareholders within the coming years.

Appreciation

I would like to take this opportunity to welcome Mr. Lee Yuen Chiu, Andy and Mr. Choi Lin Hung as our Executive Directors. Their invaluable experience in the textile industry will make significant impact to the future development of the Group.

Last but not the least, I would like to express my warmest appreciation to all our staff for their efforts and dedication in meeting our goals, and to all customers, business associates and shareholders for your continued support of the Group.

Li Ming Hung

Chairman

Hong Kong

11 July 2001