

Chairman's Statement



On behalf of the Board of Directors (the "Directors") of Victory City International Holdings Limited (the "Company") and its subsidiary companies (the "Group"), it gives me great pleasure to present to our shareholders the results for the year ended 31 March 2003. The Group has experienced another year crowned with success with both turnover and net profit achieved record high in our Company's history.

Dividends

The Directors have resolved to recommend the payment of a final dividend of HK4.0 cents (2002: HK3.0 cents) per share with an option for shareholders to receive the dividend wholly or partly by allotment of new shares of the Company in lieu of cash. Together with the interim dividend of HK3.0 cents (2002: nil) per share, there was an increase of 133% as compared to the previous year.

Business Review

With the consolidated efforts of all concerned, we report 2002/03 as a fruitful year, being the fifth successive year detailing growth in turnover and net profit. As one of the leaders in the textile and garment industry, the Group has achieved outstanding performance based on our strength, experience and foresight.

The Group's turnover rose substantially to HK\$1.25 billion, signifying an increase of 43% as compared with the previous year. Net profit for the year strengthened to HK\$92.3 million which exhibited a 174% growth. Basic earnings per share escalated by 131% to 23.6 cents.

The key word for the year under review was "competition". The business environment experienced an increase in competition and higher expectations from customers. The challenge offered by a competitive environment affects every aspects of our business including enhanced production capacity by acquisition and upgrading of machinery, strengthened sale teams and continued improvements in efficiency, productivity and turnaround time. While planning for the future and ensuring adequate finance for our business development, we never lose focus on cost reduction exercises in all areas.

Indeed, we attribute the encouraging results to a series of well-elaborated strategies over the years which emphasized on rational growth of our core businesses, and at the same time seek opportunities complementary to our goals. With the management's long term vision, the Group has become a vertical dynamic enterprise. Providing customers with an efficient and effective "one-stop" integrated service, from the operation of yarn-dyeing and manufacturing of knitted fabric to sourcing and exporting of garment apparels. Our efforts have been reflected in the performance of these business segments, and as we look ahead, we will continue to emphasize innovation in our response to the rapid changes in trends and market conditions and fulfil our commitment to customers.

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Production and sale of knitted fabrics remained as the core business of the Group. Turnover of this segment reached HK\$765 million, representing a 32% growth as compared with last year. During the year, we have invested approximately HK\$56 million in upgrading and acquisition of advanced machineries and the production capability of our Xinhui factory was almost doubled to a monthly output of 6 million pounds. The improvements in production capacity and efficiency contribute to our rapid growth in turnover. Besides, the increase in profit margin was attributable to the cost cutting measures implemented over the years, particularly with the operation of our coal-fired facility, generating steam and electricity for the Xinhui production plant. The savings, together with the increased productivity, achieved economies of scale and raised the gross profit margin from 20.3% in 2002 to 23.5% in 2003.

Our forward integration of fabric-related business has proved rewarding. The garment trading business performed remarkably for the year under review, achieving a 65% growth in turnover to HK\$484 million. Strong financial support from the holding company and dedicated effort of the sale teams to exploit new customers and markets contributed to the substantial turnover growth. In addition, we started to conduct direct sales services to reputable buyers in the United States of America and Canada through landed-duty-paid programmes which boosted the turnover as well as the profit margins. The uprising trend of this segment is well-maintained and new customers from the United States of America, United Kingdom, Continental Europe and Japan are under negotiations.



Outlook

In the years to come, the Group will dedicate its efforts to establishing itself as a strong enterprise in the textile and garment industry as well as to capitalise on its solid foundation and expertise. Measures and endeavors will also be made to fine-tune the Group's business portfolio and to exploit larger market share with a view to improving its competitive edges and profitability. More rigorous cost control will be another task set for the management.

To enhance our product range and clientele base as well as to strengthen our competitive advantages, approximately HK\$150 million has been invested to develop a new yarn-dyeing facility within our Xinhui factory premises. We believe that there are growing demands for the yarn-dyeing services and this vertical integration will strengthen the Group's position in the textile industry by offering comprehensive and quality services to our customers. The new yarn-dyeing facility, with a monthly production capability of over 3 million pounds, is expected to commence operation in late July 2003. It is anticipated that this new business segment will play a significant role in our corporate development and will contribute to both turnover and profit growth in the coming years.

To cope with the sustained demand for knitted fabric, the Group is also planning to increase the production capacity of knitted fabric up to 9 million pounds per month by the middle of 2004.

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In order to facilitate our investment in the yarn-dyeing and piece-dyeing business, we raised HK\$288 million by a syndicated loan in June 2003. It is a 3½ year facility bearing a competitive interest margin of HIBOR+0.70% per annum. With this loan facility in place, we are confident of meeting our business objectives and effectively planning for our future.

While the year ahead will be a challenging one, the Group will continue to focus on achieving our objectives within our core businesses. With all measures taken and investments made in the previous and coming years, we are highly optimistic about the outlook for the coming future. With the anticipated encouraging growth in the area of production and sale of knitted fabric and dyed yarn as well as sourcing and exporting of garment apparels, we are confident that the Group will be able to bring the most satisfactory returns to our shareholders.

Appreciations

Finally, on behalf of the Board, I would like to thank our management and associates whose dedication and hard work have allowed us to fully achieve our goals. I would also like to express my sincere thanks and gratitude to our customers, suppliers, business partners and shareholders for their constant and continuous support.

Li Ming Hung

Chairman

Hong Kong

8 July 2003