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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: 0539)

### **ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 MARCH 2010**

#### **RESULTS**

The directors (the “Directors”) of Victory City International Holdings Limited (the “Company”) are pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 March 2010 (which have been reviewed by the audit committee of the Company) with comparative figures for the previous year as follows:

#### **CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

*FOR THE YEAR ENDED 31 MARCH 2010*

		<b>2010</b>	<b>2009</b>
	<i>Notes</i>	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
Revenue	2	<b>3,863,612</b>	4,090,493
Cost of sales		<b><u>(3,144,737)</u></b>	<u>(3,427,189)</u>
Gross profit		<b>718,875</b>	663,304
Other income		<b>3,773</b>	15,317
Other gains and losses	3	<b>21,889</b>	(20,504)
Distribution and selling expenses		<b>(70,584)</b>	(87,563)
Administrative expenses		<b>(256,316)</b>	(251,943)
Finance costs	4	<b><u>(47,736)</u></b>	<u>(60,579)</u>
Profit before tax		<b>369,901</b>	258,032
Income tax expense	5	<b><u>(32,325)</u></b>	<u>(17,120)</u>

\* *for identification purposes only*

	<i>Notes</i>	<b>2010</b> <b>HK\$'000</b>	2009 HK\$'000
Profit for the year	6	<b>337,576</b>	240,912
Exchange differences arising on translation of foreign operations, representing other comprehensive income for the year		<u><b>(2,123)</b></u>	<u>4,874</u>
Total comprehensive income for the year		<u><b>335,453</b></u>	<u><b>245,786</b></u>
Profit for the year attributable to:			
Owners of the Company		<b>314,627</b>	216,865
Minority interests		<u><b>22,949</b></u>	<u>24,047</u>
		<u><b>337,576</b></u>	<u><b>240,912</b></u>
Total comprehensive income attributable to:			
Owners of the Company		<b>312,504</b>	221,739
Minority interests		<u><b>22,949</b></u>	<u>24,047</u>
		<u><b>335,453</b></u>	<u><b>245,786</b></u>
Earnings per share	8		
Basic		<u><b>30.4 cents</b></u>	<u>29.7 cents</u>
Diluted		<u><b>N/A</b></u>	<u>N/A</u>

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 MARCH 2010

	Notes	2010 HK\$'000	2009 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment		2,294,777	2,444,630
Prepaid lease payments		34,333	49,147
Goodwill		6,185	6,185
Interest in a jointly controlled entity		–	–
Deposit paid for acquisition of property, plant and equipment		1,859	4,306
		<u>2,337,154</u>	<u>2,504,268</u>
<b>Current assets</b>			
Inventories		1,680,996	1,357,908
Trade and bills receivables	9	975,169	875,514
Deposits, prepayments and other receivables		134,919	107,476
Prepaid lease payments		862	1,237
Derivative financial instruments		–	3,172
Bank balances and cash		547,779	546,477
		<u>3,339,725</u>	<u>2,891,784</u>
Assets classified as held for sale		28,118	–
		<u>3,367,843</u>	<u>2,891,784</u>
<b>Current liabilities</b>			
Trade payables	10	424,935	376,913
Other payables		144,904	112,063
Dividend payable		91	83
Taxation payable		78,734	60,583
Bank borrowings - amount due within one year		767,739	1,082,727
Structured borrowings - amount due within one year		19,947	18,792
Derivative financial instruments		–	11,680
		<u>1,436,350</u>	<u>1,662,841</u>
Liabilities associated with assets classified as held for sale		22,282	–
		<u>1,458,632</u>	<u>1,662,841</u>
<b>Net current assets</b>		<u>1,909,211</u>	<u>1,228,943</u>
<b>Total asset less current liabilities</b>		<u><u>4,246,365</u></u>	<u><u>3,733,211</u></u>

	<i>Notes</i>	<b>2010</b> <b>HK\$'000</b>	2009 HK\$'000
<b>Capital and reserves</b>			
Share capital		<b>10,641</b>	10,255
Reserves		<b>3,067,199</b>	2,719,628
Equity attributable to owners of the Company		<b>3,077,840</b>	2,729,883
Minority interests		<b>142,212</b>	142,331
<b>Total equity</b>		<b>3,220,052</b>	2,872,214
<b>Non-current liabilities</b>			
Bank borrowings – amount due after one year		<b>1,010,623</b>	830,631
Structured borrowings – amount due after one year		<b>9,974</b>	28,188
Deferred taxation		<b>5,716</b>	2,178
		<b>1,026,313</b>	860,997
		<b>4,246,365</b>	3,733,211

## 1. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

In the current year, the Group has applied the following new and revised standards, amendments and interpretations (the “new and revised HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowings Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) - Int 9 and HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) - Int 13	Customer Loyalty Programmes
HK(IFRIC) - Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) - Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) - Int 18	Transfers of Assets from Customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current and prior accounting periods.

### **HKAS 1 (Revised 2007) “Presentation of Financial Statements”**

HKAS 1 (Revised 2007) has introduced a number of terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

### **HKFRS 8 “Operating Segments”**

HKFRS 8 is a disclosure standard that has not resulted in a redesignation of the Group’s reportable segments (see note 2).

## **Improving Disclosures about Financial Instruments (Amendments to HKFRS 7 “Financial Instruments: Disclosures”)**

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The amendments also expand and amend the disclosures required to liquidity risk. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008 <sup>1</sup>
HKFRSs (Amendments)	Improvements to HKFRSs 2009 <sup>2</sup>
HKFRSs (Amendments)	Improvements to HKFRSs 2010 <sup>3</sup>
HKAS 24 (Revised)	Related Party Disclosures <sup>7</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>1</sup>
HKAS 32 (Amendment)	Classification of Rights Issues <sup>5</sup>
HKAS 39 (Amendment)	Eligible Hedged Items <sup>1</sup>
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters <sup>5</sup>
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS7 Disclosures for First-time Adopters <sup>6</sup>
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions <sup>4</sup>
HKFRS 3 (Revised)	Business Combinations <sup>1</sup>
HKFRS 9	Financial Instruments <sup>8</sup>
HK(IFRIC) - Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement <sup>7</sup>
HK(IFRIC) - Int 17	Distributions of Non-cash Assets to Owners <sup>1</sup>
HK(IFRIC) - Int 19	Extinguishing Financial Liabilities with Equity Instruments <sup>6</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2009

<sup>2</sup> Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2010

<sup>5</sup> Effective for annual periods beginning on or after 1 February 2010

<sup>6</sup> Effective for annual periods beginning on or after 1 July 2010

<sup>7</sup> Effective for annual periods beginning on or after 1 January 2011

<sup>8</sup> Effective for annual periods beginning on or after 1 January 2013

The application of HKFRS 3 (Revised) may affect the Group’s accounting for business combination for which the acquisition date is on or after 1 April 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group’s ownership interest in a subsidiary. HKAS 27 (Revised) may not have material effect in relation to changes in the Group’s ownership interest in a subsidiary that do not give rise to loss of control because the Group’s current accounting policies on this aspect is consistent with those set out in HKAS 27 (Revised).

As part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. The amendments will be effective from 1 April 2010, with earlier application permitted. Before the amendments to HKAS 17, leasees were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of the amendments to HKAS 17 might affect the classification of the Group's leasehold land.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

## **2. SEGMENT INFORMATION**

The Group has adopted HKFRS 8 Operating Segments with effect from 1 April 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to segments and to assess their performance. The chief operating decision maker is the Company's board of directors. In contrast, the predecessor Standard (HKAS 14, Segment Reporting) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments. In the past, the Group's primary reporting format was business segments.

For the year ended 31 March 2010, for the purpose of resources allocation and performance assessment, the Company's board of directors review operating results and financial information on (i) a subgroup of production and sales of knitted fabric and dyed yarn; and (ii) two subgroups of production and sale of garment products. The subgroup of production and sales of knitted fabric and dyed yarn constitutes an operating segment of the Group. The two subgroups of production and sale of garment products are aggregated in a single operating segment as they have similar economic characteristics such as production and sales of garment products and share of same distribution channel to similar class of customers. The application of HKFRS 8 has not resulted in a redesignation of the Group's operating segments as compared with the primary segments determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

At the end of the reporting period, the Group's operations are organised into two operating segments:

- (i) Knitted fabric and dyed yarn – Production and sale of knitted fabric and dyed yarn and provision of related subcontracting services
- (ii) Garment products – Production and sale of garment products and provision of quality inspection services

The following is an analysis of the Group's revenue and results by operating segments:

**Year ended 31 March 2010**

	Knitted fabric and dyed yarn <i>HK\$'000</i>	Garment products <i>HK\$'000</i>	Segment total <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>REVENUE</b>					
External sales	2,969,261	894,351	3,863,612	–	3,863,612
Inter-segment sales	32,016	–	32,016	(32,016)	–
	<u>3,001,277</u>	<u>894,351</u>	<u>3,895,628</u>	<u>(32,016)</u>	<u>3,863,612</u>
<b>RESULTS</b>					
Segment results	<u>353,378</u>	<u>49,511</u>	<u>402,889</u>	<u>–</u>	<u>402,889</u>
Unallocated corporate income					26,995
Unallocated corporate expenses					(12,247)
Finance cost					<u>(47,736)</u>
Profit before tax					<u>369,901</u>

**Year ended 31 March 2009**

	Knitted fabric and dyed yarn <i>HK\$'000</i>	Garment products <i>HK\$'000</i>	Segment total <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>REVENUE</b>					
External sales	2,806,225	1,284,268	4,090,493	–	4,090,493
Inter-segment sales	98,495	–	98,495	(98,495)	–
	<u>2,904,720</u>	<u>1,284,268</u>	<u>4,188,988</u>	<u>(98,495)</u>	<u>4,090,493</u>
<b>RESULTS</b>					
Segment results	<u>307,169</u>	<u>53,560</u>	<u>360,729</u>	<u>–</u>	<u>360,729</u>
Unallocated corporate income					5,013
Unallocated corporate expenses					(47,131)
Finance cost					<u>(60,579)</u>
Profit before tax					<u>258,032</u>



Segment profit represents the profit earned by each segment without allocation of rental income from investment properties, gain on fair value changes of derivative financial instruments, central administration costs and finance costs. This is the measure reported to the board of directors for the purposes of resource allocation and performance assessment. Inter-segment sales are charged at prevailing market rate.

### Segment assets and liabilities

#### At 31 March 2010

	<b>Knitted fabric and dyed yarn HK\$'000</b>	<b>Garment products HK\$'000</b>	<b>Consolidated HK\$'000</b>
<b>ASSETS</b>			
Segment assets	4,778,589	349,404	5,127,993
Unallocated assets			548,886
Assets classified as held for sale			28,118
			<hr/>
Consolidated total assets			<b>5,704,997</b>
			<hr/> <hr/>
<b>LIABILITIES</b>			
Segment liabilities	417,421	150,657	568,078
Unallocated liabilities			1,894,585
Liabilities associated with assets classified as held for sale			22,282
			<hr/>
Consolidated total liabilities			<b>2,484,945</b>
			<hr/> <hr/>

#### At 31 March 2009

	<b>Knitted fabric and dyed yarn HK\$'000</b>	<b>Garment products HK\$'000</b>	<b>Consolidated HK\$'000</b>
<b>ASSETS</b>			
Segment assets	4,401,118	444,111	4,845,229
Unallocated assets			550,823
			<hr/>
Consolidated total assets			<b>5,396,052</b>
			<hr/> <hr/>
<b>LIABILITIES</b>			
Segment liabilities	319,698	167,030	486,728
Unallocated liabilities			2,037,110
			<hr/>
Consolidated total liabilities			<b>2,523,838</b>
			<hr/> <hr/>

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets other than bank balances and cash, derivative financial instruments, assets classified as held for sale and tax recoverable are allocated to operating segments; and
- all liabilities other than taxation payables and deferred tax liabilities, bank borrowings, derivative financial instruments, liabilities associated with assets classified as held for sale are allocated to operating segment.

## Other segment information

### At 31 March 2010

	Knitted fabric and dyed yarn <i>HK\$'000</i>	Garment products <i>HK\$'000</i>	Segment total <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Amounts included in the measure of segment profit or loss or segment assets/ regularly provided to board of directors:					
Addition to non-current assets ( <i>note</i> )	54,631	44,180	98,811	–	98,811
Depreciation	190,967	13,015	203,982	–	203,982
Gain (loss) on disposal of property, plant and equipment	313	(21)	292	–	292
Loss on fair value changes of structured borrowings	–	–	–	(101)	(101)
Gain on fair value changes of derivative financial instruments	–	–	–	26,996	26,996
Impairment losses recognised on receivables	3,660	783	4,443	–	4,443
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

At 31 March 2009

	Knitted fabric and dyed yarn <i>HK\$'000</i>	Garment products <i>HK\$'000</i>	Segment total <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Amounts included in the measure of segment profit or loss or segment assets/ regularly provided to board of directors:					
Addition to non-current assets ( <i>note</i> )	263,667	58,422	322,089	–	322,089
Depreciation	190,558	13,813	204,371	–	204,371
Gain on disposal of property, plant and equipment	–	12,577	12,577	–	12,577
Gain on fair value changes of structured borrowings	–	–	–	4,531	4,531
Loss on fair value changes of derivative financial instruments	–	–	–	35,446	35,446
Impairment losses recognised on receivables	184	622	806	–	806
	<u>184</u>	<u>622</u>	<u>806</u>	<u>–</u>	<u>806</u>

*note:* Amounts included additions to property, plant and equipment, prepaid lease payments and deposit paid for acquisition of property, plant and equipment.

No other amounts are regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets.

### Geographical information

The Group's operations are mainly located in Hong Kong, the People's Republic of China (the "PRC"), Canada and the United States of America (the "USA").

The Group's revenue from external customers by location of customers and information about its non-current assets by geographic location of the assets are detailed below:

	Revenue from external customers		Non-current assets	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	652,264	835,992	42,710	62,088
PRC	1,730,369	1,448,583	1,622,287	1,809,145
USA	513,484	814,752	231	371
Canada	148,815	153,469	–	5
Others	818,680	837,697	671,926	632,659
	<u>3,863,612</u>	<u>4,090,493</u>	<u>2,337,154</u>	<u>2,504,268</u>

### Information about major customers

None of the Group's customers contributed over 10% of the Group's total revenue for each of the two years ended 31 March 2010.

### 3. OTHER GAINS AND LOSSES

	2010	2009
	HK\$'000	HK\$'000
Gain (loss) on fair value changes of derivative financial instruments	26,996	(35,446)
(Loss) gain on fair value changes of structured borrowings	(101)	4,531
Gain on structured deposits early terminated during the year	–	2,444
Gain on disposal of property, plant and equipment	292	12,577
Net foreign exchange losses	(3,430)	(3,804)
Impairment losses recognised on receivables	(1,868)	(806)
	<u>21,889</u>	<u>(20,504)</u>

### 4. FINANCE COSTS

	2010	2009
	HK\$'000	HK\$'000
Interest on bank borrowings wholly repayable within five years	47,736	71,118
Less: amounts capitalised	–	(10,539)
	<u>47,736</u>	<u>60,579</u>

Borrowing costs capitalised for the year ended 31 March 2009 were calculated by applying a capitalisation rate of approximately 3%.

## 5. INCOME TAX EXPENSE

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
The tax charge comprises:		
Current tax:		
Hong Kong Profits Tax		
– current year	10,600	7,304
– overprovision in respect of prior years	<u>(1,183)</u>	<u>(643)</u>
	<u>9,417</u>	<u>6,661</u>
Enterprise income tax in the PRC attributable to subsidiaries		
– current year	15,599	11,347
– under(over)provision in respect of prior years	<u>3,545</u>	<u>(1,871)</u>
	<u>19,144</u>	<u>9,476</u>
Overseas income tax	<u>226</u>	<u>109</u>
	28,787	16,246
Deferred tax:		
– current year	3,538	886
– effect of change in tax rate	<u>–</u>	<u>(12)</u>
	<u><u>32,325</u></u>	<u><u>17,120</u></u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

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

## 6. PROFIT FOR THE YEAR

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Profit for the year has been arrived at after charging:		
Directors' remuneration	15,854	16,985
Other staff costs	<u>257,672</u>	<u>281,645</u>
Total staff costs	<u>273,526</u>	<u>298,630</u>
Auditor's remuneration	2,558	2,198
Depreciation of property, plant and equipment	203,982	204,371
Release of prepaid lease payments	1,237	645
and after crediting:		
Gross rental income from investment properties	–	958
Less: Outgoings	<u>–</u>	<u>(129)</u>
Net property rental income	<u>–</u>	<u>829</u>
Bank interest income	<u><u>806</u></u>	<u><u>3,062</u></u>

## 7. DISTRIBUTIONS

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Dividends recognised as distribution during the year:		
2010 interim dividend of HK2.0 cents (2009: nil) per ordinary share	21,210	–
2009 final dividend of nil (2009: 2008 final dividend of HK6.8 cents) per ordinary share	<u>–</u>	<u>45,958</u>
	<u><u>21,210</u></u>	<u><u>45,958</u></u>

The final dividend of HK4.0 cents (2009: nil) per share, which will be in cash with a scrip dividend option, has been calculated by reference to the 1,064,099,158 issued ordinary shares outstanding as at the date these financial statements were approved by the directors, has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

## 8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company for the year is based on the following data:

	2010 HK\$'000	2009 HK\$'000
<b>Earnings</b>		
Profit for the year attributable to equity holders of the Company for the purposes of basic and diluted earnings per share	<u>314,627</u>	<u>216,865</u>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of basic earnings per share ( <i>note i</i> )	1,035,734,211	729,768,643
Effect of dilutive potential ordinary shares in respect of share options ( <i>note ii</i> )	<u>—</u>	<u>—</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>1,035,734,211</u>	<u>729,768,643</u>

*notes:*

- i. The weighted average number of ordinary shares for the purpose of calculating basic and diluted earnings per share for the year ended 31 March 2009 have been retrospectively adjusted for the effect of the rights issue completed in January 2009.
- ii. No diluted earnings per share has been presented for the year ended 31 March 2010 because the exercise price of the Company's share options outstanding for the year was higher than the average market price of the shares.

## 9. TRADE AND BILLS RECEIVABLES

The Group generally allows its trade customers an average credit period of 90 - 120 days.

The following is an aged analysis of trade and bills receivables, presented based on the invoice date at the end of the reporting period:

	2010 HK\$'000	2009 HK\$'000
0 – 60 days	653,583	637,345
61 – 90 days	197,905	165,238
91 – 120 days	96,447	48,264
Over 120 days	<u>27,234</u>	<u>24,667</u>
	<u>975,169</u>	<u>875,514</u>

## 10. TRADE PAYABLES

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
0 – 60 days	307,385	326,744
61 – 90 days	80,441	30,538
Over 90 days	37,109	19,631
	<u>424,935</u>	<u>376,913</u>

## DIVIDENDS

The Directors have resolved to recommend the payment of a final dividend of HK4.0 cents per share (each a “Share”) of HK\$0.01 each of the Company in respect of the year ended 31 March 2010 to shareholders whose names appear on the register of members of the Company on 30 August 2010 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 (the “Scrip Dividend Scheme”), 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.

The Shares to be 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 such Shares save that they will not be entitled to the final dividend for the year ended 31 March 2010.

On condition that the payment of the above final dividend is approved by the shareholders at the annual general meeting of the Company, a circular containing details of the Scrip Dividend Scheme will be despatched to the shareholders of the Company shortly after the annual general meeting of the Company.

## BUSINESS REVIEW

The financial year under review was a challenging year for the overall textile and garment industry as the gloomy economic conditions preceded by the global financial crisis continued to bring difficulties to the operating environment. The economy has shown signs of recovery since mid-2009 with customer orders becoming more stable however; the future business outlook remains tough and volatile due to the recent upsurge of raw material costs, labour costs and overheads coupled with stringent environmental protection measures and possible appreciation of the Renminbi (“RMB”). In spite of the market difficulties, the Group has already anticipated and identified all these risks and has formulated business strategies in advance to mitigate any adverse impacts of these risks and managed to persevere and attain satisfactory results through the dedicated efforts of our management and staff.



For the year ended 31 March 2010, the Group's consolidated revenue dropped by 5.5% to HK\$3,864 million and profit attributable to owners of the Company is HK\$315 million, signifying an increase of 45.1% as compared with the previous financial year. Basic earnings per share is HK30.4 cents for the financial year under review (2009: HK29.7 cents).

During the financial year under review, rising raw material, labour costs and RMB appreciation has asserted the most significant pressure on the well-being of the industry as the phenomenon vigorously squeezed profit margins of small and medium sized enterprises which are incapable of meeting the sudden increase of financial responsibility. Therefore, the Group focused on sustaining business growth by implementing appropriate strategies to offset the sudden predicaments.

Unlike our textile business whereby rising labour costs has a very minimal effect, rising wages did assert pressure on our garment business and as a result, we reallocated our production orders to overseas as well as inner county factories in the PRC and plan to expand our future garment facilities to offshore countries and inner PRC counties with ample labour supply and less expensive wages. Furthermore, with our design capability, our customers are willing to absorb most, if not all, of our labour costs increases.

We also expect industry consolidation to accelerate with stringent environmental requirements as the PRC government becomes more concerned about environmental preservation. The Group is able to leverage on this unique competitive advantage as we are one of the only few companies in the PRC who actively comply with the country's rigid environmental protection policies. Three years ago, the Group has spent approximately RMB300 million to build a waste water recycle and treatment plant that boasts quality assurance exceeding the PRC standards. The facility will assist the Group in lowering operating costs as well as lengthening machinery lifespan. These will not only enable us becoming more cost competitive, but also strengthening our leadership in the industry.

Moreover, we also managed to mitigate the RMB appreciation risk as our textile division has maintained a well balanced client portfolio between export and domestic PRC markets thereby creating a natural hedge against the risks of currency exposure. In addition, outsourcing of our garment function allows most of the exchange risks to be passed onto subcontractors.

## **Textile Business**

Production and sales of knitted fabric and dyed yarn remained as the principal operation of the Group and accounted for 76.9% of the consolidated revenue. Despite the volatile market conditions, revenue of this business segment reached HK\$2,969 million, exhibiting a 5.8% growth as compared with the previous year results. During the financial year under review, industry participants still faced with strong competition and challenging operating environment, triggering faster industry consolidation. Although raw material costs have increased, since late 2009, the Group has maintained a well-stocked inventory by proactively purchasing cotton yarn to offset rising raw material costs. In addition, the Group was able to leverage strong bargaining power to pass the increased costs to our customers by raising our overall selling prices. Furthermore, the Group exercised stringent cost measurements as well as enhanced the production efficiency through technological innovations thereby improving

profit margins for the textile segment. By leveraging our strong foundations and core competencies, the Group was able to increase market share in both export and domestic markets of the PRC. With a well balanced focus on the PRC market, the Group can successfully neutralize any negative impacts caused by the RMB appreciation.

### **Garment Business**

Revenue of the garment segment dropped by 30.4% to HK\$894 million, accounted for 23.1% of the consolidated revenue. During the year under review, the trading environment of the garment industry remained competitive and customers were very cautious in placing orders. Hence the drop in revenue was mainly attributable to the decrease in orders from one of our major customers which is a USA importer due to the sluggish USA market, whereas orders from other customers maintained as compared with the previous year. The Directors are confident that the garment business will revive in the USA market gradually recovering together with further developments in the PRC and Japanese markets. Nevertheless, the management exercised tight cost controls as well as efficient order scheduling and production planning which resulted in the increase of profit margins of this business segment.

### **Major Achievements**

In December 2009, the Group successfully secured a four-year syndicated loan of HK\$928 million from 14 banks, bearing a competitive interest margin of HIBOR+1.8% per annum. The new loan arrangement represented a vote of confidence by the banking community in the future direction and development of the Group. The proceeds of the loan facility had been used to refinance the HK\$1,388 million syndicated loan raised in February 2007. With the loan in place, we are confident of meeting our business objectives and effectively planning for our future.

Despite all the significant challenges and difficult economic environment, the Group managed to strengthen its market position amidst keen competition. Our management and staff have met and exceeded demanding expectations in a tough market and the Group's performance in the past year had shown how their hard work and commitment to quality services helped the Group overcome negative factors and contributed to another year of success.

### **OUTLOOK**

Going forward, it is anticipated that the prevailing market conditions will remain difficult and volatile. Challenges as well as opportunities will arise from the expedited consolidation of the textile and garment supply chain hence we strongly believe that with our solid foundation, vertically-integrated set-up together with the environmental-conscious facilities, the Group is well-equipped to enhance its competitive edges to meet the new challenges and grab the business opportunities.

On 3 June 2010, the Company announced that it had submitted a spin-off proposal to The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to Practice Note 15 of the Rules Governing the Listing of Securities on the Stock Exchange in relation to the proposed separate listing of the shares of Ford Glory Group Holdings Limited (“FGG”) on the Main Board of the Stock Exchange. The group of FGG (the “FG Group”) comprises certain existing subsidiaries of the Company which are principally engaged in sourcing management, manufacturing and trading of garment products. The Directors believe that the separate listing of the garment segment will be beneficial to the shareholders as the Company will be able to realize the value of its investments in the FG Group by way of liquid securities. In addition, the proposed spin-off is expected to improve the operational and financial transparency of the FG Group and provide separate fund raising platforms for the Group and the FG Group with respect to their respective operations and future expansion. Details of the proposed spin-off are set out in the announcement of the Company dated 3 June 2010. Further announcement(s) will be made by the Company in relation to the proposed spin-off as and when appropriate.

While the year ahead will remain highly competitive, the management will continue to dedicate all its effort to achieve our corporate vision of being a worldwide premium supplier of choice for textile and garment products. The Group will continue to enhance our business model to create the best platform for the future growth of our core business as well as to capitalize on all value-enhancing opportunities. Together with strong support from our business partners, the Group is well-positioned to face all challenges ahead and to bring the most satisfactory returns to the shareholders of the Company.

## **FINANCIAL REVIEW**

### **Liquidity and Financial Resources**

As at 31 March 2010, the Group had total assets of HK\$5,704,997,000 (2009: HK\$5,396,052,000) which were financed by current liabilities of HK\$1,458,632,000 (2009: HK\$1,662,841,000), long term liabilities of HK\$1,026,313,000 (2009: HK\$860,997,000) and shareholders’ equity of HK\$3,077,840,000 (2009: HK\$2,729,883,000). The current ratio was approximately 2.3 (2009: 1.7) and the gearing ratio, being the ratio of total borrowings (excluding bills discounted and debts factored, and net of bank balances and cash) to shareholders funds was 35% (2009: 44%). All of the Group’s borrowings were at floating rate basis.

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. Should other opportunities arise requiring additional funding, the Directors believe that the Group is in a good position to obtain financing on favourable terms.

### **Foreign Exchange and Interest Rate Risks**

The Group continued to adopt a strict and prudent policy in managing its interest rate and currency exchange risks. The major interest-bearing bank borrowings of the Group were HIBOR based Hong Kong dollar borrowings with maturity due within five years. To reduce the interest rate risks, the Group had entered into derivative financial instrument contracts with international banks.

The Group's monetary assets and liabilities were principally denominated in Hong Kong dollars, Renminbi and US dollars. The fluctuations in the US dollars and Renminbi have always been the concern of the Group. In order to mitigate the foreign currency risk, the Group had entered into appropriate hedging arrangements in accordance with the Group's risk management policies.

### **Capital Expenditure**

During the year, the Group invested approximately HK\$69 million on additions to property, plant and equipment.

As at 31 March 2010, the Group had capital commitments of approximately HK\$42 million in respect of acquisition of new machinery and construction of new factory plants, which are financed by long-term bank borrowings.

### **Charges on Assets**

As at 31 March 2010, certain property, plant and equipment and prepaid lease payments of the Group with net book value of approximately HK\$75 million (2009: HK\$91 million) were pledged to banks to secure banking facilities granted.

### **Employee Information**

As at 31 March 2010, total number of employees of the Group were approximately 160 in Hong Kong and Macau (2009: 205), approximately 5 (2009: 4) in the USA and Canada, approximately 1,065 in Indonesia (2009: 1,050) and approximately 6,200 in the PRC (2009: 6,830). 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 an appropriate incentive interest for the growth of the Group.

FGG had conditionally adopted a share option scheme (the "FGG Share Option Scheme") and conditionally granted share options to a number of employees of the FG Group. The FGG Share Option Scheme and the grant of share options will be conditional upon, among others, the obtaining of the approval of the shareholders of the Company and the Listing Committee of the Stock Exchange granting approval for the listing of, and permission to deal in, the shares of FGG which may be issued pursuant to the grant of options under the FGG Share Option Scheme; and will become effective on the commencement of dealings in the shares of FGG on the Main Board of the Stock Exchange. Further details of the FGG Share Option Scheme were disclosed in the announcement of the Company dated 3 June 2010 and the circular of the Company dated 7 July 2010.

## **CLOSURE OF REGISTER OF MEMBERS**

In order to determine the entitlement to the final dividend for the year ended 31 March 2010, the register of members of the Company will be closed from Thursday, 26 August 2010 to Monday, 30 August 2010 (both days inclusive), during which period no transfer of Shares can be registered. In order to qualify for the final dividend for the year ended 31 March 2010, all transfer of Shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Tricor Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration by not later than 4:30 p.m. on Wednesday, 25 August 2010.

## **PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

During the year, neither the Company nor any of its subsidiaries, purchased, sold or redeemed any of the Company's listed securities.

## **COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company had complied throughout the year ended 31 March 2010 with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Rules ("Listing Rules") Governing the Listing of Securities on the Stock Exchange.

## **COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS**

The Company has adopted a code of conduct ("Code of Conduct") regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, all Directors have confirmed that they had complied with the required standard set out in the Code of Conduct during the year ended 31 March 2010.

By Order of the Board of Directors of  
**Victory City International Holdings Limited**  
**Li Ming Hung**  
*Chairman*

Hong Kong, 15 July 2010

*As at the date of this announcement, the executive directors of the Company are Mr. Li Ming Hung (Chairman), Mr. Chen Tien Tui (Chief Executive Officer), Mr. Lee Yuen Chiu Andy and Mr. Choi Lin Hung and the independent non-executive directors are Mr. Kan Ka Hon, Mr. Phaisalakani Vichai and Mr. Kwok Sze Chi.*