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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: 539)**

## **ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 MARCH 2014**

### **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 2014 (which have been reviewed by the audit committee of the Company) with comparative figures for the previous year as follows:

### **CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

*FOR THE YEAR ENDED 31 MARCH 2014*

	<i>NOTES</i>	<b>2014</b> <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Revenue	2	<b>5,371,883</b>	4,085,368
Cost of sales		<b>(4,497,689)</b>	(3,334,325)
Gross profit		<b>874,194</b>	751,043
Other income		<b>60,708</b>	39,685
Other gains and losses	3	<b>2,830</b>	20,843
Distribution and selling expenses		<b>(127,334)</b>	(89,005)
General and administrative expenses		<b>(404,138)</b>	(388,421)
Finance costs		<b>(113,241)</b>	(102,818)
Profit before tax		<b>293,019</b>	231,327
Income tax expense	4	<b>(10,841)</b>	(23,512)

	<i>NOTES</i>	<b>2014</b> <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Profit for the year	5	<b>282,178</b>	207,815
Other comprehensive income that may be subsequently reclassified to profit or loss:			
Gain on fair value change of an available-for-sale investment		<b>443</b>	—
Exchange difference arising on translation of foreign operations		<b>2,162</b>	19,437
Other comprehensive income for the year		<b>2,605</b>	19,437
Total comprehensive income for the year		<b>284,783</b>	227,252
Profit for the year attributable to:			
Owners of the Company		<b>277,389</b>	205,767
Non-controlling interests		<b>4,789</b>	2,048
		<b>282,178</b>	207,815
Total comprehensive income attributable to:			
Owners of the Company		<b>279,685</b>	226,359
Non-controlling interests		<b>5,098</b>	893
		<b>284,783</b>	227,252
Earnings per share	7		
Basic		<b>HK16.5 cents</b>	HK13.1 cents
Diluted		<b>HK16.1 cents</b>	HK13.1 cents

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 MARCH 2014

	NOTES	2014 HK\$'000	2013 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment		3,126,408	2,924,111
Prepaid lease payments		205,698	185,366
Investment property		31,200	32,000
Goodwill		6,614	6,614
Intangible asset		1,000	1,000
Other assets		26,040	26,040
Interest in a joint venture		—	—
Restricted bank deposit		91,794	77,295
Deferred tax assets		2,329	1,835
Deposit paid for acquisition of property, plant and equipment		8,609	2,262
		<u>3,499,692</u>	<u>3,256,523</u>
<b>Current assets</b>			
Inventories		2,692,841	2,061,165
Trade and bills receivables	8	1,654,357	1,232,526
Deposits, prepayments and other receivables		236,129	288,034
Prepaid lease payments		5,200	4,694
Derivative financial instruments		12,401	19,044
Available-for-sale investment		1,535	—
Taxation recoverable		494	737
Bank balances and cash		1,300,491	1,692,922
		<u>5,903,448</u>	<u>5,299,122</u>
<b>Current liabilities</b>			
Trade payables	9	519,761	510,574
Other payables and accruals		154,545	150,456
Dividend payable		189	105
Taxation payable		81,186	89,651
Derivative financial instruments		42,675	10,807
Bank borrowings – amount due within one year		2,008,209	1,772,064
		<u>2,806,565</u>	<u>2,533,657</u>
<b>Net current assets</b>		<u>3,096,883</u>	<u>2,765,465</u>
<b>Total assets less current liabilities</b>		<u><u>6,596,575</u></u>	<u><u>6,021,988</u></u>

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
<b>Capital and reserves</b>		
Share capital	17,487	16,228
Reserves	4,956,906	4,645,745
	<hr/>	<hr/>
Equity attributable to owners of the Company	4,974,393	4,661,973
Non-controlling interests	258,541	249,231
	<hr/>	<hr/>
<b>Total equity</b>	5,232,934	4,911,204
	<hr/>	<hr/>
<b>Non-current liabilities</b>		
Bank borrowings – amount due after one year	1,279,079	1,023,912
Deferred tax liabilities	84,562	86,872
	<hr/>	<hr/>
	1,363,641	1,110,784
	<hr/>	<hr/>
	6,596,575	6,021,988
	<hr/> <hr/>	<hr/> <hr/>

*Notes:*

## **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 HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

Amendments to HKFRSs	Annual improvements to HKFRSs 2009-2011 cycle
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine

Except as described below, the application of the new and revised HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

### **New and revised standards on consolidation, joint arrangements, associates and disclosures**

In the current year, the Group has applied for the first time the package of five standards on consolidation, joint arrangements, associates and disclosures comprising HKFRS 10 “Consolidated Financial Statements”, HKFRS 11 “Joint Arrangements”, HKFRS 12 “Disclosure of Interests in Other Entities”, HKAS 27 (as revised in 2011) “Separate Financial Statements” and HKAS 28 (as revised in 2011) “Investments in Associates and Joint Ventures”, together with the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 regarding transitional guidance.

HKAS 27 (as revised in 2011) is not applicable to the Group as it deals only with separate financial statements.

Application of these standards resulted in more extensive disclosures in the consolidated financial statements in relation to the Group’s interests in subsidiaries.

## **HKFRS 13 “Fair Value Measurement”**

The Group has applied HKFRS 13 for the first time in the current year. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements. The scope of HKFRS 13 is broad: the fair value measurement requirements of HKFRS 13 apply to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of HKFRS 2 “Share-based Payment” and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

HKFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of a liability) in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

HKFRS 13 requires prospective application. In accordance with the transitional provisions of HKFRS 13, the Group has not made any new disclosures required by HKFRS 13 for the 2013 comparative period. Other than the additional disclosures, the application of HKFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

## **Amendments to HKAS 1 “Presentation of Items of Other Comprehensive Income”**

The Group has applied the amendments to HKAS 1 “Presentation of Items of Other Comprehensive Income”. Upon the adoption of the amendments to HKAS 1, the Group’s ‘statement of comprehensive income’ is renamed as the ‘statement of profit or loss and other comprehensive income’. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. Furthermore, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

## New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised HKFRSs, amendments to HKFRSs and interpretation that have been issued but not yet effective:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities <sup>1</sup>
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations <sup>5</sup>
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation <sup>5</sup>
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions <sup>2</sup>
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures <sup>3</sup>
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities <sup>1</sup>
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets <sup>1</sup>
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting <sup>1</sup>
Amendments to HKFRSs	Annual improvements to HKFRSs 2010-2012 cycle <sup>4</sup>
Amendments to HKFRSs	Annual improvements to HKFRSs 2011-2013 cycle <sup>2</sup>
HKFRS 9	Financial instruments <sup>3</sup>
HKFRS 14	Regulatory Deferral Accounts <sup>5</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>6</sup>
HK(IFRIC)-Int 21	Levies <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2014.

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2014.

<sup>3</sup> Available for application-the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised.

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2016.

<sup>6</sup> Effective for annual periods beginning on or after 1 January 2017.

The Directors anticipate that the application of the new and revised HKFRSs, amendments to HKFRSs and interpretation will have no material impact on the consolidated financial statements.

## 2. SEGMENT INFORMATION

The Group's operations used to be organised into two operating segments, namely the knitted fabric and dyed yarn segment and the garment products segment. In 2012, the Group ventured into the resin manufacturing business by making use of its existing relevant licenses and certain infrastructure facilities in the manufacturing plant in Xinhui. Information of the three (2013: two) segments is reported to the executive Directors, being the chief operating decision maker, for the purposes of resources allocation and assessment of segment performance focuses on types of goods delivered or services provided.

Details of the Group's three (2013: two) operating and reportable segments are as follows.

- (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
- (iii) Resin – Production and sale of resin

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

### Year ended 31 March 2014

	Knitted fabric and dyed yarn HK\$'000	Garment products HK\$'000	Resin HK\$'000	Segment total HK\$'000	Eliminations HK\$'000	Consolidated total HK\$'000
REVENUE						
External sales	4,051,685	937,075	383,123	5,371,883	–	5,371,883
Inter-segment sales	53,191	–	–	53,191	(53,191)	–
Total	<u>4,104,876</u>	<u>937,075</u>	<u>383,123</u>	<u>5,425,074</u>	<u>(53,191)</u>	<u>5,371,883</u>
RESULTS						
Segment results	<u>360,273</u>	<u>15,903</u>	<u>1,690</u>	<u>377,866</u>	<u>–</u>	<u>377,866</u>
Unallocated corporate income						38,157
Other gains and losses						9,213
Unallocated corporate expenses						(18,976)
Finance cost						(113,241)
Profit before tax						<u>293,019</u>

	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 total <i>HK\$ '000</i>
REVENUE					
External sales	3,014,206	1,071,162	4,085,368	–	4,085,368
Inter-segment sales	85,819	–	85,819	(85,819)	–
	<u>3,100,025</u>	<u>1,071,162</u>	<u>4,171,187</u>	<u>(85,819)</u>	<u>4,085,368</u>
Total	<u>3,100,025</u>	<u>1,071,162</u>	<u>4,171,187</u>	<u>(85,819)</u>	<u>4,085,368</u>
RESULTS					
Segment results	<u>297,737</u>	<u>31,378</u>	<u>329,115</u>	<u>–</u>	329,115
Unallocated corporate income					34,588
Other gains and losses					26,677
Unallocated corporate expenses					(56,235)
Finance cost					(102,818)
Profit before tax					<u>231,327</u>

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit represents the profit earned by each segment without allocation of gain (loss) on disposal of property, plant and equipment, interest income, rental income, (loss) gain on fair value change of an investment property, net gain on fair value changes of derivative financial instruments and restricted bank deposit, central administration costs and finance costs. This is the measure reported to the executive Directors for the purposes of resource allocation and performance assessment. Inter-segment sales are charged at prevailing market rate.

## Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segment:

### At 31 March 2014

	<b>Knitted fabric and dyed yarn HK\$'000</b>	<b>Garment products HK\$'000</b>	<b>Resin HK\$'000</b>	<b>Consolidated total HK\$'000</b>
<b>ASSETS</b>				
Segment assets	7,201,572	540,271	345,046	8,086,889
Unallocated assets				1,316,251
				<hr/>
Consolidated total assets				9,403,140
				<hr/>
<b>LIABILITIES</b>				
Segment liabilities	603,137	85,737	20,196	709,070
Unallocated liabilities				3,461,136
				<hr/>
Consolidated total liabilities				4,170,206
				<hr/>

### At 31 March 2013

	<b>Knitted fabric and dyed yarn HK\$'000</b>	<b>Garment products HK\$'000</b>	<b>Consolidated total HK\$'000</b>
<b>ASSETS</b>			
Segment assets	6,277,767	486,126	6,763,893
Unallocated assets			1,791,752
			<hr/>
Consolidated total assets			8,555,645
			<hr/>
<b>LIABILITIES</b>			
Segment liabilities	563,778	95,185	658,963
Unallocated liabilities			2,985,478
			<hr/>
Consolidated total liabilities			3,644,441
			<hr/>

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

- all assets other than bank balances and cash, financial instruments, deferred tax assets, corporate assets and assets of non-core businesses are allocated to operating segments, and
- all liabilities other than current and deferred tax liabilities, bank borrowings, derivative financial instruments, corporate liabilities and liabilities of non-core businesses are allocated to operating segments.

## Other segment information

At 31 March 2014

	Knitted fabric and dyed yarn <i>HK\$'000</i>	Garment products <i>HK\$'000</i>	Resin <i>HK\$'000</i>	Consolidated total <i>HK\$'000</i>
Amounts included in the measure of segment profit or loss or segment assets:				
Addition to non-current assets (Note)	406,525	16,072	46,489	469,086
Depreciation	232,555	20,753	3,996	257,304
Gain (loss) on disposal of property, plant and equipment	5,087	(1,009)	—	4,078
Release of prepaid lease payments	4,286	99	—	4,385
Write-down of inventories	—	1,834	—	1,834
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

At 31 March 2013

	Knitted fabric and dyed yarn <i>HK\$'000</i>	Garment products <i>HK\$'000</i>	Consolidated total <i>HK\$'000</i>
Amounts included in the measure of segment profit or loss or segment assets:			
Addition to non-current assets (Note)	376,863	46,453	423,316
Depreciation	240,739	18,565	259,304
Gain (loss) on disposal of property, plant and equipment	765	(356)	409
Release of prepaid lease payments	4,199	99	4,298
Write-down of inventories	—	1,600	1,600
	<u>          </u>	<u>          </u>	<u>          </u>

*Note:* Amounts included additions to property, plant and equipment, prepaid lease payments and intangible asset.

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 and the People's Republic of China ("PRC").

The Group's revenue from external customers by location of customers and information about its non-current assets (excluding other assets, restricted bank deposit and deferred tax assets) by geographic location of the assets are detailed below:

	Revenue from external customers		Non-current assets	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Hong Kong	702,905	517,076	77,260	77,514
PRC	2,495,246	1,589,462	3,257,851	3,034,731
United States of America ("US")	568,877	725,122	90	103
Korea	306,544	309,260	—	—
Bangladesh	449,423	311,085	—	—
Taiwan	257,785	251,630	—	—
Canada	118,271	91,524	—	—
Others	472,832	290,209	44,328	39,005
	<b>5,371,883</b>	<b>4,085,368</b>	<b>3,379,529</b>	<b>3,151,353</b>

## Information about major customers

None of the customers individually contributed over 10% of the Group's total annual revenue for each of the two years ended 31 March 2014.

## Information about products and services

The Group's revenue represents sale of knitted fabric, dyed yarn, garment products and resin, provision of related subcontracting and quality inspection services. No information about products and service is presented as the information is not available and the cost to develop such information is excessive.

## 3. OTHER GAINS AND LOSSES

	2014 HK\$'000	2013 HK\$'000
Net gain on fair value changes of derivative financial instruments	2,785	24,023
Gain on fair value changes of a restricted bank deposit	3,150	1,245
(Loss) gain on fair value change of an investment property	(800)	1,000
Gain on disposal of property, plant and equipment	4,078	409
Net foreign exchange loss	(6,383)	(5,834)
	<b>2,830</b>	<b>20,843</b>

#### 4. INCOME TAX EXPENSE

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
The tax charge comprises:		
Current tax:		
Current year		
– Hong Kong Profits Tax	10,733	12,465
– Enterprise Income Tax (“EIT”) in the PRC attributable to subsidiaries	10,238	19,154
– Overseas income tax	622	258
	<hr/> 21,593	<hr/> 31,877
Overprovision in respect of prior years	<hr/> (7,855)	<hr/> (6,472)
	13,738	25,405
Deferred taxation	<hr/> (2,897)	<hr/> (1,893)
	<hr/> <b>10,841</b>	<hr/> <b>23,512</b>

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

Pursuant to the relevant laws and regulations in the PRC, a PRC subsidiary is exempted from PRC EIT for two years starting from its first profit-making year, followed by a 50% reduction for the next three years. Accordingly, the profit of that subsidiary was subjected to a reduced tax rate of 12.5% up to 31 December 2012. Such tax concession expired on 31 December 2012 and the tax rate became 25%.

Other subsidiaries in the PRC are subjected to EIT at the statutory rate of 25%.

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

## 5. PROFIT FOR THE YEAR

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Profit for the year has been arrived at after charging:		
Directors' remuneration	20,039	24,527
Share-based payment expenses (included in general and administrative expenses, excluded amount attributable to Directors)	1,004	35,782
Other staff costs	502,163	452,479
Total staff costs	523,206	512,788
Auditor's remuneration	4,208	3,950
Depreciation of property, plant and equipment	257,304	259,304
Release of prepaid lease payments	4,385	4,298
Write-down of inventories (included in cost of sales)	1,834	1,600
and after crediting:		
Government grants	—	2,482
Bank interest income	34,939	30,195
Other interest income	3,146	4,321

## 6. DISTRIBUTIONS

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Dividends recognised as distribution during the year:		
2014 interim dividend of HK3.0 cents (2013: HK2.0 cents) per ordinary share	51,391	31,752
2013 final dividend of HK2.5 cents (2013: 2012 final dividend of HK2.5 cents) per ordinary share	41,465	38,684
	92,856	70,436

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 March 2014 of HK4.0 cents (2013: final dividend in respect of the year ended 31 March 2013 of HK2.5 cents) per share, which will be payable in cash with a scrip dividend option, has been proposed by the Directors and is subject to approval by the shareholders of the Company (the "Shareholders") in the forthcoming annual general meeting.

## 7. 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:

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
<b>Earnings</b>		
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share	277,389	205,767
Effect of dilutive potential ordinary shares:		
Adjustment to the share of profit of a subsidiary on dilution of its earnings per share	(599)	(145)
Profit for the year attributable to owners of the Company for the purpose of diluted earnings per share	<u>276,790</u>	<u>205,622</u>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,677,002,667	1,567,272,433
Effect of dilutives potential ordinary shares:		
Company's share options	34,559,668	7,159,668
Warrants	4,693,616	1,075,540
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>1,716,255,951</u>	<u>1,575,507,641</u>

## 8. TRADE AND BILLS RECEIVABLES

The Group generally allows its trade customers a credit period of 30-120 days.

The following is an aged analysis of trade and bills receivables (net of allowance for doubtful debts), presented based on the invoice date which approximated the respective revenue recognition date at the end of the reporting period:

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
0-60 days	1,134,681	890,262
61-90 days	269,794	179,201
91-120 days	192,537	115,237
Over 120 days	57,345	47,826
	<u>1,654,357</u>	<u>1,232,526</u>

## 9. TRADE PAYABLES

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

	<b>2014</b> <b>HK\$'000</b>	2013 <i>HK\$'000</i>
0-60 days	<b>455,057</b>	466,216
61-90 days	<b>60,189</b>	26,048
Over 90 days	<b>4,515</b>	18,310
	<hr/>	<hr/>
	<b>519,761</b>	510,574
	<hr/> <hr/>	<hr/> <hr/>

The credit period for purchase of goods is 30-120 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit periods granted.

## 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 2014 to Shareholders whose names appear on the register of members of the Company on 5 September 2014 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 (“AGM”) of the Company and the granting by The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) 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 2014.

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

## **BUSINESS REVIEW**

During the reporting period, the Group experienced varied operating environment in the domestic and overseas textile and garment markets respectively. With the rapid growth in the past decade, the economy of the PRC saw a significant slowdown in the reporting period. On the other hand, the US market which is the Group's major market, has shown signs of recovery from the prolonged slow-down over the past few years. According to the Chinese Customs Statistics, the export value of China's textile products and garment products amounted to approximately US\$106.9 billion and US\$177.0 billion respectively for the year ended 31 December 2013. This represented an increase of about 11.7% and 11.3% from 2012 respectively. Yet, for the first three months ended 31 March 2014, China's export of textile products and garment products recorded a modest increase of 2.1% and a decrease of 0.6% over the same period last year, respectively. Despite that the global economy remained soft and fragile, the Group has been well-prepared to capture any opportunities arising from the market. During the reporting period, the Group aggressively attained overseas and domestic orders, thus fuelling an encouraging growth in the Group's revenue in the fiscal year compared to the same period last year.

For the year ended 31 March 2014, the consolidated revenue of the Group was approximately HK\$5,372 million, representing a growth of approximately 31.5% in comparison to the previous fiscal year (2013: HK\$4,085 million). Gross profit was approximately HK\$874 million, representing an increase of approximately 16.4% from the previous year (2013: HK\$751 million). Profit attributable to owners of the Company for the reporting period amounted to approximately HK\$277 million, which included share option expenses of approximately HK\$1 million, net gain on fair value changes of derivative financial instruments of approximately HK\$3 million, net gain on fair value change of a restricted bank deposit of approximately HK\$3 million, net loss on fair value change of an investment property of approximately HK\$1 million and a one-off amortisation of bank arrangement fee of approximately HK\$16 million. For the previous fiscal year, profit attributable to owners of the Company was approximately HK\$206 million, which included share option expenses of approximately HK\$40 million, net gain on fair value changes of derivative financial instruments of approximately HK\$24 million, net gain on fair value change of a restricted bank deposit of approximately HK\$1 million and net gain on fair value change of an investment property of approximately HK\$1 million. Hence, profit from core operation for the year ended 31 March 2014 was approximately HK\$294 million after adjusting the above-mentioned non-operating gains and losses, representing an increase of approximately 36.7% from the previous year (2013: HK\$215 million). Earnings per share was HK16.5 cents (2013: HK13.1 cents).

### **Textile Business**

Production and sales of knitted fabric and dyed yarn remained as the Group's principal operation, accounted for approximately 75% of the Group's consolidated revenue for the year ended 31 March 2014. The remaining of approximately 18% and 7% were from the garment business and resin business respectively.

Thriving on its sound track record and solid foundation, the Group achieved satisfactory growth of order demand from both overseas and domestic market in light of the continuous consolidation in supply chain. In addition to a nearly full production capacity, the Group expanded its production capacity of knitted fabric by approximately 20% in November 2013 in its flagship production base in Xinhui, Guangdong, the PRC. This ensured that the Group had sufficient production capacity to accommodate new and recovered orders. At the same time, the Group also implemented a flexible pricing strategy to capture larger market share at this early stage of the economic recovery. Though this resulted in a slight decline of 2.5% year-on-year in the average selling price (the “ASP”) of the knitted fabric and dyed yarn products, the Group’s production volume increased by approximately 34.5% and that compensated the lower ASP impact, thus contributed to the Group’s revenue growth for the fiscal year.

Facing the rising costs in the PRC, the operating environment for textile and garment manufacturing was noticeably difficult. Being one of the leading knitted textile and garment manufacturers in the world, the Group was able to leverage its production volume and scale to lower the manufacturing overheads. The Group also implemented stringent cost control measures and streamlined the production process to enhance productivity and efficiency whilst reducing wastages. The optimisation of production had proved successful. During the reporting period, the increase in production output contributed to an improvement of 38.5% year-on-year in operating profit of this segment.

## **Garment Business**

For the year ended 31 March 2014, revenue of the Group’s garment segment decreased by approximately 12.5% to HK\$937 million. This was mainly attributable to (i) downsizing of PRC factory due to slow-down in PRC domestic market and higher operating cost; and (ii) the slowdown in business of a joint venture between the Group and a denim casual wear brand in the US. After two years of under-performance of the joint-venture, the Group decided to stop the collaboration in order to contain losses.

The Group has four garment production bases around the globe, located namely in the PRC, Cambodia, Indonesia and Jordan. The Group’s plant in Cambodia enjoys preferential tariff from the European Union and Canada while the one in Jordan entitles to free import duty to the US. Together with the plants in the PRC and Indonesia, the Group’s geographically diversified production network enables us to tackle macro volatility as well as being strategically flexible in receiving orders. This allows us to exploit the respective competitive advantages of each production base and thus enhance efficiency and profitability.

During the year ended 31 March 2014, the segment’s order books remained solid, with a steady inflow of orders from brand-name customers. Amongst all, the Jordan and Indonesia production bases recorded the most noticeable growth. The duty-free privilege of the Jordan plant has drawn in a good amount of order. This coupled with the contribution made by the expanded capacity during the second half of the year, facilitated its revenue to increase steadily. The Indonesia plant has also attracted a satisfactory volume of orders from the US, the Group’s major export market. In the year, Indonesian Rupiah’s depreciation against the US Dollar made the Indonesia plant even more competitive in pricing. The increasingly sophisticated workmanship of these plants helped the Group in retaining reputable brand-name customers and their loyalty. With the synergy generated amongst the production bases and the Group’s planned capacity expansion plan, the Group is confident in capturing further the upcoming opportunities from the economic recovery in its major export markets.

## **Resin Business**

Sharing the Group's production base in Xinhui, the resin manufacturing business utilised the Group's existing licenses and facilities to expand its source of revenue. Following the trial production commenced in the first half of the fiscal year, the Group continued to optimise and fine-tune the production process to cater for the customer needs of the local artificial marble manufacturing market. With the relatively longer initial ramp-up period and the lengthy implementation of series of more environmental-friendly production procedures, the output was not up to initial expectation. With the certain and positive demand from the existing customer network, the resin business is expected to bring positive contribution to the Group's after the technical enhancement of the facilities.

## **Major Movements**

### *A HK\$1,988 million syndicated loan obtained*

On 28 February 2014, the Group obtained a syndicated loan facility of HK\$1,988 million for a term of three and a half years from a syndicate of 19 international and regional banks, at an interest rate of HIBOR plus 2.44% per annum. The loan was mainly used for refinancing the syndicated loan of HK\$1,388 million obtained in 2012 and for general working capital. With the loan in place, the Board is confident in pursuing the Group's business objectives and future expansion plans.

### *Proposed share sale of Ford Glory Group Holdings Limited ("FGG", stock code: 1682.HK) and acquisition of the garment manufacturing business of FGG*

On 14 March 2014, Sure Strategy Limited ("Sure Strategy", the Company's beneficially-owned subsidiary), Merlotte Enterprise Limited and Victory City Investments Limited (the Company's direct wholly-owned subsidiary) had conditionally agreed to sell the aggregate interest of 320,000,000 shares of FGG (approximately 61.56% of the entire issued share capital on a fully-diluted basis) to Unitech Enterprises Group Limited ("Unitech") at an aggregate consideration of HK\$258,560,000 or HK\$0.808 per FGG share (the "Share Sale"). This constitutes a discloseable and connected transaction for the Company and is therefore subject to the independent shareholders' approval of the Company in the coming special general meeting to be held on 10 July 2014.

To fulfill one of the conditions precedent for the Share Sale that Unitech would only take over the garment sourcing business of the Company, Sure Strategy agreed to acquire and FGG agreed to dispose of its garment manufacturing business for HK\$270,000,000 in cash (the "Acquisition"). Since Sure Strategy is owned as to 51% by the Company, the Company will be able to retain the garment manufacturing business in the Group to complement its existing textile business upon completion. This constitutes a discloseable and connected transaction for the Company and a very substantial disposal for FGG. Therefore, the Acquisition is subject to the approval of both the Company's independent shareholders and FGG's independent shareholders in their coming special general meetings to be held on 10 July 2014.

## **PROSPECTS**

Looking into 2014/2015, the Group is cautiously optimistic about the industry outlook since the latest market data showed encouraging upward trend spurred by the improving global economy and domestic “mini-stimulus” campaign. In May 2014, the total export value of the textile and garment products increased by 8.7% year-on-year to US\$25.0 billion, whereas the accumulative export value for the first five months in 2014 grew by 3.6% year-on-year to US\$106.8 billion, according to the Chinese Customs Statistics. There is no doubt that the operating environment of textile and garment market in the PRC will remain tough. Nevertheless, being one of the leading textile and garment players in the region, the Group will continue to take advantage of the consolidation of suppliers and maximise its market share in due course, by absorbing the recovered orders and new clients. Continuous optimisation in production lines and cost-efficient labor allocation will be another key priority to help the Group to stay competitive and resilient. The Group will put extra focus on enhancing production efficiency and realising the value of economy of scale. To sustain last year’s growth momentum, the Group will rigorously assess the order book and timely increase its production capacity to match the improving market demand.

As the cotton stockpiling policy of the Chinese government had come to an end in March 2014, the domestic cotton price is expected to normalise progressively. The Group expects that the value of its upstream yarn spinning business will be gradually resumed by internally supplying certain amount of quality yarn to the Group’s textile production. Coupled with its promising downstream garment operations offshore, the Group’s vertically integrated operation will certainly bring synergy and cost benefits to the Group, thus reinforcing the Group’s position in the industry and creating greater values for its shareholders.

## **FINANCIAL REVIEW**

### **Liquidity and Financial Resources**

As at 31 March 2014, the Group had total assets of approximately HK\$9,403 million (2013: HK\$8,556 million) which were financed by current liabilities of approximately HK\$2,807 million (2013: HK\$2,534 million), long term liabilities of approximately HK\$1,364 million (2013: HK\$1,111 million) and shareholders’ equity of approximately HK\$4,974 million (2013: HK\$4,662 million). The current ratio was approximately 2.1 (2013: 2.1) and the gearing ratio, being defined as net debt (representing by total bank borrowings net of cash and cash equivalents) to shareholders’ funds was approximately 38.1% (2013: 22.0%). 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\$444 million on additions to property, plant and equipment.

As at 31 March 2014, the Group had capital commitments of approximately HK\$107 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 2014, certain property, plant and equipment, prepaid lease payments and investment property of the Group with net book value of approximately HK\$402 million (2013: HK\$413 million) were pledged to banks to secure banking facilities granted.

## **Employee Information**

As at 31 March 2014, the total number of employees of the Group were approximately 1,160 in Cambodia, approximately 1,570 in Jordan, approximately 970 in Indonesia, approximately 5,890 in the PRC and approximately 150 in Hong Kong, Macau and other places. Remuneration packages are generally structured with 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 for the growth of the Group.

## **CLOSURE OF REGISTER OF MEMBERS**

In order to determine the entitlement to the final dividend for the year ended 31 March 2014, the register of members of the Company will be closed from 3 September 2014 to 5 September 2014 (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 2014, 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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 2 September 2014.

## **PURCHASE, SALE 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 CORPORATE GOVERNANCE CODE**

The Company had complied throughout the year ended 31 March 2014 with the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

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

The Company has adopted a code of conduct (the "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 2014.

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

Hong Kong, 27 June 2014

*As at the date of this announcement, the executive Directors 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.*

*\* for identification purposes only*