



VICTORY CITY INTERNATIONAL HOLDINGS LIMITED

冠華國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 539)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

RESULTS

The directors (the “Directors”) of Victory City International Holdings Limited (the “Company”) are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2006. The interim results have been reviewed by the Company’s auditors in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports” issued by the Hong Kong Institute of Certified Public Accountants. The interim results have also been reviewed by the Company’s audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 September	
	Notes	2006 HK\$'000 (unaudited)	2005 HK\$'000 (unaudited)
Revenue	4	1,821,174	1,421,345
Cost of sales		(1,452,712)	(1,144,731)
Gross profit		368,462	276,614
Other income		24,684	17,584
Distribution costs		(50,848)	(44,593)
Administrative expenses		(119,315)	(89,291)
Finance costs		(27,754)	(13,659)
Profit before taxation		195,229	146,655
Income tax expense	5	(20,214)	(10,192)
Profit for the period	6	175,015	136,463
Attributable to:			
Equity holders of the Company		156,367	122,390
Minority interests		18,648	14,073
		175,015	136,463
Distributions	7	46,919	37,331
Earnings per share	8		
Basic		HK24.3 cents	HK21.6 cents
Diluted		HK24.2 cents	HK21.6 cents

CONDENSED CONSOLIDATED BALANCE SHEET

		30 September 2006 <i>HK\$'000</i> (unaudited)	31 March 2006 <i>HK\$'000</i> (audited)
Non-current assets			
Property, plant and equipment	9	1,527,866	1,405,800
Prepaid lease payments		22,247	22,654
Investment properties	10	128,200	92,870
Goodwill		6,185	6,185
Deposits paid for acquisition of investment properties/ property, plant and equipment		8,718	3,398
		1,693,216	1,530,907
Current assets			
Inventories		1,178,487	860,729
Trade receivables	11	832,248	706,632
Deposits, prepayments and other receivables		169,519	167,914
Prepaid lease payments		793	783
Derivative financial instruments		4,675	461
Bank balances and cash		248,219	370,762
		2,433,941	2,107,281
Current liabilities			
Trade payables	12	538,419	474,964
Other payables		69,419	71,151
Dividend payable		38,713	97
Taxation payable		50,685	35,898
Obligations under finance leases – amount due within one year		565	2,618
Bank borrowings – amount due within one year		1,187,119	837,287
Derivative financial instruments		1,412	3,144
		1,886,332	1,425,159
Net current assets		547,609	682,122
		2,240,825	2,213,029

	30 September 2006	31 March 2006
<i>Notes</i>	HK\$'000	HK\$'000
	(unaudited)	(audited)
Capital and reserves		
Share capital	6,436	6,436
Reserves	1,658,056	1,540,726
	<hr/>	<hr/>
Equity attributable to equity holders of the Company	1,664,492	1,547,162
Minority interests	74,173	55,525
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	1,738,665	1,602,687
	<hr/>	<hr/>
Non-current liabilities		
Bank borrowings – amount due after one year	491,704	601,191
Deferred tax liabilities	10,456	9,151
	<hr/>	<hr/>
	502,160	610,342
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	2,240,825	2,213,029
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Notes:

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties and derivatives financial instruments, which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the annual consolidated financial statements of the Company and its subsidiaries (the “Group”) for the year ended 31 March 2006.

In the current interim period, the Group has applied, for the first time, a number of new standard, amendments and interpretations (“new HKFRSs”) issued by the HKICPA, which are either effective for accounting periods beginning on or after 1 December 2005, 1 January 2006 or 1 March 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

3. POTENTIAL IMPACT ARISING ON NEW ACCOUNTING STANDARDS NOT YET EFFECTIVE

The Group has not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures ¹
HKFRS 7	Financial instruments: Disclosures ¹
HK(IFRIC)-INT 8	Scope of HKFRS 2 ²
HK(IFRIC)-INT 9	Reassessment of Embedded Derivatives ³
HK(IFRIC)-INT 10	Interim financial reporting and impairment ⁴

¹ Effective for annual periods beginning on or after 1 January 2007.

² Effective for annual periods beginning on or after 1 May 2006.

³ Effective for annual periods beginning on or after 1 June 2006.

⁴ Effective for annual periods beginning on or after 1 November 2006.

4. SEGMENT INFORMATION

Business segments

The Group is currently engaged in two business activities: (i) production and sale of knitted fabric and dyed yarn; and (ii) trading and manufacturing of garment products. These activities are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

Six months ended 30 September 2006

	Production and sale of knitted fabric and dyed yarn <i>HK\$'000</i>	Trading and manufacturing of garment products <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE			
External sales	<u>1,236,546</u>	<u>584,628</u>	<u>1,821,174</u>
RESULTS			
Segment results	<u>172,743</u>	<u>37,668</u>	210,411
Unallocated corporate income			19,596
Unallocated corporate expenses			(7,024)
Finance costs			<u>(27,754)</u>
Profit before taxation			195,229
Income tax expense			<u>(20,214)</u>
Profit for the period			<u><u>175,015</u></u>

Six months ended 30 September 2005

	Production and sale of knitted fabric and dyed yarn <i>HK\$'000</i>	Trading and manufacturing of garment products <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE			
External sales	942,617	478,728	1,421,345
RESULTS			
Segment results	125,700	31,245	156,945
Unallocated corporate income			8,813
Unallocated corporate expenses			(5,444)
Finance costs			(13,659)
Profit before taxation			146,655
Income tax expense			(10,192)
Profit for the period			<u>136,463</u>

5. INCOME TAX EXPENSE

Six months ended 30 September	
2006	2005
<i>HK\$'000</i>	<i>HK\$'000</i>

The tax charge comprises:

Current tax:

Hong Kong Profits Tax calculated at 17.5% of the estimated assessable profit for the current period

8,943	4,862
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Enterprise income tax in the Peoples' Republic of China (the "PRC") attributable to the subsidiaries

9,966	5,330
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18,909	10,192
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Deferred tax

Current period

1,305	–
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20,214	10,192
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Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for both periods.

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

6. PROFIT FOR THE PERIOD

Six months ended	
30 September	
2006	2005
HK\$'000	HK\$'000

Profit for the period has been arrived at after charging (crediting):

Depreciation of property, plant and equipment	63,502	44,669
Release of prepaid lease payment	397	167
Changes in fair value of derivative financial instruments	(5,946)	3,443
Interest income	(1,520)	(471)
	<u>63,502</u>	<u>44,669</u>

7. DISTRIBUTIONS

On 25 August 2006, the Company approved a final dividend of HK\$38,616,000 representing HK6.0 cents per share in respect of financial year ended 31 March 2006. On 25 August 2005, the Company approved a final dividend of HK\$31,200,000 representing HK5.5 cents per share in respect of financial year ended 31 March 2005. The amounts of these final dividends recommended were in cash form with a scrip option.

In respect of the six months ended 30 September 2006, the directors have determined that an interim dividend of HK\$46,919,000 representing HK7.2 cents per share (six months ended 30 September 2005: HK\$37,331,000 representing HK6.5 cents per share), which is in cash form with a scrip option, should be paid to shareholders of the Company whose names appeared in the Company's Register of Members on 11 January 2007.

8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

Six months ended	
30 September	
2006	2005
HK\$'000	HK\$'000

Earnings

Profit for the period attributable to equity holders of the Company for the purposes of basic and diluted earnings per share	<u>156,367</u>	<u>122,390</u>
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	643,601	567,272
Effect of dilutive potential ordinary shares in respect of share options	<u>2,289</u>	<u>529</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>645,890</u>	<u>567,801</u>

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$189 million (six months ended 30 September 2005: HK\$203 million) on additions to property, plant and equipment. Certain property, plant and equipment of the Group with an aggregate carrying value of approximately HK\$12,455,000 (31 March 2006: HK\$12,851,000) were pledged to banks as security for the credit facilities granted to the Group.

10. MOVEMENTS IN INVESTMENT PROPERTIES

During the period, the Group acquired an investment property at a cost of HK\$25,000,000 (six months ended 30 September 2005: HK\$19,443,000). The investment properties of the Group were valued at 30 September 2006 by Savills (Hong Kong) Limited, an independent firm of professional valuers, on an open market, existing use basis. The changes in fair value of investment properties amounting to HK\$10,330,000 (six months ended 30 September 2005: HK\$4,657,000) has been credited to the condensed consolidated income statement. Certain investment properties of the Group with an aggregate carrying value of approximately HK\$103,200,000 (31 March 2006: HK\$91,700,000) were pledged to banks as security for the credit facilities granted to the Group.

11. TRADE RECEIVABLES

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

The following is an aged analysis of trade receivables at the reporting date:

	30 September 2006 HK\$'000	31 March 2006 HK\$'000
0-60 days	607,564	527,271
61-90 days	103,080	80,826
91-120 days	75,399	56,242
Over 120 days	46,205	42,293
	<u>832,248</u>	<u>706,632</u>

For a cash flow management purpose, the Group discounted and factored certain bills receivables to banks with recourse in exchange for cash. The discounted and factored bills as at 30 September 2006 amounted to approximately HK\$292,825,000 (31 March 2006: HK\$191,248,000) and pursuant to HKAS 39, such bills and the related proceeds from banks were included in the "Trade receivables" and "Bank borrowings" at the balance sheet date.

12. TRADE PAYABLES

The following is an aged analysis of trade payables at the reporting date:

	30 September 2006 HK\$'000	31 March 2006 HK\$'000
0-60 days	429,163	377,796
61-90 days	64,141	44,425
Over 90 days	45,115	52,743
	<u>538,419</u>	<u>474,964</u>

INTERIM DIVIDEND

The Directors have resolved to declare an interim dividend of HK7.2 cents (2006: HK6.5 cents) per share of the Company for the year ending 31 March 2007. The interim dividend will be payable on 5 March 2007 to shareholders whose names appear on the register of members of the Company on 11 January 2007 with a scrip alternative to offer the right to shareholders to elect to receive such interim dividend wholly or partly by allotment of new shares credited as fully paid in lieu of cash.

A circular containing details of the scrip dividend scheme together with an election form will be sent to the shareholders of the Company as soon as practicable. The scrip dividend scheme is subject to the following conditions: (a) the issue price of a new share of the Company to be issued pursuant thereto being not less than the nominal value of a share of the Company; and (b) the granting by the Listing Committee of The Stock Exchange of Hong Kong Limited of the listing of and permission to deal in the new shares of the Company to be issued pursuant thereto.

BUSINESS REVIEW AND PROSPECTS

For the six months ended 30 September 2006, the Group's total revenue reached HK\$1.82 billion, representing an increase of 28% over the same period last year. Boosted by the strong revenue growth, gross profit and profit attributable to equity holders of the Company rose by 33% and 28% respectively, to HK\$368 million and HK\$156 million. Basic earnings per share also increased from 21.6 cents to 24.3 cents for the period under review.

Production and sales of knitted fabric and dyed yarn remained as the principal operation of the Group and accounted for 68% of the consolidated revenue. Revenue of this business segment reached HK\$1.24 billion, signifying an increase of 31% as compared with the previous period. The upsurge was mainly contributed to enhanced utilisation rates as well as our gradual expansion of monthly production capability of knitted fabric from 12 million pounds to 15 million pounds during the period under review. Improvements of production efficiency and product quality were achieved through our investment in the up-to-date models of machineries. Furthermore, the dedicated effort of the marketing teams in exploring both worldwide and domestic China markets and the management's tightened control of operating costs also contributed to both revenue and profit growth. It is envisaged that the growth momentum will be sustained in the second half of the financial year.

Recently, the PRC authorities have enforced tighten measures on environmental protection. Our Xinhui factories are well-equipped with sufficient and up-to-standard effluent discharge facilities for the manufacturing operations. To cater for our future capacity expansion, further enhancement and upscaling of the effluent discharge facilities including installation of new water recycle system and effluent treatment plant have been implemented by phases.

The garment segment continued to demonstrate satisfactory performance during the period under review by achieving a 22% growth in revenue to HK\$585 million, accounted for 32% of the consolidated revenue. The diversified global out-sourcing base together with our self-owned garment manufacturing facilities in Jordan, PRC and Indonesia enable the Group to provide comprehensive services to our customers through flexible and efficient production plans as well as diversified product ranges. The management is confident that the garment business will continue to play an important role in the corporate development of the Group in the coming years.

It is anticipated the global trading environment will remain highly competitive with continuing pressures on operating costs. The Directors remain cautiously optimistic towards the second half of the financial year as our business developments are on the right trajectory. The vertical set-up of the Group from yarn dyeing, knitted fabric manufacturing to garment sourcing, manufacturing and exporting laid down strong foundation for future business growth. We are well-positioned to excel and to capitalize on any strategic opportunities that fit our corporate vision so as to maintain our uninterrupted record of growth for our shareholders.

There has been no important event affecting the Group which occurred since 30 September 2006.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 30 September 2006, the Group had total assets of HK\$4,127,157,000 (31 March 2006: HK\$3,638,188,000) which were financed by current liabilities of HK\$1,886,332,000 (31 March 2006: HK\$1,425,159,000), long term liabilities of HK\$502,160,000 (31 March 2006: HK\$610,342,000) and shareholders' equity of HK\$1,664,492,000 (31 March 2006: HK\$1,547,162,000). The current ratio was approximately 1.3 (31 March 2006: 1.5) and the gearing ratio, being the ratio of total borrowings (net of bank balances and cash) to shareholders' funds was 68% (31 March 2006: 57%). The Directors are comfortable to maintain the ratios at this level. 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.

Exposure to Fluctuation in Foreign Exchange

The Group's monetary assets and liabilities were principally denominated in Hong Kong dollars, Chinese Renminbi and US dollars. In as much as the Hong Kong dollars is pegged to the US dollars, and that there has been minimal fluctuation in exchange rate between Hong Kong dollars and Chinese Renminbi, the Group's exposure to currency exchange risk was minimal.

Capital Expenditure

During the period, the Group invested approximately HK\$189 million in property, plant and equipment, of which 47% was used for purchase of plant and machinery and 51% for acquisition of property and construction of new factory plant.

As at 30 September 2006, the Group had capital commitments of approximately HK\$162 million in respect of acquisition of property, plant and equipment and investment properties, which are financed by long-term bank borrowings.

Charges on Assets

As at 30 September 2006, investment properties and certain property, equipment, plant and machinery of the Group with carrying value of approximately HK\$116 million (31 March 2006: approximately HK\$105 million) were pledged to banks to secure banking facilities granted.

Employee Information

As at 30 September 2006, total number of employees of the Group were approximately 260 in Hong Kong and Macau, approximately 10 in USA and Canada, approximately 1,100 in Jordan, approximately 1,100 in Indonesia and approximately 6,600 in the PRC. 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 with an appropriate incentive interest in the growth of the Group.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 8 January 2007 to 11 January 2007 both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the interim dividend, all share transfers accompanied by the relevant share certificates must be lodged with Company's branch share registrars in Hong Kong, Secretaries Limited of 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 5 January 2007.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 September 2006, 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 six months ended 30 September 2006 with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

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 six months ended 30 September 2006.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT ON THE STOCK EXCHANGE WEBSITE

This interim results announcement is also published on the website of the Stock Exchange. The interim report containing all the information required by the Listing Rules will be despatched to shareholders of the Company and published on the Stock Exchange's website in due course.

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

Hong Kong, 20 December 2006

As at the date of this announcement, the Board of Directors comprises the following members:

Executive Directors:

Li Ming Hung (*Chairman*)
Chen Tien Tui (*Chief Executive Officer*)
So Kam Wah
Lee Yuen Chiu, Andy
Choi Lin Hung

Independent Non-Executive Directors:

Kan Ka Hon
Phaisalakani Vichai
Kwok Sze Chi

* *for identification purposes only*

Please also refer to the published version of this announcement in The Standard.