



中期報告  
INTERIM  
REPORT  
06/07

Victory City  
International  
Holdings  
Limited

冠華國際控股有限公司

股份代號 Stock Code: 539





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## CORPORATE INFORMATION

### Board of Directors

#### *Executive*

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

#### *Independent Non-Executive*

Kan Ka Hon  
 Phaisalakani Vichai (Andy Hung)  
 Kwok Sze Chi

### Company Secretary

Lee Chung Shing

### Legal Advisers

Chiu & Partners

### Auditors

Deloitte Touche Tohmatsu

### Major Bankers

The Hongkong and Shanghai Banking Corporation Limited  
 Hang Seng Bank Limited  
 Bank of America, N.A.  
 DBS Bank (Hong Kong) Limited  
 HSH Nordbank AG  
 Sumitomo Mitsui Banking Corporation

### Principal Share Registrars

Butterfield Fund Services (Bermuda) Limited  
 Rosebank Centre  
 11 Bermudiana Road  
 Pembroke HM 08  
 Bermuda

### Registrars in Hong Kong

Secretaries Limited  
 26/F., Tesbury Centre  
 28 Queen's Road East  
 Wanchai  
 Hong Kong

### Registered Office

Clarendon House  
 Church Street  
 Hamilton HM 11  
 Bermuda

### Head Office and Principal Place of Business

Unit D, 3rd Floor  
 Winfield Industrial Building  
 3 Kin Kwan Street  
 Tuen Mun  
 New Territories  
 Hong Kong

### Company Website

[www.victorycity.com.hk](http://www.victorycity.com.hk)

## CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

	Notes	Six months ended 30 September	
		2006 HK\$'000 (unaudited)	2005 HK\$'000 (unaudited)
Revenue	4	1,821,174	1,421,345
Cost of sales		<u>(1,452,712)</u>	<u>(1,144,731)</u>
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		<u>(27,754)</u>	<u>(13,659)</u>
Profit before taxation		195,229	146,655
Income tax expense	5	<u>(20,214)</u>	<u>(10,192)</u>
Profit for the period	6	<u>175,015</u>	<u>136,463</u>
Attributable to:			
Equity holders of the Company		156,367	122,390
Minority interests		<u>18,648</u>	<u>14,073</u>
		<u>175,015</u>	<u>136,463</u>
Distributions	7	<u>46,919</u>	<u>37,331</u>
Earnings per share	8		
Basic		<u>HK24.3 cents</u>	<u>HK21.6 cents</u>
Diluted		<u>HK24.2 cents</u>	<u>HK21.6 cents</u>

## CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 SEPTEMBER 2006

		30 September 2006 HK\$'000 (unaudited)	31 March 2006 HK\$'000 (audited)
	<i>Notes</i>		
<b>Non-current assets</b>			
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
		<u>1,693,216</u>	<u>1,530,907</u>
<b>Current assets</b>			
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
		<u>2,433,941</u>	<u>2,107,281</u>
<b>Current liabilities</b>			
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	13	1,187,119	837,287
Derivative financial instruments		1,412	3,144
		<u>1,886,332</u>	<u>1,425,159</u>
<b>Net current assets</b>		<u>547,609</u>	<u>682,122</u>
		<u>2,240,825</u>	<u>2,213,029</u>

		30 September 2006 Notes HK\$'000 (unaudited)	31 March 2006 HK\$'000 (audited)
<b>Capital and reserves</b>			
Share capital		6,436	6,436
Reserves		<u>1,658,056</u>	<u>1,540,726</u>
Equity attributable to equity holders of the Company		<u>1,664,492</u>	1,547,162
Minority interests		<u>74,173</u>	55,525
		<u>1,738,665</u>	<u>1,602,687</u>
<b>Non-current liabilities</b>			
Bank borrowings			
– amount due after one year	13	<u>491,704</u>	601,191
Deferred tax liabilities		<u>10,456</u>	9,151
		<u>502,160</u>	610,342
		<u>2,240,825</u>	<u>2,213,029</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

	Attributable to equity holders of the Company						Minority interests	Total	
	Share capital	Share premium	Capital reserve	Translation reserve	Dividend reserve	Accumulated profits			Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 April 2005	5,673	472,324	76,229	2,856	31,200	482,192	1,070,474	37,570	1,108,044
Exchange difference on translation of operations outside Hong Kong recognised directly in equity	-	-	-	(599)	-	-	(599)	-	(599)
Profit for the period	-	-	-	-	-	122,390	122,390	14,073	136,463
2005 final dividend approved but not yet paid	-	-	-	-	(31,200)	-	(31,200)	-	(31,200)
Total recognised income and expense for the period	-	-	-	(599)	(31,200)	122,390	90,591	14,073	104,664
At 30 September 2005	5,673	472,324	76,229	2,257	-	604,582	1,161,065	51,643	1,212,708
Exchange difference on translation of operations outside Hong Kong recognised directly in equity	-	-	-	91,274	-	-	91,274	-	91,274
Profit for the period	-	-	-	-	-	127,879	127,879	9,376	137,255
Total recognised income and expense for the period	-	-	-	91,274	-	127,879	219,153	9,376	228,529
Acquisition of a subsidiary	-	-	-	-	-	-	-	4,306	4,306
Interim dividend proposed	-	-	-	-	37,331	(37,331)	-	-	-
Issue of shares under scrip dividend scheme for 2005 final dividend and 2006 interim dividend	163	33,780	-	-	(20,324)	-	13,619	-	13,619
Placing of new shares	600	175,200	-	-	-	-	175,800	-	175,800
Transaction costs attributable to issue of new shares	-	(5,468)	-	-	-	-	(5,468)	-	(5,468)
Final dividend proposed (note 7)	-	-	-	-	38,616	(38,616)	-	-	-
Dividend paid	-	-	-	-	(17,007)	-	(17,007)	-	(17,007)
Dividend paid to minority interests	-	-	-	-	-	-	-	(9,800)	(9,800)
At 31 March 2006	6,436	675,836	76,229	93,531	38,616	656,514	1,547,162	55,525	1,602,687

	Attributable to equity holders of the Company							Minority interests	Total
	Share capital	Share premium	Capital reserve	Translation reserve	Dividend reserve	Accumulated profits	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
Exchange difference on translation of operations outside Hong Kong recognised directly in equity	-	-	-	(421)	-	-	(421)	-	(421)
Profit for the period	-	-	-	-	-	156,367	156,367	18,648	175,015
Total recognised income and expense for the period	-	-	-	(421)	-	156,367	155,946	18,648	174,594
2006 final dividend approved but not yet paid	-	-	-	-	(38,616)	-	(38,616)	-	(38,616)
<b>At 30 September 2006</b>	<b>6,436</b>	<b>675,836</b>	<b>76,229</b>	<b>93,110</b>	<b>-</b>	<b>812,881</b>	<b>1,664,492</b>	<b>74,173</b>	<b>1,738,665</b>



## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

	Six months ended 30 September	
	2006 HK\$'000 (unaudited)	2005 HK\$'000 (unaudited)
Net cash (used in) from operating activities	<u>(144,815)</u>	<u>2,901</u>
Net cash used in investing activities:		
Purchase of property, plant and equipment	(188,680)	(202,651)
Purchase of investment properties	(25,000)	(19,443)
Deposits paid for acquisition of investment properties	(8,718)	-
Other investing cash flows	<u>6,378</u>	<u>785</u>
	<u>(216,020)</u>	<u>(221,309)</u>
Net cash from financing activities:		
New bank loans raised	168,373	182,827
Net proceeds from bills discounted with recourse, debts factored with recourse, import loans and trust receipt received	205,912	115,524
Repayment of bank loans	(133,940)	(90,127)
Other financing cash flows	<u>(2,053)</u>	<u>(2,814)</u>
	<u>238,292</u>	<u>205,410</u>
Net decrease in cash and cash equivalents	<u>(122,543)</u>	<u>(12,998)</u>
Cash and cash equivalents at beginning of the period	<u>370,762</u>	<u>225,833</u>
Cash and cash equivalents at end of the period	<u>248,219</u>	<u>212,835</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

## 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 <sup>1</sup>
HKFRS 7	Financial instruments: Disclosures <sup>1</sup>
HK(IFRIC)-INT 8	Scope of HKFRS 2 <sup>2</sup>
HK(IFRIC)-INT 9	Reassessment of Embedded Derivatives <sup>3</sup>
HK(IFRIC)-INT 10	Interim financial reporting and impairment <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007

<sup>2</sup> Effective for annual periods beginning on or after 1 May 2006

<sup>3</sup> Effective for annual periods beginning on or after 1 June 2006

<sup>4</sup> 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 HK\$'000	Trading and manufacturing of garment products HK\$'000	Consolidated HK\$'000
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>	<u>210,411</u>
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>175,015</u>

Six months ended 30 September 2005

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

## 5. INCOME TAX EXPENSE

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

Enterprise income tax in the Peoples' Republic of China (the "PRC") attributable to the subsidiaries

9,966

5,330

18,909

10,192

Deferred tax

Current period

1,305

-

20,214

10,192

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

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)

### Six months ended 30 September

2006

2005

HK\$'000

HK\$'000

### Six months ended 30 September

2006

2005

HK\$'000

HK\$'000

## 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>
Number of shares	'000	'000
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>

## 13. BANK BORROWINGS

	30 September 2006 HK\$'000	31 March 2006 HK\$'000
Bank loans	966,355	930,080
Bills discounted with recourse and debts factored with recourse	292,825	191,248
Import loans and trust receipts loans	386,543	282,208
Mortgage loans	33,100	34,942
	<u>1,678,823</u>	<u>1,438,478</u>
Less: Amount due within one year included in current liabilities	<u>(1,187,119)</u>	<u>(837,287)</u>
Amount due after one year	<u>491,704</u>	<u>601,191</u>

During the period, the Group obtained new loans in the amount of approximately HK\$168,373,000 (six months ended 30 September 2005: HK\$182,827,000). The Group repaid bank loans in the amount of approximately HK\$133,940,000 for the period (six months ended 30 September 2006: HK\$90,127,000). The loans carry interest at market rates ranging from 3.8% to 4.7% per annum. The proceeds were used for the expansion of the Group's operation.



#### 14. CAPITAL COMMITMENTS

At the balance sheet date, the Group had capital expenditure committed as follows:

	30 September 2006 HK\$'000	31 March 2006 HK\$'000
Contracted but not provided for in the condensed consolidated financial statements in respect of acquisition of:		
property, plant and equipment	84,029,000	74,919,000
investment properties	<u>78,460,000</u>	<u>-</u>
	<u>162,489,000</u>	<u>74,919,000</u>

#### 15. RELATED PARTY DISCLOSURES

- (i) During the period, the Group paid operating lease rentals amounting to approximately HK\$54,000 (six months ended 30 September 2005: HK\$54,000) to Verdure Enterprises Limited ("Verdure"). Verdure is owned by a discretionary trust, the objects of which include Mr. Li Ming Hung, a director of the Company and his family.
- (ii) In a previous year, the Group entered into a tenancy agreement for a term of three years commencing from 1 July 2005 with Giant Step Limited ("Giant Step") for leasing premise from Giant Step to the Group in Hong Kong. The issued share capital of Giant Step is directly or indirectly owned as to 25% by each of a discretionary trust whose discretionary objects are the family members of Mr. Li Ming Hung, a discretionary trust whose discretionary objects are the family members of Mr. Chen Tien Tui (the two trusts are collectively referred to as the "Trusts") and Mr. Choi Lin Hung, a director of the Company. During the period, the agreement was terminated and the Group did not pay any rental expenses (six months ended 30 September 2005: HK\$384,000) to Giant Step.
- (iii) In a previous year, the Group entered into a master sale and purchase agreement ("Master Supply Agreement") with 南京新一棉紡織印染有限公司 Nanjing Synergy Textiles Limited ("Nanjing Synergy"). The entire equity interest of Nanjing Synergy is indirectly owned by the Trusts in equal share. Pursuant to the Master Supply Agreement, Nanjing Synergy agreed to supply yarn to the Group and the purchase during the period was approximately HK\$58,041,000 (six months ended 30 September 2005: HK\$15,823,000). As at 30 September 2006, the aggregate amount of purchase deposits paid by the Group to Nanjing Synergy was approximately HK\$76,777,000 (31 March 2006: HK\$65,447,000) included in deposits, prepayments and other receivables.



## 16. EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to the balance sheet date, the Group had the following significant transactions:

- (i) On 13 October 2006, the Company paid the 2006 final dividend by way of cash and scrip of HK\$19,744,000 and HK\$18,872,000, respectively.
- (ii) Subsequent to 30 September 2006, the Group acquired three investment properties for an aggregate consideration of approximately HK\$87,177,000.

  
**Deloitte.****德勤****INDEPENDENT INTERIM REVIEW REPORT****TO THE BOARD OF DIRECTORS OF  
VICTORY CITY INTERNATIONAL HOLDINGS LIMITED***(incorporated in Bermuda with limited liability)***Introduction**

We have been instructed by Victory City International Holdings Limited to review the interim financial report set out on pages 3 to 17.

**Directors' responsibilities**

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

**Review work performed**

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

**Review conclusion**

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 September 2006.

**Deloitte Touche Tohmatsu***Certified Public Accountants*

Hong Kong, 20 December 2006

## 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 1,200 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.

### **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.

### **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.



## DIRECTORS' AND CHIEF EXECUTIVES' INTEREST IN SHARES AND UNDERLYING SHARES

As at 30 September 2006, the interests and short positions of the Directors or chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO") which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were deemed or taken to have under such provisions of the SFO) or which were required pursuant to section 352 of the SFO to be entered in the register referred to therein or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Name of Director	The Company/ name of associated corporation	Capacity	Interest in shares (Note 1)	Interest in underlying shares of share options (Note 1)	Approximate % of the relevant class of issued share capital of the Company/ associated corporation
Li Ming Hung	The Company	Founder of a trust	94,824,000 ordinary shares of HK\$0.01 each of the Company ("Shares") (L) (Note 2)	-	14.7%
	The Company	Beneficial owner	8,712,000 Shares (L)	-	1.3%
	The Company	Beneficial owner	-	1,500,000 Shares (L) (Note 4)	0.2%
	Victory City Company Limited (Note 15)	Beneficial owner	4,000,000 non-voting deferred shares of HK\$1.00 each (L)	-	50%
	Victory City Overseas Limited (Note 15)	Beneficial owner	1,300 redeemable non-voting preference shares of US\$1.00 each (L)	-	39.4%

Name of Director	The Company/ name of associated corporation	Capacity	Interest in shares (Note 1)  (Note 3)	Interest in underlying shares of share options (Note 1)  (Note 4)	Approximate % of the relevant class of issued share capital of the Company/ associated corporation
Chen Tien Tui	The Company	Founder of a trust	94,824,000 Shares (L) (Note 3)	-	14.7%
	The Company	Beneficial owner	9,330,000 Shares (L)	-	1.4%
	The Company	Beneficial owner	-	1,500,000 Shares (L) (Note 4)	0.2%
	Victory City Company Limited (Note 15)	Beneficial owner	4,000,000 non-voting deferred shares of HK\$1.00 each (L)	-	50%
	Victory City Overseas Limited (Note 15)	Beneficial owner	1,300 redeemable non-voting preference shares of US\$1.00 each (L)	-	39.4%
Choi Lin Hung	The Company	Beneficial owner	2,844,000 Shares (L)	-	0.4%
	The Company	Beneficial owner	-	9,000,000 Shares (L) (Note 5)	1.4%
	Victory City Overseas Limited (Note 15)	Beneficial owner	700 redeemable non-voting preference shares of US\$1.00 each (L)	-	21.2%
	Ford Glory Holdings Limited (Note 15)	Interest of controlled corporation	49 shares of US\$1.00 each (L) (Note 6)	-	49%





Name of Director	The Company/ name of associated corporation	Capacity	Interest in shares (Note 1)	Interest in underlying shares of share options (Note 1)	Approximate % of the relevant class of issued share capital of the Company/ associated corporation
	CSG Apparel Inc. (Note 15)	Interest of controlled corporation	One common stock of CAD1.00 (L) (Note 7)	-	100%
	Ford Glory International Limited (Note 15)	Interest of controlled corporation	5,000,000 ordinary shares of HK\$1.00 each (L) (Note 13)	-	100%
	Glory Time Limited (Note 15)	Interest of controlled corporation	70 ordinary shares of HK\$1.00 each (L) (Note 10)	-	70%
	Mayer Apparel Limited (Note 15)	Interest of controlled corporation	51 ordinary shares of HK\$1.00 each (L) (Note 11)	-	51%
	PT Victory Apparel Semarang (Note 15)	Interest of controlled corporation	300,000 ordinary shares of US\$1.00 each (L) (Note 9)	-	100%
	Silver Success Limited (Note 15)	Interest of controlled corporation	90 ordinary shares of HK\$1.00 each (L) (Note 10)	-	90%
	Surefaith Limited (Note 15)	Interest of controlled corporation	10 ordinary shares of US\$1.00 each (L) (Note 13)	-	100%
	Top Star Limited (Note 15)	Interest of controlled corporation	2 ordinary shares of HK\$1.00 each (L) (Note 13)	-	100%

Name of Director	The Company/ name of associated corporation	Capacity	Interest in shares (Note 1)	Interest in underlying shares of share options (Note 1)	Approximate % of the relevant class of issued share capital of the Company/ associated corporation
	Top Value Inc. (Note 15)	Interest of controlled corporation	200 common shares of no par value (L) (Note 12)	-	100%
	Value Plus (Macao Commercial Offshore) Limited (Note 15)	Interest of controlled corporation	Quota capital of MOP100,000 (L) (Note 14)	-	100%
	Victory Apparel Jordan Manufacturing Ltd. (Note 15)	Interest of controlled corporation	50,000 ordinary shares of JD\$1.00 each (L) (Note 8)	-	100%
	Wealth Choice Limited (Note 15)	Interest of controlled corporation	10 ordinary shares of US\$1.00 each (L) (Note 13)	-	100%
	福之源貿易(上海) 有限公司 (Note 15)	Interest of controlled corporation	Registered capital of RMB1,000,000 (L) (Note 7)	-	100%
Lee Yuen Chiu, Andy	The Company	Beneficial owner	-	9,000,000 Shares (L) (Note 5)	1.4%
So Kam Wah	The Company	Beneficial owner	-	9,000,000 Shares (L) (Note 5)	1.4%
Phaisalakani Vichai	The Company	Beneficial owner	200,000 Shares (L)	-	0.03%





*Notes:*

1. The letter "L" represents the director's interests in the share and underlying shares of the Company or its associated corporations.
2. These Shares were held by Pearl Garden Pacific Limited. Pearl Garden Pacific Limited is wholly owned by Cornice Worldwide Limited, the entire issued share capital of which is held by Trustcorp Limited as discretionary trustee for Mr. Li Ming Hung's family.
3. These Shares were held by Madian Star Limited. Madian Star Limited is wholly owned by Yonice Limited, the entire issued share capital of which is held by Trustcorp Limited as discretionary trustee for Mr. Chen Tien Tui's family.
4. On 9 October 2003, each of Messrs. Li Ming Hung and Chen Tien Tui was granted 500,000 options under the option scheme of the Company to subscribe for 500,000 Shares, exercisable at a price of HK\$3.04 per share during a period from 9 October 2004 to 29 November 2011.

On 7 June 2004, Messrs. Li Ming Hung and Chen Tien Tui were granted options under the share option scheme of the Company to subscribe for 1,000,000 Shares and 1,000,000 Shares respectively, exercisable at a price of HK\$3.15 per Share during a period from 7 June 2004 to 29 November 2011.

5. On 23 May 2003, Messrs. Choi Lin Hung, Lee Yuen Chiu, Andy and So Kam Wah were granted 1,500,000, 1,500,000 and 3,300,000 options respectively under the share option scheme of the Company to subscribe for 1,500,000 shares, 1,500,000 Shares and 3,300,000 Shares respectively, exercisable at a price of HK\$2.35 per Share during a period from 27 May 2003 to 29 November 2011.

On 9 October 2003, Messrs. Choi Lin Hung, Lee Yuen Chiu, Andy and So Kam Wah were granted options under the share option scheme of the Company to subscribe for 3,500,000 shares, 3,500,000 shares and 1,700,000 shares, respectively, exercisable at a price of HK\$3.04 per share during a period from 9 October 2004 to 29 November 2011.

On 7 June 2004, Messrs. Choi Lin Hung, Lee Yuen Chiu, Andy and So Kam Wah were granted options under the share option scheme of the Company to subscribe for 4,000,000 Shares, 4,000,000 Shares and 4,000,000 Shares respectively, exercisable at a price of HK\$3.15 per Share during a period from 7 June 2004 to 29 November 2011.

6. These shares, representing 49% of the issued share capital of Ford Glory Holdings Limited, were held by Merlotte Enterprise Limited which is wholly owned by Mr. Choi Lin Hung.
7. This common stock or, as the case may be, registered capital was beneficially owned by Ford Glory International Limited which is a wholly owned subsidiary of Ford Glory Holdings Limited.

8. These shares was beneficially owned by Wealth Choice Limited which is a wholly owned subsidiary of Ford Glory Holdings Limited.
9. These shares was beneficially owned by Surefaith Limited which is a wholly owned subsidiary of Ford Glory Holdings Limited.
10. Silver Success Limited is 90% owned by Glory Time Limited which is in turn 70% owned by Ford Glory Holdings Limited.
11. Mayer Apparel Limited is 51% owned by Ford Glory Holdings Limited.
12. These common shares were beneficially owned by Ford Glory Holdings Limited.
13. These shares were beneficially owned by Ford Glory Holdings Limited.
14. This quota capital was beneficially owned by Ford Glory Holdings Limited.
15. These companies are subsidiaries of the Company.

Save as disclosed above in this report, as at 30 September 2006, none of the Directors and chief executive of the Company had any interest and short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions in which they were deemed or taken to have under such provisions of the SFO) or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules.



## DISCLOSEABLE INTEREST UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 30 September 2006, according to the register kept by the Company pursuant to section 336 of the SFO and so far as is known to, or can be ascertained after reasonable enquiring by the Directors, the following persons (other than Directors and chief executive of the Company) had an interest or short position in the Shares and/or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of person	Number of Shares (Note 1)	Capacity	Approximate percentage of interest
Pearl Garden Pacific Limited	94,824,000 (L)	Beneficial owner (Note 2)	14.73%
Cornice Worldwide Limited	94,824,000 (L)	Interest of controlled corporation (Note 2)	14.73%
Madian Star Limited	94,824,000 (L)	Beneficial owner (Note 3)	14.73%
Yonice Limited	94,824,000 (L)	Interest of controlled corporation (Note 3)	14.73%
Trustcorp Limited	189,648,000 (L)	Trustee (Notes 2, 3 & 4)	29.46%
Newcorp Ltd.	189,648,000 (L)	Interest of controlled corporation (Notes 2, 3 & 4)	29.46%
Newcorp Holdings Ltd.	189,648,000 (L)	Interest of controlled corporation (Notes 2, 3 & 4)	29.46%
David Henry Christopher Hill	189,648,000 (L)	Interest of controlled corporation (Notes 2, 3 & 4)	29.46%
David William Roberts	189,648,000 (L)	Interest of controlled corporation (Notes 2, 3 & 4)	29.46%

Name of person	Number of Shares (Note 1)	Capacity	Approximate percentage of interest
Rebecca Ann Hill	189,648,000 (L)	Interest of spouse (Notes 2, 3, 4 & 5)	29.46%
Ho Yuen Mui, Shirley	105,036,000 (L)	Interest of spouse (Note 6)	16.32%
Or Kwai Ying	105,654,000 (L)	Interest of spouse (Note 7)	16.42%
Morgan Stanley	38,518,026 (L) 14,738,000 (S)	Interest of controlled corporation (Note 8)	5.98% 2.29%
Templeton Asset Management Limited	45,075,502 (L)	Interest of controlled corporation (Note 9)	7.00%
Sansar Capital Special Opportunity Master Fund, LP	33,196,000 (L)	Beneficial owner	5.16%

*Notes:*

1. The letter "L" represents the person's interests in the Share and underlying Shares, and the letter "S" represents the person's short position in the Share and underlying Shares.
2. These Shares were held by Pearl Garden Pacific Limited. Pearl Garden Pacific Limited is wholly owned by Cornice Worldwide Limited, the entire issued share capital of which is held by Trustcorp Limited as discretionary trustee for Li Ming Hung's family.
3. These Shares were held by Madian Star Limited. Madian Star Limited is wholly owned by Yonice Limited, the entire issued share capital of which is held by Trustcorp Limited as discretionary trustee for Chen Tien Tui's family.
4. Trustcorp Limited is wholly owned by Newcorp Ltd. which is in turn wholly owned by Newcorp Holdings Ltd. Newcorp Holdings Ltd is owned as to 35% by David Henry Christopher Hill, as to 35% by David William Roberts and as to 30% by Michael J. Kenney-Herbert.
5. Rebecca Ann Hill is the wife of David Henry Christopher Hill.





6. Ho Yuen Mui, Shirley is the wife of Li Ming Hung.
7. Or Kwai Ying is the wife of Chen Tien Tui.
8. Morgan Stanley Investment Management Company directly held 27,284,026 Shares and is wholly owned by Morgan Stanley Dean Witter (Singapore) Holdings Pte Ltd. which is in turn wholly owned by Morgan Stanley Asia Regional (Holdings) III LLC. Morgan Stanley Asia Regional (Holdings) III LLC is wholly owned by Morgan Stanley Asia Pacific (Holdings) Limited which is 90% owned by Morgan Stanley International Holdings Inc.; whereas, Morgan Stanley International Holdings Inc. is 80% owned by Morgan Stanley and 20% owned by Morgan Stanley International Incorporated which is in turn 90% owned by Morgan Stanley and 10% owned by Morgan Stanley Domestic Capital, Inc.. Morgan Stanley Domestic Capital, Inc. is wholly owned by Morgan Stanley Capital Management, LLC which is in turn wholly owned by Morgan Stanley.

Morgan Stanley Asset & Investment Trust Management Co., Limited directly held 3,722,000 Shares and is wholly owned by Morgan Stanley International Incorporated.

Morgan Stanley & Co. International Limited directly held 2,759,000 Shares and had a short position in 9,985,000 Shares. It is wholly owned by Morgan Stanley UK Group which is in turn wholly owned by Morgan Stanley Group (Europe). Morgan Stanley Group (Europe) is wholly owned by Morgan Stanley International Limited which is wholly owned by Morgan Stanley International Holdings Inc..

MSDW Equity Finance Services I (Cayman) Limited directly held 1,353,000 Shares and had a short position in 1,353,000 Shares. It is wholly owned by MSDW Offshore Equity Services Inc. which is in turn wholly owned by Morgan Stanley.

Morgan Stanley & Co. Incorporated directly held 3,400,000 Shares and had a short position in 3,400,000 Shares. It is wholly owned by Morgan Stanley.

9. These shares are held by Templeton Asset Management Limited as investment manager.

Save as disclosed above, so far as is known to the Directors, as at 30 September 2006, there was no person (other than a Director or chief executive of the Company) who had an interest or a short position in the Shares and/or underlying Shares in the Company (including interest in options, if any) which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

## SHARE OPTIONS

Pursuant to ordinary resolutions passed at the special general meeting of the Company held on 30 November 2001, the share option scheme adopted by the Company pursuant to an ordinary resolution passed at the special general meeting held on 22 April 1996 was terminated and the existing share option scheme ("Scheme") of the Company was adopted.

Details of the options to subscribe for shares of the Company granted under the Scheme for the period under review are as follows:

Class of grantee	Date of grant	Number of underlying shares in the Company						Exercise price per share (HK\$)	Exercise period
		Granted	Exercised	Cancelled	Lapsed	Outstanding			
						as at 1 April 2006	as at 30 September 2006		
Directors (Note 1)	27/05/2003	-	-	-	-	6,300,000	6,300,000	2.35	27/05/2003 to 29/11/2011
	20/10/2003	-	-	-	-	9,700,000	9,700,000	3.04	09/10/2004 to 29/11/2011
	07/06/2004	-	-	-	-	14,000,000	14,000,000	3.15	07/06/2004 to 29/11/2011
Other employees (Note 2)	27/05/2003	-	-	-	-	23,100,000	23,100,000	2.35	27/05/2003 to 29/11/2011
	20/10/2003	-	-	-	-	39,800,000	39,800,000	3.04	09/10/2004 to 29/11/2011
	07/06/2004	-	-	-	-	40,500,000	40,500,000	3.15	07/06/2004 to 29/11/2011

### Notes:

- Details of options granted to each of the Directors are set out in the paragraph headed "Directors' and chief executive's interest in shares and underlying shares" in this report above.
- Other employees include employees of the Group (other than the Directors) working under employment contracts with the Group which are regarded as "continuous contracts" for the purpose of the Employment Ordinance (Cap.57 of the Laws of Hong Kong).



## **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.

## **AUDIT COMMITTEE**

The board of directors of the Company has established an audit committee ("Committee") with written terms of reference in compliance with the Corporate Governance Code. The primary duties of the Committee are to review the Group's financial reporting process, internal control system and the Group's financial statements.

The Committee comprises the three independent non-executive directors of the Company in compliance with the Listing Rules.

The Committee has reviewed the unaudited financial statements of the Group for the six months ended 30 September 2006 and is of the opinion that such financial statements comply with the applicable accounting standards, the Listing Rules and the requirements of applicable laws, codes and regulations and that adequate disclosure pursuant thereto have been made.

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

Hong Kong, 20 December 2006

[www.victorycity.com.hk](http://www.victorycity.com.hk)

