VICTORY CITY INTERNATIONAL HOLDINGS LIMITED

冠華國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 0539)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

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 2008. The interim results have been reviewed by the Company's auditors in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" 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	
		2008	2007
	Notes	***HK$'000***	*HK$'000*
		(unaudited)	(unaudited)
Revenue	*3*	**2,244,188**	2,166,440
Cost of sales		**(1,873,215)**	(1,761,645)
Gross profit		**370,973**	404,795
Other income and gains		**23,336**	22,502
Selling and distribution costs		**(50,792)**	(60,466)
Administrative expenses		**(135,391)**	(120,583)
Share of result of a jointly controlled entity		**–**	193
Finance costs		**(23,716)**	(28,672)
Profit before taxation		**184,410**	217,769
Income tax expense	*4*	**(12,431)**	(21,851)
Profit for the period	*5*	**171,979**	195,918
Attributable to:			
Equity holders of the Company		**152,849**	174,750
Minority interests		**19,130**	21,168
		171,979	195,918
Distributions	*6*	**–**	53,417
Earnings per share	*7*		
Basic		**HK22.6 cents**	HK26.4 cents
Diluted		**HK22.6 cents**	HK26.1 cents

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30 September 2008 HK$'000 (unaudited)	31 March 2008 HK$'000 (audited)
Non-current assets			
Property, plant and equipment	*8*	**2,419,215**	2,283,968
Prepaid lease payments		**21,516**	21,283
Investment properties	*9*	**2,470**	2,470
Goodwill		**6,185**	6,185
Deposit paid for acquisition of property, plant and equipment		**9,710**	8,735
		2,459,096	2,322,641
Current assets			
Inventories		**1,441,273**	1,495,200
Trade receivables	*10*	**1,080,545**	906,442
Deposits, prepayments and other receivables		**121,629**	114,773
Prepaid lease payments		**489**	479
Structured deposits		**96,386**	39,399
Derivative financial instruments		**15,633**	33,972
Bank balances and cash		**431,337**	470,139
		3,187,292	3,060,404
Asset classified as held for sale		**–**	225,391
		3,187,292	3,285,795
Current liabilities			
Trade payables	*11*	**434,721**	450,563
Other payables		**89,730**	91,882
Dividend payable		**46,195**	237
Taxation payable		**69,738**	55,251
Bank borrowings – amount due within one year		**1,311,546**	1,160,339
Structured borrowings – amount due within one year		**14,829**	17,168
Derivative financial instruments		**1,642**	12,190
		1,968,401	1,787,630
Liabilities associated with asset classified as held for sale		**–**	69,082
		1,968,401	1,856,712
Net current assets		**1,218,891**	1,429,083
		3,677,987	3,751,724
Capital and reserves			
Share capital		**6,755**	6,758
Reserves		**2,495,846**	2,384,881
Equity attributable to equity holders of the Company		**2,502,601**	2,391,639
Minority interests		**135,958**	117,426
Total equity		**2,638,559**	2,509,065
Non-current liabilities			
Bank borrowings – amount due after one year		**994,746**	1,190,960
Structured borrowings – amount due after one year		**44,486**	51,503
Deferred taxation		**196**	196
		1,039,428	1,242,659
		3,677,987	3,751,724

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 (the "Listing Rules") and with Hong Kong Accounting Standard 34 (HKAS 34), Interim Financial Reporting.

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2008.

In the current interim period, the Group has applied, for the first time, the following new amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – INT 12	Service Concession Arrangements
HK(IFRIC) – INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of these new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

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

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible Hedged Items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – INT 13	Customer Loyalty Programmes[4]
HK(IFRIC) – INT 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) – INT 16	Hedges of a Net Investment in a Foreign Operation[5]
HK(IFRIC) – INT 17	Distributions of Non-cash Assets to Owners[3]

[1] Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009

[2] Effective for annual periods beginning on or after 1 January 2009

[3] Effective for annual periods beginning on or after 1 July 2009

[4] Effective for annual periods beginning on or after 1 July 2008

[5] Effective for annual periods beginning on or after 1 October 2008

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards or interpretation will have no material impact on the results and the financial position of the Group.

3. 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) production and sale 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 2008

	Knitted fabric and dyed yarn *HK$'000*	Garment products *HK$'000*	Consolidated *HK$'000*
REVENUE			
External sales	**1,547,197**	**696,991**	**2,244,188**
RESULTS			
Segment results	**166,953**	**41,839**	**208,792**
Unallocated corporate income			**6,570**
Unallocated corporate expenses			**(7,236)**
Finance costs			**(23,716)**
Profit before taxation			**184,410**
Income tax expense			**(12,431)**
Profit for the period			**171,979**

Six months ended 30 September 2007

	Knitted fabric and dyed yarn *HK$'000*	Garment products *HK$'000*	Consolidated *HK$'000*
REVENUE			
External sales	1,421,194	745,246	2,166,440
RESULTS			
Segment results	186,427	47,030	233,457
Unallocated corporate income			17,266
Unallocated corporate expenses			(4,475)
Share of result of a jointly controlled entity			193
Finance costs			(28,672)
Profit before taxation			217,769
Income tax expense			(21,851)
Profit for the period			195,918

4. INCOME TAX EXPENSE

	Six months ended 30 September	
	2008	2007
	HK$'000	*HK$'000*
The tax charge comprises:		
Current tax:		
Hong Kong Profits Tax	**8,177**	7,111
Enterprise income tax in the People's Republic of China (the "PRC") attributable to the subsidiaries	**5,022**	11,549
Overseas income tax	**340**	–
	13,539	18,660
Deferred tax:		
Current period	**(1,108)**	3,191
	12,431	21,851

Hong Kong Profits Tax is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which includes the reduction in corporate profit tax rate by 1% to 16.5% effective from the year of assessment 2008-2009. The effect of such decrease has been reflected in measuring the current tax for the six months ended 30 September 2008. The estimated average annual tax rate used is 16.5% (2007: 17.5%) for the six months ended 30 September 2008.

The newly promulgated Enterprise Income Tax Law imposes withholding tax upon the distribution of the profits earned by the PRC entities on or after 1 January 2008 to their shareholders. There was no significant deferred tax in respect of the temporary differences attributable to such undistributed profits.

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

5. PROFIT FOR THE PERIOD

	Six months ended 30 September	
	2008	2007
	HK$'000	*HK$'000*
Profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**93,285**	79,585
Release of prepaid lease payment	**246**	286
Gain on fair value changes of derivative financial instruments	**(769)**	(9,218)
Gain on fair value changes of structured borrowings	**(745)**	(930)
Gain on fair value changes of structured deposits	**(827)**	–
Gain on fair value changes of investment properties	**–**	(270)
Interest income	**(1,663)**	(133)
Gain on disposal of property, plant and equipment	**(12,549)**	–

6. DISTRIBUTIONS

On 28 August 2008, the Company approved a final dividend of HK$45,958,000 representing HK6.8 cents per share in respect of the financial year ended 31 March 2008. On 30 August 2007, the Company approved a final dividend of HK$45,032,000 representing HK6.8 cents per share in respect of the financial year ended 31 March 2007. The amounts of these final dividends recommended were in cash with a scrip option.

No dividends were paid, declared or proposed during the six months period ended 30 September 2008. The Directors do not recommend the payment of an interim dividend.

In respect of the six months ended 30 September 2007, the Directors determined that an interim dividend of HK$53,417,000 representing HK8.0 cents per share, which would be in cash with a scrip option, should be paid to shareholders of the Company whose names appeared in the Company's Register of Members on 17 January 2008.

7. 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	
	2008	2007
	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	**152,849**	174,750
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**675,822**	661,667
Effect of dilutive potential ordinary shares in respect of share options	**–**	6,626
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**675,822**	668,293

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK$167 million (six months ended 30 September 2007: HK$257 million) on additions to property, plant and equipment.

9. MOVEMENTS IN INVESTMENT PROPERTIES

The investment properties of the Group were valued at 30 September 2008 by Savills (Hong Kong) Limited, an independent qualified professional valuers not connected with the Group. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market prices for similar properties. In the current period, there was no material changes in fair value of the investment properties. For the six months ended 30 September 2007, a surplus of HK$270,000 was credited to the condensed consolidated income statement.

On 17 October 2007, the Group entered into a provisional sales agreement with an independent third party to dispose certain investment properties amounted to HK$219,664,000. Accordingly, the amount was transferred to asset classified as held for sale as at 31 March 2008 and subsequently disposed in the current period.

At 31 March 2008, certain investment properties of the Group with an aggregate carrying value of approximately HK$173,100,000 were pledged to banks as security for the credit facilities granted to the Group. The security was released upon the completion of the disposal of investment properties during the period.

10. TRADE RECEIVABLES

The Group allows a credit period of 90 – 120 days to its trade customers.

The following is an aged analysis of trade receivables net of allowance for doubtful debts at the balance sheet date:

	30 September 2008	31 March 2008
	HK$'000	*HK$'000*
0 – 60 days	**745,402**	723,767
61 – 90 days	**205,529**	115,703
91 – 120 days	**76,780**	36,931
Over 120 days	**52,834**	30,041
	1,080,545	906,442

11. TRADE PAYABLES

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

	30 September 2008	31 March 2008
	HK$'000	*HK$'000*
0 – 60 days	**334,874**	376,486
61 – 90 days	**59,120**	33,050
Over 90 days	**40,727**	41,027
	434,721	450,563

INTERIM DIVIDEND

The Directors have resolved not to declare any interim dividend for the year ending 31 March 2009 (2008: HK8.0 cents).

BUSINESS REVIEW AND PROSPECTS

The operation environment were full of challenges and difficulties for the textile and garment industry in the first half of the financial year. The continuous inflation in Renminbi exerted pressures on general expenses, the new PRC labour law launched in January 2008 gave additional pressure to labour costs and the uprising oil and coal prices largely increased the fuel costs. On top of these, the outbreak of the US subprime crisis has grown into a global financial tsunami which had high negative impact to the global economy and the consumer markets, affecting the purchase orders from the export customers. Against such a backdrop, the Group managed to persevere and attained satisfactory results during the period under review.

For the six months ended 30 September 2008, the Group's total revenue was HK$2.24 billion, representing an increase of 3.6% on the level of HK$2.17 billion for the same period last year. Profit attributable to equity holders of the Company dropped by 12.5% to HK$152.8 million. Basic earnings per share decreased from HK26.4 cents to HK22.6 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 69% of the consolidated revenue. Revenue of this business segment reached HK$1.55 billion, signifying an increase of 9% as compared with the previous period. The continuous increase in operating costs and further stringent environmental regulations exerted pressure on all players in the industry. The expedited consolidation of the textile industry enabled us to increase our market share in both export and domestic PRC markets. Although the Group managed to increase the average selling price of the textile products, the uprising fuel and labour costs brought adverse effect to the profit margins.

Revenue of the garment segment was HK$697 million, accounted for 31% of the consolidated revenue. During the period under review, difficult trading environment as well as volatile purchase orders stemmed from the global financial tsunami continued to cloud the garment industry and affected the profit margins. The management will continue to exercise stringent cost controls and efficient order schedulings and production plannings so as to improve the profit margins in the second half of the financial year. Taking into account that the elimination of export quotas from PRC to the US in 2009 and together with the strong growth in the domestic PRC market, the Directors are 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 that the global trading environment will remain tough and difficult. The macro uncertainty triggered by the global financial tsunami continues to haunt the textile and garment industry. In view of all these challenges, the Group will maintain its vigilance to further tighten its cost control measures as well as to enhance its production efficiency and effectiveness. Backing up by the vertically-integrated set-up together with the environmental-conscious facilities, the Group is well-positioned to increase its market share following the consolidation of the textile and garment supply chain and when market demand gradually recovers in the next couples of years. The management will strive to sustain profitability so as to bring high returns to shareholders of the Company.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 30 September 2008, the Group had total assets of HK$5,646,388,000 (31 March 2008: HK$5,608,436,000) which were financed by current liabilities of HK$1,968,401,000 (31 March 2008: HK$1,856,712,000), long term liabilities of HK$1,039,428,000 (31 March 2008: HK$1,242,659,000) and shareholders' equity of HK$2,502,601,000 (31 March 2008: HK$2,391,639,000). The current ratio was approximately 1.6 (31 March 2008: 1.8) and the gearing ratio, being the ratio of total borrowings (excluding bills discounted and debts factored, and net of bank balances and cash) to shareholders' funds was 57% (31 March 2008: 71%). 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, Chinese 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 period, the Group invested approximately HK$167 million (six months ended 30 September 2007: HK$257 million) on additions to property, plant and equipment.

As at 30 September 2008, the Group had capital commitments of approximately HK$97 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 30 September 2008, no significant assets were pledged (31 March 2008: approximately HK$133 million).

Employee Information

As at 30 September 2008, total number of employees of the Group were approximately 230 in Hong Kong and Macau, approximately 5 in the United States and Canada, approximately 530 in Jordan, approximately 1,220 in Indonesia and approximately 8,060 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.

SUBSEQUENT EVENT

As announced by the Company on 3 December 2008, a right issue is being conducted. (Details of such rights issue are set out in the announcement and prospectus of the Company dated 3 December 2008 and 23 December 2008 respectively.)

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

During the period under review, the Company repurchased 316,000 shares on The Stock Exchange of Hong Kong Limited at an aggregate price of HK$506,200. The share buyback reflected management's confidence in the future development of the Group's business. Furthermore, it also enhanced earnings per share of the Company.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company had complied throughout the six months ended 30 September 2008 with the code provisions set out in the Code on Corporate Governance Practices 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 ("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 2008.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is available for viewing on the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk under "Latest Listed Company Information" and on the website of the Company at www.victorycity.com.hk. The interim report for the six months ended 30 September 2008 will be despatched to the shareholders of the Company and will be published on the above websites in due course.

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

Hong Kong, 23 December 2008

As at the date of this announcement, the executive Directors are Mr. Li Ming Hung (Chairman), Mr. Chen Tien Tui (Chief Executive Officer), Mr. So Kam Wah, 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*