

冠華國際控股有限公司

VICTORY CITY INTERNATIONAL HOLDINGS LIMITED

Interim Report **12/13** 中期報告

Stock Code 股份代號: 539

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BOARD OF DIRECTORS

Executive Directors

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

Independent Non-executive Directors

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

COMPANY SECRETARY

Lee Chung Shing

LEGAL ADVISER AS TO HONG KONG LAW

Chiu & Partners

AUDITOR

Deloitte Touche Tohmatsu

MAJOR BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
China CITIC Bank International Limited
Bank of America, N.A.
Mizuho Corporate Bank, Ltd.
United Overseas Bank Limited
Rabobank International

PRINCIPAL SHARE REGISTRAR

Butterfield Fulcrum Group (Bermuda) Limited
26 Burnaby Street
Hamilton HM 11
Bermuda

BRANCH SHARE REGISTRAR IN HONG KONG

Tricor 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

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 September 2012

	Notes	Six months ended 30 September	
		2012 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited)
Revenue	3	1,993,707	2,000,236
Cost of sales		(1,599,066)	(1,638,392)
Gross profit		394,641	361,844
Other income		9,671	11,414
Other gains and losses	4	(13,758)	(8,484)
Gain on bargain purchase of acquisition of subsidiaries	17	–	85,047
Distribution and selling expenses		(51,346)	(41,421)
General and administrative expenses		(155,553)	(140,881)
Share-based payment expenses	9	(34,343)	(5,118)
Interest on bank borrowings		(48,339)	(26,542)
Other expenses	17	–	(2,096)
Profit before taxation		100,973	233,763
Income tax expense	5	(14,606)	(12,963)
Profit for the period	6	86,367	220,800
Other comprehensive income			
Exchange differences arising on translation of foreign operations		(44,112)	49,117
Total comprehensive income for the period		42,255	269,917

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 September 2012

	Note	Six months ended 30 September	
		2012 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited)
Profit for the period attributable to:			
Owners of the Company		84,647	214,022
Non-controlling interests		1,720	6,778
		86,367	220,800
Total comprehensive income attributable to:			
Owners of the Company		40,513	262,302
Non-controlling interests		1,742	7,615
		42,255	269,917
Earnings per share	8		
Basic		HK5.5 cents	HK15.9 cents
Diluted		HK5.5 cents	HK15.9 cents

Condensed Consolidated Statement of Financial Position

At 30 September 2012

	Notes	30 September 2012 HK\$'000 (unaudited)	31 March 2012 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	10	2,863,900	2,759,284
Prepaid lease payments		181,128	183,536
Investment property	10	32,000	31,000
Goodwill		6,614	6,614
Intangible asset		1,155	1,000
Restricted bank deposit	11	77,495	–
Other assets		26,040	26,040
Deferred tax assets	18	1,899	1,899
Deposit paid for acquisition of property, plant and equipment		–	3,876
		3,190,231	3,013,249
Current assets			
Inventories		1,893,045	1,804,597
Trade and bills receivables	12	1,185,575	1,103,280
Deposits, prepayments and other receivables		197,940	194,363
Prepaid lease payments		4,561	4,568
Derivative financial instruments	13	24,592	22,185
Taxation recoverable		4,008	3,659
Bank balances and cash		1,562,651	1,099,022
		4,872,372	4,231,674
Current liabilities			
Trade payables	14	473,421	294,381
Other payables and accruals		109,963	153,779
Dividend payable		38,777	93
Taxation payable		86,375	83,362
Bank borrowings – amount due within one year	15	1,232,589	1,472,690
Derivative financial instruments	13	26,540	8,833
		1,967,665	2,013,138
Net current assets		2,904,707	2,218,536
Total assets less current liabilities		6,094,938	5,231,785

Condensed Consolidated Statement of Financial Position

At 30 September 2012

	Notes	30 September 2012 HK\$'000 (unaudited)	31 March 2012 HK\$'000 (audited)
Capital and reserves			
Share capital	16	15,474	15,474
Reserves		4,436,748	4,406,435
Equity attributable to owners of the Company		4,452,222	4,421,909
Non-controlling interests		244,130	236,529
Total equity		4,696,352	4,658,438
Non-current liabilities			
Bank borrowings – amount due after one year	15	1,309,067	484,526
Deferred tax liabilities	18	89,519	88,821
		1,398,586	573,347
		6,094,938	5,231,785

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2012

	Attributable to owners of the Company									Attributable to non-controlling interests				Total
	Share capital	Share premium	Special reserve	Capital redemption reserve	Capital reserve	Translation reserve	Dividend reserve	Share option reserve	Accumulated profits	Sub-total	Share option reserve of a subsidiary	Share of net assets of subsidiaries	Sub-total	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 March 2011 (audited)	12,226	1,239,774	(5,530)	39	76,229	556,735	-	-	1,877,973	3,757,446	8,052	215,820	223,872	3,981,318
Profit for the period	-	-	-	-	-	-	-	-	214,022	214,022	-	6,778	6,778	220,800
Exchange differences arising on translation of foreign operations	-	-	-	-	-	48,280	-	-	-	48,280	-	837	837	49,117
Total comprehensive income for the period	-	-	-	-	-	48,280	-	-	214,022	262,302	-	7,615	7,615	269,917
2011 Final dividend approved but not yet paid	-	-	-	-	-	-	-	-	(48,903)	(48,903)	-	-	-	(48,903)
Issue of shares	2,575	295,630	-	-	-	-	-	-	-	298,205	-	-	-	298,205
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(1,611)	(1,611)	(1,611)
Recognition of equity-settled share-based payments in a subsidiary	-	-	-	-	-	-	-	-	-	-	5,118	-	5,118	5,118
Release of equity-settled share-based payments upon cancellation/lapse of options in a subsidiary	-	-	-	-	-	-	-	-	39	39	(39)	-	(39)	-
At 30 September 2011 (unaudited)	14,801	1,535,404	(5,530)	39	76,229	605,015	-	-	2,043,131	4,269,089	13,131	221,824	234,955	4,504,044

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2012

	Attributable to owners of the Company										Attributable to non-controlling interests			Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Capital		Translation reserve HK\$'000	Dividend reserve HK\$'000	Share option reserve HK\$'000	Accumulated profits HK\$'000	Sub-total HK\$'000	Share	Share	Sub-total HK\$'000	
				redemption reserve HK\$'000	Capital reserve HK\$'000						option reserve of a subsidiary HK\$'000	of net assets of subsidiaries HK\$'000		
At 31 March 2012 (audited)	15,474	1,587,725	(5,530)	39	76,229	625,599	-	-	2,122,373	4,421,909	19,071	217,458	236,529	4,658,438
Profit for the period	-	-	-	-	-	-	-	-	84,647	84,647	-	1,720	1,720	86,367
Exchange differences arising on translation of foreign operations	-	-	-	-	-	(44,134)	-	-	-	(44,134)	-	22	22	(44,112)
Total comprehensive income for the period	-	-	-	-	-	(44,134)	-	-	84,647	40,513	-	1,742	1,742	42,255
2012 Final dividend approved but not yet paid	-	-	-	-	-	-	-	-	(38,684)	(38,684)	-	-	-	(38,684)
Recognition of equity-settled share-based payments by the Company	-	-	-	-	-	-	-	28,300	-	28,300	-	-	-	28,300
Recognition of equity-settled share-based payments by a subsidiary	-	-	-	-	-	-	-	-	-	-	6,043	-	6,043	6,043
Release of equity-settled share-based payments upon cancellation/lapse of options in a subsidiary	-	-	-	-	-	-	-	-	184	184	(184)	-	(184)	-
At 30 September 2012 (unaudited)	15,474	1,587,725	(5,530)	39	76,229	581,465	-	28,300	2,168,520	4,452,222	24,930	219,200	244,130	4,696,352

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 September 2012

	Note	Six months ended 30 September	
		2012 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited)
Net cash from operating activities		210,630	156,575
Net cash used in investing activities:			
Purchase of property, plant and equipment		(251,653)	(63,125)
Placement of restricted bank deposit		(76,050)	–
Proceeds from disposal of property, plant and equipment		2,235	15,695
Acquisition of subsidiaries	17	–	21,139
Other investing cash flows		(155)	(2,957)
		(325,623)	(29,248)
Net cash from (used in) financing activities:			
New bank loans raised		1,686,177	136,276
Repayment of bank loans		(1,174,280)	(255,873)
Net amount of bills discounted with recourse, debt factored with recourse, import loans, trust receipt loans and mortgage loans raised		74,495	92,251
Other financing cash flows		–	(11,390)
		586,392	(38,736)
Net increase in cash and cash equivalents		471,399	88,591
Cash and cash equivalents at beginning of the period		1,099,022	709,479
Effect of foreign exchange rate changes		(7,770)	–
Cash and cash equivalents at end of the period, represented by bank balances and cash		1,562,651	798,070

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2012

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 the Hong Kong Accounting Standard (“HKAS 34”) Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2012 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2012. In addition, the following accounting policies have become applicable to the Group.

The Group placed an initial deposit of US\$9,750,000 with a financial institution pursuant to a derivative contract entered into during the current period and designated it as a financial asset at FVTPL (see Note 11 for details).

Financial assets at fair value through profit or loss (“FVTPL”)

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Financial assets at fair value through profit or loss (“FVTPL”) *(continued)*

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group’s documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any interest earned on the financial assets and is included in the ‘other gains and losses’ line item in the condensed statement of comprehensive income.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA:

Amendments to HKFRS 7

Disclosures – Transfers of Financial Assets

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements. The directors of the Company (“Directors”) consider that the application of amendments to HKFRS 7 may result in additional disclosures in the annual financial statements for the year ending 31 March 2013 for transactions involving transfers of financial assets such as bills discounted with recourse and debt factored with recourse.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2012

3. SEGMENT INFORMATION

The Group's operations are organised into two operating segments, information of which is used by the executive Directors for the purpose of performance evaluation and resources allocation:

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

The following is an analysis of the Group's revenue and results by operating and reportable segments for the periods under review:

Six months ended 30 September 2012

	Knitted fabric and dyed yarn HK\$'000	Garment products HK\$'000	Consolidated HK\$'000
REVENUE			
External sales	1,404,554	589,153	1,993,707
RESULTS			
Segment results	142,616	23,802	166,418
Unallocated corporate income and gain			3,303
Unallocated corporate expenses and loss			(20,409)
Finance costs			(48,339)
Profit before taxation			100,973

3. SEGMENT INFORMATION *(continued)*

Six months ended 30 September 2011

	Knitted fabric and dyed yarn HK\$'000	Garment products HK\$'000	Consolidated HK\$'000
REVENUE			
External sales	1,518,436	481,800	2,000,236
RESULTS			
Segment results	263,330	18,149	281,479
Unallocated corporate income and gain			3,689
Unallocated corporate expenses and loss			(24,863)
Finance costs			(26,542)
Profit before taxation			233,763

Segment profit represents the profit earned by each segment without allocation of rental income, gain on fair value change of an investment property, gain (loss) on fair value changes of derivative financial instruments, gain on fair value change of restricted bank deposit, loss on fair value change of structured borrowings, central administration costs and finance costs. This is the measure reported to the executive Directors for the purposes of resource allocation and performance evaluation.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2012

4. OTHER GAINS AND LOSSES

	Six months ended 30 September	
	2012 HK\$'000	2011 HK\$'000
Net foreign exchange (loss) gain	(10,039)	1,633
Net loss on fair value changes of derivative financial instruments	(6,102)	(4,602)
Loss on disposal of property, plant and equipment	(62)	(716)
Gain on fair value change of a restricted bank deposit	1,445	–
Gain on fair value change of an investment property	1,000	–
Loss on fair value changes of structured borrowings	–	(4,799)
	(13,758)	(8,484)

5. INCOME TAX EXPENSE

	Six months ended 30 September	
	2012 HK\$'000	2011 HK\$'000
Current tax:		
Hong Kong Profits Tax	5,541	8,089
Enterprise income tax in the People's Republic of China (the "PRC") attributable to the subsidiaries	7,756	4,184
Overseas income tax	515	5
	13,812	12,278
Deferred tax:		
Current period (Note 18)	794	685
	14,606	12,963

5. INCOME TAX EXPENSE *(continued)***Hong Kong**

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

PRC

Pursuant to the relevant PRC regulations, one of the PRC subsidiaries of the Group is exempted from PRC enterprise income tax for two years starting from its first profit-making year, followed by a 50% reduction for the next three years. Accordingly, the profit of that PRC subsidiary is subject to PRC enterprise income tax at a reduced rate of 12.5% for both periods. Such tax concession will expire on 31 December 2012.

Other PRC subsidiaries are subject to PRC statutory tax rate of 25%.

Macau

As stated in the Decree Law No. 58/99/M, Chapter 2, Article 12, dated 18 October 1999, the Macau subsidiaries are exempted from Macao Complementary Tax.

Other jurisdictions

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	
	2012	2011
	HK\$'000	HK\$'000
Profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	129,132	114,725
Release of prepaid lease payment	2,129	957
Interest income	(7,433)	(6,604)

7. DISTRIBUTION

On 28 August 2012, the Company approved a final dividend of approximately HK\$38,684,000 representing HK2.5 cents per share in respect of the financial year ended 31 March 2012. The amount of final dividend approved was to be in cash with a scrip option.

The Directors have determined that an interim dividend of approximately HK\$31,752,000 representing HK2.0 cents per share for the six months ended 30 September 2012 (six months ended 30 September 2011: approximately HK\$37,779,000 representing HK2.5 cents per share), in cash with a scrip option, to be paid to the Company's shareholders.

8. EARNINGS PER SHARE

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

	Six months ended 30 September	
	2012 HK\$'000	2011 HK\$'000
Earnings		
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share	84,647	214,022
Effect of dilutive potential ordinary shares:		
Adjustment to the share of profit of a subsidiary on dilution of its earnings per share	(57)	(188)
Profit for the period attributable to owners of the Company for the purpose of diluted earnings per share	84,590	213,834

8. EARNINGS PER SHARE *(continued)*

	Six months ended	
	30 September	
	2012	2011
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,547,356	1,346,420
Effect of dilutive potential ordinary shares:		
Share options of the Company	2,193	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,549,549	1,346,420

The computation of diluted earnings per share for the six month ended 30 September 2011 does not assume the exercise of the Company's share options because the exercise price of the Company's share options outstanding for that period was higher than the average market price of the shares.

9. SHARE-BASED PAYMENT TRANSACTIONS

Share option scheme of the Company

The movements of the share options under the Company's share option scheme are as follows:

	Number of share options
Outstanding as at 1 April 2012	–
Granted during the period	120,000,000
Outstanding as at 30 September 2012	120,000,000

The exercise price of the options granted is HK\$0.782 per share while the closing price of the Company's shares immediately before the date of grant is HK\$0.760. These options were immediately vested and they are exercisable for a period up to the 5th anniversary of the date of grant. The fair value of these options was determined to be HK\$0.2358 per option, arrived at using the Binomial Model with the following variables and assumptions:

Grant date share price	HK\$0.770
Exercise price	HK\$0.782
Suboptimal exercise factor	1.8
Expected volatility	56.45%
Expected life	5 years
Expected dividend yield	6.00%
Risk free rate	0.60%

The variables and assumptions used above were based on the Directors' best estimate. The value of an option varies with different variables of certain subjective assumptions. Expected volatility was determined based on historical volatility of the share price of the Company's shares.

The fair value of the share option granted was approximately HK\$28,300,000 and the amount was fully recognised as share-based payment expense during the six months ended 30 September 2012.

9. SHARE-BASED PAYMENT TRANSACTIONS *(continued)***Share option scheme of a subsidiary**

A subsidiary of the Group, Ford Glory Group Holdings Limited (“FGG”) also operates a share option scheme (“FGG share option scheme”). The movements of the share options under the FGG share option scheme are as follows:

	Number of FGG share options
Outstanding as at 1 April 2011	41,250,000
Granted on 27 April 2011	42,920,000
Lapsed during the year	(1,155,000)
Outstanding as at 31 March 2012	83,015,000
Lapsed during the period	(845,000)
Outstanding as at 30 September 2012	82,170,000

The total fair value of the 42,920,000 share options was approximately HK\$24,600,000. The Group recognised share-based payment expense of approximately HK\$6,043,000 for the current interim period with reference to their vesting period (six months ended 30 September 2011: HK\$5,118,000).

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

During the current interim period, the Group spent approximately HK\$252 million (six months ended 30 September 2011: HK\$63 million) on additions to property, plant and equipment.

The Group's investment property as at the end of the current interim period was fair valued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent firm of valuers not connected with the Group. The valuation was determined by reference to recent market prices for similar properties in similar locations and conditions. The resulting increase in fair value of HK\$1,000,000 (2011: nil) has been recognised directly in statement of comprehensive income for the six months ended 30 September 2012.

11. RESTRICTED BANK DEPOSIT

This represents an initial deposit of US\$9,750,000 (31 March 2012: nil) placed with a financial institution pursuant to one of the Net-settled Contracts (as defined in Note 13) entered into during the six months ended 30 September 2012.

The amount is repayable to the Group on 26 December 2014 at US\$10,000,000 unless the relevant contract is early terminated pursuant to Knockout Event (as defined in Note 13) whereby the financial institution will repay US\$10,000,000 to the Group immediately.

The Group has designated the restricted bank deposit as a financial asset at fair value through profit or loss.

12. TRADE AND BILLS RECEIVABLES

The Group allows an average credit period ranging between 90-120 days to its trade customers.

The following is an aged analysis of trade and bills receivables net of allowance for doubtful debts, presented based on the invoice date at the end of each reporting period:

	30 September 2012 HK\$'000	31 March 2012 HK\$'000
0-60 days	824,719	784,166
61-90 days	198,940	174,473
91-120 days	100,172	114,760
Over 120 days	61,744	29,881
	1,185,575	1,103,280

13. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative not under hedge accounting:

	notes	Liabilities		Assets	
		30 September 2012 HK\$'000	31 March 2012 HK\$'000	30 September 2012 HK\$'000	31 March 2012 HK\$'000
Structured foreign currency					
forward contracts:	(i)				
Net-settled Contracts	(ii)	19,662	3,920	24,498	21,938
Gross-settled Contract	(iii)	-	-	94	230
Non-structured foreign					
currency forward contracts		-	271	-	17
Interest rate swap	(iv)	6,878	4,642	-	-
		26,540	8,833	24,592	22,185

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2012

13. DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

notes:

- (i) The Group has entered into certain contracts with various financial institutions to hedge against an increase in RMB/US\$ exchange rate for certain agreed periods of time. In most cases, the Group and the respective financial institutions would settle on a net basis with reference to the fluctuation of the RMB/US\$ exchange rate against the pre-determined exchange rate on a monthly basis (the "Net-Settled Contracts") over the contract periods. Certain of these contracts also include a knockout provision whereby the contracts will be automatically terminated in certain scenarios (the "Knockout Event"). In one case, however, the Group is obliged to sell US\$ to, and buy RMB from, the respective financial institution at an agreed exchange rate when the RMB/US\$ exchange rate falls below the specified level (the "Gross-settled Contract").
- (ii) The pre-determined RMB/US\$ exchange rates range from 6.335 to 6.8 (31 March 2012: 6.335 to 6.8). The maximum aggregate notional amount of these Net-settled Contracts for the calculation of the monthly net-settled amounts is US\$59,000,000 (31 March 2012: US\$48,000,000), of which US\$38,000,000 (31 March 2012: US\$27,000,000) is related to contracts with knockout provision. The maturity dates of these contracts range from 3 April 2013 to 26 December 2014 (31 March 2012: 3 April 2013 to 12 December 2014) subject to knockout provision.
- (iii) The pre-determined RMB/US\$ exchange rate is 6.45 (31 March 2012: 6.55). The maximum amount of US\$ the Group is obliged to pay in exchange of RMB pursuant to this Gross-settled Contract is US\$10,000,000 (31 March 2012: US\$16,000,000). The maturity date of this contract is 26 July 2013 (31 March 2012: 26 July 2013).
- (iv) At 30 September 2012, the total notional amount of the interest rate swap contract which swap interest rate from floating rate at 3-month HIBOR per annum to a fixed rate of 3.56% per annum amounted to HK\$40,000,000 (31 March 2012: HK\$40,000,000). The interest rate swap is to be net-settled on a quarterly basis over the period from 30 August 2013 to 31 May 2021.
- (v) The fair value of the above derivative financial instruments are calculated using (a) Monte Carlos Simulation Model, (b) Covered Interest Rate Parity or (c) discounted cash flow analysis based on applicable yield curves of interest rates matching maturities of the derivative financial instruments.

14. TRADE PAYABLES

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

	30 September 2012 HK\$'000	31 March 2012 HK\$'000
0-60 days	360,529	270,099
61-90 days	69,517	14,855
Over 90 days	43,375	9,427
	473,421	294,381

15. BANK BORROWINGS

During the current interim period, the Group obtained new bank loans in the amount of approximately HK\$1,686,177,000 (six months ended 30 September 2011: HK\$136,276,000) and repaid bank loans in the amount of approximately HK\$1,174,280,000 (six months ended 30 September 2011: HK\$255,873,000). The bank borrowings of the Group carry interest at market rates ranging from 1.15% to 6.6% per annum ("p.a.") (six months ended 30 September 2011: ranging from 1.06% to 6.71% p.a.).

16. SHARE CAPITAL

	Number of shares '000	Share capital HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 April 2011, 31 March 2012 and 30 September 2012	40,000,000	400,000
Issued and fully paid:		
At 1 April 2011	1,222,554	12,226
Issued as consideration for the acquisition of subsidiaries	257,584	2,575
At 30 September 2011	1,480,138	14,801
Issue of shares pursuant to scrip dividend scheme for 2011 final dividend	31,038	311
Issue of shares pursuant to scrip dividend scheme for 2012 interim dividend	36,180	362
At 31 March 2012 and 30 September 2012	1,547,356	15,474

17. ACQUISITION OF SUBSIDIARIES

On 29 July 2011, the Group completed its acquisition of the entire equity interest in Global Honour Investments Limited (“Global Honour”), an investment holding company, from Time View Investments Limited (“Time View”) (the “Acquisition”).

The issued share capital of Time View is indirectly owned as to 50% each by (a) a discretionary trust whose beneficiaries are the family members of Mr. Li Ming Hung and (b) a discretionary trust whose beneficiaries are the family members of Mr. Chen Tien Tui. Both Mr. Li Ming Hung and Mr. Chen Tien Tui are Directors.

Global Honour owns the entire equity interest in Nanjing Synergy Textiles Limited (“Nanjing Synergy”) which is a company established in the PRC and engaged in the manufacture and sales of yarn.

In the opinion of the Directors, the Acquisition would provide the Group an opportunity to gain access to the upstream operation of its production line.

Consideration transferred

	HK\$'000
Share consideration (note)	298,205

note:

The consideration was satisfied by an issuance of 257,584,430 ordinary shares of the Company with par value of HK\$0.01 each. These shares could not be transferred within one year from the date of the Acquisition without written consent of the Company. The fair value of these shares was arrived at based on the market price of the Company’s freely tradable shares as at the date of the Acquisition and discounted by approximately 14.87% to take into account of the effect of the restriction on transfer.

Acquisition-related costs of HK\$2,096,000 were excluded from the cost of Acquisition and were recognised directly as an expense in the period when incurred and included in the “other expenses” line item in the condensed consolidated statement of comprehensive income.

17. ACQUISITION OF SUBSIDIARIES *(continued)***Fair value of assets and liabilities recognised at the date of Acquisition**

	HK\$'000
<hr/>	
Non-current assets	
Property, plant and equipment	451,562
Prepaid lease payments	164,367
Other assets	7,124
Current assets	
Prepaid lease payments	3,252
Bank balance and cash	21,139
Trade and other receivables	15,152
Inventories	163,754
Current liabilities	
Trade and other payables	(171,872)
Taxation payable	(5,544)
Bank borrowings-amount due within one year	(186,386)
Non-current liabilities	
Deferred tax liabilities	(79,296)
	<hr/>
	383,252
	<hr/>

The receivables acquired (which principally comprised trade receivables) with a fair value of HK\$15,152,000 had gross contractual amounts of HK\$15,152,000. The best estimate at Acquisition date of the contractual cash flows expected to be collected amounted to HK\$15,152,000.

17. ACQUISITION OF SUBSIDIARIES *(continued)***Gain on bargain purchase on Acquisition**

	HK\$'000
Consideration transferred	298,205
Less: fair value of identifiable net assets acquired	(383,252)
Gain on bargain purchase on Acquisition	(85,047)

The gain on bargain purchase on Acquisition was mainly attributable to the decline in market price of the consideration shares from the date of the conditional sale and purchase agreement to the date of completion of the Acquisition.

Net cash inflow arising on Acquisition

	HK\$'000
Cash and cash equivalents acquired	21,139

Impact of Acquisition on the results of the Group

Included in the revenue and profit for the interim period ended 30 September 2011 were HK\$43,687,000 and HK\$2,654,000, respectively attributable to Global Honour and its subsidiary.

Had the Acquisition been effected on 1 April 2011, the revenue of the Group for the six months ended 30 September 2011 would have been HK\$2,050,643,000, and the profit for that period would have been HK\$233,078,000. This pro forma information is for illustration purpose only and is not necessarily an indication of the Group's revenue and results of operations that would actually have been achieved had the Acquisition been completed on 1 April 2011, nor is intended to be a projection of future results.

In determining the above pro forma revenue and profit of the Group, the Directors calculated depreciation and amortisation of property, plant and equipment based of the recognised amounts of property, plant and equipment at the date of the Acquisition. As disclosed in Note 20(ii), Nanjing Synergy is a supplier to the Group. Accordingly, intragroup revenue between Nanjing Synergy and the Group was excluded from the above.

18. DEFERRED TAX ASSETS (LIABILITIES)

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior periods:

	Fair value adjustment on prepaid lease payments and property, plant and equipment arising on business combination	Accelerated tax and accounting depreciation	Tax losses	Dividend withholding tax	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2011	–	(734)	(300)	9,014	(216)	7,764
Acquisition of subsidiaries (Note 17)	79,296	–	–	–	–	79,296
(Credit) charge to profit or loss	(578)	–	240	1,023	–	685
Exchange differences	–	–	–	7	–	7
At 30 September 2011	78,718	(734)	(60)	10,044	(216)	87,752
(Credit) charge to profit or loss	(1,731)	(21)	60	3,208	(2,346)	(830)
At 31 March 2012	76,987	(755)	–	13,252	(2,562)	86,922
(Credit) charge to profit or loss	(1,732)	–	–	2,526	–	794
Exchange differences	–	–	–	(96)	–	(96)
At 30 September 2012	75,255	(755)	–	15,682	(2,562)	87,620

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2012

18. DEFERRED TAXATION ASSETS (LIABILITIES) *(continued)*

For the purpose of presentation in the condensed consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purpose:

	30 September 2012 HK\$'000	31 March 2012 HK\$'000
Deferred tax assets	1,899	1,899
Deferred tax liabilities	(89,519)	(88,821)
	(87,620)	(86,922)

19. CAPITAL COMMITMENTS

	30 September 2012 HK\$'000	31 March 2012 HK\$'000
Capital expenditure in respect of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	44,968	60,717

20. RELATED PARTY DISCLOSURES

- (i) During the current interim period, the Group paid operating lease rental of approximately HK\$54,000 (six months ended 30 September 2011: HK\$54,000) to Verdure Enterprises Limited ("Verdure"). Verdure is owned by a discretionary trust, the beneficiaries of which include Mr. Li Ming Hung's family members. Mr. Li Ming Hung is a Director and has significant influence in the Company.

The payment of the above operating lease rental constitutes an exempted connected transaction under Chapter 14A of the Listing Rules.

- (ii) During the six months ended 30 September 2011 and prior to the Acquisition, the Group purchased yarn from Nanjing Synergy in the amount of HK\$154,857,000. As at the date of the Acquisition, the Group also placed an amount of HK\$60,253,000 at Nanjing Synergy as a purchase deposit.
- (iii) On 16 March 2010, the Group entered into a master sale and purchase agreement ("Kimberley-Mayer Master Agreement") with 加美(清遠)制衣有限公司 Kimberley (Qing Yuan) Garment Limited ("Kimberley"). Kimberley is owned by a director of a subsidiary of the Company. The director has significant influence in that subsidiary through his equity interest in it. Pursuant to the Kimberley-Mayer Master Agreement, Kimberley agreed to supply apparel products to the Group and the purchases during the current interim period were approximately HK\$41,878,000 (six months ended 30 September 2011: HK\$28,554,000). As at 30 September 2012, the aggregate amount of purchase deposits placed by the Group in Kimberley was approximately HK\$14,972,000 (31 March 2012: HK\$13,276,000) which were included in deposits, prepayments and other receivables.

The transactions contemplated by the Kimberley-Mayer Master Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

- (iv) The remuneration of Directors and other members of key management during the period was as follows:

	Six months ended 30 September	
	2012 HK\$'000	2011 HK\$'000
Basic salaries and allowances	6,600	6,226
Retirement benefit scheme contributions	130	125
Share-based payment	5,283	–
	12,013	6,351



TO THE BOARD OF DIRECTORS OF VICTORY CITY INTERNATIONAL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Victory City International Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 3 to 29, which comprise the condensed consolidated statement of financial position as of 30 September 2012 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, 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.

SCOPE OF REVIEW

We conducted our review 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. A review of these condensed consolidated financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

28 November 2012

BUSINESS REVIEW

During the reporting period, the operating environment of global textile and garment industry remained challenging. Despite the slow recovery in the United States (the “US”), Europe was still suffering from fiscal imbalances and uncertainties over the deepening debt crisis. As the world’s largest manufacturing centre and exporter, China’s economy was inevitably affected. According to National Bureau of Statistics, China recorded a GDP growth of approximately 7.4% year-on-year for the third quarter of 2012, which is the slowest quarterly growth since the first quarter of 2009. All these external factors have continued to adversely impact the market’s sentiment and buyers’ purchase behaviour.

For the six months ended 30 September 2012, the Group’s unaudited consolidated revenue was approximately HK\$1,994 million, remained at similar level as compared with the previous corresponding period (2011: approximately HK\$2,000 million). Gross profit was approximately HK\$395 million, representing a growth of approximately 9.1% (2011: approximately HK\$362 million). Profit attributable to owners of the Company for the reporting period was approximately HK\$85 million which included share option expenses of approximately HK\$34.3 million, net loss on fair value changes of derivative financial instruments of approximately HK\$6.1 million, net gain on fair value change of a restricted bank deposit of approximately HK\$1.4 million and net gain on fair value change of an investment property of approximately HK\$1.0 million. For the previous corresponding period of 2011, profit attributable to owners of the Company was approximately HK\$214 million which included net gain on bargain purchase of acquisition of subsidiaries of approximately HK\$83 million, net loss on fair value changes of derivative financial instruments and structured borrowings of approximately HK\$9.4 million and share option expenses





of approximately HK\$5.1 million. Hence, profit from normal operations for the six months ended 30 September 2012 was approximately HK\$114.4 million after adjusting the above-mentioned non-operating gains and losses, representing a year-on-year drop of approximately 20.1% (2011: approximately HK\$143.3 million). Earnings per share were HK5.5 cents (2011: HK15.9 cents).

Textile Business

Production and sales of knitted fabric and dyed yarn are the principal operations of the Group and accounted for approximately 70.4% of the Group's consolidated revenue for the reporting period, while the remaining 29.6% was from the garment business.

In contrast to the slowdown in the domestic market, the Group's export market showed signs of gradual recovery during the period. The overall sales volume of dyed yarn and knitted fabric recorded an approximately 8% year-on-year growth. Nevertheless, the average selling price was approximately 11% lower than that of the same period last year due to the unfavourable market sentiment and persistent low cotton price.

With the newly acquired yarn spinning arm, the Group was able to source low-priced cotton overseas and benefited from stable supply of quality yarn at a relatively lower cost. Coupled with the efficiency brought by the vertically integrated operation, the manufacturing and overhead costs have been further reduced, thus enhanced the Group's gross margin by approximately 1.7 percentage points for the period. The Group will continue to accelerate the integration and to strengthen its foundation as one of the top knitted fabric suppliers in the world.

Garment Business

The Group considers the garment sector as one of the industries where the global economic crisis has impacted most. However, the Group navigated through the unprecedented and volatile inflating cost and unfavourable consumer spending environment, and managed to generate positive financial returns. The US market, one of the Group's core export markets for garment apparels, has shown signs of recovery during the period from the prolonged slowdown since 2008. Thanks to the production base optimisation plan that the Group had adopted in the past two years and the establishment of a new venture in the US in the period, we were able to capture the opportunities arising from the US economic pick-up which was the main drive in sustaining the Group's revenue in the period compared to the same period last year.

During the period, the Group has further expanded its garment retail business, the "teelocker" sales platform. Other than the two existing online stores on the "teelocker" official website at teelocker.com and Taobao.com, four additional online stores were launched on popular shopping websites to further extend the Group's reaches to consumers. In September 2012, three concept stores were opened in Changsha, Hunan Province and Chengdu, Sichuan Province. Together, the Group is currently operating six online stores and around 20 points of sale in first-tier and second-tier cities across the PRC.

PROSPECTS

Undoubtedly, the global economy will remain tough and uncertain for the rest of the fiscal year. Nevertheless, the





board (the “Board”) of Directors believes that the Group’s solid fundamentals have been further strengthened and optimised after going through the difficult times in the past years. With over 30 years of industry expertise and extensive network, well-established vertical operations of the Group, diverse plant locations, strategic collaborations and financial strengths, the Board sees tremendous opportunities available for the Group in the global textile and garment market in the long-run. To maintain stability during the economic downturn and yet prepare for future growth, the Group has set integration and internal control as the top priorities in the coming year. The Board will ensure that prudent and adequate measures are in place for the Group to stay resilient to unforeseen market changes as well as to new business opportunities arisen.

The Group remains committed in reinforcing its leadership in the global textile and garment market during the hard times in the economic cycle, and is well-prepared for the future recovery.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 30 September 2012, the Group had total assets of approximately HK\$8,063 million (31 March 2012: HK\$7,245 million) which were financed by current liabilities of approximately HK\$1,968 million (31 March 2012: HK\$2,013 million), long term liabilities of approximately HK\$1,399 million (31 March 2012: HK\$573 million) and shareholders’ equity of approximately HK\$4,452 million (31 March 2012: HK\$4,422 million). The current ratio was approximately 2.5 (31 March 2012: 2.1) and the gearing ratio, being defined as net debt

(representing by total bank borrowings net of cash and cash equivalents) to shareholders' funds was approximately 22.0% (31 March 2012: 19.4%). All of the Group's borrowings were at floating rate basis.

The Group services its debts primarily through cash earned from its operations. The Directors believe that the Group has maintained sufficient working capital for its operation and future expansion. Should other opportunities arise requiring additional funding, the Directors believe that the Group is in a good position to obtain financing on favourable terms.

Foreign Exchange and Interest Rate Risks

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

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

Capital Expenditure

During the period, the Group spent approximately HK\$252 million (six months ended 30 September 2011: HK\$63 million) on additions to property, plant and equipment.

As at 30 September 2012, the Group had capital commitments of approximately HK\$45 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 2012, certain property, plant and equipment and prepaid lease payments of the Group with net book value of approximately HK\$156 million (31 March 2012: approximately HK\$158 million) were pledged to banks to secure banking facilities granted.

Employee Information

As at 30 September 2012, total number of employees of the Group were approximately 690 in Cambodia, approximately 950 in Jordan, approximately 1,170 in Indonesia, approximately 5,720 in the PRC and approximately 160 in Hong Kong, Macau and other places. Remuneration packages are generally structured with reference to market terms and individual qualifications. Salaries and wages are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Bonuses are normally paid to management staff based on individuals' merits as well as the results of the Group. Other benefits to the staff include a provident fund scheme as well as medical insurance.

The Company maintains a share option scheme, pursuant to which share options are granted to selected eligible executives, with a view to provide senior management with an appropriate incentive interest in the growth of the Group.

INTERIM DIVIDEND

The Directors has resolved to declare an interim dividend of HK2.0 cents (2011: HK2.5 cents) per share of the Company for the period ended 30 September 2012. The interim dividend will be payable on or about 5 March 2013 to shareholders whose names appear on the register of members of the Company on 28 December 2012 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 (“Shares”) to be issued pursuant thereto being not less than the nominal value of a Share; and (b) the granting by the Listing Committee of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) the listing of and permission to deal in the new Shares to be issued pursuant thereto.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the entitlement to the interim dividend for the period ended 30 September 2012, the register of members of the Company will be closed from 27 December 2012 to 28 December 2012 (both days inclusive), during which period no transfer of Shares can be registered. In order to qualify for the interim dividend for the period ended 30 September 2012, all share transfers accompanied by the relevant share certificates must be lodged with the Company’s Hong Kong share registrar, Tricor Secretaries Limited at 26/F., Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 24 December 2012.

DIRECTORS’ AND CHIEF EXECUTIVES’ INTEREST IN SHARES AND UNDERLYING SHARES

As at 30 September 2012, 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	351,962,000 Shares (L) (Note 2)	–	22.75% (Note 28)
	The Company	Beneficial owner	–	1,200,000 Shares (L) (Note 4)	0.08%
	Victory City Company Limited (Note 26)	Beneficial owner	4,000,000 non-voting deferred shares of HK\$1.00 each (L)	–	50%
	Victory City Overseas Limited (Note 26)	Beneficial owner	1,300 redeemable non-voting preference shares of US\$1.00 each (L)	–	39.4%
	FGG (Note 26)	Founder of a trust	3,512,080 ordinary shares of HK\$0.01 each (L) (Note 2)	–	0.80%
	FGG (Note 26)	Beneficial owner	277,360 ordinary shares of HK\$0.01 each (L)	–	0.06%
Chen Tien Tui	The Company	Founder of a trust	351,962,000 Shares (L) (Note 3)	–	22.75% (Note 28)
	The Company	Beneficial owner	1,854,000 Shares (L)	–	0.12%
	The Company	Beneficial owner	–	1,200,000 Shares (L) (Note 4)	0.08%
	Victory City Company Limited (Note 26)	Beneficial owner	4,000,000 non-voting deferred shares of HK\$1.00 each (L)	–	50%

Other Disclosures

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
	Victory City Overseas Limited (Note 26)	Beneficial owner	1,300 redeemable non-voting preference shares of US\$1.00 each (L)	–	39.4%
	FGG (Note 26)	Founder of a trust	3,512,080 ordinary shares of HK\$0.01 each (L) (Note 3)	–	0.80%
	FGG (Note 26)	Beneficial owner	309,000 ordinary shares of HK\$0.01 each (L)	–	0.07%
Choi Lin Hung	The Company	Beneficial owner	7,980,000 Shares (L)	–	0.52%
	The Company	Beneficial owner	–	12,000,000 Shares (L) (Note 5)	0.78%
	Victory City Overseas Limited (Note 26)	Beneficial owner	700 redeemable non-voting preference shares of US\$1.00 each (L)	–	21.2%
	FGG (Note 26)	Interest of controlled corporation	317,552,000 ordinary shares of HK\$0.01 each (L) (Note 6)	–	72.5%
	Sure Strategy Limited (Note 26)	Interest of controlled corporation	49 ordinary shares of US\$1.00 each (L) (Note 7)	–	49%
	Ford Glory Holdings Limited (Note 26)	Interest of controlled corporation	100 shares of US\$1.00 each (L) (Note 8)	–	100%
	Brilliant Fashion Inc. (Note 26)	Interest of controlled corporation	100 common shares of no par value (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
	CSG Apparel Inc. (Note 26)	Interest of controlled corporation	1 common share of CAD1.00 (L) (Note 9)	–	100%
	Ford Glory International Limited (Note 26)	Interest of controlled corporation	5,000,000 ordinary shares of HK\$1.00 each (L) (Note 14)	–	100%
	Glory Time Limited (Note 26)	Interest of controlled corporation	70 ordinary shares of HK\$1.00 each (L) (Note 15)	–	70%
	Mayer Apparel Limited (Note 26)	Interest of controlled corporation	51 ordinary shares of HK\$1.00 each (L) (Note 12)	–	51%
	PT. Victory Apparel Semarang (Note 26)	Interest of controlled corporation	300,000 ordinary shares of US\$1.00 each (L) (Note 11)	–	100%
	Surefaith Limited (Note 26)	Interest of controlled corporation	10 ordinary shares of US\$1.00 each (L) (Note 14)	–	100%
	Top Star Limited (Note 26)	Interest of controlled corporation	2 ordinary shares of HK\$1.00 each (L) (Note 14)	–	100%
	Top Value Inc. (Note 26)	Interest of controlled corporation	200 common shares of no par value (L) (Note 13)	–	100%

Other Disclosures

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
	Value Plus (Macao Commercial Offshore) Limited (Note 26)	Interest of controlled corporation	Quota capital of MOP100,000 (L) (Note 16)	–	100%
	Victory Apparel (Jordan) Manufacturing Company Limited (Note 26)	Interest of controlled corporation	50,000 ordinary shares of JD1.00 each (L) (Note 10)	–	100%
	Wealth Choice Limited (Note 26)	Interest of controlled corporation	10 ordinary shares of US\$1.00 each (L) (Note 14)	–	100%
	福之源貿易(上海)有限公司 (Notes 24 and 26)	Interest of controlled corporation	Registered capital of RMB1,000,000 (L) (Note 9)	–	100%
	Gojifashion Inc. (Note 27)	Interest of controlled corporation	100 common shares of no par value (L) (Note 13)	–	50%
	Happy Noble Holdings Limited (Note 26)	Interest of controlled corporation	70 ordinary shares of US\$1.00 each (L) (Note 14)	–	70%

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
	Sky Winner Investment Limited (Note 26)	Interest of controlled corporation	100 ordinary shares of HK\$1.00 each (L) (Note 17)	–	100%
	福源創業信息諮詢服務(深圳)有限公司 (Notes 25 and 26)	Interest of controlled corporation	Registered capital of HK\$3,000,000 (L) (Note 9)	–	100%
	Rocwide Limited (Note 26)	Interest of controlled corporation	10 ordinary shares of US\$1.00 each (L) (Note 14)	–	100%
	江門冠暉制衣有限公司 (Note 26)	Interest of controlled corporation	Registered capital of HK\$30,000,000 (L) (Note 18)	–	100%
	One Sino Limited (Note 26)	Interest of controlled corporation	100 ordinary shares of US\$1.00 each (L) (Note 14)	–	100%
	Ford Glory (Cambodia) Manufacturing Limited (Note 26)	Interest of controlled corporation	Registered capital of US\$1,000,000 (L) (Note 19)	–	100%
	藝田貿易(上海)有限公司 (Note 26)	Interest of controlled corporation	Registered capital of HK\$5,000,000 (L) (Note 20)	–	100%
	Global Trend Investments Limited (Note 26)	Interest of controlled corporation	1,100,000 ordinary shares of US\$1.00 each (L) (Note 10)	–	100%

Other Disclosures

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
	Jerash Garments and Fashions Manufacturing Company Limited (Note 26)	Interest of controlled corporation	50,000 ordinary shares of JD1.00 each (L) (Note 21)	–	100%
	Talent Partner Holdings Limited (Note 26)	Interest of controlled corporation	51 ordinary shares of US\$1.00 each (L) (Note 22)	–	51%
	Green Expert Global Limited (Note 26)	Interest of controlled corporation	1 ordinary share of US\$1.00 each (L) (Note 23)	–	100%
	MT Studio Inc. (Note 26)	Interest of controlled corporation	1 common stock of no par value (L) (Note 23)	–	100%
	Ford Glory Inc. (Note 26)	Interest of controlled corporation	1 ordinary share of US\$0.01 each (L) (Note 23)	–	100%
	Major Time Limited (Note 26)	Interest of controlled corporation	1 ordinary share of HK\$1.00 each (L) (Note 23)	–	100%
Lee Yuen Chiu, Andy	The Company	Beneficial owner	–	5,000,000 Shares (L) (Note 5)	0.32%
Phaisalakani Vichai	The Company	Beneficial owner	500,000 Shares (L)	–	0.03%

Notes:

1. The letter "L" represents the Director's interests in the shares 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 Fiducia Suisse SA as discretionary trustee for Mr. Li Ming Hung's family members.
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 Fiducia Suisse SA as discretionary trustee for Mr. Chen Tien Tui's family members.
4. On 2 April 2012, each of Messrs. Li Ming Hung and Chen Tien Tui were granted 1,200,000 options under the share option scheme of the Company to subscribe for 1,200,000 Shares, exercisable at a price of HK\$0.782 per Share during a period from 2 April 2012 to 1 April 2017.
5. On 2 April 2012, Messrs. Choi Lin Hung and Lee Yuen Chiu, Andy were granted 12,000,000 and 5,000,000 options respectively under the share option scheme of the Company to subscribe for 12,000,000 Shares and 5,000,000 Shares respectively, exercisable at a price of HK\$0.782 per Share during a period from 2 April 2012 to 1 April 2017.
6. These shares were held by Merlotte Enterprise Limited and Sure Strategy Limited, of which Sure Strategy Limited was owned as to 49% by Merlotte Enterprise Limited, a company wholly-owned by Mr. Choi Lin Hung, and as to 51% owned by Victory City Investments Limited, a wholly-owned subsidiary of the Company.
7. These shares were held by Merlotte Enterprise Limited, a company wholly-owned by Mr. Choi Lin Hung.
8. These shares were held by FGG.
9. This common share 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.
10. These shares was beneficially owned by Wealth Choice Limited which is a wholly-owned subsidiary of Ford Glory Holdings Limited.
11. These shares was beneficially owned by Surefaith Limited which is a wholly-owned subsidiary of Ford Glory Holdings Limited.
12. Mayer Apparel Limited is 51% owned by Ford Glory Holdings Limited.
13. These common shares were beneficially owned by Ford Glory Holdings Limited.
14. These shares were beneficially owned by Ford Glory Holdings Limited.
15. Glory Time Limited is 70% owned by Ford Glory Holdings Limited.
16. This quota capital was beneficially owned by Ford Glory Holdings Limited.
17. These shares were held by Happy Noble Holdings Limited.
18. The registered capital was beneficially owned as to 40% by Ford Glory Holdings Limited and as to 60% by Rocwide Limited.
19. This registered capital was held by One Sino Limited.
20. This registered capital was beneficially owned by Sky Winner Investment Limited.
21. These shares were held by Global Trend Investments Limited.
22. Talent Partner Holdings Limited is 51% owned by Ford Glory Holdings Limited.
23. This common stock or, as the case may be, ordinary share was beneficially owned by Talent Partner Holdings Limited.
24. Ford Glory Trading (Shanghai) Limited is the unofficial English translation of 福之源貿易(上海)有限公司.
25. Ford Glory (Shenzhen) International Limited is the unofficial English translation of 福源創業信息諮詢服務(深圳)有限公司.
26. These companies are subsidiaries of the Company.
27. Although this company is not a subsidiary of the Company, it is an associated corporation (within the meaning of Part XV of the SFO) of the Company.
28. Mr. Li Ming Hung and Mr. Chen Tien Tui aggregately hold over 30% of the voting share capital of the Company, which complied under the condition of syndicated loan.

Save as disclosed above in this report, as at 30 September 2012, 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 2012, 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 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	351,962,000 (L)	Beneficial owner (Note 2)	22.75%
Cornice Worldwide Limited	351,962,000 (L)	Interest of controlled corporation (Note 2)	22.75%
Madian Star Limited	351,962,000 (L)	Beneficial owner (Note 3)	22.75%
Yonice Limited	351,962,000 (L)	Interest of controlled corporation (Note 3)	22.75%
Fiducia Suisse SA	703,924,000 (L)	Trustee (Notes 2 & 3)	45.49%
David Henry Christopher Hill	703,924,000 (L)	Interest of controlled corporation (Note 6)	45.49%
Rebecca Ann Hill	703,924,000 (L)	Interest of spouse (Note 7)	45.49%

Name of person	Number of Shares (Note 1)	Capacity	Approximate percentage of interest
Ho Yuen Mui, Shirley	353,162,000 (L)	Interest of spouse (Note 4)	22.82%
Or Kwai Ying	355,016,000 (L)	Interest of spouse (Note 5)	22.94%
Templeton Asset Management Limited	247,559,314 (L)	Investment manager	16.00%

Notes:

1. The letter "L" represents the person's or entity's interests in the Shares 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 Fiducia Suisse SA as discretionary trustee for Mr. Li Ming Hung's family members. Mr. Chen Tien Tui is a director of Pearl Garden Pacific Limited and Cornice Worldwide Limited.
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 Fiducia Suisse SA as discretionary trustee for Mr. Chen Tien Tui's family members. Mr. Li Ming Hung is a director of Madian Star Limited and Yonice Limited.
4. Ms. Ho Yuen Mui, Shirley is the wife of Mr. Li Ming Hung.
5. Ms. Or Kwai Ying is the wife of Mr. Chen Tien Tui.
6. These Shares were held by Fiducia Suisse SA as discretionary trustee for Mr. Li Ming Hung's family members and Mr. Chen Tien Tui's family members. Fiducia Suisse SA is wholly-owned by David Henry Christopher Hill.
7. Rebecca Ann Hill is the wife of David Henry Christopher Hill.

Save as disclosed above, so far as is known to the Directors, as at 30 September 2012, there was no person or entity (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 (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 resolution passed at the special general meeting of the Company held on 15 March 2011, the share option scheme adopted by the Company pursuant to an ordinary resolution passed at the special general meeting held on 30 November 2001 was terminated and the existing share option scheme (the "Scheme") of the Company was adopted.

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

Other Disclosures

Category	Date of grant	Exercise price per share (HK\$)	Exercisable period	Outstanding at 1 April 2012	Number of share options				Outstanding at 30 September 2012
					Granted	Exercised	Cancelled	Lapsed	
Directors (Note 1)	2/4/2012	0.782	2/4/2012 to 1/4/2017	-	19,400,000	-	-	-	19,400,000
Other employees (Note 2)	2/4/2012	0.782	2/4/2012 to 1/4/2017	-	100,600,000	-	-	-	100,600,000
				-	120,000,000	-	-	-	120,000,000

Notes:

1. Details of options granted to each of the Directors are set out in the paragraph headed "Directors' and chief executives' interest in shares and underlying shares" in this report above.
2. 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).

A subsidiary of the Group, FGG conditionally adopted a share option scheme on 2 June 2010 (the “FGG Share Option Scheme”) which became effective upon FGG’s share were listed on the Stock Exchange on 5 October 2010. The purpose of the FGG Share Option Scheme is to provide

incentives and rewards to eligible participants for their contributions to FGG.

The following table discloses movements in the FGG’s share options during the six months ended 30 September 2012:

Category	Date of grant	Vesting period	Exercise price per FGG’s share HK\$	Exercisable period	Number of FGG’s share options					Outstanding at 30 September 2012
					Outstanding at 1 April 2012	Granted	Exercised	Cancelled	Lapsed	
Directors										
Mr. Lau Kwok Wa, Stanley	2/6/2010	5/10/2010 to 4/10/2012	0.6	5/10/2012 to 31/5/2020	5,350,000	-	-	-	-	5,350,000
Mr. Ng Tze On	2/6/2010	5/10/2010 to 4/10/2012	0.6	5/10/2012 to 31/5/2020	5,350,000	-	-	-	-	5,350,000
Employees										
Mr. Ng Tsze Lun (Note 1)	2/6/2010	5/10/2010 to 4/10/2012	0.6	5/10/2012 to 31/5/2020	21,000,000	-	-	-	-	21,000,000
	27/4/2011	27/4/2011 to 26/4/2013	0.844	27/4/2013 to 26/4/2016	37,000,000	-	-	-	-	37,000,000
Other employees (Note 2)	2/6/2010	5/10/2010 to 4/10/2012	0.6	5/10/2012 to 31/5/2020	8,850,000	-	-	-	(550,000)	8,300,000
	27/4/2011	27/4/2011 to 26/4/2013	0.844	27/4/2013 to 26/4/2016	5,465,000	-	-	-	(295,000)	5,170,000
					83,015,000	-	-	-	(845,000)	82,170,000

Notes:

- The grant of the FGG’s share options to Mr. Ng Tsze Lun, exceeded the individual limit as set out in note to Rule 17.03(4) of the Listing Rules, was approved by shareholders of each of the Company and FGG respectively in the special general meeting of each of the Company and FGG held on 27 April 2011.
- Other employees include employees of FGG (other than the directors of FGG) working under employment contracts with FGG 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 2012, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Save as the deviation discussed below, the Company had complied throughout the six months ended 30 September 2012 with the code provisions ("Code Provisions") set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

In respect of Code Provision A.6.7, one independent non-executive Director did not attend the annual general meeting of the Company held on 28 August 2012 due to his other business commitments.

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

The Company has adopted a code of conduct (the "Code of Conduct") regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, all Directors have confirmed that they had complied with the required standard set out in the Code of Conduct during the six months ended 30 September 2012.

AUDIT COMMITTEE

The Board 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 in compliance with the Listing Rules.

The Committee has reviewed the unaudited financial statements of the Group for the six months ended 30 September 2012 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

Victory City International Holdings Limited

Li Ming Hung

Chairman

Hong Kong, 28 November 2012



VICTORY CITY INTERNATIONAL HOLDINGS LIMITED
冠華國際控股有限公司

www.victorycity.com.hk