

VICTORY CITY

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

Stock Code 股份代號: 539



11/12

Interim Report

中期報告

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Corporate Information

BOARD OF DIRECTORS

Executive

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

Independent Non-Executive

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

COMPANY SECRETARY

Lee Chung Shing

LEGAL ADVISER AS TO HONG KONG LAW

Chiu & Partners

AUDITOR

Deloitte Touche Tohmatsu

MAJOR BANKERS

The Hongkong and Shanghai Banking Corporation Limited
CITIC Bank International Limited
Hang Seng Bank Limited
Bank of America, N. A.
Mizuho Corporate Bank, Ltd.
The Bank of Tokyo-Mitsubishi UFJ, Ltd.
Rabobank International

PRINCIPAL SHARE REGISTRAR

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM 08
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 2011

	Notes	Six months ended 30 September	
		2011 HK\$'000 (unaudited)	2010 HK\$'000 (unaudited)
Revenue	3	2,000,236	2,143,474
Cost of sales		(1,638,392)	(1,750,192)
Gross profit		361,844	393,282
Other income		11,414	12,204
Other gains and losses	4	(8,484)	4,002
Gain on bargain purchase of acquisition of subsidiaries	14	85,047	–
Distribution and selling expenses		(41,421)	(51,010)
Administrative expenses		(145,999)	(133,985)
Listing expense of a non-wholly owned subsidiary		–	(13,096)
Interest on bank borrowings wholly repayable within five years		(26,542)	(24,397)
Other expenses	14	(2,096)	–
Profit before taxation		233,763	187,000
Income tax expense	5	(12,963)	(16,204)
Profit for the period	6	220,800	170,796
Other comprehensive income			
Exchange differences arising on translation of foreign operations		49,117	–
Total comprehensive income for the period		269,917	170,796

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 September 2011

	Notes	Six months ended 30 September	
		2011 HK\$'000 (unaudited)	2010 HK\$'000 (unaudited)
Profit for the period attributable to:			
Owners of the Company		214,022	164,631
Non-controlling interests		6,778	6,165
		220,800	170,796
Total comprehensive income attributable to:			
Owners of the Company		262,302	164,631
Non-controlling interests		7,615	6,165
		269,917	170,796
Earnings per share	8		
Basic		HK15.9 cents	HK15.5 cents
Diluted		HK15.9 cents	HK15.5 cents

Condensed Consolidated Statement of Financial Position

At 30 September 2011

	Notes	30 September 2011 HK\$'000 (unaudited)	31 March 2011 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	9	2,768,582	2,325,219
Prepaid lease payments		185,122	21,500
Goodwill		6,185	6,185
Intangible asset		1,000	1,000
Other assets		26,040	18,916
Deferred tax assets	15	1,278	1,518
Deposit paid for acquisition of property, plant and equipment		12,735	9,778
		3,000,942	2,384,116
Current assets			
Inventories		2,135,421	2,239,743
Trade and bills receivables	10	989,813	916,238
Deposits, prepayments and other receivables		210,027	236,589
Prepaid lease payments		4,532	518
Derivative financial instruments		4,183	7,853
Bank balances and cash		798,070	709,479
		4,142,046	4,110,420
Current liabilities			
Trade payables	11	263,839	390,016
Other payables and accruals		163,962	213,958
Dividend payable		48,991	659
Taxation payable		84,259	75,120
Bank borrowings – amount due within one year	12	1,316,869	1,031,508
Structured borrowings – amount due within one year		8,658	12,439
Derivative financial instruments		4,741	–
		1,891,319	1,723,700
Net current assets		2,250,727	2,386,720
Total assets less current liabilities		5,251,669	4,770,836

Condensed Consolidated Statement of Financial Position

At 30 September 2011

	Notes	30 September 2011 HK\$'000 (unaudited)	31 March 2011 HK\$'000 (audited)
Capital and reserves			
Share capital	13	14,801	12,226
Reserves		4,254,288	3,745,220
Equity attributable to owners of the Company		4,269,089	3,757,446
Non-controlling interests		234,955	223,872
Total equity		4,504,044	3,981,318
Non-current liabilities			
Bank borrowings – amount due after one year	12	658,595	780,236
Deferred tax liabilities	15	89,030	9,282
		747,625	789,518
		5,251,669	4,770,836

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2011

	Attributable to owners of the Company								Attributable to non-controlling interests				
	Share capital	Share premium	Special reserve	Capital redemption reserve	Capital reserve	Translation reserve	Dividend reserve	Accumulated profits	Sub-total	Share option reserve of a subsidiary	Share of net assets of subsidiaries	Sub-total	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
At 31 March 2010 (audited)	10,641	968,089	1,961	39	76,229	398,112	-	1,622,769	3,077,840	-	142,212	142,212	3,220,052
Profit for the period and total comprehensive income for the period	-	-	-	-	-	-	-	164,631	164,631	-	6,165	6,165	170,796
2010 Final dividend approved but not yet paid	-	-	-	-	-	-	-	(42,564)	(42,564)	-	-	-	(42,564)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(14,700)	(14,700)	(14,700)
Capital contribution by non-controlling interests	-	-	-	-	-	-	-	-	-	-	2,247	2,247	2,247
At 30 September 2010 (unaudited)	10,641	968,089	1,961	39	76,229	398,112	-	1,744,836	3,199,907	-	135,924	135,924	3,335,831

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2011

	Attributable to owners of the Company									Attributable to non-controlling interests			
	Share capital	Share premium	Special reserve	Capital redemption reserve	Capital reserve	Translation reserve	Dividend reserve	Accumulated profits	Sub-total	Share option reserve of a subsidiary	Share of net assets of subsidiaries	Sub-total	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
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 operation	-	-	-	-	-	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-based share-based payments upon cancellation 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 Cash Flows

For the six months ended 30 September 2011

	Note	Six months ended 30 September	
		2011 HK\$'000 (unaudited)	2010 HK\$'000 (unaudited)
Net cash from operating activities		156,575	6,332
Net cash used in investing activities:			
Purchase of property, plant and equipment		(63,125)	(27,278)
Proceeds from disposal of property, plant and equipment		15,695	25,825
Acquisition of subsidiaries	14	21,139	–
Other investing cash flows		(2,957)	(1,215)
		(29,248)	(2,668)
Net cash (used in) from financing activities:			
New bank loans raised		136,276	82,006
Repayment of bank loans		(255,873)	(75,795)
Net amount of bills discounted with recourse, debt factored with recourse, import loans, trust receipt loans and mortgage loans raised		92,251	65,308
Other financing cash flows		(11,390)	(12,453)
		(38,736)	59,066
Net increase in cash and cash equivalents		88,591	62,730
Cash and cash equivalents at beginning of the period		709,479	547,779
Cash and cash equivalents at end of the period, represented by bank balances and cash		798,070	610,509

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2011

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 financial instruments, which are measured at fair values, as appropriate.

The accounting policies and methods of computation used in the condensed consolidated financial statements are consistent with those followed in the preparation of annual financial statements of Victory City International Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 March 2011.

In the current interim period, the Group has applied, for the first time, the following new and revised standard, amendments and interpretation (“new or revised HKFRSs”) issued by the HKICPA.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosures
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the above new or revised 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 Group has not early applied new or revised standards, amendments and interpretation that have been issued but are not yet effective.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets ⁴
HKFRS 9	Financial Instruments ¹
HKFRS 10	Consolidated Financial Statements ¹
HKFRS 11	Joint Arrangements ¹
HKFRS 12	Disclosure of Interests in Other Entities ¹
HKFRS 13	Fair Value Measurement ¹
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income ²
HKAS 12 (Amendments)	Deferred tax: Recovery of Underlying Assets ³
HKAS 19 (as revised in 2011)	Employee Benefits ¹
HKAS 27 (as revised in 2011)	Separate Financial Statements ¹
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures ¹
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine ¹

¹ Effective for annual periods beginning on or after 1 January 2013

² Effective for annual periods beginning on or after 1 July 2012

³ Effective for annual periods beginning on or after 1 January 2012

⁴ Effective for annual periods beginning on or after 1 July 2011

The above new or revised standards on consolidation, joint arrangements and disclosures were issued by the HKICPA in June 2011 and are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five new or revised standards are applied at the same time. The directors of the Company (the “Directors”) anticipate that these new or revised standards will be applied in the Group’s consolidated financial statements for financial year ending 31 March 2014.

HKFRS 10 replaces the parts of HKAS 27 “Consolidated and Separate Financial Statements” that deal with consolidated financial statements. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor’s returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios including cases where an investor may control an investee with less than majority of the voting rights. The Directors are still assessing the financial effect of the application of HKFRS 10 on the Group.

Other than disclosed above, the Directors anticipate that the application of the other new or revised standards, amendments and interpretation will have no material impact on the results and the financial position of the Group.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2011

3. SEGMENT INFORMATION

At the end of the reporting period, the Group's operations are organised into two operating segments:

- (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 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			3,689
Unallocated corporate expenses			(24,863)
Finance costs			(26,542)
Profit before taxation			233,763

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2011

3. SEGMENT INFORMATION *(continued)*

Six months ended 30 September 2010

	Knitted fabric and dyed yarn HK\$'000	Garment products HK\$'000	Consolidated HK\$'000
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REVENUE			
External sales	1,680,173	463,301	2,143,474
<hr/>			
RESULTS			
Segment results	199,179	28,694	227,873
<hr/>			
Unallocated corporate income			6,494
Unallocated corporate expenses			(22,970)
Finance costs			(24,397)
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Profit before taxation			187,000
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Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2011

4. OTHER GAINS AND LOSSES

	Six months ended 30 September	
	2011 HK\$'000	2010 HK\$'000
Net (loss) gain on fair value changes of derivative financial instruments	(4,602)	4,705
(Loss) gain on fair value changes of structured borrowings	(4,799)	304
(Loss) gain on disposal of property, plant and equipment	(716)	524
Net foreign exchange gain (loss)	1,633	(1,531)
	(8,484)	4,002

5. INCOME TAX EXPENSE

	Six months ended 30 September	
	2011 HK\$'000	2010 HK\$'000
Current tax:		
Hong Kong Profits Tax	8,089	9,556
Enterprise income tax in the People's Republic of China (the "PRC") attributable to the subsidiaries	4,184	5,260
Overseas income tax	5	–
	12,278	14,816
Deferred tax:		
Current period (note 15)	685	1,388
	12,963	16,204

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 Group's PRC subsidiaries 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 the period.

The Group's 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	
	2011	2010
	HK\$'000	HK\$'000
<hr/>		
Profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	114,725	101,966
Release of prepaid lease payment	957	489
Interest income	(6,604)	(985)
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Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2011

7. DISTRIBUTION

On 18 August 2011, the Company approved a final dividend of approximately HK\$48,903,000 representing HK4.0 cents per share in respect of the financial year ended 31 March 2011. The amount of final dividend recommended was to be in cash with a scrip option.

The Directors have determined that an interim dividend of approximately HK\$37,779,000 representing HK2.5 cents per share for the six months ended 30 September 2011 (six months ended 30 September 2010: approximately HK\$36,374,000 representing HK3.0 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	
	2011 HK\$'000	2010 HK\$'000
Earnings		
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share	214,022	164,631
Effect of dilutive potential ordinary shares:		
Adjustment to the share of profit of a subsidiary on dilution of its earnings per share	(188)	–
Profit for the period attributable to owners of the Company for the purpose of diluted earnings per share	213,834	164,631

8. EARNINGS PER SHARE *(continued)*

	Six months ended 30 September	
	2011	2010
	'000	'000
<hr/>		
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	1,346,420	1,064,099

The computation of diluted earnings per share for the six months ended 30 September 2011 and 2010 does not assume the exercise of the Company's share options because the exercise price of the Company's share options outstanding for the period was higher than the average market price of the shares.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$63 million (six months ended 30 September 2010: HK\$27 million) on additions to property, plant and equipment.

No interest costs were capitalised during the period ended 30 September 2011 and 2010.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2011

10. 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 2011 HK\$'000	31 March 2011 HK\$'000
0 – 60 days	654,555	665,588
61 – 90 days	194,674	168,987
91 – 120 days	96,027	62,596
Over 120 days	44,557	19,067
	989,813	916,238

11. 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 2011 HK\$'000	31 March 2011 HK\$'000
0 – 60 days	172,016	240,400
61 – 90 days	36,961	93,754
Over 90 days	54,862	55,862
	263,839	390,016

12. BANK BORROWINGS

During the period ended 30 September 2011, the Group obtained new bank loans in the amount of approximately HK\$136,276,000 (six months ended 30 September 2010: HK\$82,006,000) and repaid bank loans in the amount of approximately HK\$255,873,000 (six months ended 30 September 2010: HK\$75,795,000). The loans carry interest at market rates ranging from 1.06% to 6.71% per annum (“p.a.”) (six months ended 30 September 2010: ranging from 1.75% to 4.80% p.a.).

13. SHARE CAPITAL

	Number of shares '000	Share capital HK\$'000
Authorised:		
At 1 April 2010, 31 March 2011 and 30 September 2011, ordinary shares of HK\$0.01 each	40,000,000	400,000
Issued and fully paid:		
At 1 April 2010 and 30 September 2010	1,064,100	10,641
Issued of shares pursuant to scrip dividend scheme for 2010 final dividend	18,352	184
Placing of new shares	130,000	1,300
Issue of shares pursuant to scrip dividend scheme for 2011 interim dividend	10,102	101
At 31 March 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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2011

14. 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 Mr. Li Ming Hung and his family members and (b) a discretionary trust whose beneficiaries are Mr. Chen Tien Tui and his family members. 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 cannot 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 14.87% to take into account of the effect of the restriction on transfer.

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

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

	HK\$'000
Non-current assets	
Property, plant and equipment	451,562
Prepaid lease payments	164,367
Other assets	7,124
Current assets	
Prepaid lease payment	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)
	383,252

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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2011

14. 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 are 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 the 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 17 (ii), Nanjing Synergy is the supplier to the Group. Accordingly, intragroup revenue between Nanjing Synergy and the Group was excluded from the above.

15. DEFERRED TAXATION

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 2010	–	329	–	5,387	–	5,716
Charge to profit or loss	–	–	–	1,388	–	1,388
At 30 September 2010	–	329	–	6,775	–	7,104
(Credit) charge to profit or loss	–	(1,063)	(300)	2,239	(216)	660
At 31 March 2011	–	(734)	(300)	9,014	(216)	7,764
Acquisition of subsidiaries (Note 14)	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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2011

15. DEFERRED TAXATION *(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 2011 HK\$'000	31 March 2011 HK\$'000
Deferred tax assets	1,278	1,518
Deferred tax liabilities	(89,030)	(9,282)
	(87,752)	(7,764)

16. CAPITAL COMMITMENTS

	30 September 2011 HK\$'000	31 March 2011 HK\$'000
Capital expenditure in respect of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	41,607	48,174

17. RELATED PARTY DISCLOSURES

- (i) During the period, the Group paid operating lease rental of approximately HK\$54,000 (six months ended 30 September 2010: HK\$54,000) to Verdure Enterprises Limited (“Verdure”). Verdure is owned by a discretionary trust, the beneficiaries of which include Mr. Li Ming Hung, a Director, and his family members. Mr. Li Ming Hung 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.

17. RELATED PARTY DISCLOSURES *(continued)*

- (ii) On 27 October 2008, the Group entered into a master sale and purchase agreement (“Master Supply Agreement”) with Nanjing Synergy. Pursuant to the Master Supply Agreement, Nanjing Synergy agreed to supply yarn to the Group until 31 March 2011.

Nanjing Synergy remained as a supplier of the Group after the expiration of the Master Supply Agreement and the purchases during the period up to the date of the Acquisition were approximately HK\$154,857,000 (six months ended 30 September 2010: HK\$204,375,000). As at the date of the Acquisition, the aggregate amount of purchase deposits placed by the Group in Nanjing Synergy was approximately HK\$60,253,000 (31 March 2011: HK\$66,137,000) which were included in deposits, prepayments and other receivables.

The transactions under by the Master Supply Agreement prior to the Acquisition constituted continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

- (iii) On 1 April 2007, 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 the 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 period were approximately HK\$28,544,000 (six months ended 30 September 2010: HK\$37,573,000). As at 30 September 2011, the aggregate amount of purchase deposits placed by the Group in Kimberley was approximately HK\$25,201,000 (31 March 2011: HK\$18,234,000) 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) Compensation of key management personnel

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

	Six months ended 30 September	
	2011	2010
	HK\$'000	HK\$'000
Basic salaries and allowances	6,226	5,838
Retirement benefit scheme contributions	125	125
	6,351	5,963

Report on Review of Interim Financial Information



TO THE BOARD OF DIRECTORS OF VICTORY CITY INTERNATIONAL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 3 to 25, which comprises the condensed consolidated statement of financial position of Victory City International Holdings Limited (the “Company”) and its subsidiaries as of 30 September 2011 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 this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information 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 interim financial information 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 interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong 29 November 2011

Business Review and Prospects

BUSINESS REVIEW

The operating environment of the textile and garment industry remains unfavourable in the first half of 2011. Foreign demand faltered with the lingering uncertainties in the United States of America (the "US") and European debt crisis. Domestically, cost pressure has been fast building due to high inflation, the Renminbi appreciation and large fluctuation of raw material costs.

For the six months ended 30 September 2011, the Group's unaudited consolidated revenue was approximately HK\$2,000 million, representing a decline of approximately 6.7% as compared with the previous corresponding period (2010: HK\$2,143 million). Profit attributable to owners of the Company for the period under review 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 instrument and structured borrowings

of approximately HK\$9.4 million (2010: net gain of HK\$5.0 million) and staff option expenses of approximately HK\$5.1 million. Hence, profit from normal operations of the Group for the period under review was approximately HK\$145.5 million, representing a decrease of approximately 12.5% as compared with that of the same period last year (2010: HK\$166.3 million).

Textile Business

During the period under review, the Group's sales volume decreased by approximately 15% year-on-year primarily due to weaker consumer confidence hence reduced spending in the US and Europe. This has prompted many buyers to manage their inventory hence contracted their procurement orders. Prices of cotton, our core raw material, have been falling by over 40% from its historic high in March 2011. The continual fall in our raw material prices has not only weakened textile manufacturers' pricing power passing on the rising production costs to customers, but also discouraged buyers





from placing normal-size orders. The market has taken a “wait and see” approach, expecting the ongoing downward price trend to continue. As a result, this diminished order size has reduced production volume and in turn factory utilisation and cost-efficiency, thereby shrinking the margins.

As the cost pressure has been fast building up as a result of the drop in cotton prices coupled with the rising production costs, China’s domestic textile and garment industry would likely undergo further consolidation. We are well-equipped to capture any market re-shuffle that would wean out enterprises leaving new business opportunities for larger manufacturers. In this respect, the Group has taken further proactive actions during the reporting period to backward integrate the upper-stream yarn spinning operation, thereby strengthening the value chain.

Acquisition

Nanjing Synergy, a long-term yarn supplier for the Group in China, was acquired by the Group on 29 July 2011. This acquisition not only diversifies our business but also broadens our income source; it is expected to bring synergy and cost benefit to our vertical integrated production. Currently, Nanjing Synergy supplies not more than 20% of the Group’s yarn purchases. In the coming three years the Group intends to further invest in its yarn spinning capacity hence lifting Nanjing Synergy’s contribution to about 40% level, thereby improving the overall profit margin of the Group as a whole.

Garment & Retail Business

Our garment arm, Ford Glory Group Holdings Limited (“FGG”) also adopted a prudent yet decisive approach to cope with the unfavourable factors impacting the global garment and apparel market during the period. Thanks to our strong and trusty relationships with internationally well-known retailers,

FGG sustained stable order levels and achieved a reasonable revenue growth. In order to stay competitive in the market, FGG took a step forward to contain the rising labour cost in China by launching new production facilities in Cambodia and re-opening the facilities in Jordan. Moreover, customers from the US enjoy import duty free relief for garments from Jordan, and so do customers from Canada and Europe for garments exported from Cambodia. This strategic move subsequently strengthens our competitive edge in securing orders from the US, Canada and European countries.

Our new t-shirt brand, “teelocker” has achieved significant brand image enhancement in China during the period. The “teelocker” website, acting as an interactive platform, has successfully attracted talented designers and unbounded creativities around the world. We also seized China’s burgeoning online shopping trend by opening an online flagship shop at “taobao.com”, the largest and the most

popular online shopping destination in China. Such distribution channel allows the brand to reach the maximum number of shoppers. FGG is proactively seeking opportunities of forming collaborations with well-established retail chains to elevate the “teelocker” brand exposure nationally, and we believe that “teelocker” will soon become a growth driver for our garment segment in the near future.

OUTLOOK

Looking ahead, the prospect for the textile and garment sector remains uncertain. However, the Group will maintain a prudent and proactive approach to reinforce our top-tier position at all times in the economic cycle.

We continued to hold steadfast to our core values derived from the solid vertical integration from the upstream raw cotton to the downstream garment retailing. We strongly



Business Review and Prospects



believe that our competitive advantage offers a unique value to our expanding customer base, and we have the best people, a well-organised production infrastructure, reliable partners and financial strengths that are necessary for strategy development and implementation to accelerate the growth of our business. Looking forward, we will strive to continue creating value for our shareholders in the year ahead.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 30 September 2011, the Group had total assets of approximately HK\$7,142,988,000 (31 March 2011: HK\$6,494,536,000) which were financed by current liabilities of approximately HK\$1,891,319,000 (31 March 2011:

HK\$1,723,700,000), long term liabilities of approximately HK\$747,625,000 (31 March 2011: HK\$789,518,000) and shareholders' equity of approximately HK\$4,269,089,000 (31 March 2011: HK\$3,757,446,000) The current ratio was approximately 2.2 (31 March 2011: 2.4) 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 20.5% (31 March 2011: 23.0%). All of the Group's borrowings were at floating rate basis.

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

Foreign Exchange and Interest Rate Risks

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

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

Capital Expenditure

During the period, the Group invested approximately HK\$63 million (six months ended 30 September 2010: HK\$27 million) on additions to property, plant and equipment.

As at 30 September 2011, the Group had capital commitments of approximately HK\$42 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 2011, certain property, plant and equipment and prepaid lease payments of the Group with net book value of approximately HK\$484 million (31 March 2011: approximately HK\$55 million) were pledged to banks to secure banking facilities granted.

Employee Information

As at 30 September 2011, total number of employees of the Group were approximately 170 in Hong Kong and Macau, approximately 3 in the US and Canada, approximately 590 in Cambodia, approximately 1,100 in Indonesia and approximately 5,170 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.

Other Disclosures

INTERIM DIVIDEND

The board of Directors (the “Board”) has resolved to declare an interim dividend of HK2.5 cents (2010: HK3.0 cents) per share of the Company for the period ended 30 September 2011. The interim dividend will be payable on or about 2 March 2012 to shareholders whose names appear on the register of members of the Company on 30 December 2011 with a scrip alternative to offer the right to shareholders to elect to receive such interim dividend wholly or partly by allotment of new shares credited as fully paid in lieu of cash.

A circular containing details of the scrip dividend scheme together with an election form will be sent to the shareholders of the Company as soon as practicable. The scrip dividend scheme is subject to the following conditions: (a) the issue price of a new share of the Company to be issued pursuant thereto being not less than the nominal value of a share of the Company; and (b) the granting by the Listing Committee of the Stock Exchange of the listing of and permission to deal in the new shares of the Company 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 2011, the register of members of the Company will be closed from 28 December 2011 to 30 December 2011 both days inclusive, during which period no transfer of shares of the Company can be registered. In order to qualify for the interim dividend for the period ended 30 September 2011, 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 West, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 23 December 2011.

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

As at 30 September 2011, 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	325,178,215 ordinary shares of HK\$0.01 each of the Company ("Shares") (L) (Note 2)	–	21.97% (Note 27)
	The Company	Beneficial owner	–	1,599,737 Shares (L) (Note 4)	0.11%
	Victory City Company Limited (Note 19)	Beneficial owner	4,000,000 non-voting deferred shares of HK\$1.00 each (L)	–	50%
	Victory City Overseas Limited (Note 19)	Beneficial owner	1,300 redeemable non-voting preference shares of US\$1.00 each (L)	–	39.4%
	Ford Glory Group Holdings Limited (Note 19)	Founder of a trust	3,512,080 ordinary shares of HK\$0.01 each (L) (Note 23)	–	0.80%
	Ford Glory Group Holdings Limited (Note 19)	Beneficial owner	277,360 ordinary shares of HK\$0.01 each (L)	–	0.06%
Chen Tien Tui	The Company	Founder of a trust	325,178,215 Shares (L) (Note 3)	–	21.97% (Note 27)
	The Company	Beneficial owner	1,715,000 Shares (L)	–	0.12%

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
	The Company	Beneficial owner	–	1,599,737 Shares (L) (Note 4)	0.11%
	Victory City Company Limited (Note 19)	Beneficial owner	4,000,000 non-voting deferred shares of HK\$1.00 each (L)	–	50%
	Victory City Overseas Limited (Note 19)	Beneficial owner	1,300 redeemable non-voting preference shares of US\$1.00 each (L)	–	39.4%
	Ford Glory Group Holdings Limited (Note 19)	Founder of a trust	3,512,080 ordinary shares of HK\$0.01 each (L) (Note 24)	–	0.80%
	Ford Glory Group Holdings Limited (Note 19)	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)	–	0.54%
	The Company	Beneficial owner	–	9,598,419 Shares (L) (Note 5)	0.65%
	Victory City Overseas Limited (Note 19)	Beneficial owner	700 redeemable non-voting preference shares of US\$1.00 each (L)	–	21.2%

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
	Ford Glory Group Holdings Limited (Note 19)	Interest of controlled corporation	317,552,000 ordinary shares of HK\$0.01 each (L) (Note 6)	–	72.5%
	Sure Strategy Limited (Note 19)	Interest of controlled corporation	49 ordinary shares of US\$1.00 each (L) (Note 7)	–	49%
	Ford Glory Holdings Limited (Note 19)	Interest of controlled corporation	100 shares of US\$1.00 each (L) (Note 8)	–	100%
	Brilliant Fashion Inc. (Note 19)	Interest of controlled corporation	100 common shares of no par value (L) (Note 13)	–	100%
	CSG Apparel Inc. (Note 19)	Interest of controlled corporation	1 common share of CAD1.00 (L) (Note 9)	–	100%
	Ford Glory International Limited (Note 19)	Interest of controlled corporation	5,000,000 ordinary shares of HK\$1.00 each (L) (Note 14)	–	100%
	Glory Time Limited (Note 19)	Interest of controlled corporation	70 ordinary shares of HK\$1.00 each (L) (Note 15)	–	70%

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
	Mayer Apparel Limited (Note 19)	Interest of controlled corporation	51 ordinary shares of HK\$1.00 each (L) (Note 12)	–	51%
	PT. Victory Apparel Semarang (Note 19)	Interest of controlled corporation	300,000 ordinary shares of US\$1.00 each (L) (Note 11)	–	100%
	Surefaith Limited (Note 19)	Interest of controlled corporation	10 ordinary shares of US\$1.00 each (L) (Note 14)	–	100%
	Top Star Limited (Note 19)	Interest of controlled corporation	2 ordinary shares of HK\$1.00 each (L) (Note 14)	–	100%
	Top Value Inc. (Note 19)	Interest of controlled corporation	200 common shares of no par value (L) (Note 13)	–	100%
	Value Plus (Macao Commercial Offshore) Limited (Note 19)	Interest of controlled corporation	Quota capital of MOP100,000 (L) (Note 16)	–	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
	Victory Apparel (Jordan) Manufacturing Company Limited (Note 19)	Interest of controlled corporation	50,000 ordinary shares of JD1.00 each (L) (Note 10)	–	100%
	Wealth Choice Limited (Note 19)	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 19 and 21)	Interest of controlled corporation	Registered capital of RMB1,000,000 (L) (Note 9)	–	100%
	Gojifashion Inc. (Note 20)	Interest of controlled corporation	100 common shares of no par value (L) (Note 13)	–	50%
	Happy Noble Holdings Limited (Note 19)	Interest of controlled corporation	70 ordinary shares of US\$1.00 each (L) (Note 14)	–	70%
	Sky Winner Investment Limited (Note 19)	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 19 and 22)	Interest of controlled corporation	Registered capital of HK\$3,000,000 (L) (Note 9)	–	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
	Rocwide Limited (Note 19)	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 19)	Interest of controlled corporation	Registered capital of HK\$30,000,000 (L) (Note 18)	–	100%
	One Sino Limited (Note 19)	Interest of controlled corporation	100 ordinary shares of US\$1.00 each (L) (Note 14)	–	100%
	Ford Glory (Cambodia) Manufacturing Limited (Note 19)	Interest of controlled corporation	1,000 ordinary shares of US\$1,000.00 each (L) (Note 25)	–	100%
	藝田貿易(上海)有限公司 (Note 19)	Interest of controlled corporation	Registered capital of HK\$5,000,000 (L) (Note 26)	–	100%
Lee Yuen Chiu, Andy	The Company	Beneficial owner	–	9,598,419 Shares (L) (Note 5)	0.65%
Phaisalakani Vichai	The Company	Beneficial owner	506,000 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 Trustcorp Limited as discretionary trustee for Mr. Li Ming Hung and his 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 Trustcorp Limited as discretionary trustee for Mr. Chen Tien Tui and his family members.
 4. On 9 October 2003, each of Messrs. Li Ming Hung and Chen Tien Tui were granted 500,000 options under the share option scheme of the Company to subscribe for 500,000 Shares, exercisable at a price of HK\$3.04 per share during a period from 9 October 2004 to 29 November 2011. As a result of rights issue completed on 16 January 2009, the number of share options and exercise price were adjusted.

On 7 June 2004, Messrs. Li Ming Hung and Chen Tien Tui were granted options under the share option scheme of the Company to subscribe for 1,000,000 Shares and 1,000,000 Shares respectively, exercisable at a price of HK\$3.15 per Share during a period from 7 June 2004 to 29 November 2011. As a result of rights issue completed on 16 January 2009, the number of share options and exercise price were adjusted.
 5. On 23 May 2003, Messrs. Choi Lin Hung and Lee Yuen Chiu, Andy were granted 1,500,000 and 1,500,000 options respectively under the share option scheme of the Company to subscribe for 1,500,000 Shares and 1,500,000 Shares respectively, exercisable at a price of HK\$2.35 per Share during a period from 27 May 2003 to 29 November 2011. As a result of rights issue completed on 16 January 2009, the number of share options and exercise price were adjusted.

On 9 October 2003, Messrs. Choi Lin Hung and Lee Yuen Chiu, Andy were granted options under the share option scheme of the Company to subscribe for 3,500,000 Shares and 3,500,000 Shares, respectively, exercisable at a price of HK\$3.04 per share during a period from 9 October 2004 to 29 November 2011. As a result of rights issue completed on 16 January 2009, the number of share options and exercise price were adjusted.
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, 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, wholly owned by Mr. Choi Lin Hung.
 8. These shares were held by Ford Glory Group Holdings Limited.
 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.

Other Disclosures

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. These companies are subsidiaries of the Company.
20. 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.
21. Ford Glory Trading (Shanghai) Limited is the unofficial English translation of 福之源貿易(上海)有限公司.
22. 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.
23. These Shares were held by Trustcorp Limited as discretionary trustee for Mr. Li Ming Hung and his family members.
24. These Shares were held by Trustcorp Limited as discretionary trustee for Mr. Chen Tien Tui and his family members.
25. These shares were held by One Sino Limited.
26. This registered share capital of was beneficially owned by Sky Winner Investment Limited.
27. 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 2011, 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 2011, 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	325,178,215 (L)	Beneficial owner (Note 2)	21.97%
Cornice Worldwide Limited	325,178,215 (L)	Interest of controlled corporation (Note 2)	21.97%
Madian Star Limited	325,178,215 (L)	Beneficial owner (Note 3)	21.97%
Yonice Limited	325,178,215 (L)	Interest of controlled corporation (Note 3)	21.97%
Trustcorp Limited	650,356,430 (L)	Trustee (Notes 2, 3 & 4)	43.94%
Newcorp Ltd.	650,356,430 (L)	Interest of controlled corporation (Notes 2, 3 & 4)	43.94%
Ho Yuen Mui, Shirley	326,777,952 (L)	Interest of spouse (Note 5)	22.08%
Or Kwai Ying	328,492,952 (L)	Interest of spouse (Note 6)	22.19%
Templeton Asset Management Limited	230,603,516 (L)	Investment manager	15.58%
Value Partners Limited	102,823,712 (L)	Investment manager	6.95%

Other Disclosures

Notes:

1. The letter "L" represents the person'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 Trustcorp Limited as discretionary trustee for Mr. Li Ming Hung and his 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 Trustcorp Limited as discretionary trustee for Mr. Chen Tien Tui and his family members. Mr. Li Ming Hung is a director of Madian Star Limited and Yonice Limited.
4. Trustcorp Limited is wholly owned by Newcorp Ltd.
5. Ms. Ho Yuen Mui, Shirley is the wife of Mr. Li Ming Hung.
6. Ms. Or Kwai Ying is the wife of Mr. Chen Tien Tui.

Save as disclosed above, so far as is known to the Directors, as at 30 September 2011, there was no person (other than a Director or chief executive of the Company) who had an interest or a short position in the Shares and/or underlying Shares (including interest in options, if any) which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTIONS

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

Category	Date of grant	Exercise price (HK\$)	Exercisable period	Number of share options					Outstanding at 30 September 2011
				Outstanding at 1 April 2011	Granted	Exercised	Cancelled	Lapsed	
Directors (Note 1)	27/05/2003	2.20	27/05/2003 to 29/11/2011	3,199,472	-	-	-	-	3,199,472
	20/10/2003	2.85	09/10/2004 to 29/11/2011	8,531,930	-	-	-	-	8,531,930
	07/06/2004	2.95	07/06/2004 to 29/11/2011	10,664,910	-	-	-	-	10,664,910
Other employees (Note 2)	27/05/2003	2.20	27/05/2003 to 29/11/2011	24,635,947	-	-	-	-	24,635,947
	20/10/2003	2.85	09/10/2004 to 29/11/2011	29,435,154	-	-	-	-	29,435,154
	07/06/2004	2.95	07/06/2004 to 29/11/2011	31,888,085	-	-	-	-	31,888,085
				108,355,498	-	-	-	-	108,355,498

Notes:

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

Other Disclosures

Pursuant to a written resolution passed on 2 June 2010, FGG, a non-wholly owned subsidiary of the Company, adopted a share option scheme (the “FGG Share Option Scheme”). The purpose of the FGG Share Option Scheme is to provide incentives to eligible participants including eligible employees.

The FGG Share Option Scheme will remain in force for a period of ten years from the date of its adoption.

The following table discloses movements in FGG’s share options during the six months ended 30 September 2011:

Category	Date of grant	Vesting period	Exercise price (HK\$)	Exercisable period	Number of share options					Outstanding at 30 September 2011
					Outstanding at 1 April 2011	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	9,550,000	-	-	-	(200,000)	9,350,000
	27/4/2011	27/4/2011 to 26/4/2013	0.844	27/4/2013 to 26/4/2016	-	5,920,000	-	-	(65,000)	5,855,000
					41,250,000	42,920,000	-	-	(265,000)	83,905,000

Notes:

- Mr. Ng Tsze Lun is the marketing director of Ford Glory International Limited, a wholly-owned subsidiary of FGG, who was granted 21,000,000 options and 37,000,000 options which exceeded the individual limit as set out in note to Rule 17.03(4) of the Listing Rules.
- 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).

On 27 April 2011, FGG granted 42,920,000 new share options to FGG's employees at an exercise price of HK\$0.844 per share. The closing price of FGG's shares immediately before the date of grant was HK\$1.10. These options have a vesting period of 2 years and are exercisable for the period up to the 5th anniversary of the date of grant. The fair value of these options was determined to be HK\$0.5732 per option, arrived at using the Binomial Model with the following variables and assumptions:

Grant date share price	HK\$1.13
Exercise price	HK\$0.844
Option life	5 years
Expected volatility	64%
Dividend yield	2%
Risk-free interest rate	1.74%

Expected volatility was determined based on historical volatility of the share prices of FGG.

The variables and assumptions used above were based on the best estimate of the directors of FGG. The value of an option varies with different variables of certain subjective assumptions.

During the six months ended 30 September 2011, FGG recognised total expense of approximately HK\$5,118,000 (2010: Nil) in relation to the share options granted by FGG.

At the end of each reporting date, FGG revises its estimates of the number of options that are expected to vest ultimately. The impact of the revision of the estimates, if any, is recognised in profit and loss, with a corresponding adjustment to the share option reserve.

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

During the six months ended 30 September 2011, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company had complied throughout the six months ended 30 September 2011 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 (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 2011.

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 2011 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, 29 November 2011



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

www.victorycity.com.hk