



**VICTORY CITY INTERNATIONAL
HOLDINGS LIMITED**

冠華國際控股有限公司

stock code 股份代號 : 539

2017/18
Interim Report 中期報告

CONTENTS

- 2** CORPORATE INFORMATION
- 3** CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME
- 5** CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
- 7** CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
- 8** CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
- 9** NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
- 32** REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS
- 34** BUSINESS REVIEW AND PROSPECTS
- 39** OTHER DISCLOSURES

CORPORATE INFORMATION

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 ADVISERS AS TO HONG KONG LAW

Chiu & Partners

AUDITOR

Deloitte Touche Tohmatsu

MAJOR BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
First Commercial Bank Limited
Fubon Bank (Hong Kong) Limited
Nanyang Commercial Bank, Limited
Cathay United Bank Company, Limited
CTBC Bank Co., Ltd.
Industrial Bank Co., Ltd., Hong Kong Branch
Rabobank International

PRINCIPAL SHARE REGISTRAR

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM 08
Bermuda

BRANCH SHARE REGISTRAR IN HONG KONG

Tricor Secretaries Limited
Level 22, Hopewell Centre
183 Queen's Road East
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 PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2017

	Note	Six months ended 30 September	
		2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)
Revenue	4	2,547,467	2,534,643
Cost of sales		(2,122,701)	(2,100,209)
Gross profit		424,766	434,434
Other income		39,096	35,946
Other gains and losses	5	55,915	(71,136)
Distribution and selling expenses		(64,777)	(65,729)
General and administrative expenses		(178,655)	(182,067)
Finance costs		(68,535)	(70,380)
Gain on disposal of subsidiaries	6	—	19,850
Profit before taxation		207,810	100,918
Income tax expense	7	(16,996)	(16,178)
Profit for the period	8	190,814	84,740
Other comprehensive income (expense):			
<i>Items that may be subsequently reclassified to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		332,440	(197,073)
Fair value change of an available-for-sale investment		191	106
Reclassification of translation reserve upon disposal of subsidiaries		—	9
Other comprehensive income (expense) for the period		332,631	(196,958)
Total comprehensive income (expense) for the period		523,445	(112,218)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2017

	Note	Six months ended 30 September	
		2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)
Profit (loss) for the period attributable to:			
Owners of the Company		192,806	86,629
Non-controlling interests		(1,992)	(1,889)
		190,814	84,740
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		524,059	(109,132)
Non-controlling interests		(614)	(3,086)
		523,445	(112,218)
Earnings per share	10		
Basic		HK4.6 cents	HK3.3 cents
Diluted		HK4.5 cents	HK3.3 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2017

	Note	30 September 2017 HK\$'000 (unaudited)	31 March 2017 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	11	3,973,005	3,693,182
Prepaid lease payments		187,409	188,018
Investment properties	11	158,823	154,656
Goodwill		6,185	6,185
Restricted bank deposit	12	60,580	60,136
Available-for-sale investment		16,472	—
Deferred tax assets	13	4,138	4,197
Deposit paid for acquisition of property, plant and equipment		5,535	10,251
Other assets		26,040	26,040
		4,438,187	4,142,665
Current assets			
Inventories		2,928,375	2,991,234
Trade and bills receivables	14	1,912,546	1,855,728
Deposits, prepayments and other receivables		209,907	179,448
Prepaid lease payments		5,104	4,744
Derivative financial instrument	16	26	529
Available-for-sale investments		2,205	17,924
Taxation recoverable		7,060	7,804
Bank balances and cash		2,958,467	2,725,090
		8,023,690	7,782,501

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2017

	Note	30 September 2017 HK\$'000 (unaudited)	31 March 2017 HK\$'000 (audited)
Current liabilities			
Trade and bills payables	15	377,700	636,193
Other payables and accruals		172,480	163,757
Dividend payable		191	191
Taxation payable		74,082	74,187
Derivative financial instruments	16	45,485	155,124
Bank borrowings — amount due within one year	17	3,106,528	2,759,445
		3,776,466	3,788,897
Net current assets		4,247,224	3,993,604
Total assets less current liabilities		8,685,411	8,136,269
Capital and reserves			
Share capital	19	41,937	41,937
Reserves		6,219,316	5,658,172
Equity attributable to owners of the Company		6,261,253	5,700,109
Non-controlling interests		45,760	57,154
Total equity		6,307,013	5,757,263
Non-current liabilities			
Bank borrowings — amount due after one year	17	1,925,730	2,292,621
Convertible bonds	18	361,285	—
Deferred tax liabilities	13	91,383	86,385
		2,378,398	2,379,006
		8,685,411	8,136,269

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2017

	Attributable to owners of the Company												Attributable to non-controlling interests	Total	
	Share capital	Share premium	Special reserve	Convertible bonds equity reserve	Capital redemption reserve	Capital reserve	Translation reserve	Share option reserve	Investments revaluation reserve	Property revaluation reserve	Accumulated profits	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	HK\$'000
At 1 April 2016 (audited)	22,722	2,253,305	1,961	–	39	76,229	337,146	24,492	614	10,851	2,733,205	5,460,564	154,034	5,614,598	
Profit for the period	–	–	–	–	–	–	–	–	–	–	86,629	86,629	(1,889)	84,740	
Exchange differences arising on translation of foreign operations	–	–	–	–	–	–	(195,876)	–	–	–	–	(195,876)	(1,197)	(197,073)	
Fair value change of an available-for-sale investment	–	–	–	–	–	–	–	–	106	–	–	106	–	106	
Reclassification of translation reserve upon disposal of subsidiaries (Note 6)	–	–	–	–	–	–	9	–	–	–	–	9	–	9	
Total comprehensive (expense) income for the period	–	–	–	–	–	–	(195,867)	–	106	–	86,629	(109,132)	(3,086)	(112,218)	
2016 final dividend paid	–	–	–	–	–	–	–	–	–	–	(27,722)	(27,722)	–	(27,722)	
Issue of shares upon subscription of shares (Note 19)	5,000	255,000	–	–	–	–	–	–	–	–	–	260,000	–	260,000	
Transaction costs attributable to issue of shares upon subscription of shares (Note 19)	–	(2,600)	–	–	–	–	–	–	–	–	–	(2,600)	–	(2,600)	
Disposal of subsidiaries (Note 6)	–	–	–	–	–	–	–	–	–	–	–	–	(75,076)	(75,076)	
At 30 September 2016 (unaudited)	27,722	2,505,705	1,961	–	39	76,229	141,279	24,492	720	10,851	2,792,112	5,581,110	75,872	5,656,982	
At 1 April 2017 (audited)	41,937	2,845,422	1,961	–	39	76,229	(166,453)	45,738	934	13,293	2,841,009	5,700,109	57,154	5,757,263	
Profit for the period	–	–	–	–	–	–	–	–	–	–	192,806	192,806	(1,992)	190,814	
Exchange differences arising on translation of foreign operations	–	–	–	–	–	–	331,062	–	–	–	–	331,062	1,378	332,440	
Fair value change of an available-for-sale investment	–	–	–	–	–	–	–	–	191	–	–	191	–	191	
Total comprehensive income for the period	–	–	–	–	–	–	331,062	–	191	–	192,806	524,059	(614)	523,445	
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	(10,780)	(10,780)	
Lapse of share options	–	–	–	–	–	–	–	(24,492)	–	–	24,492	–	–	–	
Recognition of equity component of convertible bonds (Note 18)	–	–	–	37,315	–	–	–	–	–	–	–	37,315	–	37,315	
Transaction costs attributable to issue of convertible bonds (Note 18)	–	–	–	(230)	–	–	–	–	–	–	–	(230)	–	(230)	
At 30 September 2017 (unaudited)	41,937	2,845,422	1,961	37,085	39	76,229	164,609	21,246	1,125	13,293	3,058,307	6,261,253	45,760	6,307,013	

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2017

	Note	Six months ended 30 September	
		2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited and restated)
Net cash from operating activities		292,686	63,424
Net cash used in investing activities:			
Purchase of property, plant and equipment		(300,715)	(254,659)
Deposit paid for acquisition of property, plant and equipment		(2,578)	(1,702)
Other investing cash flows		682	1,205
Net cash inflow from disposal of subsidiaries	6	—	74,543
		(302,611)	(180,613)
Net cash from financing activities:			
Proceeds from issue of convertible bonds	18	400,000	—
New bank loans raised	17	303,781	676,351
Repayment of bank loans	17	(514,168)	(382,280)
Dividends paid to non-controlling interests		(10,780)	—
Transaction costs of issuing convertible bonds	18	(2,463)	—
Proceeds from subscription of shares	19	—	260,000
Transaction costs of subscription of shares	19	—	(2,600)
		176,370	551,471
Net increase in cash and cash equivalents		166,445	434,282
Cash and cash equivalents at beginning of the period		2,725,090	2,111,088
Effect of foreign exchange rate changes		66,932	(43,778)
Cash and cash equivalents at end of the period, represented by bank balances and cash		2,958,467	2,501,592

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2017

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as 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”).

2. SIGNIFICANT EVENT AND TRANSACTION IN THE CURRENT INTERIM PERIOD

During the current interim period, the Group completed the issue of convertible bonds which had a significant impact to the Group’s current interim financial position, details of which are set out in Note 18.

3. 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.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2017 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2017, except for the accounting policies for convertible bonds which are disclosed below.

Amendments to Hong Kong Financial Reporting Standards (“HKFRSs”)

In the current interim period, the Group has applied, for the first time, certain amendments to HKFRSs issued by the HKICPA that are mandatorily effective for the current interim period.

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 disclosure set out in these condensed consolidated financial statements. Additional disclosures about changes in liabilities arising from financing activities, including both changes from cash flows and non-cash changes on application of amendments to HKAS 7 will be provided in the consolidated financial statements for the year ending 31 March 2018.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2017

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Convertible bonds containing liability and equity components

The component parts of the convertible bonds are classified separately as financial liability and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component (including any embedded non-equity derivatives features) is estimated by measuring the fair value of similar liability that does not have an associated equity component.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium. Where the conversion option remains unexercised at the maturity date of the convertible bond, the balance recognised in equity will be transferred to accumulated profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss. Generally, multiple embedded derivatives in a single instrument are treated as a single compound embedded derivative unless those derivatives relate to different risk exposures and are readily separable and independent of each other.

4. SEGMENT INFORMATION

The Group's operations are organised into two operating segments, information of which is used by the executive directors, being the chief operating decision maker, for the purposes of performance evaluation and resource allocation and assessment of segment performance focuses on types of goods delivered or services provided.

Details of the Group's two reportable segments are as follows:

- (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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2017

4. SEGMENT INFORMATION *(continued)*

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

	Knitted fabric and dyed yarn HK\$'000	Garment products HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Six months ended 30 September 2017				
REVENUE				
External sales	2,287,911	259,556	—	2,547,467
Inter-segment sales	14,626	—	(14,626)	—
Segment revenue	2,302,537	259,556	(14,626)	2,547,467
RESULTS				
Segment results	200,422	(6,385)	—	194,037
Unallocated corporate income				36,287
Other gains and losses				54,150
Unallocated corporate expenses				(8,129)
Finance costs				(68,535)
Profit before taxation				207,810

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2017

4. SEGMENT INFORMATION *(continued)*

	Knitted fabric and dyed yarn HK\$'000	Garment products HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Six months ended 30 September 2016				
REVENUE				
External sales	2,127,390	407,253	—	2,534,643
Inter-segment sales	20,209	—	(20,209)	—
Segment revenue	2,147,599	407,253	(20,209)	2,534,643
RESULTS				
Segment operating results	182,013	9,000	—	191,013
Gain on disposal of subsidiaries	—	19,850	—	19,850
Segment results	182,013	28,850	—	210,863
Unallocated corporate income				35,400
Other gains and losses				(66,763)
Unallocated corporate expenses				(8,202)
Finance costs				(70,380)
Profit before taxation				100,918

Segment results represent the profit earned by each segment without allocation of interest income, rental income, net gain/loss on fair value change of derivative financial instruments, net gain/loss on disposal of property, plant and equipment, gain on fair value change of investment properties, central administration costs and finance costs. This is the measure reported to the executive directors for the purposes of resource allocation and performance evaluation. Inter-segment sales are charged at the prevailing market rate.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2017

4. SEGMENT INFORMATION *(continued)*

No analysis of segment assets and liabilities is presented because there has not been a material change from the amounts disclosed in the last annual financial statements for the reportable segments.

5. OTHER GAINS AND LOSSES

	Six months ended 30 September	
	2017	2016
	HK\$'000	HK\$'000
Net gain (loss) on fair value change of derivative financial instruments	53,692	(67,559)
Net foreign exchange gain (loss)	1,906	(4,373)
Gain on fair value change of investment properties	950	—
Net (loss) gain on disposal of property, plant and equipment	(936)	647
Impairment loss recognised on trade receivables	(141)	—
Others	444	149
	55,915	(71,136)

6. DISPOSAL OF SUBSIDIARIES

On 13 July 2016, Victory City Investments Limited (“VC Investments”), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party (the “Purchaser”), pursuant to which the Purchaser conditionally agreed to purchase and VC Investments conditionally agreed to sell its entire 51% equity interest in RS International Holdings Limited and its subsidiaries (collectively referred to as the “RS Group”) at a cash consideration of HK\$98,000,000. The RS Group was principally engaged in the manufacturing of garment products in Jordan. The disposal was completed on 1 August 2016 and the RS Group ceased to be subsidiaries of the Group. Disposal-related costs amounting to HK\$162,000 were excluded from the consideration received and recognised as an expense in the condensed consolidated statement of profit or loss for the six months ended 30 September 2016.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2017

6. DISPOSAL OF SUBSIDIARIES *(continued)*

Further details of the consideration and assets and liabilities disposed of in respect of the RS Group at the date of the disposal were as follows:

	HK\$'000
Consideration:	
Cash received	98,000
Analysis of assets and liabilities over which control was lost:	
Property, plant and equipment	27,910
Goodwill	429
Inventories	78,095
Trade receivables	68,347
Deposits, prepayments and other receivables	14,402
Bank balances and cash	23,457
Trade payables	(818)
Other payables and accruals	(58,605)
Net assets disposed of	153,217
Gain on disposal:	
Consideration	98,000
Net assets disposed of	(153,217)
Non-controlling interests	75,076
Cumulative exchange difference in respect of the net assets of the subsidiaries reclassified from equity to profit or loss on loss of control of subsidiaries	(9)
	19,850

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2017

6. DISPOSAL OF SUBSIDIARIES *(continued)*

	HK\$'000
Net cash inflow arising on disposal:	
Cash consideration received	98,000
Less: Bank balances and cash disposed of	(23,457)
	74,543

7. INCOME TAX EXPENSE

	Six months ended 30 September	
	2017 HK\$'000	2016 HK\$'000
Current tax:		
Hong Kong Profits Tax	2,767	614
Enterprise Income Tax ("EIT") in the People's Republic of China (the "PRC")	12,301	13,350
	15,068	13,964
Deferred tax for the current period (Note 13)	1,928	2,214
	16,996	16,178

Hong Kong

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2017

7. INCOME TAX EXPENSE *(continued)*

PRC

EIT in the PRC is calculated based on the statutory rate of 25% of the assessable profit for those subsidiaries established in the PRC, as determined in accordance with relevant income tax rules and regulations in the PRC.

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.

8. PROFIT FOR THE PERIOD

	Six months ended 30 September	
	2017 HK\$'000	2016 HK\$'000
Profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	152,764	149,555
Release of prepaid lease payments	2,411	2,398
Bank interest income	(25,080)	(21,720)
Rental income from investment properties and plant and equipment (net of negligible outgoings)	(11,207)	(12,978)

9. DISTRIBUTION

During the six months ended 30 September 2016, a final dividend of HK1.0 cent per share in respect of the year ended 31 March 2016, in cash with a scrip dividend option, was declared to the shareholders of the Company (the "Shareholders"). No dividend was declared in the current interim period.

The directors of the Company (the "Directors") do not recommend the payment of an interim dividend for both periods.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2017

10. 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	
	2017 HK\$'000	2016 HK\$'000
Earnings		
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share	192,806	86,629
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds	833	—
Earnings for the purpose of diluted earnings per share	193,639	86,629
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	4,193,744	2,646,546
Effect of dilutive potential ordinary shares:		
Convertible bonds	65,574	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	4,259,318	2,646,546

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2017

10. EARNINGS PER SHARE *(continued)*

The computation of diluted earnings per share for the both periods does not assume the exercise of the Company's outstanding share options as the exercise price of those options was higher than the average market price for the both periods.

The effect of the rights issue in January 2017 has been considered in the computation of earnings per share. No adjustment to the earnings per share for the period ended 30 September 2016 is considered necessary.

11. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the current interim period, the Group had additions to property, plant and equipment of approximately HK\$308 million (six months ended 30 September 2016: HK\$285 million).

The Group's investment properties at the end of the current interim period were fair-valued by Roma Appraisals Limited, an independent firm of valuers not connected with the Group. The valuation was determined using the depreciated replacement costs approach, income approach, or by reference to recent market prices and market rental for similar properties in similar locations and conditions, where appropriate. During the current interim period, the Group recognised net increase in the fair value of investment properties of HK\$950,000 in profit or loss (six months ended 30 September 2016: Nil).

12. RESTRICTED BANK DEPOSIT

The amount represents an initial deposit of US\$7,990,000 placed with a bank pursuant to one of the Net-settled Contracts (as defined in Note 16) entered into during the year ended 31 March 2016. The amount is repayable to the Group on 5 March 2019 at US\$8,000,000.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2017

13. DEFERRED TAXATION

The followings are the major deferred tax liabilities (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	Dividend withholding tax	Fair value change on investment properties	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2016	60,851	(1,544)	26,298	2,049	(2,663)	84,991
(Credit) charge to profit or loss	(3,222)	211	5,138	—	128	2,255
Exchange differences	(3,384)	—	(1,550)	(124)	—	(5,058)
At 31 March 2017	54,245	(1,333)	29,886	1,925	(2,535)	82,188
(Credit) charge to profit or loss	(1,732)	33	3,499	—	128	1,928
Exchange differences	1,884	—	1,148	97	—	3,129
At 30 September 2017	54,397	(1,300)	34,533	2,022	(2,407)	87,245

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2017

13. 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 2017 HK\$'000	31 March 2017 HK\$'000
Deferred tax assets	4,138	4,197
Deferred tax liabilities	(91,383)	(86,385)
	(87,245)	(82,188)

As at the end of the current interim period, the Group has unused tax losses of HK\$219,424,000 (31 March 2017: HK\$227,151,000) available for offsetting against future profits. No deferred tax asset on the unused tax losses of HK\$219,424,000 (31 March 2017: HK\$227,151,000) has been recognised due to the unpredictability of future profit streams. The unused tax losses may be carried forward indefinitely.

At the end of the current interim period, the Group has other deductible temporary differences of HK\$39,577,000 (31 March 2017: HK\$132,620,000) in respect of unrealised fair value losses on derivative financial instruments. No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2017

14. TRADE AND BILLS RECEIVABLES

The Group allows a credit period ranging from 30 to 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 the reporting period:

	30 September 2017 HK\$'000	31 March 2017 HK\$'000
0-60 days	1,194,878	1,209,205
61-90 days	414,644	371,831
91-120 days	203,271	189,653
Over 120 days	99,753	85,039
	1,912,546	1,855,728

15. TRADE AND BILLS PAYABLES

The following is an aged analysis of trade and bills payables presented based on the invoice date at the end of the reporting period:

	30 September 2017 HK\$'000	31 March 2017 HK\$'000
0-60 days	244,056	322,054
61-90 days	62,784	106,280
91-120 days	69,105	139,861
Over 120 days	1,755	67,998
	377,700	636,193

The credit period for purchase of goods is 30 to 120 days.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2017

16. DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives not under hedge accounting:

	Liabilities		Assets	
	30 September 2017 HK\$'000	31 March 2017 HK\$'000	30 September 2017 HK\$'000	31 March 2017 HK\$'000
Structured foreign currency forward contracts:				
— Net-settled Contracts (note)	41,431	151,037	—	—
Interest rate swap	2,886	2,761	—	—
Interest rate collars	1,168	1,326	26	529
	45,485	155,124	26	529

note: The Group has entered into certain contracts with various financial institutions to hedge against the exchange risk in RMB/US\$ exchange rate for certain agreed periods of time. 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.

17. BANK BORROWINGS

During the current interim period, excluding import loans, trust receipt loans, bank borrowings from discounted bills and debt factored with recourse, the Group obtained new bank loans in the amount of HK\$303,781,000 (six months ended 30 September 2016: 676,351,000) and repaid bank loans in the amount of HK\$514,168,000 (six months ended 30 September 2016: HK\$382,280,000). The bank borrowings of the Group carry interest at market rates ranging from 1.77% to 4.79% per annum (six months ended 30 September 2016: 1.59% to 6.59% per annum).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2017

18. CONVERTIBLE BONDS

On 22 September 2017 (the “Issue Date”), the Company issued convertible bonds to two Shareholders, Pearl Garden Pacific Limited (“Pearl Garden”) and Madian Star Limited (“Madian Star”), with an aggregate principal sum of HK\$400,000,000 (the “Convertible Bonds”) at a total consideration of HK\$400,000,000.

The major terms of the Convertible Bonds are as below:

The Convertible Bonds carry 5% coupon interest per annum payable in arrears semi-annually. Unless previously converted, the Convertible Bonds will be fully redeemed by the Company at its principal amount upon maturity on 23 September 2019 (the “Maturity Date”).

The holders of the Convertible Bonds and the Company have the option to redeem the whole or part of the outstanding Convertible Bonds at any time during the period commencing from the Issue Date and expiring on the Maturity Date at par value plus accrued interest (the “Redemption Option”).

The holders of the Convertible Bonds have the right to convert the principal amount of Convertible Bonds into ordinary shares of HK\$0.01 each of the Company (the “Shares”) at an initial conversion price of HK\$0.30 per Share (subject to adjustments) at any time during the period commencing from the Issue Date up to the Maturity Date, subject to the minimum public float requirement.

At initial recognition, the equity component of the Convertible Bonds was separated from the liability component. The equity element is presented in equity as “convertible bonds equity reserve”. The Redemption Option is considered as closely related to the host debt and is not separated from the host contract. The effective interest rate of the liability component is 10.40% per annum.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2017

18. CONVERTIBLE BONDS *(continued)*

The movement of the liability component and equity component of the Convertible Bonds for the period is set out below:

	Liability component HK\$'000	Equity component HK\$'000
At 1 April 2017	—	—
Issue on 22 September 2017	362,685	37,315
Transaction costs	(2,233)	(230)
Interest charge	833	—
Carrying amount at 30 September 2017	361,285	37,085

19. SHARE CAPITAL

	Number of shares	Share capital HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 April 2016, 31 March 2017 and 30 September 2017	40,000,000,000	400,000
Issued and fully paid:		
At 1 April 2016	2,272,228,686	22,722
Issue of Shares upon subscription of Shares, net of related transaction costs (note i)	500,000,000	5,000
Issue of Shares pursuant to scrip dividend scheme for 2016 final dividend	23,600,784	236
Rights issue (note ii)	1,397,914,735	13,979
At 31 March 2017 and 30 September 2017	4,193,744,205	41,937

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2017

19. SHARE CAPITAL *(continued)*

notes:

- (i) On 18 March 2016, the Company entered into a placing agreement with Kingston Securities Limited as placing agent ("Kingston Securities"), which is independent and not connected to the Company. Pursuant to the placing agreement, Kingston Securities agreed to place up to 500,000,000 placing shares to third parties which (including their beneficial owners, where applicable) are (i) not connected persons of the Company and are independent of and not connected with the Company, the Directors, chief executive or substantial Shareholders; and (ii) have not become substantial Shareholders following the placing at HK\$0.52 per placing share. The placing was completed on 17 May 2016. After deducting all related transaction costs, the net proceeds from the subscription amounted to approximately HK\$257,400,000. The new Shares rank pari passu with the existing Shares in all respects.
- (ii) On 8 November 2016, the Company proposed a rights issue to raise a gross proceeds ranged from approximately HK\$349.5 million to approximately HK\$396.2 million on the basis of one rights share for every two existing Shares held on the record date (i.e. 9 December 2016) by issuing not less than 1,397,914,735 rights shares and not more than 1,584,839,735 rights shares at the subscription price of HK\$0.25 per rights share.

On 6 January 2017, the Company issued and allotted 1,397,914,735 rights shares at a price of HK\$0.25 per rights share ("Rights Issue") to subscribers. The number of rights share applied and issued was 1,282,010,152. Pursuant to the underwriting agreement, Kingston Securities, the underwriter, has subscribed to the remaining under-subscribed 115,904,583 rights shares.

20. 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 2016	103,850,000
Granted during the year	270,000,000
Addition after adjustment due to Rights Issue	17,982,185
Outstanding as at 31 March 2017	391,832,185
Lapsed during the period	(108,845,185)
Outstanding as at 30 September 2017	282,987,000

The exercise price of the outstanding options as at 30 September 2017 is HK\$0.373 per Share. These options were immediately vested and are exercisable for a period up to the 5th anniversary of the date of grant.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2017

21. OPERATING LEASE ARRANGEMENT

The Group is the lessor in respect of certain land and buildings and plant and equipments under operating leases.

During the current interim period, rental income earned was HK\$11,207,000 (six months ended 30 September 2016: HK\$12,978,000).

At the end of the reporting period, the Group has contracted with tenants for the following future minimum lease payments:

	30 September 2017 HK\$'000	31 March 2017 HK\$'000
Within one year	15,741	20,775
In the second to fifth years, inclusive	—	5,045
	15,741	25,820

22. CAPITAL COMMITMENTS

	30 September 2017 HK\$'000	31 March 2017 HK\$'000
Capital expenditure in respect of property, plant and equipment contracted for but not provided in the condensed consolidated statement of financial position	102,922	11,597

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2017

23. RELATED PARTY DISCLOSURES

- (i) During the current interim period, the Group paid operating lease rental of HK\$492,000 (six months ended 30 September 2016: HK\$492,000) to Verdure Enterprises Limited (“Verdure”). Verdure is owned by a discretionary trust, the beneficiaries of which include Mr. Li Ming Hung, a Director who has significant influence over the Company, and his family members.

During the current interim period, the Group paid operating lease rental of HK\$408,000 (six months ended 30 September 2016: HK\$408,000) to Takemain Development Limited (“Takemain”). Takemain is owned by a discretionary trust, the beneficiaries of which include Mr. Chen Tien Tui, a Director and a Shareholder who has significant influence over the Company, and his family members.

The payments of the above operating lease rentals constitute exempted connected transactions under Chapter 14A of the Listing Rules.

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

	Six months ended 30 September	
	2017	2016
	HK\$'000	HK\$'000
Basic salaries and allowances	7,372	6,259
Retirement benefit scheme contributions	154	130
	7,526	6,389

24. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and liabilities that are measured at fair value on a recurring basis

Other than the financial assets carried at fair value as detailed in the following table, the Directors consider that the carrying amounts of other financial instruments that are recorded at amortised cost in these condensed consolidated financial statements approximate their fair values.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2017

24. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS *(continued)*

The following table gives information about how the Group determines fair values of various financial assets and financial liabilities.

Financial assets/ financial liabilities	Fair value as at 30 September 2017	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input	Range of Significant unobservable input as at 30 September 2017
Available-for-sale investment (unlisted trust fund)	Assets — HK\$2,205,000 (31 March 2017: HK\$2,014,000)	Level 2	Net asset value of the fund provided by the banks, which is based on the fair value of the underlying investments	N/A	N/A
Structured foreign currency forward contracts classified as derivative financial instruments (note i)	Liabilities — HK\$41,431,000 (31 March 2017: HK\$151,037,000) <i>(Not designated for hedging)</i>	Level 3	Monte Carlo Simulation Model The key inputs are spot exchange rate on the date of valuation, strike rate, time to maturity, notional amount, payout amount for each settlement, risk-free rate of HK\$, US\$ and RMB and the average implied volatility of the exchange rate as at valuation date	Average implied volatility of the exchange rate as at valuation date	4.8%–5.4% (31 March 2017: 4.3%–5.8%)
Interest rate collars classified as derivative financial instruments (note ii)	Asset — HK\$26,000 (31 March 2017: HK\$529,000) Liability — HK\$1,168,000 (31 March 2017: HK\$1,326,000) <i>(Not designated for hedging)</i>	Level 3	Discounted cash flow method and Black-Scholes Model The key inputs are the fixed interest rate adopted, the referenced floating interest rate, time to maturity, risk-free rate and the average implied volatility of the interest rate as at valuation date	Average implied volatility of the interest rate as at valuation date	39.3%–96.0% (31 March 2017: 29.8%–53.5%)
Interest rate swap classified as derivative financial instruments (note iii)	Liability — HK\$2,886,000 (31 March 2017: HK\$2,761,000) <i>(Not designated for hedging)</i>	Level 2	Discounted cash flow method The key inputs are the fixed interest rate adopted, the referenced floating interest rate, time to maturity, risk-free rate	N/A	N/A

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2017

24. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS *(continued)*

notes:

- (i) The higher the average implied volatility of the exchange rate used, the lower the fair value. If the average implied volatility of the exchange rate is increased/decreased by 5% and held other variables constant, the Group's post-tax profit for the period would have been decreased/increased by approximately HK\$458,000/HK\$465,000.
- (ii) The higher the average implied volatility of the interest rate used, the lower the fair value. Changes in the average implied volatility of the interest rate used will have insignificant impact on the fair value of the interest rate collars.
- (iii) The discounted cash flow method uses only observable market inputs.

There is no transfer between level 1 and level 2 of the fair value hierarchy for the current period.

Reconciliation of Level 3 fair value measurements

	Structured foreign currency forward contracts HK\$'000	Interest rate collars HK\$'000	Total HK\$'000
At 1 April 2016	(122,150)	—	(122,150)
Amount paid during the period	31,772	—	31,772
Net fair value losses (note)	(63,929)	(3,084)	(67,013)
At 30 September 2016	(154,307)	(3,084)	(157,391)
At 1 April 2017	(151,037)	(797)	(151,834)
Amount paid during the period	54,900	—	54,900
Net fair value gains (losses) (note)	54,706	(345)	54,361
At 30 September 2017	(41,431)	(1,142)	(42,573)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2017

24. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS *(continued)*

note: Of the total gains (losses) for the period included in profit or loss, gains of HK\$54,315,000 (six months ended 30 September 2016: losses of HK\$70,641,000) relate to the financial liabilities/assets categorised in level 3 held at the end of the current reporting period. Fair value gains (losses) on the financial liabilities/assets categorised in level 3 are included in net gain (loss) on fair value change of derivative financial instruments of "other gains and losses" in Note 5.

25. COMPARATIVE FIGURES

Certain comparative figures have been reclassified by nature to conform with the current period's financial statements presentation.



**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 31, which comprise the condensed consolidated statement of financial position as of 30 September 2017 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The 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 2017

BUSINESS REVIEW AND PROSPECTS

BUSINESS REVIEW

Against the backdrop of the soft and slow recovery in the global economy, the business environment for the textile and garment industry remained relatively stable for the six months ended 30 September 2017. As previously mentioned, the Group has benefitted from the recovery of the United States (“US”) market since the second half of the last financial year and such momentum continued during the first half of 2017/18. The Group was capable of capturing the reviving orders in a timely manner, achieving satisfactory results for the period under review.

For the six months ended 30 September 2017, the Group’s unaudited consolidated revenue was approximately HK\$2,547 million, remained at similar level as compared to the previous corresponding period (1H2016: HK\$2,535 million). Gross profit slightly decreased by approximately 2.2% to approximately HK\$425 million from approximately HK\$434 million. Profit attributable to owners of the Company for the reporting period amounted to approximately HK\$193 million, which included net gain on fair value change of derivative financial instruments of approximately HK\$54 million (1H2016: net loss of approximately HK\$68 million) and gain on fair value change of investment properties of approximately HK\$1 million (1H2016: Nil). Hence, profit from core operations for the six months ended 30 September 2017 was approximately HK\$142 million after adjusting the above-mentioned non-operating gains, representing a year-on-year increase of approximately 11.1% (1H2016: approximately HK\$128 million). Basic earnings per share was HK4.6 cents (1H2016: HK3.3 cents).

Textile Business

For the six months ended 30 September 2017, production and sale of knitted fabric and dyed yarn remained the major business segment of the Group, accounting for approximately 89.8% of the Group’s consolidated revenue. Revenue for the textile segment was approximately HK\$2,288 million, representing an increase of approximately 7.5% from the previous corresponding period (1H2016: HK\$2,127 million).

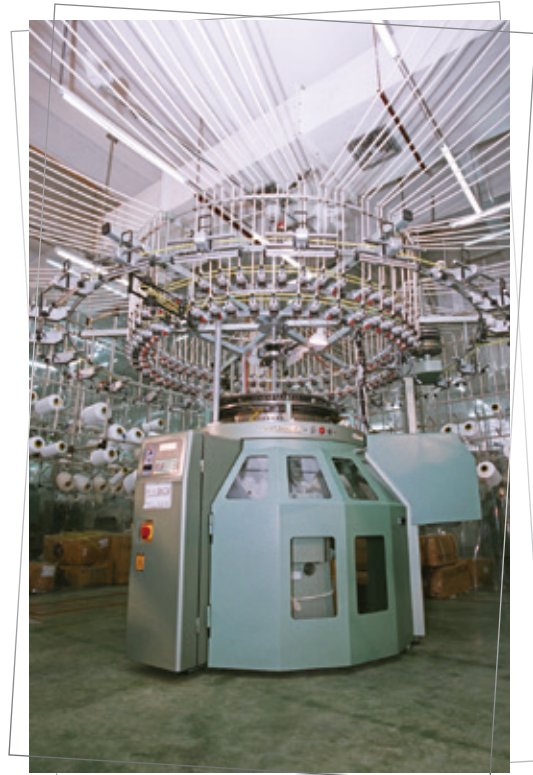


During the period under review, the Group's sales growth of the textile business was driven by the increased orders exported to the US, mainly contributed by strategically placing of more effort and resources on established mass market clients. The Group's production facilities had been operating in nearly full capacity to accommodate the increasing orders. High utilisation not only brought stronger output to the Group, but also lifted the operating efficiency of the manufacturing plant. Coupled with the on-going automation upgrades and new dyeing facilities that were gradually in place, the operations were streamlined with labour and miscellaneous costs saved. Together with stringent cost-saving measures, the Group managed to offset the rising pressure of operation costs and leveraged down the production overheads. Gross profit margin and net margin was approximately 17.3% and 6.4% (1H2016: 16.7% and 5.8%) respectively for the six months ended 30 September 2017 for the textile segment.

Garment Business

For the six months ended 30 September 2017, revenue of the garment business was approximately HK\$260 million, with a decrease of approximately 36.3% from approximately HK\$407 million in the same period last year. The decrease was mainly attributable to the disposal of the Group's interest in RS Group in August 2016 (the "Disposal"), which operated a garment factory in Jordan (the "Jordan Factory") and had a turnover of approximately HK\$184 million in the four months from April to July 2016 before completion of the Disposal. If the turnover from the Jordan Factory was excluded from last period, turnover in the six months ended 30 September 2017 would record an increase of approximately HK\$37 million or approximately 16.4% from the same period last year.

Gross profit decreased to approximately HK\$28 million and there was a net loss of approximately HK\$4 million for the six months ended 30 September 2017 (1H2016: HK\$80 million and net profit of HK\$16 million). The decrease was mainly a result of the Disposal upon which the Group ceased to account for orders of Jordan Factory with higher margins and costs for the ongoing optimisation of business and manpower structures.



Major Movement

On 22 September 2017, the Company issued Convertible Bonds to two major Shareholders, Pearl Garden and Madian Star, with an aggregate principal sum of HK\$400,000,000. Please refer to the circulars of the Company dated 13 June 2017 and 24 July 2017 for further information.

The issue of Convertible Bonds signified strong support from the Company's controlling Shareholders to the Group and their confidence in the prospects and development of the Group. The net proceeds were used in the expansion of the production facilities as well as general working capital of the Group.



PROSPECTS

Looking forward to the second half of 2017/18, the Group is prudently optimistic about its performance. The Group will further improve the production efficiency through continuously reinforcing its lean production management and adoption of new automated equipment and machineries.

The demand for synthetic fabric is upcoming and strong. New manufacturing plants are under construction in the Group's core production base in Xinhui, the PRC. The new production facilities for synthetic fabric are expected to commence operation in the first quarter of 2018/19. The Group is determined to capture the growing demand and further enhance its business competitiveness and flexibility.

For the garment business, the Group will continue to leverage on its capability in managing both in-house garment production bases of offshore locations and garment sub-contractors with comparative benefits such as lead time, labour costs, duty privilege, etc., in order to maintain long term growth, competitiveness and sustainability.

Notwithstanding the ever-changing global economic and market environment, the Group is adamant to dedicate all its effort to excel and capitalise on any strategic opportunities so as to bring the most satisfactory returns to the Shareholders.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 30 September 2017, the Group had total assets of approximately HK\$12,462 million (31 March 2017: HK\$11,925 million) which were financed by current liabilities of approximately HK\$3,776 million (31 March 2017: HK\$3,789 million), long term liabilities of approximately HK\$2,378 million (31 March 2017: HK\$2,379 million) and shareholders' equity of approximately HK\$6,261 million (31 March 2017: HK\$5,700 million). The current ratio was approximately 2.1 (31 March 2017: 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 32.1% (31 March 2017: 39.8%). 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 based on Hong Kong Interbank Offered Rate 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 Renminbi have always been a 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\$308 million (1H2016: HK\$285 million) on additions to property, plant and equipment.

As at 30 September 2017, the Group had capital commitments of approximately HK\$103 million (31 March 2017: HK\$12 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 2017, certain property, plant and equipment, prepaid lease payments and investment properties of the Group with net book value of approximately HK\$336 million (31 March 2017: HK\$341 million) were pledged to banks to secure credit facilities granted.

Employee Information

As at 30 September 2017, the total number of employees of the Group was approximately 860 in Cambodia, approximately 1,360 in Indonesia, approximately 4,700 in the PRC and approximately 120 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 providing senior management with an appropriate incentive interest for the growth of the Group.

INTERIM DIVIDEND

The Directors has resolved not to declare any interim dividend for the six months ended 30 September 2017.

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

As at 30 September 2017, 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 (Chapter 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 Appendix 10 to 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	1,309,398,667 Shares (L) (Notes 2 & 4)	—	31.22% (Note 18)
	Victory City Company Limited ("VC Company") (Note 16)	Beneficial owner	4,000,000 non-voting deferred shares of HK\$1.00 each (L)	—	50%
	Victory City Overseas Limited ("VC Overseas") (Note 16)	Beneficial owner	1,300 redeemable non-voting preference shares of US\$1.00 each (L)	—	39.4%

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
Chen Tien Tui	The Company	Founder of a trust	1,309,398,667 Shares (L) (Notes 3 & 4)	—	31.22% (Note 18)
	The Company	Beneficial owner	3,375,000 Shares (L)	—	0.08%
	VC Company (Note 16)	Beneficial owner	4,000,000 non-voting deferred shares of HK\$1.00 each (L)	—	50%
	VC Overseas (Note 16)	Beneficial owner	1,300 redeemable non-voting preference shares of US\$1.00 each (L)	—	39.4%
Choi Lin Hung	The Company	Beneficial owner	12,750,000 Shares (L)	—	0.30%
	The Company	Beneficial owner	—	15,721,500 Shares (L) (Note 5)	0.37%
	VC Overseas (Note 16)	Beneficial owner	700 redeemable non-voting preference shares of US\$1.00 each (L)	—	21.2%
	Sure Strategy Limited ("Sure Strategy") (Note 16)	Interest of controlled corporation	49 ordinary shares of US\$1.00 each (L) (Note 6)	—	49%
	Ford Glory Holdings Limited ("FG Holdings") (Note 16)	Interest of controlled corporation	100 ordinary shares of US\$1.00 each (L) (Note 7)	—	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
	Ford Glory International Limited ("FG International") (Note 16)	Interest of controlled corporation	5,000,000 ordinary shares of HK\$1.00 each (L) (Note 15)	—	100%
	福源創業信息諮詢服務(深圳)有限公司 (Note 16)	Interest of controlled corporation	Registered capital of HK\$3,000,000 (L) (Note 8)	—	100%
	福之源貿易(上海)有限公司 (Note 16)	Interest of controlled corporation	Registered capital of RMB1,000,000 (L) (Note 8)	—	100%
	Rocwide Limited (Note 16)	Interest of controlled corporation	10 ordinary shares of US\$1.00 each (L) (Note 15)	—	100%
	Jiangmen V-Apparel Manufacturing Ltd. (Note 16)	Interest of controlled corporation	Registered capital of HK\$31,260,000 (L) (Note 9)	—	100%
	Surefaith Limited (Note 16)	Interest of controlled corporation	10 ordinary shares of US\$1.00 each (L) (Note 15)	—	100%
	PT. Victory Apparel Semarang (Note 16)	Interest of controlled corporation	300,000 ordinary shares of US\$1.00 each (L) (Note 10)	—	100%
	One Sino Limited (Note 16)	Interest of controlled corporation	100 ordinary shares of US\$1.00 each (L) (Note 15)	—	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
	Ford Glory (Cambodia) Manufacturing Limited (Note 16)	Interest of controlled corporation	Registered capital of US\$1,000,000 (L) (Note 11)	—	100%
	Happy Noble Holdings Limited (Note 16)	Interest of controlled corporation	70 ordinary shares of US\$1.00 each (L) (Note 15)	—	70%
	Sky Winner Investment Limited (Note 16)	Interest of controlled corporation	100 ordinary shares of HK\$1.00 each (L) (Note 12)	—	100%
	藝田貿易(上海)有限公司 (Note 16)	Interest of controlled corporation	Registered capital of HK\$5,000,000 (L) (Note 13)	—	100%
	Mayer Apparel Limited (Note 16)	Interest of controlled corporation	51 ordinary shares of HK\$1.00 each (L) (Note 15)	—	51%
	Talent Partner Holdings Limited (Note 16)	Interest of controlled corporation	51 ordinary shares of US\$1.00 each (L) (Note 15)	—	51%
	Green Expert Global Limited (Note 16)	Interest of controlled corporation	1 ordinary share of US\$1.00 each (L) (Note 14)	—	100%
	Major Time Limited (Note 16)	Interest of controlled corporation	1 ordinary share of HK\$1.00 each (L) (Note 14)	—	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
	Brilliant Fashion Inc. (Note 16)	Interest of controlled corporation	100 common shares of no par value (L) (Note 15)	—	100%
	Gojifashion Inc. (Note 17)	Interest of controlled corporation	100 common shares of no par value (L) (Note 15)	—	50%
	Just Perfect Holdings Limited (Note 16)	Interest of controlled corporation	10 ordinary shares of US\$1.00 each (L) (Note 15)	—	100%
	Value Plus (Macao Commercial Offshore) Limited (Note 16)	Interest of controlled corporation	Quota capital of MOP100,000 (L) (Note 15)	—	100%
Phaisalakani Vichai	The Company	Beneficial owner	2,000,000 Shares (L)	—	0.05%

OTHER DISCLOSURES

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. Pearl Garden is wholly owned by Cornice Worldwide Limited (“Cornice”), 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. Madian Star is wholly owned by Yonice Limited (“Yonice”), 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 22 September 2017, the Company issued the Convertible Bonds to each of Pearl Garden and Madian Star with a principal sum of HK\$200,000,000 and HK\$200,000,000 respectively for a term of two years. Each of Pearl Garden and Madian Star has the right to convert its portion of the Convertible Bonds for 666,666,667 Shares at an initial conversion price for HK\$0.30 per conversion share upon full exercise of its conversion rights.
5. On 12 October 2016, Mr. Choi Lin Hung was granted 15,000,000 options under the share option scheme of the Company to subscribe for 15,000,000 Shares, exercisable at a price of HK\$0.391 per Share during a period from 12 October 2016 to 11 October 2021. Upon completion of the Rights Issue, the number of options owned by Mr. Choi Lin Hung was adjusted to 15,721,500 to subscribe for 15,721,500 Shares, exercisable at an adjusted price of HK\$0.373 per Share during a period from 12 October 2016 to 11 October 2021.
6. These shares were held by Merlotte Enterprise Limited (“Merlotte”). Sure Strategy was owned as to 49% by Merlotte, a company wholly owned by Mr. Choi Lin Hung, and as to 51% owned by VC Investments, a wholly-owned subsidiary of the Company.
7. These shares were held by Sure Strategy.
8. This registered capital was beneficially owned by FG International which is a wholly-owned subsidiary of FG Holdings.
9. This registered capital was beneficially owned as to 40% by FG Holdings and as to 60% by Rocwide Limited.
10. These shares was beneficially owned by Surefaith Limited which is a wholly-owned subsidiary of FG Holdings.

11. This registered capital was held by One Sino Limited.
12. These shares were held by Happy Noble Holdings Limited.
13. This registered capital was beneficially owned by Sky Winner Investment Limited.
14. This ordinary share was beneficially owned by Talent Partner Holdings Limited.
15. These shares or these common shares or this quota capital, as the case may be, was/were beneficially owned by FG Holdings.
16. These companies are subsidiaries of the Company.
17. Although Gojifashion Inc. is not a subsidiary of the Company, it is an associated corporation (within the meaning of Part XV of the SFO) of the Company.
18. Mr. Li Ming Hung and Mr. Chen Tien Tui aggregately held over 30% of the voting share capital of the Company, which complied with the condition of a syndicated loan borrowed by the Group.

Save as disclosed above in this report, as at 30 September 2017, 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 Appendix 10 to the Listing Rules to be notified to the Company and the Stock Exchange.

OTHER DISCLOSURES

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

As at 30 September 2017, 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 enquiry by the Directors, the following persons (other than the Directors and the 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/entity	Number of Shares (Note 1)	Capacity	Approximate % of interest
Pearl Garden	1,309,398,667 (L)	Beneficial owner (Note 2)	31.22%
Cornice	1,309,398,667 (L)	Interest of controlled corporation (Note 2)	31.22%
Madian Star	1,309,398,667 (L)	Beneficial owner (Note 3)	31.22%
Yonice	1,309,398,667 (L)	Interest of controlled corporation (Note 3)	31.22%
Fiducia Suisse SA	2,618,797,334 (L)	Trustee (Notes 2 & 3)	62.44%
David Henry Christopher Hill	2,618,797,334 (L)	Interest of controlled corporation (Note 6)	62.44%
Rebecca Ann Hill	2,618,797,334 (L)	Interest of spouse (Note 7)	62.44%
Ho Yuen Mui Shirley	1,309,398,667 (L)	Interest of spouse (Note 4)	31.22%
Or Kwai Ying	1,312,773,667 (L)	Interest of spouse (Note 5)	31.30%

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. Pearl Garden is wholly owned by Cornice, 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 each of Pearl Garden and Cornice. These Shares include (i) 642,732,000 Shares held by Pearl Garden; and (ii) 666,666,667 Shares to be issued upon full exercise of the conversion rights attached to the Convertible Bonds issued to Pearl Garden on 22 September 2017 at an initial conversion price of HK\$0.30 per conversion share.
3. These Shares were held by Madian Star. Madian Star is wholly owned by Yonice, 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 each of Madian Star and Yonice. These Shares include (i) 642,732,000 Shares held by Madian Star; and (ii) 666,666,667 Shares to be issued upon full exercise of the conversion rights attached to the Convertible Bonds issued to Madian Star on 22 September 2017 at an initial conversion price of HK\$0.30 per conversion share.
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 Mr. David Henry Christopher Hill.
7. Ms. Rebecca Ann Hill is the wife of Mr. David Henry Christopher Hill.

Save as disclosed above, so far as is known to the Directors, as at 30 September 2017, 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.

OTHER DISCLOSURES

SHARE OPTIONS

Pursuant to an 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:

Category	Date of grant	Exercise price per Share (HK\$)	Adjusted exercise price per Share due to Rights Issue (HK\$)	Exercisable period	Number of share options					Outstanding at 30 September 2017
					Outstanding at 1 April 2017	Granted	Exercised	Cancelled	Lapsed	
Directors (Note 1)	2/4/2012	0.782	0.746	2/4/2012 to 1/4/2017	20,333,140	—	—	—	(20,333,140)	—
	12/10/2016	0.391	0.373	12/10/2016 to 11/10/2021	15,721,500	—	—	—	—	15,721,500
Other employees (Note 2)	2/4/2012	0.782	0.746	2/4/2012 to 1/4/2017	88,512,045	—	—	—	(88,512,045)	—
	12/10/2016	0.391	0.373	12/10/2016 to 11/10/2021	238,966,800	—	—	—	—	238,966,800
Others	12/10/2016	0.391	0.373	12/10/2016 to 11/10/2021	28,298,700	—	—	—	—	28,298,700
					391,832,185	—	—	—	(108,845,185)	282,987,000

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 (Chapter 57 of the Laws of Hong Kong).

EVENTS AFTER THE REPORTING PERIOD

There were no other significant events affecting the Group after the period ended 30 September 2017.

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

During the six months ended 30 September 2017, 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

The Company had complied throughout the six months ended 30 September 2017 with the code provisions set out in the Corporate Governance Code 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. Upon receiving specific enquiries from the Company, 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 2017.

AUDIT COMMITTEE

The board of Directors has established an audit committee (the "Committee") with written terms of reference in compliance with the Corporate Governance Code contained in Appendix 14 to the Listing Rules. The primary duties of the Committee are to review the Group's financial reporting process, internal control system, risk management 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 2017 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 has been made.

OTHER DISCLOSURES

CHANGE IN INFORMATION OF DIRECTORS

There is no change in the information of the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

By Order of the Board of Directors
Victory City International Holdings Limited

Li Ming Hung
Chairman

Hong Kong, 28 November 2017



VICTORY CITY INTERNATIONAL HOLDINGS LIMITED

www.victorycity.com.hk