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**VICTORY CITY INTERNATIONAL HOLDINGS LIMITED**

**冠華國際控股有限公司\***

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 539)**

**INTERIM RESULTS  
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019**

**RESULTS**

The directors (the “Directors”) of Victory City International Holdings Limited (the “Company”) are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 September 2019. The interim results of the Group have been reviewed by the Company’s auditor in accordance with the Hong Kong Accounting Standard (the “HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The interim results of the Group have also been reviewed by the Company’s audit committee.

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER  
COMPREHENSIVE INCOME**  
*FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019*

		<b>Six months ended</b>	
		<b>30 September</b>	
	<i>Note</i>	<b>2019</b>	2018
		<b>HK\$'000</b>	HK\$'000
		<b>(unaudited)</b>	(unaudited)
Revenue	3	<b>2,571,603</b>	2,724,508
Cost of sales		<b>(2,110,554)</b>	(2,237,270)
Gross profit		<b>461,049</b>	487,238
Other income		<b>62,135</b>	32,460
Other gains and losses	4	<b>92,188</b>	(242)
Distribution and selling expenses		<b>(62,428)</b>	(68,516)
General and administrative expenses		<b>(207,338)</b>	(196,319)
Finance costs		<b>(122,955)</b>	(105,932)
Profit before taxation		<b>222,651</b>	148,689
Income tax expense	5	<b>(17,442)</b>	(19,895)
Profit for the period	6	<b>205,209</b>	128,794
Other comprehensive (expense) income:			
<i>Items that may be subsequently reclassified to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		<b>(503,127)</b>	(791,731)
Fair value change of a financial asset at fair value through other comprehensive income		—	1,858
Other comprehensive expense for the period		<b>(503,127)</b>	(789,873)
Total comprehensive expense for the period		<b>(297,918)</b>	(661,079)

		<b>Six months ended</b>	
		<b>30 September</b>	
	<i>Note</i>	<b>2019</b>	2018
		<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
		<b>(unaudited)</b>	(unaudited)
Profit (loss) for the period attributable to:			
Owners of the Company		<b>204,577</b>	136,999
Non-controlling interests		<b>632</b>	(8,205)
		<u><b>205,209</b></u>	<u>128,794</u>
Total comprehensive expense for the period attributable to:			
Owners of the Company		<b>(296,511)</b>	(645,925)
Non-controlling interests		<b>(1,407)</b>	(15,154)
		<u><b>(297,918)</b></u>	<u>(661,079)</u>
Earnings per share			(restated)
Basic	8	<u><b>HK27.2 cents</b></u>	<u>HK27.2 cents</u>
Diluted		<u><b>HK19.2 cents</b></u>	<u>HK24.3 cents</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AT 30 SEPTEMBER 2019**

		<b>30 September</b>	31 March
		<b>2019</b>	2019
	<i>Note</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
		<b>(unaudited)</b>	<b>(audited)</b>
<b>Non-current assets</b>			
Property, plant and equipment	9	<b>5,088,637</b>	5,092,721
Prepaid lease payments		—	181,183
Investment properties	9	<b>139,235</b>	188,571
Right-of-use assets	9	<b>111,959</b>	—
Goodwill		—	—
Financial assets at fair value through profit or loss		<b>126,173</b>	125,279
Deferred tax assets		<b>1,888</b>	1,888
Deposit paid for acquisition of property, plant and equipment		<b>1,685</b>	7,423
		<u><b>5,469,577</b></u>	<u>5,597,065</u>
<b>Current assets</b>			
Inventories		<b>3,047,725</b>	3,139,573
Trade and bills receivables	10	<b>1,787,713</b>	1,843,541
Deposits, prepayments and other receivables		<b>204,026</b>	214,602
Prepaid lease payments		—	4,816
Taxation recoverable		—	311
Restricted bank deposit		<b>6,057</b>	6,418
Bank balances and cash		<b>2,078,120</b>	2,454,951
		<u><b>7,123,641</b></u>	<u>7,664,212</u>
Assets classified as held for sale		<b>79,463</b>	—
		<u><b>7,203,104</b></u>	<u>7,664,212</u>

	<b>30 September</b>	31 March
	<b>2019</b>	2019
<i>Note</i>	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
	<b>(unaudited)</b>	<b>(audited)</b>
<b>Current liabilities</b>		
Trade and bills payables	11 <b>421,722</b>	551,061
Other payables and accruals	<b>155,594</b>	173,707
Contract liabilities	<b>7,566</b>	27,570
Dividend payable	<b>189</b>	189
Taxation payable	<b>106,081</b>	80,365
Lease liabilities	<b>2,362</b>	—
Derivative financial instruments	<b>1,121</b>	1,511
Bank borrowings — amount due within one year	<b>2,420,585</b>	2,692,876
Convertible bonds	<b>434,695</b>	389,611
	<hr/>	<hr/>
	<b>3,549,915</b>	3,916,890
Liabilities of disposal group classified as held for sale	<b>9,671</b>	—
	<hr/>	<hr/>
	<b>3,559,586</b>	3,916,890
	<hr/>	<hr/>
<b>Net current assets</b>	<b>3,643,518</b>	3,747,322
	<hr/>	<hr/>
<b>Total assets less current liabilities</b>	<b>9,113,095</b>	9,344,387
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<b>Capital and reserves</b>		
Share capital	<b>77,691</b>	51,794
Reserves	<b>6,675,868</b>	6,727,501
	<hr/>	<hr/>
Equity attributable to owners of the Company	<b>6,753,559</b>	6,779,295
Non-controlling interests	<b>24,065</b>	25,472
	<hr/>	<hr/>
<b>Total equity</b>	<b>6,777,624</b>	6,804,767
	<hr/>	<hr/>
<b>Non-current liabilities</b>		
Bank borrowings — amount due after one year	<b>2,262,377</b>	2,444,271
Deferred tax liabilities	<b>72,890</b>	95,349
Lease liabilities	<b>204</b>	—
	<hr/>	<hr/>
	<b>2,335,471</b>	2,539,620
	<hr/>	<hr/>
	<b>9,113,095</b>	9,344,387
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*Notes:*

**1. BASIS OF PREPARATION**

The condensed consolidated financial statements have been prepared in accordance with the HKAS 34 “Interim Financial Reporting” issued by 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. PRINCIPAL ACCOUNTING POLICIES**

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties, financial assets at fair value through profit or loss and derivative financial instruments, which are measured at fair value.

Other than the application of accounting policies for non-current assets held for sale and non-substantial modifications of financial liabilities and changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2019 are the same as those presented in the annual financial statements of the Group for the year ended 31 March 2019.

**Application of new and amendments to HKFRSs**

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 April 2019 for the preparation of the Group’s condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

Except as described below, the application of the new and amendments to HKFRSs in the current interim period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

***Impacts and changes in accounting policies of application on HKFRS 16 “Leases”***

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 “Leases”, and the related interpretations.

## Transition and summary of effects arising from initial application of HKFRS 16

### Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 “Determining whether an Arrangement contains a Lease” and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 April 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

### As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 April 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS 16.C8(b)(ii) transition.

The Group recognised lease liabilities of HK\$12,870,000 and right-of-use assets of HK\$198,869,000 at 1 April 2019.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessees’ incremental borrowing rate applied 4.31% per annum.

	At 1 April 2019 HK\$'000
Operating lease commitments disclosed as at 31 March 2019	13,449
Lease liabilities discounted at relevant incremental borrowing rates as at 1 April 2019	12,870
Analysed as	
Current	6,581
Non-current	6,289
	12,870

The carrying amount of right-of-use assets as at 1 April 2019 comprises the following:

	<i>HK\$'000</i>
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	12,870
Reclassified from prepaid lease payments ( <i>note</i> )	<u>185,999</u>
	<u><u>198,869</u></u>
By class:	
Leasehold land	185,999
Office premises and warehouses	<u>12,870</u>
	<u><u>198,869</u></u>

*note:* Upfront payments for leasehold land in the People's Republic of China (the "PRC") were classified as prepaid lease payments as at 31 March 2019. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to HK\$4,816,000 and HK\$181,183,000 respectively were reclassified to right-of-use assets.

*As a lessor*

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

- (a) Upon application of HKFRS 16, new lease contracts entered into but commence after the date of initial application relating to the same underlying assets under existing lease contracts are accounted as if the existing leases are modified as at 1 April 2019. The application has had no impact on the Group's condensed consolidated statement of financial position at 1 April 2019. The application has had no impact on the Group's condensed consolidated statement of financial position at 1 April 2019. However, effective 1 April 2019, lease payments relating to the revised lease term after modification are recognised as income on straight-line basis over the extended lease term.
- (b) Before application of HKFRS 16, refundable rental deposits received included in other payables and accruals were considered as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right-of-use assets and were adjusted to reflect the discounting effect at transition. However, the discounting effect has had no material impact on the condensed consolidated financial statements of the Group at 1 April 2019.
- (c) Effective on 1 April 2019, the Group has applied HKFRS 15 to allocate consideration in the contract to each lease and non-lease components.



The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 April 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 March 2019 <i>HK\$'000</i>	Adjustments <i>HK\$'000</i>	Carrying amounts under HKFRS 16 at 1 April 2019 <i>HK\$'000</i>
<i>Non-current assets</i>			
Prepaid lease payments	181,183	(181,183)	—
Right-of-use assets	—	198,869	198,869
<i>Current assets</i>			
Prepaid lease payments	4,816	(4,816)	—
<i>Current liabilities</i>			
Lease liabilities	—	(6,581)	(6,581)
<i>Non-current liabilities</i>			
Lease liabilities	—	(6,289)	(6,289)

For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30 September 2019, movements in working capital have been computed based on opening condensed consolidated statement of financial position as at 1 April 2019 as disclosed above.

*Non-current assets held for sale*

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset and disposal group is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset and disposal group and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met.

Non-current assets and disposal groups classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell, except for investment property which continue to be measured in accordance with the HKAS 40 “Investment Properties”.

### *Non-substantial modifications of financial liabilities*

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

## 3. REVENUE AND SEGMENT INFORMATION

### **Disaggregation of revenue**

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2019</b>	<b>2018</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Types of goods or service</b>		
Production and sales of knitted fabric and dyed yarn	<b>2,430,217</b>	2,524,271
Production and sales of garment products	<b>141,386</b>	200,237
	<b><u>2,571,603</u></b>	<b><u>2,724,508</u></b>
<b>Timing of revenue recognition</b>		
At a point in time	<b><u>2,571,603</u></b>	<b><u>2,724,508</u></b>

### **Performance obligations for contracts with customers**

#### *Production and sales of knitted fabric, dyed yarn and garment products*

The Group produces and sells the knitted fabric, dyed yarn and garment products to customers directly. Revenue is recognised when customer acceptance has been obtained, which is the point of time when the customer has the ability to direct the use of the products and obtain substantially all of the remaining benefits of the products. The normal credit term is 30 to 120 days upon delivery.

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 |
| (ii) | Garment products             | — | Production and sale of garment products             |

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

	<b>Knitted fabric and dyed yarn HK\$'000</b>	<b>Garment products HK\$'000</b>	<b>Eliminations HK\$'000</b>	<b>Consolidated HK\$'000</b>
<b>Six months ended 30 September 2019</b>				
<b>REVENUE</b>				
External sales	2,430,217	141,386	—	2,571,603
Inter-segment sales	<u>3,309</u>	<u>—</u>	<u>(3,309)</u>	<u>—</u>
Segment revenue	<u><u>2,433,526</u></u>	<u><u>141,386</u></u>	<u><u>(3,309)</u></u>	<u><u>2,571,603</u></u>
<b>RESULTS</b>				
Segment results	<u><u>223,124</u></u>	<u><u>(13,313)</u></u>	<u><u>—</u></u>	<u><u>209,811</u></u>
Unallocated corporate income				53,488
Other gains and losses				101,484
Unallocated corporate expenses				(19,177)
Finance costs				<u>(122,955)</u>
Profit before taxation				<u><u>222,651</u></u>
	<b>Knitted fabric and dyed yarn HK\$'000</b>	<b>Garment products HK\$'000</b>	<b>Eliminations HK\$'000</b>	<b>Consolidated HK\$'000</b>
<b>Six months ended 30 September 2018</b>				
<b>REVENUE</b>				
External sales	2,524,271	200,237	—	2,724,508
Inter-segment sales	<u>9,686</u>	<u>—</u>	<u>(9,686)</u>	<u>—</u>
Segment revenue	<u><u>2,533,957</u></u>	<u><u>200,237</u></u>	<u><u>(9,686)</u></u>	<u><u>2,724,508</u></u>
<b>RESULTS</b>				
Segment results	<u><u>254,303</u></u>	<u><u>(8,919)</u></u>	<u><u>—</u></u>	<u><u>245,384</u></u>
Unallocated corporate income				25,008
Other gains and losses				(8,323)
Unallocated corporate expenses				(7,448)
Finance costs				<u>(105,932)</u>
Profit before taxation				<u><u>148,689</u></u>

Segment results represent the profit earned/loss incurred by each segment without allocation of interest income, rental income, impairment loss recognised on goodwill, net gain (loss) on fair value change of derivative financial instruments, charge on early termination of a derivative financial instrument, gain on fair value change of financial assets at fair value through profit or loss, net loss on disposal of property, plant and equipment, gain on fair value change of investment properties, gain on disposal of right-of-use assets, loss from litigation claims, gain on disposal of right-of-use assets, gain on modification of convertible bonds, 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.

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.

#### 4. OTHER GAINS AND LOSSES

	Six months ended	
	30 September	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Gain on disposal of right-of-use assets ( <i>note i</i> )	67,250	—
Gain on modification of financial liability	25,198	—
Gain on fair value change of investment properties	10,703	2,114
Gain on fair value change of financial assets at fair value through profit or loss	894	1,403
Net foreign exchange (loss) gain	(6,149)	8,081
Impairment loss recognised on property, plant and equipment	(3,147)	—
Loss from litigation claims ( <i>note ii</i> )	(2,768)	—
Net gain (loss) on fair value change of derivative financial instruments	47	(3,425)
Net loss on disposal of property, plant and equipment	(187)	(294)
Charge on early termination of a derivative financial instrument	—	(2,480)
Impairment loss recognised on goodwill	—	(6,185)
Others	347	544
	<u>92,188</u>	<u>(242)</u>

*notes:*

- (i) On 3 July 2019, Nanjing Synergy Textiles Limited (“Nanjing Synergy”), a wholly-owned subsidiary of the Company, entered into a resumption and relocation agreement with a limited liability company which is controlled by the State-owned Assets Supervision and Administration Office of the People’s Government of Jiangning District, Nanjing (the “Nanjing Government”) under which Nanjing Synergy agreed to surrender a piece of land in Jiangning District, Nanjing (which is classified as right-of-use assets) to the Nanjing Government with consideration for RMB120,000,000 (equivalent to HK\$138,728,000).

In current interim period, Nanjing Synergy recognised gain on disposal of right-of-use assets as below:

	<b>30 September 2019 HK\$'000</b>
Proceeds received	<b>138,728</b>
Carrying amount of right-of-use assets	<b>(71,478)</b>
	<hr/> <b>67,250</b> <hr/>

- (ii) The amount is related to the loss suffered by the Group as a result of certain court cases which were being brought against a wholly-owned subsidiary of the Company arising from the use of certain unfulfilled trade bills and sales contracts which bear the company seal of the above subsidiary as collaterals by an independent third party supplier (the “Borrower”) during the year ended 31 March 2017. The Borrower obtained borrowings from banks and other lenders in the PRC (the “Lenders”) but subsequently failed to repay. The Lenders took legal actions against the above subsidiary to enforce their rights in relation to the collaterals. While the subsidiary defended these vigorously, the Directors reviewed, during the preparation of consolidated financial statements for the year ended 31 March 2017, the then circumstances and, taking into consideration the opinion from a legal counsel, recognised a provision for loss of HK\$17,422,000 in the consolidated financial statements for that financial year.

During the year ended 31 March 2019, certain court hearings for the above legal actions taken by certain Lenders were held and the court decisions were in favour of the Lenders. The subsidiary had negotiated with some of the Lenders for mutually agreed amounts of settlements. Taking into account of further legal advices, provision with an aggregate amount of HK\$46,124,000 was recognised in profit or loss for the year ended 31 March 2019, which included full provision of HK\$5,952,000 for two cases which were still in the process of court hearing as at 31 March 2019 based on the opinion from a legal counsel.

During the current interim period and subsequent to the current interim period, court decisions were issued for the remaining two cases which were in favour of the Lender. The Group recognised loss of total HK\$2,768,000 which is the accrued interest on the Lender’s claimed amounts ordered by the courts. The Directors consider that the chance of incurring further losses on both cases in relation to the above matter was remote based on the opinion from a legal counsel.

The Directors are seeking legal advices and may consider to lodge appeals for certain cases and to initiate legal proceedings against the Borrower to recover the subsidiary’s losses.

## 5. INCOME TAX EXPENSE

	Six months ended 30 September	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax:		
Hong Kong Profits Tax	1,792	5,004
Enterprise Income Tax (“EIT”) in the PRC	<u>33,345</u>	<u>9,874</u>
	35,137	14,878
Deferred tax for the current interim period	<u>(17,695)</u>	<u>5,017</u>
	<u><u>17,442</u></u>	<u><u>19,895</u></u>

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “Bill”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

EIT in the PRC is calculated based on the statutory rate of 25% of the assessable profit for those subsidiaries established in the PRC for both periods, except for one (six months ended 30 September 2018: nil) PRC subsidiary which qualifies as High New Technology Enterprises and enjoys a preferential tax rate of 15% since December 2017. The preferential tax rate is applicable for three years up to December 2020 and subject to renewal, as determined in accordance with relevant income tax rules and regulations in the PRC.

For the disposal of right-of-use assets as set out in Note 4 (i), no land appreciation tax (“LAT”) was provided for the disposal as management is of the view that disposal would qualify for exemption for LAT and that approval from the relevant tax authority will be successfully obtained. The relevant amount of tax charge is HK\$51,537,000, being LAT of HK\$68,716,000 with a corresponding reduction in EIT of HK\$17,179,000.

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	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	184,179	165,025
Depreciation of right-of-use assets	5,644	—
Release of prepaid lease payments	—	2,424
Share-based payment expenses, included in general and administrative expenses	15,133	—
Bank interest income	(41,663)	(13,685)
Rental income from investment properties and equipment (net of negligible outgoings)	<u>(11,825)</u>	<u>(11,323)</u>

## 7. DISTRIBUTION

No dividend was declared or paid in the current interim period. During the six months ended 30 September 2018, a final dividend of HK1.0 cent per share in respect of the year ended 31 March 2018, in cash with a scrip dividend option, was declared to the shareholders of the Company (the “Shareholders”).

The Directors do not recommend the payment of an interim dividend for both interim periods.

## 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:

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2019</b>	2018
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Earnings</b>		
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share	<b>204,577</b>	136,999
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds	<b>19,980</b>	19,699
Gain on modification of convertible bonds	<b>(25,198)</b>	—
	<hr/>	<hr/>
Earnings for the purpose of diluted earnings per share	<b><u>199,359</u></b>	<b><u>156,698</u></b>
	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2019</b>	2018
	<b>'000</b>	<b>'000</b>
		(restated)
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>752,722</b>	503,174
Effect of dilutive potential ordinary shares:		
Convertible bonds	<b>285,742</b>	133,333
Scrip dividend option	<b>—</b>	7,446
	<hr/>	<hr/>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b><u>1,038,464</u></b>	<b><u>643,953</u></b>

The weighted average number of ordinary shares for the purposes of calculating basic earnings per share for six months ended 30 September 2018 has been adjusted, taking into account the share consolidation on 24 June 2019 and the bonus element of the rights issue on 18 April 2019 which were completed during the current interim period.

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 both periods.

## 9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTIES AND RIGHT-OF-USE ASSETS

During the current interim period, the Group had additions to property, plant and equipment of approximately HK\$481,179,000 (six months ended 30 September 2018: HK\$367,000,000).

In addition, during the current interim period, the Group reclassified HK\$14,315,000 to assets of disposal group classified as held for sale and recognised an impairment of HK\$3,147,000 following initial classification as held for sale.

Investment property with carrying amount of HK\$54,600,000 was reclassified to assets held for sale during current interim period. 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\$10,703,000 (six months ended 30 September 2018: HK\$2,114,000) in profit or loss.

Upon the adoption of HKFRS 16 on 1 April 2019, the Group recognised right-of-use assets of HK\$198,869,000 as detailed in Note 2. During the current interim period, right-of-use assets of HK\$6,565,000 were reclassified as assets of disposal group classified as held for sale, and HK\$71,478,000 were disposed of with a gain on disposal of HK\$67,250,000 recognised with details set out in Note 4.

## 10. 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 credit losses) presented based on the invoice date at the end of the reporting period:

	<b>30 September 2019 HK\$'000</b>	31 March 2019 HK\$'000
0-60 days	<b>1,065,220</b>	1,159,317
61-90 days	<b>437,892</b>	390,651
91-120 days	<b>180,856</b>	185,560
Over 120 days	<b>103,745</b>	108,013
	<b><u>1,787,713</u></b>	<b><u>1,843,541</u></b>



## 11. 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:

	<b>30 September 2019 <i>HK\$'000</i></b>	31 March 2019 <i>HK\$'000</i>
0-60 days	<b>245,271</b>	240,628
61-90 days	<b>86,796</b>	124,026
91-120 days	<b>43,046</b>	148,486
Over 120 days	<b>46,609</b>	37,921
	<b><u>421,722</u></b>	<u>551,061</u>

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

## **INTERIM DIVIDEND**

The Directors has resolved not to declare any interim dividend for the six months ended 30 September 2019.

## **BUSINESS REVIEW**

During the first half of 2019/20, the global economy remained unstable while consumer sentiments remained sluggish. Uncertainties resulting from the trade war between the United States of America (the “US”) and the PRC noticeably increased. The financial performance of the Group was inevitably affected by a decrease in orders from customers.

For the six months ended 30 September 2019, the Group’s unaudited consolidated revenue was approximately HK\$2,572 million, representing a decrease of approximately 5.6% as compared to the previous corresponding period (1H2018: HK\$2,725 million). Gross profit decreased by approximately 5.3% to approximately HK\$461 million (1H2018: 487 million). Profit attributable to owners of the Company for the reporting period amounted to approximately HK\$205 million, which included net gain on disposal of right-of-use assets of approximately HK\$64 million (1H2018: Nil), gain on modification of convertible bond of approximately HK\$25 million (1H2018: Nil), gain on fair value change of investment properties of approximately HK\$11 million (1H2018: HK\$2 million), gain on fair value change of financial assets of approximately HK\$1 million (1H2018: HK\$1 million), share-based payment of approximately HK\$15 million (1H2018: Nil), impairment loss recognised on property, plant and equipment of approximately HK\$3 million (1H2018: Nil) and additional accrued convertible bond interest of approximately HK\$10 million (1H2018: HK\$10 million). Hence, profit for core operations for the six months ended 30 September 2019 was approximately HK\$135 million after adjusting the above-mentioned non-operating gains and losses, representing a year-on-year decrease of approximately 11.2% (1H2018: HK\$152 million). Basic earnings per share was HK27.2 cents (1H2018: HK27.2 cents).

### **Textile Business**

For the six months ended 30 September 2019, production and sale of knitted fabric and dyed yarn remained the major business segment of the Group, accounting for approximately 94.5% of the Group’s consolidated revenue. Revenue for the textile segment was approximately HK\$2,430 million, representing a slight decline of approximately 3.7% from the previous corresponding period (1H2018: HK\$2,524 million).

During the reporting period, cotton price recorded a downward trend which adversely affected the pricing of the Group's textile products. In addition, slowdown in order book particularly since second half of 2019 led to decrease in the Group's revenue. On the other hand, upgrading of machineries and technology automation kept the utilisation of the production capacity at high level. Together with lean management and stringent cost controls, the Group managed to counterweight the product price adjustment. As a result, revenue of the textile segment dropped slightly by approximately 3.7% and gross profit margin decreased from 18.2% to 17.9% for the six months ended 30 September 2019.

### **Garment Business**

Revenue of the garment business for the reporting period was approximately HK\$141 million, with a decrease of approximately 29.4% from approximately HK\$200 million in the same period last year. The decrease was mainly attributable to the further consolidation of clientele to focus on customers providing steady order flows and profit margin. Gross profit slightly decreased to approximately HK\$27 million (1H2018: HK\$28 million). There was a net profit of approximately HK\$312,000 as compared to a net loss of HK\$17 million in the same period last year. The increase was mainly attributable to gain on fair value adjustment on investment properties and tax recovered upon disposal of a production facility in Indonesia in February 2019.

### **Major Movement**

*Completion of a rights issue of a total of 2,589,706,603 rights shares with net proceeds of approximately HK\$249.3 million*

On 18 April 2019, the Company issued and allotted 2,589,706,603 ordinary shares of HK\$0.01 each of the Company at a subscription price of HK\$0.098 each, by way of rights issue in the proportion of one rights share for every two shares held on 15 March 2019. The net proceeds of approximately HK\$249.3 million was used as general working capital of the Group and funding for construction of a new boiler and a new electron beam waste water treatment plant.

Please refer to the announcement of the Company dated 19 February 2019 and the circular of the Company dated 26 March 2019 for further information.

*Redemption of convertible bonds by way of issuance of new convertible bonds in the principal amount of HK\$400,000,000*

On 28 June 2019, the Company issued convertible bonds to its two major Shareholders, Pearl Garden Pacific Limited and Madian Star Limited, with an aggregate principal amount of HK\$400,000,000 (the "New Convertible Bonds") with the rights to convert into 377,358,490 shares of HK\$0.1 each of the Company (the "Shares") at the adjusted conversion price of HK\$1.06 per convertible Share.

The issue of the New Convertible Bonds signified strong support from the major Shareholders to the Group and their confidence in the prospects and development of the Group. The net proceeds were used for the redemption of the convertible bonds issued to Pearl Garden Pacific Limited and Madian Star Limited on 22 September 2017, with an aggregate principal amount of HK\$400,000,000.

Please refer to the announcements of the Company dated 26 April 2019 and 28 June 2019, and the circular of the Company dated 5 June 2019 for further information.

*Issue of convertible bonds in the principal amount of HK\$64,000,000*

On 13 August 2019, the Company issued convertible bonds to Mr. Wang Chia Po, an independent third party, with a principal amount of HK\$64,000,000 with the rights to convert into 100,000,000 Shares at the initial conversion price of HK\$0.64 per convertible Share. The net proceeds of approximately HK\$63.7 million are intended to be reserved for the construction of a manufacturing base in Bangladesh (the “Expansion”).

Please refer to the announcements of the Company dated 1 August 2019 and 13 August 2019 for further information.

## **PROSPECTS**

Looking forward to second half of 2019/20, the uncertainties surrounding the global economy are expected to linger on and consumer sentiments would become further softened. The Group’s remains cautiously optimistic on the outlook of the textiles and garment industry. The Group will continue to leverage on its prominent market position, extensive client network and well-established production bases to respond to the ever-changing market.

As mentioned in the previous announcements of the Company, the Group has planned to construct a fabric manufacturing plant in Bangladesh with a view to lowering the average manufacturing costs and risk diversification. The new expansion will be invested with a business partner who has over 20 years’ experience in garment manufacturing with scaled operations in Bangladesh. As the date of this announcement, the new joint venture has entered into agreement with relevant government authority for acquisition of land for the new production base. Construction of new production plant is expected to take place in or about February 2020. Fabric production is expected to commence in the second half of 2021. The expected monthly production capacity for fabric production will be approximately 2.5 million pounds. Preliminary assessment of the estimated capital expenditure for the Bangladesh plant is approximately HK\$1,000 million.

Given the recurring operating loss of the garment segment, the Group has made adjustments to its business strategy. The Group entered into an agreement with an independent party for the disposal of a garment production base in Cambodia in

September 2019. The disposal was completed in October 2019. The Group will also critically review the garment customer portfolio and may make downward adjustments in the garment business to mitigate the loss incurred for the Group as a whole.

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 return to the Shareholders.

## **FINANCIAL REVIEW**

### **Liquidity and Financial Resources**

As at 30 September 2019, the Group had total assets of approximately HK\$12,673 million (31 March 2019: HK\$13,261 million) which were financed by current liabilities of approximately HK\$3,560 million (31 March 2019: HK\$3,917 million), long term liabilities of approximately HK\$2,335 million (31 March 2019: HK\$2,540 million) and shareholders' equity of approximately HK\$6,754 million (31 March 2019: HK\$6,779 million). The current ratio was approximately 2.0 (31 March 2019: 2.0) 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 38.5% (31 March 2019: 39.5%). 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 operations 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\$481 million (1H2018: HK\$367 million) on additions to property, plant and equipment.

As at 30 September 2019, the Group had capital commitments of approximately HK\$132 million (31 March 2019: HK\$161 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 2019, certain property, plant and equipment, right-of-use assets (31 March 2019: prepaid lease payments), investment properties and life insurance policies of the Group with net book value of approximately HK\$153 million (31 March 2019: HK\$446 million) were pledged to banks to secure credit facilities granted.

### **Employee Information**

As at 30 September 2019, the total number of employees of the Group was approximately 1,150 in Cambodia, approximately 4,250 in the PRC and approximately 100 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.

### **EVENTS AFTER THE REPORTING PERIOD**

On 23 October 2019, the Company issued convertible bonds to Mr. Wong Shu Fat, an independent third party, with a principal amount of HK\$65,000,000 with the rights to convert into 100,000,000 Shares at the initial conversion price of HK\$0.65 per convertible Share. The net proceeds of approximately HK\$64.7 million are intended to be reserved for the Expansion. Please refer to the announcements of the Company dated 14 October 2019 and 23 October 2019 for further details.

Save for above, there were no other significant events affecting the Group after the period ended 30 September 2019.

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

During the six months ended 30 September 2019, 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 2019 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 2019.

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

Hong Kong, 28 November 2019

*As at the date of this announcement, the executive Directors are Mr. Li Ming Hung (Chairman), Mr. Chen Tien Tui (Chief Executive Officer), Mr. Lee Yuen Chiu Andy and Mr. Choi Lin Hung and the independent non-executive Directors are Mr. Kan Ka Hon, Mr. Phaisalakani Vichai and Mr. Kwok Sze Chi.*

\* *for identification purposes only*