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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 2014

#### 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 2014. The interim results of the Group have been reviewed by the Company’s auditor in accordance with the Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants (the “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 2014

	NOTES	Six months ended 30 September	
		2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Revenue	3	2,905,893	2,500,082
Cost of sales		(2,390,726)	(2,079,382)
Gross profit		515,167	420,700
Other income		20,564	29,114
Other gains and losses	4	(20,214)	9,753
Distribution and selling expenses		(70,135)	(74,952)
General and administrative expenses		(190,435)	(178,782)
Share-based payment expenses		–	(1,004)
Interest on bank borrowings		(52,063)	(46,322)
Gain on disposal of subsidiaries	12(b)	227,674	–

	<i>NOTES</i>	<b>Six months ended</b>	
		<b>30 September</b>	
		<b>2014</b>	2013
		<i>HK\$'000</i>	<i>HK\$'000</i>
		<b>(unaudited)</b>	(unaudited)
Profit before taxation		<b>430,558</b>	158,507
Income tax expense	5	<b>(25,784)</b>	(11,014)
Profit for the period	6	<b>404,774</b>	147,493
Other comprehensive income that may be subsequently reclassified to profit or loss:			
Gain on fair value change of an available-for-sale investment		<b>197</b>	130
Fair value adjustment of an investment property reclassified from property, plant and equipment		<b>14,541</b>	–
Exchange differences arising on translation of foreign operations		–	651
Reclassification adjustment of translation reserve upon disposal of subsidiaries		<b>3</b>	–
Other comprehensive income for the period		<b>14,741</b>	781
Total comprehensive income for the period		<b>419,515</b>	148,274
Profit for the period attributable to:			
Owners of the Company		<b>289,225</b>	140,337
Non-controlling interests		<b>115,549</b>	7,156
		<b>404,774</b>	147,493
Total comprehensive income for the period attributable to:			
Owners of the Company		<b>296,841</b>	141,121
Non-controlling interests		<b>122,674</b>	7,153
		<b>419,515</b>	148,274
Earnings per share	8		
Basic		<b>HK16.5 cents</b>	HK8.5 cents
Diluted		<b>HK16.3 cents</b>	HK8.3 cents

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 SEPTEMBER 2014

	<i>NOTES</i>	<b>30 September 2014 HK\$'000 (unaudited)</b>	31 March 2014 HK\$'000 (audited)
<b>Non-current assets</b>			
Property, plant and equipment	9	3,172,490	3,126,408
Prepaid lease payments		203,027	205,698
Investment properties	9	54,400	31,200
Goodwill		6,614	6,614
Intangible asset		–	1,000
Other assets		26,040	26,040
Restricted bank deposits		92,227	91,794
Deferred tax assets		2,329	2,329
Deposit paid for acquisition of property, plant and equipment		5,318	8,609
		<u>3,562,445</u>	<u>3,499,692</u>
<b>Current assets</b>			
Inventories		2,443,114	2,692,841
Trade and bills receivables	10	1,726,145	1,654,357
Deposits, prepayments and other receivables		233,816	236,129
Prepaid lease payments		5,675	5,200
Derivative financial instruments		3,835	12,401
Available-for-sale investment		1,732	1,535
Taxation recoverable		1,321	494
Bank balances and cash		1,849,441	1,300,491
		<u>6,265,079</u>	<u>5,903,448</u>
<b>Current liabilities</b>			
Trade payables	11	240,115	519,761
Other payables and accruals		154,099	154,545
Dividend payable		70,134	189
Taxation payable		91,341	81,186
Derivative financial instruments		70,168	42,675
Bank borrowings – amount due within one year		1,968,638	2,008,209
		<u>2,594,495</u>	<u>2,806,565</u>
<b>Net current assets</b>		<u>3,670,584</u>	<u>3,096,883</u>
<b>Total assets less current liabilities</b>		<u><u>7,233,029</u></u>	<u><u>6,596,575</u></u>

	<b>30 September 2014 HK\$'000 (unaudited)</b>	31 March 2014 HK\$'000 (audited)
<b>Capital and reserves</b>		
Share capital	17,487	17,487
Reserves	5,213,688	4,956,906
	<hr/>	<hr/>
Equity attributable to owners of the Company	5,231,175	4,974,393
Non-controlling interests	144,303	258,541
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<b>Total equity</b>	<b>5,375,478</b>	<b>5,232,934</b>
	<hr/>	<hr/>
<b>Non-current liabilities</b>		
Bank borrowings – amount due after one year	1,770,140	1,279,079
Deferred tax liabilities	87,411	84,562
	<hr/>	<hr/>
	<b>1,857,551</b>	<b>1,363,641</b>
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	<b>7,233,029</b>	<b>6,596,575</b>
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## NOTES:

### 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with the Hong Kong Accounting Standard (“HKAS”) 34 *Interim Financial Reporting* issued by the HKICPA.

### 2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2014 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2014.

In the current interim period, the Group has applied, for the first time, the following new interpretation and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are relevant for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) – Int 21	Levies

The application of the above interpretation and amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

### 3. SEGMENT INFORMATION

The Group’s operations are organised into three operating segments, information of which is used by the executive Directors for the purpose of performance evaluation and resources allocation. Details of the Group’s three 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
- (iii) Resin manufacturing – Production and sale of resin

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

**Six months ended 30 September 2014**

	Knitted fabric and dyed yarn <i>HK\$'000</i>	Garment products <i>HK\$'000</i>	Resin manufacturing <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE					
External sales	2,303,309	601,985	599	–	2,905,893
Inter-segment sales	42,346	–	–	(42,346)	–
Segment revenue	<u>2,345,655</u>	<u>601,985</u>	<u>599</u>	<u>(42,346)</u>	<u>2,905,893</u>
RESULTS					
Segment results	<u>263,901</u>	<u>21,442</u>	<u>(895)</u>		284,448
Unallocated corporate income and gain					736
Unallocated corporate expenses and loss					(30,237)
Gain on disposal of subsidiaries					227,674
Finance costs					(52,063)
Profit before taxation					<u>430,558</u>

**Six months ended 30 September 2013**

	Knitted fabric and dyed yarn <i>HK\$'000</i>	Garment products <i>HK\$'000</i>	Resin manufacturing <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE					
External sales	1,745,227	549,876	204,979	–	2,500,082
Inter-segment sales	23,018	–	–	(23,018)	–
Segment revenue	<u>1,768,245</u>	<u>549,876</u>	<u>204,979</u>	<u>(23,018)</u>	<u>2,500,082</u>
RESULTS					
Segment results	<u>185,272</u>	<u>16,001</u>	<u>5,052</u>		206,325
Unallocated corporate income and gain					8,678
Unallocated corporate expenses and loss					(10,174)
Finance costs					(46,322)
Profit before taxation					<u>158,507</u>

Segment results represents the profit earned (loss made) by each segment without allocation of rental income, net gain (loss) on fair value changes of derivative financial instruments and restricted bank deposits, gain on disposal of subsidiaries, central administration costs and finance costs. This is the measure reported to the executive Directors for the purposes of resource allocation and performance evaluation.

#### 4. OTHER GAINS AND LOSSES

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2014</b>	<b>2013</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Net foreign exchange loss	(4,273)	(254)
Net (loss) gain on fair value changes of derivative financial instruments	(15,135)	9,451
Loss on disposal of property, plant and equipment	(239)	(871)
Impairment loss on intangible asset	(1,000)	–
Gain on fair value change of restricted bank deposits	433	1,427
	<u>(20,214)</u>	<u>9,753</u>

#### 5. INCOME TAX EXPENSE

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2014</b>	<b>2013</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Current tax:		
Hong Kong Profits Tax	10,037	6,457
Enterprise Income Tax (“EIT”) in the People’s Republic of China (the “PRC”) attributable to the subsidiaries	8,087	4,591
Capital gains tax in the PRC	3,732	–
Overseas income tax	1,079	66
	<u>22,935</u>	<u>11,114</u>
Deferred tax:		
Current period	2,849	(100)
	<u>25,784</u>	<u>11,014</u>

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

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.

Capital gains tax is calculated at 10% (as stipulated in the PRC tax law and regulations) of the difference between the consideration from the transfer of equity interests in certain subsidiaries of the Company incorporated in the PRC (Note 12(a)) and the cost of equity rights in the PRC subsidiaries at the date of completion of the Acquisition (as defined in Note 12).

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

## 6. PROFIT FOR THE PERIOD

<b>Six months ended</b>	
<b>30 September</b>	
<b>2014</b>	<b>2013</b>
<b>HK\$'000</b>	<b>HK\$'000</b>

Profit for the period has been arrived at after charging (crediting):

Depreciation of property, plant and equipment	<b>124,260</b>	131,492
Release of prepaid lease payments	<b>2,196</b>	2,192
Interest income	<b>(14,000)</b>	(14,156)
	<b><u>                    </u></b>	<b><u>                    </u></b>

## 7. DISTRIBUTION

On 28 August 2014, the Company approved a final dividend of HK4.0 cents per share in respect of the financial year ended 31 March 2014 (2013: HK2.5 cents per share in respect of the financial year ended 31 March 2013). The amount of final dividend approved was in cash with a scrip option.

The Directors have determined that an interim dividend of HK5.0 cents per share for the six months ended 30 September 2014 (six months ended 30 September 2013: HK3.0 cents per share), in cash with a scrip option, to be paid to the shareholders of the Company (the "Shareholders").

## 8. EARNINGS PER SHARE

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

<b>Six months ended</b>	
<b>30 September</b>	
<b>2014</b>	<b>2013</b>
<b>HK\$'000</b>	<b>HK\$'000</b>

### Earnings

Profit for the period attributable to owners of the Company for the purpose of basic earnings per share	<b>289,225</b>	140,337
Effect of dilutive potential ordinary shares:		
Adjustment to the share of profit of a subsidiary on dilution of its earnings per share	<b>(212)</b>	(260)
	<b><u>                    </u></b>	<b><u>                    </u></b>
Profit for the period attributable to owners of the Company for the purpose of diluted earnings per share	<b><u>289,013</u></b>	<b><u>140,077</u></b>



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## Number of shares

Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>1,748,683</b>	1,643,080
Effect of dilutive potential ordinary shares:		
Share options of the Company	<b>27,953</b>	34,797
Unlisted warrants	–	2,324
	<hr/>	<hr/>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b><u>1,776,636</u></b>	<b><u>1,680,201</u></b>

## 9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the current interim period, the Group has additions to property, plant and equipment of approximately HK\$181 million (six months ended 30 September 2013: HK\$130 million).

In addition, during the current interim period, a portion of the Group's office premises with medium-term lease located in Hong Kong has been leased out to a subsidiary of Highlight China (as defined in Note 12) subsequent to the completion of the Disposal (as defined in Note 12). The corresponding portion of the leasehold land and building was reclassified from property, plant and equipment to investment properties from the date of commencement of the lease agreement. Fair value of the reclassified land and building at the time of reclassification was credited to property revaluation reserve.

The Group's investment properties at the end of the current interim period were valued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent firm of valuers not connected with the Group. The valuation was determined by reference to recent market prices and market rental for similar properties in similar locations and conditions.

## 10. TRADE AND BILLS RECEIVABLES

The Group allows a credit period ranging between 30-150 days to its trade customers.

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

	<b>30 September 2014 HK\$'000</b>	31 March 2014 HK\$'000
0-60 days	<b>1,206,549</b>	1,134,681
61-90 days	<b>308,602</b>	269,794
91-120 days	<b>153,266</b>	192,537
Over 120 days	<b>57,728</b>	57,345
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	<b><u>1,726,145</u></b>	<b><u>1,654,357</u></b>

## 11. TRADE PAYABLES

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

	<b>30 September 2014 HK\$'000</b>	31 March 2014 HK\$'000
0-60 days	177,991	455,057
61-90 days	28,368	60,189
Over 90 days	33,756	4,515
	<u>240,115</u>	<u>519,761</u>

## 12. ACQUISITION/DISPOSAL OF INTERESTS IN SUBSIDIARIES

On 14 March 2014, Sure Strategy Limited (“Sure Strategy”), Victory City Investments Limited (“VC Investments”), both subsidiaries of the Company, and Merlotte Enterprise Limited (“Merlotte”), a minority shareholder of a subsidiary of the Company, and an independent third party (the “Purchaser”) entered into a sale and purchase agreement, pursuant to which the Purchaser conditionally agreed to purchase and Sure Strategy, VC Investments and Merlotte conditionally agreed to sell their respective 315,200,000, 2,448,000 and 2,352,000 ordinary shares in Highlight China IoT International Limited (“Highlight China”, formerly known as Ford Glory Group Holdings Limited), a former subsidiary of the Company, at an aggregate cash consideration of HK\$258,560,000 (the “Disposal”).

Upon signing of the sale and purchase agreement in relation to the Disposal, HK\$20,000,000 was paid by the Purchaser to Sure Strategy as a refundable deposit, which was included in other payables at 31 March 2014.

On the same date, Sure Strategy and Highlight China entered into an agreement pursuant to which Sure Strategy conditionally agreed to acquire and Highlight China conditionally agreed to dispose of its entire equity interest in Ford Glory Holdings Limited and certain of its subsidiaries (the “Target Group”) at a cash consideration of HK\$270,000,000 (the “Acquisition”). The Target Group is principally engaged in the manufacturing and sale of garment products by the self-owned factories of the Target Group in the PRC, Indonesia, Cambodia and Jordan based on the designs and specifications provided by customers.

Completion of the Disposal was conditional upon, among other things, completion of the Acquisition. The Acquisition and Disposal were completed on 22 July 2014.

Upon completion of the Acquisition and Disposal, the Group received a special cash dividend from Highlight China on a basis of HK\$0.72 per Highlight China’s share.

### (a) Acquisition of additional interests in subsidiaries

The companies comprising the Target Group are subsidiaries of the Company since their incorporation or being acquired by the Group. The Acquisition has resulted in changes in the Group’s shareholding of the Target Group companies, without changes in its controls over them. Accordingly, the Acquisition has been accounted for as an equity transaction and no goodwill has been recognised upon completion of the Acquisition. The difference between the consideration paid and the net asset value of the Target Group, attributable to the change of non-controlling interests (as a result of the Acquisition), of HK\$4,433,000 has been credited to accumulated profits.

**(b) Disposal of subsidiaries**

Upon completion of the Acquisition, the Group disposed of its approximately 61.11% equity interest in Highlight China and Highlight China ceased to be a subsidiary of the Group.

The net assets of Highlight China at the date of the Disposal were as follows:

	<i>HK\$'000</i>
Property, plant and equipment	190
Inventories	21,793
Trade receivables	45,707
Deposits, prepayments and other receivables	5,470
Bank balances and cash	20,134
Trade payables	(37,148)
Other payables and accruals	(6,838)
Taxation payable	(1,877)
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Net assets	47,431
Less: Non-controlling interests	(18,445)
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Net assets disposed of	28,986
Gain on disposal	227,674
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Total consideration to Sure Strategy and VC Investments, satisfied by cash	<u>256,660</u>
Net cash inflow arising on disposal:	
Total cash consideration	256,660
Deposit received during the year ended 31 March 2014	(20,000)
Bank balances and cash disposed of	(20,134)
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	<u>216,526</u>

During the six months ended 30 September 2014, contribution of Highlight China and its subsidiaries to the Group's revenue and profit attributable to owners of the Company was insignificant. Net cash flow of Highlight China and its subsidiaries before the Disposal was also insignificant to the Group.

## **INTERIM DIVIDEND**

The board of Directors has resolved to declare an interim dividend of HK5.0 cents (2013: HK3.0 cents) per share of the Company (the “Share”) for the six months ended 30 September 2014. The interim dividend will be payable on or about 13 March 2015 to the Shareholders whose names appear on the register of members of the Company on 30 December 2014 with a scrip alternative to offer the right to the Shareholders to elect to receive such interim dividend wholly or partly by allotment of new Shares credited as fully paid in lieu of cash.

A circular containing details of the scrip dividend scheme together with an election form will be sent to the Shareholders as soon as practicable. The scrip dividend scheme is subject to the following conditions: (a) the issue price of a new Share to be issued pursuant thereto being not less than the nominal value of a Share; and (b) the granting by the Listing Committee of The Stock Exchange of Hong Kong Limited the listing of and permission to deal in the new Shares to be issued pursuant thereto.

## **BUSINESS REVIEW**

During the reporting period, the operating environment for the Group improved as a result of recovery in its major markets, namely the United States (the “US”) and the PRC. Gross domestic product of the US grew at the annual rates of 4.6% and 3.5% in the second and third quarters of 2014, indicating a recovery that outpaced market expectations. At the same time, the export of textile and garment products from the PRC has demonstrated signs of steady growth during the reporting period. According to the China Custom Statistics, the export growth rate gradually increased from 4.3% in April 2014 to 5% in September 2014 for textile products; and rose from 0.2% in April 2014 to 6.2% in September 2014 for garment products. Orders from the Group’s domestic brand-name customers also gradually rebounded. The simultaneous recovery from both overseas and domestic markets has created ample opportunities for the Group’s business. Since early last fiscal year, the Group has devoted ceaseless effort in equipping itself by expanding its production capacity and strengthening its market position. The full impact of the capacity enhancement completed early this year is thus to be reflected in the interim results 2014/15. Together with the deployment of flexible business and pricing strategies, the Group was able to capture the recovered orders and enjoy the yield of its endeavours during the reporting period.

For the six months ended 30 September 2014, the Group’s unaudited consolidated revenue was approximately HK\$2,906 million, representing a growth of approximately 16.2% as compared with that of the previous corresponding period (1H2013: approximately HK\$2,500 million); gross profit was approximately HK\$515.2 million, representing an increase of approximately 22.5% from previous corresponding period (1H2013: approximately HK\$420.7 million). Profit attributable to owners of the Company for the reporting period amounted to approximately HK\$289.2 million, which included gain on disposal of subsidiaries of approximately HK\$227.7 million, net loss on fair value change of derivative financial instruments of approximately HK\$15.1 million and gain on fair value change of a restricted bank deposit of approximately HK\$433,000. Profit from normal operations for the six months ended 30 September 2014 after adjusting the above-mentioned non-operating gains and losses was approximately HK\$190.7 million, representing a year-on-year increase of approximately 45.4% (1H2013: approximately HK\$131.2 million). Basic earnings per share were HK16.5 cents (1H2013: HK8.5 cents).

## **Textile Business**

Production and sale of knitted fabric and dyed yarn remained as the Group's principal operation for the period ended 30 September 2014. Revenue of the textile business increased by approximately 32.0% to approximately HK\$2,303 million (1H2013: approximately HK\$1,745 million), accounting for approximately 79.3% of the Group's consolidated revenue.

On the back of its solid foundation and flexible business strategies, the Group was able to capture the reviving demand from its major markets during the reporting period. While the sales from some of the Group's brand-name customers in the PRC recorded improvements, orders from the US remained solid during the reporting period. In view of the upcoming recovery of the textile market, the Group expanded its production capacity of knitted fabric by 20% to 18 million pounds per month in November 2013 in its flagship production base in Xinhui, Guangdong, the PRC. The strategic expansion paid off and the Group's production facilities operated at full capacity during the reporting period, which allowed the Group to accommodate the new and recovered orders brought by the economic recovery in its major markets. Therefore, the Group achieved satisfactory growth in output. The reduction of both international and domestic cotton prices has affected the pricing of some knitted fabric and dyed yarn products. Nonetheless, the surge in the Group's production volume was able to offset it and contributed to the growth in segment revenue and profit margin during the reporting period.

## **Garment Business**

On 22 July 2014, the Group completed the disposal of Highlight China (formerly known as Ford Glory Group Holdings Limited, stock code: 1682.HK), which included the Group's garment sourcing business. Garment manufacturing became the primary operation of the business segment; revenue of the Group's garment business still recorded a growth despite the disposal of its garment sourcing arm. For the period ended 30 September 2014, revenue of the Group's garment business increased by approximately 9.5% to approximately HK\$602 million, which accounted for approximately 20.7% of the Group's consolidated revenue (1H2013: approximately HK\$550 million). This was attributable to a steady inflow of orders, with a significant portion contributed by the Group's offshore production bases in Jordan and Indonesia.

In light of the visibility of recovering orders from its established customers from the US, the Group expanded the production capacities of its Jordan and Indonesia production bases by 50% and 30% respectively early this year. This enabled the Group to satisfy the strong orders from the US during the reporting period. Since garment manufacturing became the major operation for the segment, the Group further utilised and capitalised the specific competitive advantages of its self-owned production bases in the PRC, Cambodia, Indonesia and Jordan, to allocate orders flexibly and deliver quality garment products with fast lead time. Such arrangements helped enhance both the segment's revenue and margin for the period ended 30 September 2014. With multiple benefits brought by its strategically located production bases and the outlined expansion plans, the Group is capable of maintaining its competitiveness and profitability in the long run.

## **Resin Business**

The Group continued to fine-tune its resin production machines to lift the environmental standards of its facilities. Such technical enhancement has nevertheless impacted the Group's resin output. In the meantime, the Group might consider leasing the resin production site and facilities to third parties in order to secure a stable inflow of leasing fees in return, which allows the Group to focus its financial and human resources on its core textile and garment business.

## **Major Movements**

On 22 July 2014, Sure Strategy, Merlotte and VC Investments completed the sale of their aggregate interest of 320,000,000 shares of Highlight China (formerly known as Ford Glory Group Holdings Limited), representing approximately 61.56% of the entire issued share capital of Highlight China on a fully-diluted basis, to an independent third party at an aggregate consideration of HK\$258,560,000.

On the same date, Sure Strategy completed the acquisition of its garment manufacturing business for HK\$270,000,000 in cash from Highlight China to retain the garment manufacturing business in the Group.

Upon completion of the two transactions, the Group recorded a gain of approximately HK\$227.7 million during the reporting period. In view of such gain, the Company may consider the declaration of a possible special dividend subject to the results and working capital of the Group during the six months ending 31 March 2015. Such intention does not amount to any guarantee, representation or indication that the Group must or will declare and pay dividends in such manner or declare and pay any special dividend at all. The Group will make necessary announcement according to the Listing Rules when and where appropriate.

## **PROSPECTS**

As indicated by the newly released University of Michigan Consumer Sentiment Index, consumer confidence in the US increased to 86.9 in October 2014, which is the highest since July 2007, signaling an encouraging start for the second half of the Group's fiscal year. Nonetheless, the Group remains cautiously optimistic about the outlook of textile and garment industry in face of the ongoing market consolidation. The Group will carefully monitor market sentiments and adjust its business strategies accordingly to meet market demand. The Group will also watch for the right timing to expand its production capacity to maintain its growth momentum and continue to absorb the recovered orders to maximise its market share while approaching new buyers in an effort to explore new brand-name customers.

In view of the on-going supply side consolidation, the Group is confident that the expanded production capability and its responsiveness to changes in market sentiment will sustain the Group's growth momentum in the long run and ultimately create greater value for its Shareholders.

## **FINANCIAL REVIEW**

### **Liquidity and Financial Resources**

As at 30 September 2014, the Group had total assets of approximately HK\$9,828 million (31 March 2014: HK\$9,403 million) which were financed by current liabilities of approximately HK\$2,594 million (31 March 2014: HK\$2,807 million), long term liabilities of approximately HK\$1,858 million (31 March 2014: HK\$1,364 million) and shareholders' equity of approximately HK\$5,231 million (31 March 2014: HK\$4,974 million). The current ratio was approximately 2.4 (31 March 2014: 2.1) and the gearing ratio, defined as net debt (representing by total bank borrowings net of cash and cash equivalents) to shareholders' funds was approximately 34.4% (31 March 2014: 38.1%). All of the Group's borrowings were at floating rate basis.

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

### **Foreign Exchange and Interest Rate Risks**

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

The Group's monetary assets and liabilities were principally denominated in Hong Kong dollars, Renminbi and US dollars. The fluctuations in the US dollars and Renminbi have always been 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\$181 million on additions to property, plant and equipment.

As at 30 September 2014, the Group had capital commitments of approximately HK\$1.1 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 2014, certain property, plant and equipment, prepaid lease payments and investment property of the Group with net book value of approximately HK\$411 million (31 March 2014: HK\$402 million) were pledged to banks to secure banking facilities granted.

## **Employee Information**

As at 30 September 2014, the total number of employees of the Group was approximately 1,410 in Cambodia, approximately 1,810 in Jordan, approximately 1,360 in Indonesia, approximately 5,440 in the PRC and approximately 130 in Hong Kong, Macau and other places. Remuneration packages are generally structured with reference to market terms and individual qualifications. Salaries and wages are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Bonuses are normally paid to management staff based on individuals' merits as well as the results of the Group. Other benefits to the staff include a provident fund scheme as well as medical insurance.

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

## **Warrants**

In order to raise further capital for the Company without having an immediate dilution effect on the shareholding of the then existing Shareholders, on 5 February 2013, 50,000,000 unlisted warrants of the Company were placed to the following independent places at an issue price of HK\$0.01 per warrant with an exercise price of HK\$0.89 per Share, being the closing price of the Shares on the date which the terms of the issue of the warrants were fixed ("Placing of the Unlisted Warrants"):

- (1) Pacific Alliance Asia Opportunity Fund LP, a Cayman Islands exempted limited partnership;
- (2) Asian Equity Special Opportunities Portfolio Master Fund Limited, an open-end investment company incorporated in the Cayman Islands with limited liability; and
- (3) Rich Wealth Investments Limited, a company incorporated in the British Virgin Islands.

The proceeds raised upon completion of the Placing of the Unlisted Warrants amounted to HK\$500,000. The exercise period of the unlisted warrants was 12 months from the issue date of the warrants. All warrants were exercised during the year ended 31 March 2014. As at 31 March 2014, HK\$44,500,000 had been received as proceeds upon the exercise of the warrants in full and had been utilised for expansion of the production facilities in Xinhui, Guangdong, the PRC.

For further details of the Placing of the Unlisted Warrants, please refer to the announcement of the Company dated 23 January 2013.

## **CLOSURE OF REGISTER OF MEMBERS**

In order to determine the entitlement to the interim dividend for the six months ended 30 September 2014, the register of members of the Company will be closed from 29 December 2014 to 30 December 2014 (both days inclusive), during which period no transfer of Shares can be registered. In order to qualify for the interim dividend for the period ended 30 September 2014, all transfer of Shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share



registrar, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 24 December 2014.

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

During the six months ended 30 September 2014, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## **COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE**

Save as the deviation discussed below, the Company had complied throughout the six months ended 30 September 2014 with the code provisions ("Code Provisions") set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

Code Provision A.6.7 provides that independent non-executive directors of listed issuers should attend general meeting. One independent non-executive Director did not attend the annual general meeting of the Company held on 28 August 2014 due to his other business commitments.

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

The Company has adopted a code of conduct (the "Code of Conduct") regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, all Directors have confirmed that they had complied with the required standard set out in the Code of Conduct during the six months ended 30 September 2014.

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

Hong Kong, 28 November 2014

*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*