



VICTORY CITY INTERNATIONAL HOLDINGS LIMITED

冠華國際控股有限公司

Stock Code 股份代號 : 539

2016/17

INTERIM REPORT

中期報告



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BOARD OF DIRECTORS

Executive Directors

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

Independent Non-executive Directors

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

COMPANY SECRETARY

Lee Chung Shing

LEGAL ADVISER AS TO HONG KONG LAW

Chiu & Partners

AUDITOR

Deloitte Touche Tohmatsu

MAJOR BANKERS

The Hongkong and Shanghai Banking Corporation Limited
China CITIC Bank International Limited
Hang Seng Bank Limited
Fubon Bank (Hong Kong) Limited
Rabobank International
Nanyang Commercial Bank, Limited
CTBC Bank Co., Ltd.

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 2016

	Note	Six months ended 30 September	
		2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Revenue	4	2,534,643	2,696,797
Cost of sales		(2,100,209)	(2,192,031)
Gross profit		434,434	504,766
Other income		35,946	44,696
Other gains and losses	5	(71,136)	(64,213)
Distribution and selling expenses		(65,729)	(73,461)
General and administrative expenses		(182,067)	(181,617)
Finance costs		(70,380)	(61,070)
Gain on disposal of subsidiaries	6	19,850	—
Profit before taxation		100,918	169,101
Income tax expense	7	(16,178)	(22,166)
Profit for the period	8	84,740	146,935
Other comprehensive income (expense):			
<i>Item that may be subsequently reclassified to profit or loss:</i>			
Fair value change of an available-for-sale investment		106	(57)
Exchange differences arising on translation of foreign operations		(197,073)	(203,877)
Reclassification of translation reserve upon disposal of subsidiaries		9	—
		(196,958)	(203,934)
<i>Item that will not be subsequently reclassified to profit or loss:</i>			
Fair value adjustment of investment properties reclassified from property, plant and equipment, net of related deferred taxation		—	6,320
Other comprehensive expense for the period		(196,958)	(197,614)
Total comprehensive expense for the period		(112,218)	(50,679)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2016

	Note	Six months ended 30 September	
		2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Profit (loss) for the period attributable to:			
Owners of the Company		86,629	142,069
Non-controlling interests		(1,889)	4,866
		84,740	146,935
Total comprehensive (expense) income for the period attributable to:			
Owners of the Company		(109,132)	(57,413)
Non-controlling interests		(3,086)	6,734
		(112,218)	(50,679)
Earnings per share	10		
Basic		HK3.3 cents	HK7.6 cents
Diluted		HK3.3 cents	HK7.4 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2016

	Note	30 September 2016 HK\$'000 (unaudited)	31 March 2016 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	11	3,559,500	3,530,629
Prepaid lease payments	11	190,375	193,322
Investment properties	11	158,441	164,657
Goodwill		6,185	6,614
Restricted bank deposit	12	60,473	60,324
Deferred tax assets	13	2,324	2,433
Deposit paid for acquisition of property, plant and equipment		2,024	30,894
Other assets		26,040	26,040
		4,005,362	4,014,913
Current assets			
Inventories		2,692,488	2,767,820
Trade and bills receivables	14	1,727,841	1,720,070
Deposits, prepayments and other receivables		248,563	178,197
Prepaid lease payments	11	4,822	4,815
Available-for-sale investment		1,800	1,694
Taxation recoverable		2,587	526
Bank balances and cash		2,501,592	2,111,088
		7,179,693	6,784,210
Current liabilities			
Trade and bills payables	15	389,059	397,117
Other payables and accruals		102,704	134,597
Dividend payable		27,913	197
Taxation payable		75,514	72,794
Derivative financial instruments	16	161,965	126,782
Bank borrowings — amount due within one year	17	2,084,261	1,849,123
		2,841,416	2,580,610
Net current assets		4,338,277	4,203,600
Total assets less current liabilities		8,343,639	8,218,513

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2016

	Note	30 September 2016 HK\$'000 (unaudited)	31 March 2016 HK\$'000 (audited)
Capital and reserves			
Share capital	18	27,722	22,722
Reserves		5,553,388	5,437,842
Equity attributable to owners of the Company		5,581,110	5,460,564
Non-controlling interests		75,872	154,034
Total equity		5,656,982	5,614,598
Non-current liabilities			
Bank borrowings — amount due after one year	17	2,599,200	2,516,491
Deferred tax liabilities	13	87,457	87,424
		2,686,657	2,603,915
		8,343,639	8,218,513

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2016

	Attributable to owners of the Company											Attributable to non-controlling interests	Total
	Share capital	Share premium	Special reserve	Capital redemption reserve	Capital reserve	Translation reserve	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		
At 1 April 2015 (audited)	18,625	1,882,360	1,961	39	76,229	647,749	25,093	662	7,416	2,709,265	5,369,399	144,688	5,514,087
Profit for the period	–	–	–	–	–	–	–	–	–	142,069	142,069	4,866	146,935
Fair value change of an available-for-sale investment	–	–	–	–	–	–	–	(57)	–	–	(57)	–	(57)
Exchange differences arising on translation of foreign operations	–	–	–	–	–	(202,860)	–	–	–	–	(202,860)	(1,017)	(203,877)
Fair value adjustment of investment property reclassified from property, plant and equipment, and prepaid lease payments net of related deferred taxation	–	–	–	–	–	–	–	–	3,435	–	3,435	2,885	6,320
Total comprehensive income for the period	–	–	–	–	–	(202,860)	–	(57)	3,435	142,069	(57,413)	6,734	(50,679)
2015 Final dividend approved but not yet paid	–	–	–	–	–	–	–	–	–	(55,938)	(55,938)	–	(55,938)
2015 Special dividend approved but not yet paid	–	–	–	–	–	–	–	–	–	(74,585)	(74,585)	–	(74,585)
Issue of shares upon exercise of share options of the Company (Note 18)	26	2,570	–	–	–	–	(601)	–	–	–	1,995	–	1,995
Issue of shares upon subscription of shares, net of related transaction costs (Note 18)	1,865	182,063	–	–	–	–	–	–	–	–	183,928	–	183,928
At 30 September 2015 (unaudited)	20,516	2,066,993	1,961	39	76,229	444,889	24,492	605	10,851	2,720,811	5,367,386	151,422	5,518,808
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
Fair value change of an available-for-sale investment	–	–	–	–	–	–	–	106	–	–	106	–	106
Exchange differences arising on translation of foreign operations	–	–	–	–	–	(195,876)	–	–	–	–	(195,876)	(1,197)	(197,073)
Reclassification of translation reserve upon disposal of subsidiaries (Note 6)	–	–	–	–	–	9	–	–	–	–	9	–	9
Total comprehensive income for the period	–	–	–	–	–	(195,867)	–	106	–	86,629	(109,132)	(3,086)	(112,218)
2016 Final dividend approved but not yet paid	–	–	–	–	–	–	–	–	–	(27,722)	(27,722)	–	(27,722)
Issue of shares upon subscription of shares, net of related transaction costs (Note 18)	5,000	252,400	–	–	–	–	–	–	–	–	257,400	–	257,400
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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2016

	Note	Six months ended 30 September	
		2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Net cash from operating activities		36,140	299,217
Net cash used in investing activities:			
Purchase of property, plant and equipment		(254,659)	(169,895)
Disposal of subsidiaries (net of cash and cash equivalents disposed of)	6	74,543	—
Increase in deposit paid for acquisition of property, plant and equipment		(1,702)	(36,527)
Withdrawal of restricted bank deposit		—	94,550
Other investing cash flows		1,205	640
		(180,613)	(111,232)
Net cash from financing activities:			
New bank loans raised	17	676,351	209,200
Net amount of bank borrowings from discounted bills and debt factored with resource raised		57,298	48,061
Issue of shares upon subscription of shares, net of related transaction costs	18	257,400	183,928
Repayment of bank loans	17	(382,280)	(278,796)
Net amount of import loans and trust receipt loans (repaid) raised		(30,014)	10,005
Exercise of share options of the Company		—	1,995
		578,755	174,393
Net increase in cash and cash equivalents		434,282	362,378
Cash and cash equivalents at beginning of the period		2,111,088	2,003,390
Effect of foreign exchange rate changes		(43,778)	(41,306)
Cash and cash equivalents at end of the period, represented by bank balances and cash		2,501,592	2,324,462

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2016

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the Hong Kong Accounting Standard 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 (the “Listing Rules”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

2. SIGNIFICANT EVENT AND TRANSACTION IN THE CURRENT INTERIM PERIOD

During the current interim period, the Group completed a disposal of subsidiaries which had a significant impact to the Group’s current interim financial performance. Details of this disposal are set out in Note 6.

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 2016 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2016.

In the current interim period, the Group has applied, for the first time, certain amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are mandatorily effective for the current interim period.

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

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2016

4. SEGMENT INFORMATION *(continued)*

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

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 2016

	Knitted fabric and dyed yarn HK\$'000	Garment products HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
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 and gain				36,196
Unallocated corporate expenses and loss				(75,761)
Finance costs				(70,380)
Profit before taxation				100,918

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2016

4. SEGMENT INFORMATION *(continued)*

Six months ended 30 September 2015

	Knitted fabric and dyed yarn HK\$'000	Garment products HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
REVENUE				
External sales	2,208,925	487,872	—	2,696,797
Inter-segment sales	24,549	—	(24,549)	—
Segment revenue	2,233,474	487,872	(24,549)	2,696,797
RESULTS				
Segment results	224,079	32,197	—	256,276
Unallocated corporate income and gain				37,594
Unallocated corporate expenses and loss				(63,699)
Finance costs				(61,070)
Profit before taxation				169,101

Segment results represent the profit earned by each segment without allocation of interest income, rental income, net loss on fair value change of derivative financial instruments, gain on fair value change of restricted bank deposit, net gain 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 2016

5. OTHER GAINS AND LOSSES

	Six months ended 30 September	
	2016	2015
	HK\$'000	HK\$'000
Net loss on fair value change of derivative financial instruments	(67,559)	(56,611)
Net foreign exchange loss	(4,373)	(9,242)
Net gain on disposal of property, plant and equipment	647	176
Gain on fair value change of restricted bank deposit	149	764
Gain on fair value change of investment properties	—	700
	(71,136)	(64,213)

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 is 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2016

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 2016

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	
	2016	2015
	HK\$'000	HK\$'000
Current tax:		
Hong Kong Profits Tax	614	5,089
Enterprise Income Tax ("EIT") in the People's Republic of China (the "PRC")	13,350	14,602
Overseas income tax	—	27
	13,964	19,718
Deferred tax for the current period (Note 13)	2,214	2,448
	16,178	22,166

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2016

7. INCOME TAX EXPENSE (continued)

Hong Kong

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

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	
	2016	2015
	HK\$'000	HK\$'000
Profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	149,555	129,268
Release of prepaid lease payments	2,398	2,070
Interest income	(21,720)	(29,159)
Rental income from investment properties and property, plant and equipment	(12,978)	(6,795)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2016

9. DISTRIBUTION

On 17 August 2016, the Company approved a final dividend of HK1.0 cent per share in respect of the financial year ended 31 March 2016 (2015: a final dividend of HK3.0 cents per share and a special dividend of HK4.0 cents per share in respect of the financial year ended 31 March 2015). The amount of final dividend and special dividend approved was in cash with a scrip option.

The directors of the Company (the "Directors") do not recommend the payment of an interim dividend for the six months ended 30 September 2016 (six months ended 30 September 2015: HK4.0 cents per share, in cash with a scrip option).

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	
	2016	2015
	HK\$'000	HK\$'000
Earnings		
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share	86,629	142,069
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,646,546	1,870,025
Effect of dilutive potential ordinary shares:		
Share options of the Company	—	40,856
Weighted average number of ordinary shares for the purpose of diluted earnings per share	2,646,546	1,910,881

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2016

10. EARNINGS PER SHARE *(continued)*

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

11. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT, PREPAID LEASE PAYMENTS AND INVESTMENT PROPERTIES

During the current interim period, the Group had additions to property, plant and equipment of approximately HK\$285 million (six months ended 30 September 2015: HK\$208 million).

During the six months ended 30 September 2016, an investment property with a carrying amount of HK\$3,647,000 was transferred to property, plant and equipment and prepaid lease payments as the management had changed the use of property to owner occupation purpose. The property was fair-valued by Roma Appraisals Limited ("Roma"), an independent firm of valuers not connected with Group, at the date of transfer using the depreciated replacement costs basis.

During the six months ended 30 September 2015, property, plant and equipment and prepaid lease payments with carrying amounts of HK\$101,681,000 and HK\$603,000, respectively, were transferred to investment properties as the management had changed the use of the properties, evidenced by entering into various operating leases with tenants. The properties were fair-valued by Roma at the date of transfer using the depreciated replacement costs approach, or by reference to recent market prices and market rental for similar properties in similar locations and conditions, where appropriate.

The Group's investment properties at the end of the current interim period were fair-valued by Roma. 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2016

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.

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

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 HK\$'000	Accelerated tax and accounting depreciation HK\$'000	Dividend withholding tax HK\$'000	Fair value change on investment properties HK\$'000	Others HK\$'000	Total HK\$'000
At 1 April 2015	66,595	(1,549)	19,966	—	(2,756)	82,256
(Credit) charge to profit or loss	(3,400)	5	7,165	—	93	3,863
Charge to revaluation reserve	—	—	—	2,106	—	2,106
Exchange difference	(2,344)	—	(833)	(57)	—	(3,234)
At 31 March 2016	60,851	(1,544)	26,298	2,049	(2,663)	84,991
(Credit) charge to profit or loss	(1,732)	40	3,837	—	69	2,214
Exchange difference	(1,410)	—	(619)	(43)	—	(2,072)
At 30 September 2016	57,709	(1,504)	29,516	2,006	(2,594)	85,133

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2016

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 2016 HK\$'000	31 March 2016 HK\$'000
Deferred tax assets	2,324	2,433
Deferred tax liabilities	(87,457)	(87,424)
	(85,133)	(84,991)

14. TRADE AND BILLS RECEIVABLES

The Group allows a credit period ranging between 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 2016 HK\$'000	31 March 2016 HK\$'000
0–60 days	1,110,133	1,104,123
61–90 days	372,900	380,297
91–120 days	175,268	160,765
Over 120 days	69,540	74,885
	1,727,841	1,720,070

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2016

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 2016 HK\$'000	31 March 2016 HK\$'000
0–60 days	255,341	259,220
61–90 days	95,424	89,400
Over 90 days	38,294	48,497
	389,059	397,117

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

16. DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives not under hedge accounting:

	30 September 2016 HK\$'000	31 March 2016 HK\$'000
Structured foreign currency forward contracts:		
– Net-settled Contracts (note)	153,798	122,150
– Gross-settled Contract	509	—
Interest rate swap	4,574	4,632
Interest rate collar	3,084	—
	161,965	126,782

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2016

17. BANK BORROWINGS

During the current interim period, the Group obtained new bank loans in the amount of HK\$676,351,000 (six months ended 30 September 2015: HK\$209,200,000) and repaid bank loans in the amount of HK\$382,280,000 (six months ended 30 September 2015: HK\$278,796,000). The bank borrowings of the Group carry interest at market rates ranging from 1.59% to 6.59% per annum (six months ended 30 September 2015: 1.49% to 6.59% per annum).

18. SHARE CAPITAL

	Number of shares	Share capital HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 April 2015, 31 March 2016 and 30 September 2016	40,000,000,000	400,000
Issued and fully paid:		
At 1 April 2015	1,862,559,899	18,625
Issue of shares pursuant to scrip dividend scheme for 2015 final dividend	15,127,796	151
Issue of shares pursuant to scrip dividend scheme for 2015 special dividend	17,032,059	170
Issue of shares pursuant to scrip dividend scheme for 2016 interim dividend	2,498,932	25
Issue of shares upon exercise of share options (Note 19)	2,550,000	26
Issue of shares upon subscription of shares, net of related transaction costs	372,460,000	3,725
At 31 March 2016	2,272,228,686	22,722
Issue of shares upon subscription of shares, net of related transaction costs (note)	500,000,000	5,000
At 30 September 2016	2,772,228,686	27,722

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2016

18. SHARE CAPITAL *(continued)*

note: On 18 March 2016, the Company entered into a placing agreement with Kingston Securities Limited as placing agent (the "Placing Agent"), which is independent and not connected to the Company. Pursuant to the placing agreement, the Placing Agent 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 of the Company; 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.

19. 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 2015	106,400,000
Exercised during the period	(2,550,000)
Outstanding as at 30 September 2015, 31 March 2016 and 30 September 2016	103,850,000

The exercise price of the options granted is HK\$0.782 per share. These options were immediately vested and are exercisable for a period up to the 5th anniversary of the date of grant.

Subsequent to the reporting period, the Company had granted a total of 270,000,000 share options, details are set out in Note 24.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2016

20. 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\$12,978,000 (six months ended 30 September 2015: HK\$6,795,000).

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

	30 September 2016 HK\$'000	31 March 2016 HK\$'000
Within one year	25,429	29,058
In the second to fifth year, inclusive	29,243	48,728
More than five years	5,830	5,755
	60,502	83,541

21. CAPITAL COMMITMENTS

	30 September 2016 HK\$'000	31 March 2016 HK\$'000
Capital expenditure in respect of property, plant and equipment contracted for but not provided in the condensed consolidated statement of financial position	9,652	49,393

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2016

22. RELATED PARTY DISCLOSURES

- (i) During the current interim period, the Group paid operating lease rental of HK\$492,000 (six months ended 30 September 2015: HK\$408,000) 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 2015: Nil) 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 of the Company (“Shareholder(s)”) who has significant influence over the Company, and his family members.

For the six-month period 30 September 2015, the Group paid operating lease rental of HK\$492,000 to Rich Trade Development Limited (“Rich Trade”). Rich Trade 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 payment 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 2016	2015
	HK\$'000	HK\$'000
Basic salaries and allowances	6,259	6,259
Retirement benefit scheme contributions	130	130
	6,389	6,389

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2016

23. 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.

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 2016	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input	Range as at 30 September 2016
Available-for-sale investment (unlisted trust fund)	Assets — HK\$1,800,000 (31 March 2016: HK\$1,694,000)	Level 1	N/A	N/A	N/A
Restricted bank deposit (note i)	Assets — HK\$60,473,000 (31 March 2016: HK\$60,324,000)	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 of the related structured foreign currency forward contract, risk-free rate of 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	4.7% (31 March 2016: 5.4%)
Structured foreign currency forward contracts classified as derivative financial instruments (note ii)	Liabilities — HK\$154,307,000 (31 March 2016: HK\$122,150,000) <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	1.3%–4.7% (31 March 2016: 4.9%–5.4%)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2016

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

Financial assets/ financial liabilities	Fair value as at 30 September 2016	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input	Range as at 30 September 2016
Interest rate collar classified as derivative financial instruments (note iii)	Liabilities – HK\$3,084,000 (31 March 2016: Nil) <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	46.0%–131.6% (31 March 2016: N/A)
Interest rate swap classified as derivative financial instruments (note iv)	Liability – HK\$4,574,000 (31 March 2016: HK\$4,632,000) <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:

- (i) The higher the average implied volatility of the exchange rate used, the lower the fair value. Changes in the average implied volatility of the exchange rate used will have insignificant impact on the fair value of the restricted bank deposit.
- (ii) 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\$864,000/HK\$924,000.

If RMB weakened/strengthened against US\$ by 5% and all variables were held constant, the Group's post tax profit for the period would decreased by approximately HK\$116,915,000/increased by approximately HK\$84,894,000. Due to the terms of the contracts, changes in the inputs adopted in the valuation model would lead to asymmetric changes in the fair values.

- (iii) 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 collar.
- (iv) The discounted cash flow method uses only observable market inputs.

There is no transfer between the different levels of the fair value hierarchy for the current period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2016

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

Reconciliation of Level 3 fair value measurements of financial assets

	Restricted bank deposit HK\$'000	Structured foreign currency forward contracts HK\$'000	Interest rate collar HK\$'000	Total HK\$'000
At 1 April 2015	94,396	(92,808)	—	1,588
Amount received during the year	—	(4,221)	—	(4,221)
Placement of a restricted bank deposit	61,922	—	—	61,922
Withdrawal of a restricted bank deposit	(94,550)	—	—	(94,550)
Fair value gains (losses) (note):				
— realised	765	66,053	—	66,818
— unrealised	(1,599)	(91,174)	—	(92,773)
Exchange difference	(610)	—	—	(610)
At 31 March 2016	60,324	(122,150)	—	(61,826)
Amount paid during the period	—	31,772	—	31,772
Fair value gains (losses) (note):				
— realised	—	(28,407)	—	(28,407)
— unrealised	149	(35,522)	(3,084)	(38,457)
At 30 September 2016	60,473	(154,307)	(3,084)	(96,918)

note: The amount is included in net gain on fair value change of derivative financial instruments and gain on fair value change of restricted bank deposit of "other gains and losses" in Note 5.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2016

24. EVENTS AFTER THE REPORTING PERIOD

The following events took place after the reporting period:

- (i) On 12 October 2016, the Company granted a total of 270,000,000 share options under its share option scheme adopted on 15 March 2011. Among the total of 270,000,000 share options granted, 31,000,000 share options were granted to a Director and an associate (as defined in the Listing Rules) of a Director. Details of these are set out in the announcement of the Company dated 12 October 2016.
- (ii) On 8 November 2016, the Company announced a proposed rights issue to raise a gross proceeds of 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\$0.250 per rights share. The Company intends to use the proceed to establish new production facilities for fabric manufacturing in Vietnam and pursuing appropriate acquisition opportunities to further expand its synthetic fabric production. Details of this proposed rights issue are set out in the announcement of the Company dated 8 November 2016.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.

TO THE BOARD OF DIRECTORS OF VICTORY CITY INTERNATIONAL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

德勤

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 28, which comprise the condensed consolidated statement of financial position as of 30 September 2016 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

29 November 2016

BUSINESS REVIEW AND PROSPECTS

BUSINESS REVIEW

During the period under review, the global economic conditions remained unstable and challenges continued to cloud the worldwide consumer markets. Orders from the United States (“US”), the Group’s major market, were weakened when compared with previous year. The Group’s performance for the first half of the financial year was inevitably affected by these unfavourable market conditions.

For the six months ended 30 September 2016, the Group’s unaudited consolidated revenue was approximately HK\$2,535 million, representing a decrease of approximately 6.0% as compared with that of the previous corresponding period (1H2015: HK\$2,697 million). Gross profit decreased by approximately 13.9% to approximately HK\$434.4 million from approximately HK\$504.8 million, while gross profit margin decreased to 17.1% from 18.7%. Profit attributable to owners of the Company for the reporting period amounted to approximately HK\$86.6 million, which included net loss on fair value change of derivative financial instruments of approximately HK\$67.6 million, gain on fair value change of restricted bank deposit of approximately HK\$0.1 million and gain on disposal of subsidiaries of approximately HK\$19.9 million. Hence, profit from core operations for the six months ended 30 September 2016 was approximately HK\$127.7 million after adjusting the above-mentioned non-operating gains and losses, representing a year-on-year decrease of approximately 31.5% (1H2015: approximately HK\$186.4 million). Basic earnings per share was HK3.3 cents (1H2015: HK7.6 cents).



Textile Business

For the six months ended 30 September 2016, production and sale of knitted fabric and dyed yarn remained the major business segment of the Group, accounting for approximately 83.9% of the Group’s consolidated revenue.

During the reporting period, the utilisation of the textile production plants in the PRC was lowered as a result of the weakened US market. Cotton price has started to rebound since June 2016 but the impact was not yet reflected in the average selling price. Besides, the Group had incurred additional research and development expenses in enhancing the production of synthetic fabric. As a result of the above, both revenue and operating profits for the textile business were negatively affected.

Garment Business

The Group's garment business accounted for approximately 16.1% of the Group's consolidated revenue for the six months ended 30 September 2016. Revenue of the garment business in the six months was approximately HK\$407.3 million, with a decrease of approximately 16.5% from approximately HK\$487.9 million in the same period last year. The decrease was mainly attributable to the disposal (the "Disposal") of the Group's interest in RS International Holdings Limited ("RS Holdings") and its subsidiaries, which operate a garment factory in Jordan (the "Jordan Factory"), in August 2016 and had a turnover of approximately HK\$267.7 million in the six months ended 30 September 2015 while turnover for the four months ended 31 July 2016 was only approximately HK\$184.2 million. The Group entered into a conditional sale and purchase agreement for the disposal of 51.0% of interest in RS Holdings on 13 July 2016 and the Disposal completed on 1 August 2016. The Group received net proceeds of approximately HK\$97.8 million and recorded a net gain of approximately HK\$19.9 million from the Disposal after legal and transaction costs. Please refer to the announcement of the Company dated 13 July 2016 for details.

Gross profit decreased by approximately 24.9% to approximately HK\$80.2 million from approximately HK\$106.8 million in the same period last year, with gross profit margin of approximately 19.7%, down from approximately 21.9%. The decrease was mainly due to the lower contribution from the Jordan Factory in the period and the ongoing adjustments of the Group's in-house manufacturing and outsourcing capabilities after the Disposal.



Major Movement

Completion of placing of a total of 500,000,000 shares with net proceeds of approximately HK\$257 million

On 17 May 2016, the Group completed a share placing of 500,000,000 shares at placing price of HK\$0.52 per share. The total net proceeds amounted to approximately HK\$257 million. The successful transaction reflected the market's confidence in the Group's business fundamentals and goals, and the net proceeds will provide additional funding for the Group's existing fabric manufacturing business as well as the intended establishment of new production facilities in Vietnam.



PROSPECTS

Looking forward to the second half of 2016/17, the global economy and the consumer market are expected to remain uncertain. The Group remains cautiously optimistic on the coming outlook of the textile and garment industry. The Group will continue to leverage on its prominent market position, extensive client network and well-established regional production bases to respond to the ever-changing market.

The Group continues to expand its synthetic fabric production in order to capture the growing demand from the global market and its existing customers. The Group intends to further such expansion by pursuing appropriate acquisition opportunities in Taiwan and/or the PRC through acquiring technology or production plant to supplement its existing production.

Although the Trans-Pacific Strategic Economic Partnership Agreement (the "TPP") may not be implemented after election of the new US president, the Group will closely monitor the ongoing development and the market situation when assessing the feasibility of establishing new production facilities in Vietnam.

The Group is currently operating three garment manufacturing bases in the PRC, Cambodia and Indonesia. The Group has devoted the PRC manufacturing base to selective high margin orders, research and development and sample production. The manufacturing bases in Cambodia and Indonesia, with lower labour costs and import duty free privileges of the European Union, Canada, Japan, the PRC, etc., underpin the competitiveness and future growth of the Group's garment business.

Looking ahead, the Group will continue to strengthen the competitiveness of its one-stop vertically integrated business model. In the backdrop of having a handful of market opportunities ahead, the Group will endeavour to achieve sustainability and stability of its business so as to secure the best interest of its Shareholders.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 30 September 2016, the Group had total assets of approximately HK\$11,185 million (31 March 2016: HK\$10,799 million) which were financed by current liabilities of approximately HK\$2,841 million (31 March 2016: HK\$2,581 million), long term liabilities of approximately HK\$2,687 million (31 March 2016: HK\$2,604 million) and shareholders' equity of approximately HK\$5,581 million (31 March 2016: HK\$5,461 million). The current ratio was approximately 2.5 (31 March 2016: 2.6) 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 38.0% (31 March 2016: 40.2%). 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.

Significant Investment Held by the Group

Save as disclosed in this report, there was no significant investment held by the Group for the six months ended 30 September 2016.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint ventures

On 13 July 2016, VC Investments, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with the Purchaser, who is an independent third party, pursuant to which the Purchaser conditionally agreed to purchase and VC Investments conditionally agreed to sell its entire 51% equity interest in RS Holdings and its subsidiaries at a cash consideration of HK\$98,000,000. The RS Group is 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. Please refer to the announcement of the Company dated 13 July 2016 for details.

Save as disclosed above, there is no other material acquisition or disposal of the Company's subsidiaries, associates and joint ventures for the six months ended 30 September 2016.

Future Plans for Material Investments or Capital Assets

With Vietnam entering into various free trade agreements with the European Union, South Korea and Eurasian Economic Union respectively during 2015, tariffs and other barriers to goods imported from Vietnam to these countries have been reduced. Further, negotiations for the TPP, which was a regional free trade agreement, were recently concluded in October 2015 involving 12 countries. TPP, if implemented, is likely to result in lower tariffs and fewer trade barriers to goods and services, and trade and investment in these countries, hence giving Vietnam greater market access to major TPP countries. It is expected by establishing production facilities in Vietnam not only minimises the Group's operating costs, but also increases the Group's ability to attract other customers to enjoy the benefits under these free trade agreements. The Company intends to establish new production facilities for fabric manufacturing in Vietnam.

In 2016, the Group expanded its synthetic fabric production and it intends to further such expansion by pursuing appropriate acquisition opportunities through acquiring technology or production plant to supplement its existing production. It is expected that such acquisition could improve the Group's technology in synthetic fabric production and enhance productivity and profitability.

The aforesaid proposed business expansion plans will be funded from the proposed rights issue announced on 8 November 2016 which is expected to be completed 6 January 2017, together with the remaining proceeds from the placing completed on 17 May 2016. The aforesaid proposed business expansion plans are subject to the then market, economic and political conditions and the financial conditions of the Group.

Details of this proposed rights issue are set out in the announcement of the Company dated 8 November 2016.

Capital Expenditure

During the period, the Group invested approximately HK\$285 million on additions to property, plant and equipment.

As at 30 September 2016, the Group had capital commitments of approximately HK\$10 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 2016, certain property, plant and equipment, prepaid lease payments and investment properties of the Group with net book value of approximately HK\$348 million (31 March 2016: HK\$393 million) were pledged to banks to secure credit facilities granted.

Employee Information

As at 30 September 2016, the total number of employees of the Group was approximately 1,400 in Cambodia, approximately 1,170 in Indonesia, approximately 5,080 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.

OTHER DISCLOSURES

INTERIM DIVIDEND

The board of Directors has resolved not to declare any interim dividend for the six months ended 30 September 2016 (1H2015: HK4.0 cents per share).

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

As at 30 September 2016, 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	428,488,000 Shares (L) (Note 2)	—	15.46% (Note 18)
	The Company	Beneficial owner	—	1,200,000 Shares (L) (Note 4)	0.04%
	Victory City Company Limited (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	428,488,000 Shares (L) (Note 3)	—	15.46% (Note 18)
	The Company	Beneficial owner	2,250,000 Shares (L)	—	0.08%
	The Company	Beneficial owner	—	1,200,000 Shares (L) (Note 4)	0.04%
	Victory City Company Limited (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	8,500,000 Shares (L)	—	0.31%
	The Company	Beneficial owner	—	12,000,000 Shares (L) (Note 5)	0.43%
	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%
	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%

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
	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%
	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%

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
	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%
	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%

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
Lee Yuen Chiu Andy	The Company	Beneficial owner	—	5,000,000 Shares (L) (Note 5)	0.18%
Phaisalakani Vichai	The Company	Beneficial owner	800,000 Shares (L)	—	0.03%

Notes:

- The letter "L" represents the Director's interests in the shares and underlying shares of the Company or its associated corporations.
- These Shares were held by Pearl Garden Pacific Limited ("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.
- These Shares were held by Madian Star Limited ("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.
- On 2 April 2012, each of Mr. Li Ming Hung and Mr. Chen Tien Tui was granted 1,200,000 options under the share option scheme of the Company to subscribe for 1,200,000 Shares, exercisable at a price of HK\$0.782 per Share during a period from 2 April 2012 to 1 April 2017.
- On 2 April 2012, each of Mr. Choi Lin Hung and Mr. Lee Yuen Chiu Andy was granted 12,000,000 and 5,000,000 options respectively under the share option scheme of the Company to subscribe for 12,000,000 Shares and 5,000,000 Shares respectively, exercisable at a price of HK\$0.782 per Share during a period from 2 April 2012 to 1 April 2017.
- 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.
- These shares were held by Sure Strategy.
- This registered capital was beneficially owned by FG International which is a wholly-owned subsidiary of FG Holdings.
- This registered capital was beneficially owned as to 40% by FG Holdings and as to 60% by Rocwide Limited.
- These shares was beneficially owned by Surefaith Limited which is a wholly-owned subsidiary of FG Holdings.



OTHER DISCLOSURES

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 common stock or share, as the case may be, 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 2016, 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 2016, 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	428,488,000 (L)	Beneficial owner (Note 2)	15.46%
Cornice	428,488,000 (L)	Interest of controlled corporation (Note 2)	15.46%
Madian Star	428,488,000 (L)	Beneficial owner (Note 3)	15.46%
Yonice	428,488,000 (L)	Interest of controlled corporation (Note 3)	15.46%
Fiducia Suisse SA	856,976,000 (L)	Trustee (Notes 2 & 3)	30.92%
David Henry Christopher Hill	856,976,000 (L)	Interest of controlled corporation (Note 6)	30.92%
Rebecca Ann Hill	856,976,000 (L)	Interest of spouse (Note 7)	30.92%
Ho Yuen Mui Shirley	429,688,000 (L)	Interest of spouse (Note 4)	15.50%
Or Kwai Ying	431,938,000 (L)	Interest of spouse (Note 5)	15.58%
Templeton Asset Management Limited	242,853,024 (L)	Investment manager	8.76%



OTHER DISCLOSURES

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.
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.
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 2016, there was no person or entity (other than a Director or chief executive of the Company) who had an interest or a short position in the Shares and/or underlying Shares (including interest in options, if any) which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTIONS

Pursuant to 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.

OTHER DISCLOSURES

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\$)	Exercisable period	Number of share options					Outstanding at 30 September 2016
				Outstanding at 1 April 2016	Granted	Exercised	Cancelled	Lapsed	
Directors (Note 1)	2/4/2012	0.782	2/4/2012 to 1/4/2017	19,400,000	—	—	—	—	19,400,000
Other employees (Note 2)	2/4/2012	0.782	2/4/2012 to 1/4/2017	84,450,000	—	—	—	—	84,450,000
				103,850,000	—	—	—	—	103,850,000

Notes:

- 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.
- 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).

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

During the six months ended 30 September 2016, 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 2016 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. The Company has made specific enquiries with all Directors and 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 2016.

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 2016 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.

CHANGE IN INFORMATION OF DIRECTORS

Upon specific enquiry by the Company and following confirmation from the Director, save as otherwise set out in this report, there is no change in the information of the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Name of Director	Details of changes in Director’s particulars subsequent to 2016 annual report
Chen Tien Tui	Mr. Chen resigned from his position as an independent non-executive director of China Lilang Limited, a company listed on the Main Board of the Stock Exchange on 19 April 2016.

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

Li Ming Hung
Chairman

Hong Kong, 29 November 2016



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