

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 2020**

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 2020. The interim results of the Group have been reviewed by the Company’s auditor in accordance with the Hong Kong Accounting Standard (the “HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The interim results of the Group have also been reviewed by the Company’s audit committee.

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020

		Six months ended	
		30 September	
		2020	2019
	<i>Note</i>	HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Revenue	3	2,087,022	2,571,603
Cost of sales		(1,754,104)	(2,110,554)
Gross profit		332,918	461,049
Other income		30,117	62,135
Other gains and losses	4	358	92,188
Impairment loss on trade receivables under expected credit loss model		(8,981)	—
Distribution and selling expenses		(45,461)	(62,428)
General and administrative expenses		(150,756)	(207,338)
Finance costs		(84,943)	(122,955)
Profit before taxation		73,252	222,651
Income tax expense	5	(10,975)	(17,442)
Profit for the period	6	62,277	205,209
Other comprehensive income (expense):			
<i>Items that may be subsequently reclassified to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		259,443	(503,127)
Other comprehensive income (expense) for the period		259,443	(503,127)
Total comprehensive income (expense) for the period		321,720	(297,918)

		Six months ended	
		30 September	
	<i>Note</i>	2020	2019
		<i>HK\$'000</i>	<i>HK\$'000</i>
		(unaudited)	(unaudited)
Profit (loss) for the period attributable to:			
Owners of the Company		63,852	204,577
Non-controlling interests		(1,575)	632
		<u>62,277</u>	<u>205,209</u>
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		322,772	(296,511)
Non-controlling interests		(1,052)	(1,407)
		<u>321,720</u>	<u>(297,918)</u>
			(restated)
Earnings per share	8		
Basic		<u>HK5.3 cents</u>	<u>HK26.3 cents</u>
Diluted		<u>HK5.0 cents</u>	<u>HK18.5 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 SEPTEMBER 2020

		30 September	31 March
		2020	2020
	<i>Note</i>	HK\$'000	HK\$'000
		(unaudited)	(audited)
Non-current assets			
Property, plant and equipment	9	5,454,362	4,825,777
Right-of-use assets	9	46,186	44,909
Investment properties	9	197,459	204,800
Goodwill		—	—
Financial assets at fair value through profit or loss — life insurance policies		126,920	125,685
Deferred tax assets		8,460	10,271
Deposit paid for acquisition of property, plant and equipment		—	13,721
		<u>5,833,387</u>	<u>5,225,163</u>
Current assets			
Inventories		3,453,053	3,260,479
Trade and bills receivables	10	1,901,058	1,765,993
Deposits, prepayments and other receivables		176,561	152,839
Taxation recoverable		369	273
Financial assets at fair value through profit or loss — structured bank deposits		358,340	503,534
Bank balances and cash		545,568	1,290,531
		<u>6,434,949</u>	<u>6,973,649</u>
Assets classified as held for sale		217,036	212,213
		<u>6,651,985</u>	<u>7,185,862</u>

		30 September	31 March
		2020	2020
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(unaudited)	(audited)
Current liabilities			
Trade and bills payables	11	415,225	441,514
Other payables and accruals		204,267	189,544
Contract liabilities		303	20,701
Dividend payable		189	189
Taxation payable		140,641	143,100
Derivative financial instruments		910	1,190
Lease liabilities		2,521	2,135
Bank overdrafts		84,723	94,250
Bank borrowings — amount due within one year		2,478,197	2,478,000
Convertible bonds		516,626	505,377
		3,843,602	3,876,000
Net current assets		2,808,383	3,309,862
Total assets less current liabilities		8,641,770	8,535,025
Capital and reserves			
Share capital		233,074	77,691
Reserves		6,884,571	6,502,415
Equity attributable to owners of the Company		7,117,645	6,580,106
Non-controlling interests		16,857	17,909
Total equity		7,134,502	6,598,015
Non-current liabilities			
Lease liabilities		1,340	212
Bank borrowings — amount due after one year		1,446,282	1,875,545
Deferred tax liabilities		59,646	61,253
		1,507,268	1,937,010
		8,641,770	8,535,025

Notes:

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standard (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2020 are the same as those presented in the Group’s annual financial statements for the year ended 31 March 2020.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the Amendments to Reference to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

The application of Amendments to Reference to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

Disaggregation of revenue

	Six months ended 30 September	
	2020	2019
	HK\$'000	HK\$'000
Types of goods or service		
Production and sale of knitted fabric and dyed yarn	2,031,791	2,430,217
Production and sale of garment products	<u>55,231</u>	<u>141,386</u>
	<u>2,087,022</u>	<u>2,571,603</u>
Timing of revenue recognition		
At a point in time	<u>2,087,022</u>	<u>2,571,603</u>

Performance obligations for contracts with customers

Production and sale of knitted fabric, dyed yarn and garment products

The Group produces and sells knitted fabric, dyed yarn and garment products directly to customers. Revenue is recognised when control of the goods has transferred, being when the goods have been delivered to the location specified by the customers and titles are passed to the customers. The normal credit term is 30 to 120 days upon delivery.

For production and sale of knitted fabric, dyed yarn and garment products, the performance obligation is expected to be completed within one year. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

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

Details of the Group's two operating and reportable segments are as follows.

- (i) Knitted fabric and dyed yarn — Production and sale of knitted fabric and dyed yarn
- (ii) Garment products — Production and sale of garment products

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

	Knitted fabric and dyed yarn HK\$'000	Garment products HK\$'000	Segment total HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Six months ended 30 September 2020					
REVENUE					
External sales	2,031,791	55,231	2,087,022	—	2,087,022
Inter-segment sales	<u>1,401</u>	<u>—</u>	<u>1,401</u>	<u>(1,401)</u>	<u>—</u>
Segment revenue	<u><u>2,033,192</u></u>	<u><u>55,231</u></u>	<u><u>2,088,423</u></u>	<u><u>(1,401)</u></u>	<u><u>2,087,022</u></u>
RESULTS					
Segment results	<u><u>142,637</u></u>	<u><u>(8,825)</u></u>	<u><u>133,812</u></u>	<u><u>—</u></u>	133,812
Unallocated corporate income					20,854
Unallocated other gains and losses					7,446
Unallocated corporate expenses					(3,917)
Finance costs					<u>(84,943)</u>
Profit before taxation					<u><u>73,252</u></u>
Six months ended 30 September 2019					
REVENUE					
External sales	2,430,217	141,386	2,571,603	—	2,571,603
Inter-segment sales	<u>3,309</u>	<u>—</u>	<u>3,309</u>	<u>(3,309)</u>	<u>—</u>
Segment revenue	<u><u>2,433,526</u></u>	<u><u>141,386</u></u>	<u><u>2,574,912</u></u>	<u><u>(3,309)</u></u>	<u><u>2,571,603</u></u>
RESULTS					
Segment results	<u><u>223,124</u></u>	<u><u>(13,313)</u></u>	<u><u>209,811</u></u>	<u><u>—</u></u>	209,811
Unallocated corporate income					53,488
Unallocated other gains and losses					101,484
Unallocated corporate expenses					(19,177)
Finance costs					<u>(122,955)</u>
Profit before taxation					<u><u>222,651</u></u>

Segment profit represents the profit earned by each segment without allocation of interest income, rental income, sundry income, impairment loss on property, plant and equipment, impairment loss on trade receivables under expected credit losses model, net gain (loss) on disposal of property, plant and equipment, (loss) gain on fair value change of investment properties, net gain on fair value change of derivative financial instruments, gain on fair value change of financial assets at fair value through profit or loss, gain on disposal of right-of-use assets, gain on modification of convertible bonds, loss from litigation claims, share-based payment, central administration costs and finance costs. This is the measure reported to the executive Directors for the purposes of resource allocation and performance assessment.

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

4. OTHER GAINS AND LOSSES

	Six months ended	
	30 September	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net gain (loss) on disposal of property, plant and equipment	9,996	(187)
Gain on fair value change of financial assets at fair value through profit or loss	7,302	894
Net gain on fair value change of derivative financial instruments	126	47
Net foreign exchange loss	(7,088)	(6,149)
(Loss) gain on fair value change of investment properties	(9,725)	10,703
Gain on disposal of right-of-use assets (<i>note i</i>)	—	67,250
Gain on modification of convertible bonds	—	25,198
Impairment loss on property, plant and equipment	—	(3,147)
Loss from litigation claims (<i>note ii</i>)	—	(2,768)
Others	(253)	347
	358	92,188

notes:

- (i) On 3 July 2019, Nanjing Synergy Textiles Limited (“Nanjing Synergy”), a wholly-owned subsidiary of the Company, entered into an agreement with a limited liability company controlled by the Nanjing Government under which Nanjing Synergy agreed to surrender a piece of land in Jiangning District, Nanjing to the Nanjing Government with a consideration of RMB120,000,000 (equivalent to HK\$138,728,000).

For the six months ended 30 September 2019, Nanjing Synergy recognised gain on disposal of right-of-use assets as below:

	<i>HK\$'000</i>
Proceeds received	138,728
Carrying amount of right-of-use assets	<u>(71,478)</u>
	<u><u>67,250</u></u>

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

During the year ended 31 March 2019, certain court hearings for the above legal actions taken by certain Lenders were held and the decisions were in favour of the Lenders. The subsidiary had negotiated with some of the Lenders for mutually agreed amounts of settlements. Taking into account of further legal advices, provision with an aggregate amount of HK\$46,124,000 was recognised in profit or loss for the year ended 31 March 2019, in which HK\$40,172,000 was related to the cases for which court decisions were issued in favour of the Lenders during the year, and the remaining HK\$5,952,000 were made for two cases which were still in the process of court hearing based on the opinion from a legal counsel at 31 March 2019.

During the six months ended 30 September 2019, court decisions were issued for the remaining two cases which were in favour of the Lenders, the Group recognised further losses of HK\$2,768,000 which was the interest on the claimed amount granted by the courts. During the year ended 31 March 2020, a reduction of HK\$923,000 on settlement was agreed with the Lenders after negotiation and loss from litigation claims of HK\$1,845,000 was recognised. The Directors consider that the chance of incurring further losses in relation to the above matter was remote as advised by its legal counsel.

5. INCOME TAX EXPENSE

	Six months ended 30 September	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax:		
Hong Kong Profits Tax	2,828	1,792
PRC Enterprise Income Tax (“EIT”)	7,789	33,345
	<u>10,617</u>	<u>35,137</u>
Deferred tax for the current interim period	358	(17,695)
	<u>10,975</u>	<u>17,442</u>

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

Under the Law of the PRC on EIT and its Implementation Regulation, the tax rate of the PRC subsidiaries is 25% (except for the specified entities with their entitlement to a preferential EIT rate as mentioned below).

For the nine-month period ended 31 December 2019, 江門市新會區冠華針織廠有限公司 was entitled to a reduced EIT rate of 15% as it has been qualified as a High and New Technology Enterprise. The reduced EIT rate of 15% was adopted for the three months ended 31 March 2020 and the six months ended 30 September 2020 as the Directors are of the view that the entity would qualify as a High and New Technology Enterprise in the year 2020, which however is subject to renewal.

For both periods, 江門市冠達化工科技有限公司 was entitled to a reduced EIT rate of 15% as it has been qualified as a High and New Technology Enterprise. The preferential tax rate is applicable for three years until December 2020, as determined in accordance with relevant income tax rules and regulations in the PRC.

For the six months ended 30 September 2019, 江門市新會區冠華針織廠有限公司 and 江門市冠達化工科技有限公司 were entitled to a reduced EIT rate of 15% as they were qualified as High and New Technology Enterprises.

For the disposal of the rights-of-use assets as set out in Note 4 (i), the Directors have considered whether the Group is subject to land appreciation tax (“LAT”) and are of the view that there are certain arguments for the Group to qualify for exemption of such LAT. No LAT was provided for the six months ended 30 September 2019 as management was of the view that disposal would qualify for exemption for LAT and that approval from the relevant tax authority would be successfully obtained. As at 31 March 2020, after considering the current status of the communication with the relevant tax bureau, the Directors have resolved to make a provision for LAT of HK\$67,757,000 for this disposal.

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

6. PROFIT FOR THE PERIOD

Profit for the period from continuing operations has been arrived at after charging (crediting) the following items:

	Six months ended	
	30 September	
	2020	2019
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	180,521	184,179
Depreciation of right-of-use assets	2,475	5,644
Share-based payment expenses, included in general and administrative expenses	—	15,133
Bank interest income	(36,938)	(41,663)
Rental income from investment properties and equipment (net of negligible outgoings)	(11,256)	(11,825)
	<u>(11,256)</u>	<u>(11,825)</u>

7. DISTRIBUTION

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

8. EARNINGS PER SHARE

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

	Six months ended	
	30 September	
	2020	2019
	HK\$'000	HK\$'000
Earnings		
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share	63,852	204,577
Effect of gain on modification of convertible bonds	—	(25,198)
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds	24,474	19,980
Earnings for the purpose of diluted earnings per share	<u>88,326</u>	<u>199,359</u>

	Six months ended	
	30 September	
	2020	2019
	'000	'000
		(restated)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,198,395	779,134
Effect of dilutive potential ordinary shares:		
Convertible bonds	<u>585,605</u>	<u>295,768</u>
 Weighted average number of ordinary shares for the purpose of diluted earnings per share	 <u>1,784,000</u>	 <u>1,074,902</u>

The weighted average number of ordinary shares for the purposes of calculating basic earnings per share for six months ended 30 September 2020 has been adjusted, taking into account the rights issue of shares on 14 August 2020 which were completed during the current interim period.

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

During the current interim period, the Group had additions to property, plant and equipment of approximately HK\$698,493,000 (six months ended 30 September 2019: HK\$481,179,000).

During the current interim period, the Group disposed of certain land and building, furniture, fixture and equipment and leasehold improvement (six months ended 30 September 2019: plant and machinery) with an aggregate carrying amount of HK\$2,579,000 (six months ended 30 September 2019: HK\$247,000) for cash proceeds of HK\$12,575,000 (six months ended 30 September 2019: HK\$60,000), resulting in a gain on disposal of HK\$9,996,000 (six months ended 30 September 2019: loss on disposal of HK\$187,000).

The Group's investment properties at the end of the current interim period were valued by Roma Appraisals Limited, an independent firm of valuers not connected with the Group. The valuation was determined based on the market comparable approach or the income approach, where appropriate. Market comparable approach is based on market observable transactions of similar properties and adjust to reflect the conditions and locations of the subject property. The resulting decrease in fair value of investment properties of HK\$9,725,000 (six months ended 30 September 2019: increase in fair value of investment properties of HK\$10,703,000) has been recognised directly in profit or loss for the six months ended 30 September 2020.

10. TRADE AND BILLS RECEIVABLES

The Group allows a credit period ranging from 30 to 120 days to its trade customers.

The following is an aged analysis of trade and bills receivables (net of allowance for credit losses), presented based on the invoice date, which approximated the respective revenue recognition date at the end of the reporting period:

	30 September 2020 HK\$'000	31 March 2020 HK\$'000
0–60 days	868,085	773,217
61–90 days	374,679	453,572
91–120 days	364,617	279,299
Over 120 days	293,677	259,905
	<u>1,901,058</u>	<u>1,765,993</u>

11. TRADE AND BILLS PAYABLES

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

	30 September 2020 HK\$'000	31 March 2020 HK\$'000
0–60 days	169,841	237,489
61–90 days	65,491	74,226
91–120 days	31,124	54,326
Over 120 days	148,769	75,473
	<u>415,225</u>	<u>441,514</u>

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

INTERIM DIVIDEND

The Directors has resolved not to declare any interim dividend for the six months ended 30 September 2020.

BUSINESS REVIEW

For the six months ended 30 September 2020 (“1H2020/21”), the global economy remains clouded by the on-going COVID-19 pandemic and the intensified geopolitical tension. Since mid-March 2020, majority of the cities in Europe and the United States have imposed lockdown and work from home policies from time to time, and retail business has thus suffered since consumers have been extra-cautious in spending. With sales slumped along with disrupted distribution channels, the Group’s branded clients in the North American and European cities have cancelled or postponed orders in response to the downward economy. Consequently, the Group was inevitably affected.

For 1H2020/21, the Group’s unaudited consolidated revenue was approximately HK\$2,087 million, representing a decrease of approximately 18.8% as compared to the previous corresponding period (1H2019: HK\$2,572 million). Gross profit decreased by approximately 27.8% to approximately HK\$333 million (1H2019: HK\$461 million). The decrease in gross profit was mainly attributable to the decrease in revenue and production scale which led to lower utilisation of labours and production lines. Profit attributable to owners of the Company for the reporting period amounted to approximately HK\$64 million (1H2019: HK\$205 million), representing a drop of 68.8%. The decline was due to the decrease in other gains and losses primarily due to the one-off gain of approximately HK\$67.3 million recognised during the six months ended 30 September 2019 for the disposal of a piece of land by Nanjing Synergy.

Textile Business

For 1H2020/21, production and sale of knitted fabric and dyed yarn remained the major business segment of the Group, accounting for approximately 97.4% of the Group’s consolidated revenue. Revenue for the textile segment was approximately HK\$2,032 million, representing a slight decline of approximately 16.4% from the previous corresponding period (1H2019: HK\$2,430 million).

During the reporting period, cotton price recorded a notable drop in the first quarter driven by the fall in global consumer's demand has exerted pressure on the Group's pricing position. In addition, price adjustment request from downstream manufacturers and their decrease in purchasing volumes has further deteriorated our production plants' economies of scale. Together with lean management, technology automation, machinery updates and cost control initiatives, the Group managed to mitigate the effect on the rising manufacturing overheads. Gross profit margin was approximately 16.0% (1H2019: 17.9%) and net profit (after adjusting non-operating gains and losses) was approximately HK\$75 million (1H2019: HK\$139 million) for the six months ended 30 September 2020 for the textile segment.

Garment Business

Revenue of the garment business for the reporting period was approximately HK\$55 million, with a decrease of approximately 61.0% from approximately HK\$141 million in the same period last year. The decrease was mainly attributable to the further consolidation and restructuring of business portfolio. Gross profit decrease to approximately HK\$7 million (1H2019: HK\$27 million).

Major Movement

Forming a Joint Venture with Smart Fabric to Provide Total Supply Chain Solution for Global Fashion Brands

On 10 September 2020, the Group has formed a strategic collaboration with Shenzhen Smart Fabric Textile Technology Co., Ltd* (深圳市智布互聯紡織科技有限公司) (“Smart Fabric”), with the goal of revolutionising the supply chain solution, by building a cloud platform to optimise the information flow of global value chain, and integrating the global textile with the entire value chain.

Smart Fabric is an industrial internet group that consolidates information, manufacturing capabilities, resources and technologies of the whole textile value chain. Smart Fabric is also in provision of SaaS and PaaS platform with integrated IoT, ERP, MES and big data technologies to optimise sharing of information and distributed resources for effective production planning and total solutions for global fashion brands.

Since both parties in the joint venture are engaged in textile, garment and fashion manufacturing and related business, the Group aspires to achieve synergy through consolidating information about the total supply chain for global fashion house, broadening clientele reach with the aid of integrated digital platform and the enriching of product trade flow database. Such information will support the long-term growth and facilitate the market expansion of the Group.

Completion of a rights issue of a total of 1,553,823,962 rights shares with net proceeds of approximately HK\$212.2 million

On 14 August 2020, the Company issued and allotted 1,553,823,962 ordinary shares (the “Shares”) at a subscription price of HK\$0.14 each, by way of rights issue (the “Right Issue”) in the proportion of two rights shares for every one Share held on 22 July 2020. The net proceeds of approximately HK\$212.2 million was used as general working capital of the Group and funding for repayment of syndicated loan.

For details of the use of proceeds from the Right Issue, please refer to the announcement of the Company dated 11 May 2020, the circular of the Company dated 18 June 2020 and the prospectus of the Company dated 23 July 2020.

PROSPECTS

Looking forward to second half of 2020/21, impact of COVID-19 pandemic and geopolitical conflict is expected to linger and post uncertainties to the global economy. On the demand side, as a longer period is needed for the mass production and distribution of COVID-19 vaccines, waves of outbreak in various countries continues to affect the market sentiment and consumer confidence. However, we see lights at the end of the tunnel. The increasing sales from e-commerce platforms along with the approaching of the holiday season have added up to unleash purchase power. A gradual rebound is anticipated for the retail and apparel industry, and hence, bringing growth momentum to the Group’s textile business.

On the supply side, the global fashion supply chain has been undergoing consolidation during the pandemic and will continue in the future. This provides an opportunity to scalable enterprises with leading market position, renowned customer base and the advanced production, like our Group, to gain better market share. In addition, the Group’s commencement into smart manufacturing, with the provision of deliberate supply chain solution through digitalisation and algorithms, will further solidify a sustainable and tech-driven transformation for the Group.

Looking ahead, the Group will continue to be both cautious and prudent towards the formulation and implementation of corporate strategies to create long-term value for stakeholders. Even though the market ahead is full of challenges and uncertainties, the Group will endeavour to achieve sustainability and remain competitive at all times in this rapidly changing business environment.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 30 September 2020, the Group had total assets of approximately HK\$12,485 million (31 March 2020: HK\$12,411 million) which were financed by current liabilities of approximately HK\$3,844 million (31 March 2020: HK\$3,876 million), long term liabilities of approximately HK\$1,507 million (31 March 2020: HK\$1,937 million) and shareholders' equity of approximately HK\$7,118 million (31 March 2020: HK\$6,580 million). The current ratio was approximately 1.7 (31 March 2020: 1.9) 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 43.6% (31 March 2020: 40.3%). All of the Group's borrowings were at floating rate basis.

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

Foreign Exchange and Interest Rate Risks

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

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

Capital Expenditure

During the period, the Group invested approximately HK\$698 million (1H2019: HK\$481 million) on additions to property, plant and equipment.

As at 30 September 2020, the Group had capital commitments of approximately HK\$22 million (31 March 2020: HK\$36 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 2020, certain property, plant and equipment, prepaid lease payments and investment properties of the Group with net book value of approximately HK\$229 million (31 March 2020: HK\$218 million) were pledged to banks to secure credit facilities granted.

Employee Information

As at 30 September 2020, the total number of employees of the Group was approximately 2,600 in the PRC and approximately 90 in Hong Kong, Macau and other places. Remuneration packages are generally structured with reference to market terms and individual qualifications. Salaries and wages are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Bonuses are normally paid to management staff based on individuals' merits as well as the results of the Group. Other benefits to the staff include a provident fund scheme as well as medical insurance.

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

EVENTS AFTER THE REPORTING PERIOD

On 23 October 2020, the Company entered into (i) a deed of amendment with Mr. Wang Chia Po to amend the conversion price of the convertible bonds issued on 13 August 2019 to HK\$0.120 per conversion Share, subject to the Shareholders' approval; and (ii) a deed of amendment with Mr. Wong Shu Fat to amend the conversion price of the convertible bonds issued on 23 October 2019 to HK\$0.120 per conversion Share, subject to the Shareholders' approval. Please refer to the announcement of the Company dated 23 October 2020 for details.

On 23 October 2020, the Company entered into a deed of amendment with Pearl Garden Pacific Limited and Madian Star Limited to revise the conversion restriction and to amend the conversion price of the convertible bonds issued on 28 June 2019 to HK\$0.135 per conversion Share, subject to the independent Shareholders' approval. Please refer to the announcements of the Company dated 23 October 2020 and 30 October 2020 for details.

On 9 November 2020, Mr. Choi Lin Hung resigned as an executive Director of the Company. Please refer to the announcement of the Company dated 9 November 2020 for details.

Save for above, there were no other significant events affecting the Group after the reporting period.

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

During the six months ended 30 September 2020, 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 2020 with the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

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

The Company has adopted a code of conduct (the "Code of Conduct") regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules. Upon receiving specific enquiries from the Company, all Directors have confirmed that they had complied with the required standard set out in the Code of Conduct during the six months ended 30 September 2020.

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

Hong Kong, 30 November 2020

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

* *for identification purposes only*