

HINGTEX HOLDINGS LIMITED 興紡控股有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code : 1968

INTERIM REPORT 2020



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Financial Highlights

| | For the six months ended | |
|---|---------------------------------------|---------------------------------------|
| | 30/06/2020 HK\$'000 (unaudited) | 30/06/2019 HK\$'000 (unaudited) |
| Revenue | 112,992 | 271,962 |
| Gross profit | 8,985 | 68,408 |
| Gross profit margin | 8.0% | 25.2% |
| (Loss) Profit before tax | (25,654) | 20,302 |
| (Loss) Profit and total comprehensive income for the period attributable to owners of the Company | (26,280) | 13,537 |
| (LOSS) EARNINGS PER SHARE | | |
| — Basic (HK cents) | (4.11) | 2.12 |

Management Discussion and Analysis

In the first half of 2020, due to the impacts of the 2019 Novel Coronavirus (“COVID-19”) pandemic and the trade conflict between the People’s Republic of China (“PRC”) and the United States (the “U.S.”), the global economy as well as the denim market and retail industry worldwide were greatly affected. Hingtex Holdings Limited (the “Company”) and its subsidiaries (the “Group”) recorded declines in both sales revenue and profit during the first half of 2020, which was in line with expectations. For the six months ended 30 June 2020, the Group recorded a total revenue of HK\$113.0 million (1H2019: HK\$272.0 million). Owing to less cost advantage benefited from economics of scale, the sharing of tariff payment with business partners and an one-off write-down of inventories, gross profit margin recorded 8.0% (1H2019: 25.2%), and gross profit was approximately HK\$9.0 million (1H2019: HK\$68.4 million). Loss attributable to owners of the Company was HK\$26.3 million (1H2019: profit attributable to owners of HK\$13.5 million), while loss per share were 4.11 HK cents (1H2019: earnings per share of 2.12 HK cents) for the six months ended 30 June 2020.

The Group remains in a healthy financial position. In addition to its steady operating cash flows, the Group also holds cash and cash equivalents of approximately HK\$118.8 million as at 30 June 2020.

BUSINESS REVIEW

The first half of 2020 was a challenging time for the global denim market and retail industry. Despite the improving trade relations between the U.S. and the PRC after signing the Phase One of Economic and Trade Agreement between The Government of The United States of America and The Government of The People’s Republic of China in January 2020, which helped the placement of orders resume to normal in the first quarter of 2020, the outbreak of COVID-19 pandemic in Europe and the U.S. since March had inevitably posted a detrimental effect on the Group during the first half of 2020 as customers from the U.S. accounted for the majority of its client base. Given the implementation of travel restrictions globally and the shutdown of retail stores in many places in the U.S., this had resulted in the delay of denim fabric shipments and greater inventory pressure of the Group since March 2020. Battered by the impacts from the above factors, profitability of the denim market and retail industry declined significantly.

The Group has always valued the building of strong communication links and bonds with its customers. The U.S. has increased the additional tariffs (from 10% to 25%) on PRC products last year, thus posing a considerable burden to its customers. To maintain a long term business relationship with customers, the Group agreed to a sharing of tariff absorption during the review period, which eventually led to a decline in gross profit margin.

Besides, the COVID-19 pandemic has brought great impacts to the shipments of orders of the Group’s denim products. Owing to the closure of factories in the PRC after lunar new year, coupled with lockdowns in the U.S. from March 2020, as well as travel restrictions and closure of physical stores, the COVID-19 pandemic resulted in a delay in shipments and also a drop in orders, which in turn led to a lower inventory turnover rate as well as affecting the Group’s revenue and margins during the review period. The delay in shipments and seasonal factors in the textile industry also posed pressure on the price of retail products. Fortunately, the Group was able to maintain product shipments for its existing brand owner customers supported by the rising trend of online business. Also, the gradual reopening of states and physical stores in the U.S. from May 2020 further helped relieve the inventory pressure of the Group. The Group will closely monitor the market and keep in close contact with its brand owner customers and their designated denim garment factories.

Given the importance of research and development (“R&D”), albeit in the midst of the COVID-19 pandemic, the Group has continued to make great efforts in creating denim fabrics that possess advanced functionalities while maintaining the high-quality, comfort and aesthetic appeal. During the review period, the Group introduced more environmental and sustainable materials into its fabric mix. To bring such materials to the market, it has acquired new machinery to bolster capacity and exercised better control on the production costs. The Group will continue to conduct R&D and invest in such capabilities so as to bring even more breakthroughs to the market.

Management Discussion and Analysis

Financial review

As at 30 June 2020, the bank balances and cash amounted to approximately HK\$118.8 million (31 December 2019: HK\$156.8 million) and the net current assets amounted to approximately HK\$252.6 million (31 December 2019: HK\$276.8 million). Bank balances and cash decreased by approximately HK\$38.0 million primarily due to the settlement of trade and bills payables amounting to HK\$39.2 million as they fell due. Trade and bills receivables decreased by approximately HK\$3.6 million to HK\$29.2 million (31 December 2019: HK\$32.8 million) as less revenue was generated from the second quarter of 2020 due to the impact of the COVID-19 pandemic to the U.S. retail market, when compared to the revenue generated from the fourth quarter of 2019. Current liabilities decreased by approximately HK\$45.5 million to HK\$113.2 million (31 December 2019: HK\$158.7 million) mainly due to the aforementioned settlement of trade and bills payables.

In view of the impact from the outbreak of COVID-19 pandemic, we monitored closely our inventory level and maintained a lower reorder level so long as it meets our manufacturing requirements. Accordingly, our inventories decreased by approximately HK\$22.3 million to HK\$179.8 million (31 December 2019: HK\$202.1 million).

PROSPECTS

The past six months had been highly challenging due to the uncertainty arising from the strained relations between the U.S. and the PRC, compounded by the outbreak of COVID-19 pandemic globally since February 2020. Looking ahead, as the global economic growth is expected to remain subdued in the second half of the year given the above concerns, one should possess a more prudent view towards the industry and the prospects of the Group. Boasting a history of over three decades, Hingtex has already undergone numerous economic cycles. The Group will nonetheless persist in enhancing its competitiveness so that it can timely react to any positive market changes as they come up.

As such, the Group will continue to put efforts on R&D, including the development of environmentally friendly products and products with higher sustainability. Meanwhile, to better allocate its resources and achieve cost saving, the Group has purchased a new bleaching and dyeing machine. It is expected to finish installation and commence operation by the first quarter of 2021, and will help incorporate innovative ideas in the Group's denim fabrics while at the same time reduce production costs such as water, electricity and chemical feedstocks, further enhancing the Group's commitment, achievement and performance in respect of the environmental, social and governance.

Hingtex has always strived to enhance its penetration into various markets. Over the past years, the Group has also started business in the PRC through participating in trade shows and co-operating with renowned designers. Moving forward, the Group will continue to strengthen its brand image as well as market share in various locations, and gradually explore business opportunities in its key markets, so as to establish a more diversified market network in the long term.

Management Discussion and Analysis

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The shares of our Company (the “Shares”) were listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 16 July 2018 (the “Listing Date”), raising total net proceeds of approximately HK\$147.0 million after deducting professional fees, underwriting commissions and other related listing expenses.

The following sets forth a summary of the utilisation of the net proceeds:

| Purpose | Net proceeds from the Share Offer (Note) HK\$ million | Actual use of proceeds up to 30 June 2020 HK\$ million | Remaining proceeds as at 30 June 2020 HK\$ million | Expected timeline of full utilisation of the remaining proceeds |
|---|--|---|---|---|
| To purchase production machinery and equipment including (i) weaving, slasher dyeing and shrinking lines for increasing our production capacity and efficiency; and (ii) ozone bleaching and washing machineries for enhancing our product development capability | 140.1 | 34.6 | 105.5 | By the end of 2021 |
| To attend overseas and the PRC fabric exhibitions for enhancing our market penetration and expanding our customer base | 3.2 | – | 3.2 | By the end of 2021 |
| For general working capital and other general corporate purposes | 3.7 | 3.7 | – | |
| | 147.0 | 38.3 | 108.7 | |

Note: The application of the net proceeds from the Share Offer is based on the proposed percentage of utilisation as specified in the section headed “Future Plan and Use of Proceeds” in the prospectus of the Company dated 28 June 2018.

All unutilised net proceeds have been placed with banks in Hong Kong. The Group intends to apply the remaining proceeds as shown above.

Other Disclosures

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group finances its operations primarily with internally generated funds from operating activities and banking facilities currently available. It is anticipated that the Group has sufficient working capital to meet its present funding requirements.

As at 30 June 2020, net current assets were approximately HK\$252.6 million (31 December 2019: HK\$276.8 million). Bank balances and cash as at 30 June 2020 were approximately HK\$118.8 million (31 December 2019: HK\$156.8 million).

As at 30 June 2020, there were bank borrowings of approximately HK\$71.9 million (31 December 2019: HK\$65.0 million), and the Group had HK\$141.5 million in available banking facilities as at 30 June 2020 (31 December 2019: HK\$171.8 million).

As at 30 June 2020, the Company had 640,000,000 Shares in issue. There has been no change in the capital structure of the Group during the review period.

GEARING RATIO

As at 30 June 2020, the gearing ratio of the Group, based on total borrowings (including bank borrowings and lease liabilities) to total equity (including all capital and reserves) of the Group, was 19.8% (31 December 2019: 17.2%).

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2020, the Group had 434 employees (31 December 2019: 443 employees). The Group recognises the importance of maintaining good relationship with its employees and retaining competent staff to ensure operational efficiency and effectiveness. Remuneration packages offered to the Group's employees are consistent with prevailing levels and are reviewed on a regular basis. Discretionary bonuses may be provided to selected employees taking into consideration the Group's performance and that of the individual employee. The Group provides training to employees. During the six months ended 30 June 2020, the Group had not encountered any significant problems with its employees, nor had there been any dispute between the Group and its employees that might have caused any disruption to the Group's business or operation. The Group has had no difficulty in recruiting and retaining experienced staff.

A share option scheme was adopted on 19 June 2018 by the Company. As at 30 June 2020 and up to the date of this report, no share options were granted.

CAPITAL EXPENDITURE

The Group's capital expenditure was approximately HK\$1.5 million during the current interim period (1H2019: HK\$15.3 million), which was mainly due to the capital investments in the Group's property, plant and equipment.

TREASURY POLICIES AND FOREIGN CURRENCY EXPOSURE

The Group is exposed to foreign currency risk primarily through sales, purchases, bank balances and cash and bank borrowings that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk is primarily Renminbi. As at 30 June 2020, the Group's bank borrowings carried variable rates from 1.88% to 4.19% per annum (31 December 2019: 2.23% to 4.10%). The Group has not experienced any material difficulty or liquidity problems resulting from foreign exchange fluctuations.

The Group is not engaged in the use of any financial instruments for hedging purposes. However, the management closely monitors foreign exchange exposure and will consider hedging significant foreign currency exposure when the need arises.

Other Disclosures

CONTINGENT LIABILITIES

As at 30 June 2020, the Group had no material contingent liability (31 December 2019: Nil).

PLEDGE OF ASSETS

As at 30 June 2020, the Group's lease liabilities were secured by, among others, its property, plant and equipment with carrying value of approximately HK\$4.4 million (31 December 2019: HK\$5.1 million).

CAPITAL COMMITMENTS

As at 30 June 2020, the Group had no capital commitment (31 December 2019: Nil).

ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENTS

The Group did not have any significant investment or material acquisition or disposal of subsidiaries and affiliated companies during the review period.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

There was no specific plan for material investments or capital assets as at 30 June 2020. In the event that the Group is engaged in any plan for material investments or capital assets, the Company will make announcement(s) and comply with relevant rules under the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Listing Rules") as and when appropriate.

CHANGES IN INFORMATION OF DIRECTORS

During the review period, there was no change in information of Directors to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities from the Listing Date up to the date of this report.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the model code for securities transactions by Directors of listed issuers (the "Model Code") as the code of conduct regarding securities transactions by Directors. Following specific enquiry by the Company, all the Directors have confirmed that they have complied with the required standard as set out in the Model Code and its code of conduct regarding directors' securities transactions for the six months ended 30 June 2020 and up to the date of this report.

CORPORATE GOVERNANCE CODE

The Company has applied and complied with all code provisions of the Corporate Governance Code contained in Appendix 14 to the Listing Rules (the "CG Code") for the six months ended 30 June 2020 and up to the date of this report.

AUDIT COMMITTEE

Our Company has established an audit committee (the "Audit Committee") in accordance with the requirements of the CG Code for the purpose of reviewing and supervising the Group's financial reporting process. The Audit Committee currently has three Independent Non-executive Directors, Mr. Tsang Ling Biu Gilbert, Mr. Cheung Che Kit Richard and Mr. Leung Wan Ching Clarence, J.P.. Mr. Tsang Ling Biu Gilbert is the chairman of the Audit Committee. The latest meeting of the Audit Committee was held to review the results of the Group for the six months ended 30 June 2020.

Other Disclosures

REVIEW OF THE INTERIM RESULTS

The Audit Committee had reviewed the unaudited condensed consolidated results of the Group for the period and discussed with the management of the Company the accounting principles and practices adopted by the Group as well as internal controls and other financial reporting matters.

INTERESTS OF DIRECTORS AND THE CHIEF EXECUTIVE

As at the date of this report, the interests and short positions of each Director and the chief executive of our Company in the shares, underlying shares and debentures of our Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed 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 to be notified to our Company and the Stock Exchange pursuant to the Model Code, are as follows:

(a) Interests and/or short positions in our Company

| Director | Nature of interest | Number of Shares held ⁽¹⁾ | Percentage of Interest in our Company |
|---|---|--------------------------------------|---------------------------------------|
| Mr. Tung Tsun Hong ("Mr. TH Tung") | Interest in controlled corporation ⁽²⁾ | 480,000,000 (L) | 75% |
| Mr. Tung Wai Ting Stephen ("Mr. Stephen Tung") | Interest in controlled corporation ⁽²⁾ | 480,000,000 (L) | 75% |
| Mr. Tung Cheuk Ming Stanley ("Mr. Stanley Tung") | Interest in controlled corporation ⁽²⁾ | 480,000,000 (L) | 75% |

Notes:

1. The letter "L" denotes a long position in the Shares.
2. Mr. TH Tung, Mr. Stephen Tung, Mr. Stanley Tung, Ms. Lau Chung Chau ("Mrs. Tung"), Ms. Tung Wei Ling Barbara ("Ms. Barbara Tung") and Ms. Tung Wai Lai Mabel ("Ms. Mabel Tung") entered into the Deed of Concert Parties, pursuant to which, the parties confirmed that they have been acting in concert with each other in exercising and implementing the management and operations of our subsidiaries and that it is their intention to continue to act in the above manner upon the listing of our Shares on the Main Board of the Stock Exchange (the "Listing"). Accordingly, Manford Investment Holdings Limited ("Manford Investment") is deemed to be accustomed and/or obliged to act in accordance with their directions and/or instructions and that, among others, each of Mr. TH Tung, Mr. Stanley Tung and Mr. Stephen Tung is deemed to be interested in all the Shares held by Manford Investment under the SFO.

Other Disclosures

(b) Interests and/or short positions in associated corporation(s)

| Director | Company concerned | Nature of interests | Number of shares held in the company concerned ⁽¹⁾ | Percentage of interest in the company concerned |
|------------------|-----------------------------------|---|---|---|
| Mr. TH Tung | Manford Investment ⁽²⁾ | Beneficial owner; a concert party to an agreement to buy shares described in s. 317(1)(a) of the SFO ⁽³⁾ | 100 (L) | 100% |
| Mr. Stephen Tung | Manford Investment ⁽²⁾ | Beneficial owner; a concert party to an agreement to buy shares described in s. 317(1)(a) of the SFO ⁽³⁾ | 100 (L) | 100% |
| Mr. Stanley Tung | Manford Investment ⁽²⁾ | Beneficial owner; a concert party to an agreement to buy shares described in s. 317(1)(a) of the SFO ⁽³⁾ | 100 (L) | 100% |

Note:

1. The letter "L" denotes long position in the shares held.
2. At the date of this report, Manford Investment is interested in 75% of the issued Shares and, accordingly, is the holding company of our Company within the meaning of the SFO.
3. Manford Investment is owned as to 30% by Mr. TH Tung, 20% each by Mr. Stephen Tung and Mr. Stanley Tung and 10% each by Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung, all of whom have entered into the Deed of Concert Parties, pursuant to which, the parties confirmed that they have been acting in concert with each other in exercising and implementing the management and operations of our subsidiaries and that it is their intention to continue to act in the above manner upon the Listing. Accordingly, each of Mr. TH Tung, Mr. Stephen Tung and Mr. Stanley Tung is deemed to be interested in the shares of Manford Investment held by the other parties to the Deed of Concert Parties under the SFO.

Save as disclosed above, as at the date of this report, none of our Directors nor the chief executive of our Company had any interests or short positions in the shares, underlying shares or debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed 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 to be notified to our Company and the Stock Exchange pursuant to the Model Code.

Other Disclosures

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the date of this report, so far as our Directors are aware, the following persons had an interest or short position in the Shares or the underlying Shares which were required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

| Name | Capacity/nature of interest | Number of Shares ⁽¹⁾ | Percentage shareholding |
|-----------------------------------|---|---------------------------------|-------------------------|
| Manford Investment ⁽²⁾ | Beneficial owner | 480,000,000 (L) | 75% |
| Mr. TH Tung | Interest of controlled corporation ⁽³⁾ | 480,000,000 (L) | 75% |
| Mr. Stephen Tung | Interest of controlled corporation ⁽³⁾ | 480,000,000 (L) | 75% |
| Mr. Stanley Tung | Interest of controlled corporation ⁽³⁾ | 480,000,000 (L) | 75% |
| Ms. Li Ka Mei | Interest of spouse ⁽⁴⁾ | 480,000,000 (L) | 75% |
| Mrs. Tung | Interest of controlled corporation ⁽³⁾ | 480,000,000 (L) | 75% |
| Ms. Barbara Tung | Interest of controlled corporation ⁽³⁾ | 480,000,000 (L) | 75% |
| Mr. Li Chi Hiu Lawrence | Interest of spouse ⁽⁵⁾ | 480,000,000 (L) | 75% |
| Ms. Mabel Tung | Interest of controlled corporation ⁽³⁾ | 480,000,000 (L) | 75% |
| Mr. Fung Cheong Chi | Interest of spouse ⁽⁶⁾ | 480,000,000 (L) | 75% |

Notes:

1. The letter "L" denotes a long position in the Shares.
2. As at the date of this report, Manford Investment was owned as to 30% by Mr. TH Tung, 20% by Mr. Stephen Tung, 20% by Mr. Stanley Tung, 10% by Mrs. Tung, 10% by Ms. Barbara Tung and 10% by Ms. Mabel Tung.
3. Mr. TH Tung, Mr. Stanley Tung, Mr. Stephen Tung, Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung entered into the Deed of Concert Parties, pursuant to which, among others, the parties confirmed that they have been acting in concert with each other in exercising and implementing the management and operations of our subsidiaries and that it is their intention to continue to act in the above manner upon the Listing. Accordingly, Manford Investment is deemed to be accustomed and/or obliged to act in accordance with their directions and/or instructions and that each of Mr. TH Tung, Mr. Stephen Tung, Mr. Stanley Tung, Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung is deemed to be interested in all the Shares held by Manford Investment under the SFO.
4. Ms. Li Ka Mei is the spouse of Mr. Stanley Tung and is deemed, under the SFO, to be interested in all the Shares that Mr. Stanley Tung is interested.
5. Mr. Li Chi Hiu Lawrence is the spouse of Ms. Barbara Tung and is deemed, under the SFO, to be interested in all the Shares that Ms. Barbara Tung is interested.
6. Mr. Fung Cheong Chi is the spouse of Ms. Mabel Tung and is deemed, under the SFO, to be interested in all the Shares that Ms. Mabel Tung is interested.

Other Disclosures

SHARE OPTION SCHEME

The Company conditionally adopted a share option scheme upon passing the written resolutions of the then shareholder on 19 June 2018 (the "Share Option Scheme"). Pursuant to the Share Option Scheme, our Directors may grant options to eligible participants to subscribe for the Shares subject to the terms and conditions stipulated therein. Upon the Listing, all conditions set forth have been satisfied. No share options had been granted under the Share Option Scheme since its adoption. There is no outstanding share option as at the date of this report and no share option had been exercised, cancelled or lapsed during the review period.

IMPORTANT EVENTS AFTER THE INTERIM PERIOD UNDER REVIEW

There were no material events undertaken by the Group subsequent to 30 June 2020 and up to the date of this report.

Report on Review of Condensed Consolidated Financial Statements

TO THE BOARD OF DIRECTORS OF HINGTEX HOLDINGS LIMITED

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(incorporated in the Cayman Islands as an exempted company with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Hingtex Holdings Limited (the “Company”) and its subsidiaries set out on pages 13 to 28, which comprise the condensed consolidated statement of financial position as of 30 June 2020 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 Institution 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 inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

28 August 2020

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2020

| | NOTES | Six months ended | |
|---|-------|---------------------------------------|---------------------------------------|
| | | 30/06/2020 HK\$'000 (unaudited) | 30/06/2019 HK\$'000 (unaudited) |
| Revenue | 3 | 112,992 | 271,962 |
| Cost of sales | | (104,007) | (203,554) |
| Gross profit | | 8,985 | 68,408 |
| Other income | 4 | 4,724 | 4,230 |
| Other gains and losses | | (720) | 2,486 |
| Impairment losses under expected credit loss model, net of reversal | | (54) | (151) |
| Selling and distribution expenses | | (8,637) | (12,702) |
| Administrative expenses | | (28,575) | (39,701) |
| Share of results of a joint venture | | – | (154) |
| Finance costs | | (1,377) | (2,114) |
| (Loss) profit before tax | 5 | (25,654) | 20,302 |
| Income tax expense | 6 | (626) | (6,765) |
| (Loss) profit and total comprehensive (expense) income for the period attributable to owners of the Company | | (26,280) | 13,537 |
| (LOSS) EARNINGS PER SHARE | | | |
| — Basic (HK cents) | 8 | (4.11) | 2.12 |

Condensed Consolidated Statement of Financial Position

At 30 June 2020

| | NOTES | 30/06/2020 HK\$'000 (unaudited) | 31/12/2019 HK\$'000 (audited) |
|--|-------|---------------------------------------|-------------------------------------|
| Non-current Assets | | | |
| Property, plant and equipment | 9 | 109,585 | 113,754 |
| Right-of-use assets | 9 | 25,437 | 28,859 |
| Other intangible assets | | 4,370 | 4,626 |
| Goodwill | | 1,184 | 1,184 |
| Interest in a joint venture | | 4,337 | 4,337 |
| Deferred tax assets | | 103 | 88 |
| | | 145,016 | 152,848 |
| Current Assets | | | |
| Inventories | | 179,787 | 202,058 |
| Trade and other receivables | 10 | 59,396 | 68,828 |
| Structured bank deposits | | 7,800 | 7,800 |
| Bank balances and cash | | 118,774 | 156,789 |
| | | 365,757 | 435,475 |
| Current Liabilities | | | |
| Trade and other payables | 11 | 33,240 | 80,594 |
| Amount due to a joint venture | 14 | 236 | 122 |
| Tax liabilities | | 1,898 | 3,366 |
| Bank borrowings | 12 | 71,897 | 64,983 |
| Lease liabilities | | 4,689 | 7,631 |
| Contract liabilities | | 1,246 | 1,968 |
| | | 113,206 | 158,664 |
| Net Current Assets | | 252,551 | 276,811 |
| Total Assets less Current Liabilities | | 397,567 | 429,659 |
| Non-current Liabilities | | | |
| Deferred tax liabilities | | 7,006 | 7,083 |
| Lease liabilities | | 468 | 1,083 |
| | | 7,474 | 8,166 |
| Net Assets | | 390,093 | 421,493 |
| Capital and Reserves | | | |
| Share capital | 13 | 6,400 | 6,400 |
| Reserves | | 383,693 | 415,093 |
| Equity attributable to owners of the Company and total equity | | 390,093 | 421,493 |

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020

| | Share capital HK\$'000 | Share premium HK\$'000 | Other reserve HK\$'000 | Retained earnings HK\$'000 | Total HK\$'000 |
|--|---------------------------|---------------------------|---------------------------|-------------------------------|-------------------|
| At 1 January 2019 (audited) | 6,400 | 159,906 | 10,882 | 251,837 | 429,025 |
| Profit and total comprehensive income for the period | - | - | - | 13,537 | 13,537 |
| Dividend recognised as distribution (note 7) | - | - | - | (12,800) | (12,800) |
| At 30 June 2019 (unaudited) | 6,400 | 159,906 | 10,882 | 252,574 | 429,762 |
| At 1 January 2020 (audited) | 6,400 | 159,906 | 10,882 | 244,305 | 421,493 |
| Loss and total comprehensive expense for the period | - | - | - | (26,280) | (26,280) |
| Dividend recognised as distribution (note 7) | - | - | - | (5,120) | (5,120) |
| At 30 June 2020 (unaudited) | 6,400 | 159,906 | 10,882 | 212,905 | 390,093 |

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2020

| | Six months ended | |
|---|---------------------------------------|---------------------------------------|
| | 30/06/2020 HK\$'000 (unaudited) | 30/06/2019 HK\$'000 (unaudited) |
| OPERATING ACTIVITIES | | |
| (Loss) profit before tax | (25,654) | 20,302 |
| Adjustments for: | | |
| Finance costs | 1,377 | 2,114 |
| Interest income | (1,049) | (1,260) |
| Share of results of a joint venture | – | 154 |
| Depreciation of property, plant and equipment | 5,634 | 5,982 |
| Depreciation of right-of-use assets | 4,210 | 2,908 |
| Amortisation of other intangible assets | 256 | 255 |
| Impairment losses recognised on trade and bill receivables, net of reversal | 54 | 151 |
| (Gain) loss on disposal of property, plant and equipment | (230) | 17 |
| Net foreign exchange gain | (38) | (1,137) |
| Operating cash flows before movements in working capital | (15,440) | 29,486 |
| Decrease in inventories | 22,271 | 29,124 |
| Decrease in trade and other receivables | 9,378 | 2,349 |
| Decrease in trade and other payables | (47,354) | (32,339) |
| (Decrease) increase in contract liabilities | (722) | 643 |
| Increase in amount due to a joint venture | 114 | 97 |
| Cash (used in) generated from operations | (31,753) | 29,360 |
| Income tax paid | (2,186) | (6,445) |
| NET CASH (USED IN) FROM OPERATING ACTIVITIES | (33,939) | 22,915 |
| INVESTING ACTIVITIES | | |
| Purchases of property, plant and equipment | (1,465) | (15,311) |
| Interest received | 1,049 | 1,260 |
| Proceeds on disposal of property, plant and equipment | 230 | – |
| NET CASH USED IN INVESTING ACTIVITIES | (186) | (14,051) |

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2020

| | Six months ended | |
|---|------------------|-------------|
| | 30/06/2020 | 30/06/2019 |
| | HK\$'000 | HK\$'000 |
| | (unaudited) | (unaudited) |
| FINANCING ACTIVITIES | | |
| New bank borrowings raised | 44,071 | 50,179 |
| Repayment of bank borrowings | (37,157) | (60,761) |
| Dividend paid (note 7) | (5,120) | (12,800) |
| Repayment of lease liabilities | (4,345) | (2,965) |
| Interest paid | (1,377) | (2,114) |
| NET CASH USED IN FINANCING ACTIVITIES | (3,928) | (28,461) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (38,053) | (19,597) |
| Cash and cash equivalents at beginning of the period | 156,789 | 185,140 |
| Effect of foreign exchange rate changes | 38 | 1,137 |
| CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by bank balances and cash | 118,774 | 166,680 |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

1. GENERAL

Hingtex Holdings Limited was incorporated in the Cayman Islands on 3 November 2017 as an exempted company with limited liability under the Companies Law of the Cayman Islands and its shares were listed on the Main Board of the Stock Exchange on the Listing Date.

The principal activities of the Group are the manufacturing and sales of denim fabric. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section to the interim report.

The functional currency of the Company is United States dollar ("US\$"), as the sales activities of the Group are mainly denominated in US\$, and the presentation currency of the Group is Hong Kong dollar ("HK\$"), as the directors of the Company consider HK\$ can provide more meaningful information to the Company's investors.

1A. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 ("HKAS 34") Interim Financial Reporting issued by the Hong Kong Institution of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange.

1B. SIGNIFICANT EVENTS AND TRANSACTIONS IN THE CURRENT INTERIM PERIOD

The outbreak of COVID-19 and the subsequent quarantine measures as well as the travel restrictions imposed by many countries have had negative impacts to the global economy, business environment and directly and indirectly affect the operations of the Group. The Group stopped its manufacturing activities from end of January 2020 to mid of February 2020 due to mandatory government quarantine measures in an effort to contain the spread of the pandemic. On the other hand, the PRC and Hong Kong governments have announced some financial measures and supports for corporates to overcome the negative impact arising from the pandemic. As such, the financial positions and performance of the Group were affected in different aspects, including reduction in revenue, increase in cost of sales due to fixed production overheads during the close-down period and receipt of government grants in respect of COVID-19-related subsidies as disclosed in the relevant notes.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2019.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the Amendments to References to 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 |

Except as described below, the application of the Amendments to References to 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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Impacts of application on Amendments to HKAS 1 and HKAS 8 Definition of Material

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current period had no impact on the condensed consolidated financial statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected on the consolidated financial statements for the year ending 31 December 2020.

3. REVENUE AND SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (the “CODM”), being the chief executive officer, in order to allocate resources to segments and to assess their performance.

During the six months ended 30 June 2020, the CODM assesses the operating performance and allocates the resources of the Group as a whole as the Group is primarily engaged in manufacturing of the denim fabrics. Therefore, the management considers that the Group only has one operating segment. The Group mainly operates in Hong Kong and the PRC, and the Group’s non-current assets are mainly located in the PRC.

Disaggregation of revenue

The following is an analysis of the Group’s revenue from its major products and services:

| | Six months ended | |
|-----------------------------------|---------------------------------------|---------------------------------------|
| | 30/06/2020 HK\$’000 (unaudited) | 30/06/2019 HK\$’000 (unaudited) |
| Stretchable blended denim fabrics | 100,855 | 237,150 |
| Stretchable cotton denim fabrics | 5,955 | 25,126 |
| Non-stretchable denim fabrics | 5,714 | 6,574 |
| Others (note) | 468 | 3,112 |
| Total | 112,992 | 271,962 |

Note: Others mainly include revenue from sales of yarns.

| | Six months ended | |
|--------------------------------|---------------------------------------|---------------------------------------|
| | 30/06/2020 HK\$’000 (unaudited) | 30/06/2019 HK\$’000 (unaudited) |
| Timing of revenue recognition: | | |
| At a point in time | 112,992 | 271,962 |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

Geographical information

The Group mainly operates in Hong Kong and the PRC and the Group's non-current assets are mainly located in the PRC.

Information about the Group's revenue is presented based on the geographical location of the customers.

| | Six months ended | |
|-----------------------------|---------------------------------------|---------------------------------------|
| | 30/06/2020 HK\$'000 (unaudited) | 30/06/2019 HK\$'000 (unaudited) |
| Vietnam | 31,875 | 39,946 |
| Bangladesh | 23,853 | 64,650 |
| Taiwan | 17,926 | 1,953 |
| The PRC | 16,827 | 61,255 |
| Japan | 8,408 | 18,428 |
| Hong Kong | 7,437 | 53,693 |
| Macao | 2,424 | 9,378 |
| Jordan | 1,292 | 5,080 |
| Pakistan | – | 13,959 |
| Other countries and regions | 2,950 | 3,620 |
| Total | 112,992 | 271,962 |

4. OTHER INCOME

| | Six months ended | |
|------------------------------------|---------------------------------------|---------------------------------------|
| | 30/06/2020 HK\$'000 (unaudited) | 30/06/2019 HK\$'000 (unaudited) |
| Interest income from bank deposits | 1,049 | 1,260 |
| Services fee income (note i) | 2,902 | 2,700 |
| Storage income | 180 | 210 |
| Government grants (note ii) | 593 | 60 |
| | 4,724 | 4,230 |

Notes:

- (i) Service fee income mainly includes income from provision of management service to a joint venture including the use of premises, office equipment, utilities, facilities and consumables at a monthly sum of HK\$450,000 (2019: HK\$450,000).
- (ii) During the current interim period, the Group recognised government grants of HK\$414,000 in respect of COVID-19-related conditional subsidies in respect of Employment Support Scheme provided by the Hong Kong government. Other government grants represent unconditional incentives from the PRC government during the current and prior interim periods.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

5. (LOSS) PROFIT BEFORE TAX

(Loss) profit before tax has been arrived at after charging (crediting):

| | Six months ended | |
|--|---------------------------------------|---------------------------------------|
| | 30/06/2020 HK\$'000 (unaudited) | 30/06/2019 HK\$'000 (unaudited) |
| Directors' remunerations: | | |
| — Emoluments, salaries and other benefits | 6,888 | 6,888 |
| — Retirement benefits scheme contributions | 18 | 18 |
| | 6,906 | 6,906 |
| Other staff salaries and allowances | 17,049 | 22,802 |
| Retirement benefits scheme contributions, excluding those of directors | 461 | 1,976 |
| | 24,416 | 31,684 |
| Total employee benefits expenses | (6,729) | (10,572) |
| Capitalised in cost of inventories manufactured | | |
| | 17,687 | 21,112 |
| | 5,634 | 5,982 |
| Depreciation of property, plant and equipment | 4,210 | 2,908 |
| Depreciation of right-of-use assets | 256 | 255 |
| Amortisation of other intangible assets | | |
| | 10,100 | 9,145 |
| Capitalised in cost of inventories manufactured | (3,959) | (4,175) |
| | 6,141 | 4,970 |
| | 104,007 | 203,554 |
| Cost of inventories recognised as expense | | |
| Net foreign exchange loss (gain) | 774 | (1,137) |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

6. INCOME TAX EXPENSE

| | Six months ended | |
|--------------------------------|------------------|-------------|
| | 30/06/2020 | 30/06/2019 |
| | HK\$'000 | HK\$'000 |
| | (unaudited) | (unaudited) |
| Current tax: | | |
| — Hong Kong Profits Tax | — | 796 |
| — PRC Enterprise Income Tax | 154 | 5,705 |
| Under provision in prior years | | |
| — Hong Kong Profits Tax | 413 | — |
| — PRC Enterprise Income Tax | 151 | 251 |
| Deferred tax | (92) | 13 |
| Total | 626 | 6,765 |

7. DIVIDENDS

During the current interim period, a final dividend of HK0.8 cents per share in respect of the year ended 31 December 2019 (2019: HK2 cents per share in respect of the year ended 31 December 2018) was declared and paid to the owners of the Company. The aggregate amount of the final dividend declared and paid in the interim period amounted to HK\$5,120,000 (2019: HK\$12,800,000).

The directors of the Company have determined that no dividend will be paid in respect of the current interim period.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

8. (LOSS) EARNINGS PER SHARE

The calculation of basic (loss) earnings per share attributable to the owners of the Company is based on the following data:

| | Six months ended | |
|--|------------------|-------------|
| | 30/06/2020 | 30/06/2019 |
| | HK\$'000 | HK\$'000 |
| | (unaudited) | (unaudited) |
| (Loss) earning for the purpose of basic (loss) earnings per share ((loss) profit for the period attributable to owners of the Company) | (26,280) | 13,537 |

| | Six months ended | |
|--|------------------|-------------|
| | 30/06/2020 | 30/06/2019 |
| | '000 | '000 |
| | (unaudited) | (unaudited) |
| Number of ordinary shares for the purpose of basic (loss) earnings per share | 640,000 | 640,000 |

No diluted loss per share for the six months ended 30 June 2020 (six months ended 30 June 2019: no diluted earnings per share) was presented as the Company did not have any dilutive potential ordinary shares in issue for the current interim period.

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

During the current interim period, the Group disposed of certain plant and machinery with an aggregate carrying amount of nil (six months ended 30 June 2019: HK\$17,000) for cash proceeds of HK\$230,000 (six months ended 30 June 2019: nil), resulting in a gain on disposal of HK\$230,000 (six months ended 30 June 2019: loss on disposal of HK\$17,000).

In addition, during the current interim period, the Group acquired manufacturing equipment of approximately HK\$1,465,000 (six months ended 30 June 2019: HK\$15,311,000) in order to upgrade its manufacturing capabilities.

During the current interim period, the Group entered into a new lease agreement with two years lease term. On lease commencement, the Group recognised right-of-use assets of HK\$793,000 (six months ended 30 June 2019: nil) and lease liabilities of HK\$788,000 (six months ended 30 June 2019: nil).

Impairment assessment

As a result of the changes in the current economic environment related to the COVID-19 pandemic, the Group is experiencing negative conditions including decreased revenues and order delays that indicate that the relevant property, plant and equipment, right-of-use assets, other intangible assets, goodwill may be impaired. During the current interim period, the Group performed impairment testing and the assessed value in use is above the net book value of the assets of the cash-generating unit as at 30 June 2020, thus no impairment loss is recognised for the current interim period.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

10. TRADE AND OTHER RECEIVABLES

| | At 30 June 2020 HK\$'000 (unaudited) | At 31 December 2019 HK\$'000 (audited) |
|---------------------------------|---|---|
| Trade and bills receivables | 29,774 | 33,303 |
| Less: allowance for credit loss | (587) | (533) |
| | 29,187 | 32,770 |
| Prepayments | 2,905 | 3,590 |
| Value-added tax recoverable | 24,822 | 28,917 |
| Utility and rental deposits | 1,338 | 1,436 |
| Others | 1,144 | 2,115 |
| | 59,396 | 68,828 |

As at 30 June 2020, the Group generally allows credit periods ranging from 30 days to 120 days regarding different customers. The following is an aged analysis of trade and bills receivables, presented based on the invoice date at the end of the reporting period:

| | At 30 June 2020 HK\$'000 (unaudited) | At 31 December 2019 HK\$'000 (audited) |
|--------------------|---|---|
| Within 30 days | 19,017 | 23,004 |
| 31 to 60 days | 8,052 | 4,408 |
| 61 to 120 days | 2,144 | 5,233 |
| 121 to 180 days | 56 | 172 |
| 181 to 365 days | 114 | 69 |
| More than 365 days | 391 | 417 |
| | 29,774 | 33,303 |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

11. TRADE AND OTHER PAYABLES

| | At 30 June 2020 HK\$'000 (unaudited) | At 31 December 2019 HK\$'000 (audited) |
|--------------------------|---|---|
| Trade and bills payables | 22,963 | 62,176 |
| Deposits received | 3,900 | 7,800 |
| Payroll payables | 3,529 | 6,271 |
| Others | 2,848 | 4,347 |
| | 33,240 | 80,594 |

The aged analysis of the trade and bills payables presented based on the goods receipt date at the end of the reporting period is as follows:

| | At 30 June 2020 HK\$'000 (unaudited) | At 31 December 2019 HK\$'000 (audited) |
|----------------|---|---|
| Within 30 days | 4,230 | 52,059 |
| 31 to 60 days | 2,274 | 6,502 |
| 61 to 180 days | 16,459 | 3,615 |
| | 22,963 | 62,176 |

The credit period on purchases of goods is ranging from 30 days to 180 days.

12. BANK BORROWINGS

During the current interim period, the Group obtained new bank borrowings with amounts of approximately HK\$44,071,000 (six months ended 30 June 2019: HK\$50,179,000). The proceeds were used to meet the working capital requirement and acquisitions of property, plant and equipment. Repayment of bank borrowings amounting to approximately HK\$37,157,000 (six months ended 30 June 2019: HK\$60,761,000) were made in line with the relevant repayment terms.

As at 30 June 2020, the Group's borrowings carried variable rates of 1.88% to 4.19% (31 December 2019: 2.23% to 4.10%) per annum.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

13. SHARE CAPITAL

| | Number of Shares | Share capital HK\$'000 |
|--|---------------------|---------------------------|
| Ordinary shares of HK\$0.01 each | | |
| Authorised: | | |
| At 1 January 2019, 30 June 2019, 1 January 2020 and 30 June 2020 | 1,000,000,000 | 10,000 |
| Issued and fully paid: | | |
| At 1 January 2019, 30 June 2019, 1 January 2020 and 30 June 2020 | 640,000,000 | 6,400 |

14. RELATED PARTY DISCLOSURES

(a) Related party transactions

The Group entered into the following transactions with its related parties during the six months ended 30 June 2020 and 2019:

| Related Party | Nature of transaction | Six months ended | |
|--------------------------------|--|---------------------------------------|---------------------------------------|
| | | 30/06/2020 HK\$'000 (unaudited) | 30/06/2019 HK\$'000 (unaudited) |
| Kurabo Denim | Services fees income | 2,700 | 2,700 |
| International Limited (note i) | Management service fee expense | 2,160 | 2,160 |
| | Royalty fee expense | 1,012 | 2,039 |
| Star Alliance | Interest expense on lease liabilities | 54 | 105 |
| Holdings Limited (note ii,iii) | Expenses relating to short-term leases | - | 16 |

Notes:

- (i) Kurabo Denim International Limited is a joint venture of the Group.
- (ii) The controlling shareholders have control or beneficial interests in this entity.
- (iii) The Group entered into leases agreements with Star Alliance Holdings Limited with the remaining lease term of 2 years from 1 January 2019 for the use of office located in Hong Kong. The Group is required to make fixed monthly payments. As at 1 January 2019, the Group recognised lease liabilities of HK\$6,944,000 and right-of-use assets of the same amount upon the adoption of HKFRS 16. During the current interim period, HK\$54,000 (six months ended 30 June 2019: HK\$105,000) of interest expense on lease liabilities has been made. As at 30 June 2020, the corresponding carrying amount of the lease liabilities is HK\$1,519,000 (31 December 2019: HK\$3,357,000).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

14. RELATED PARTY DISCLOSURES (Continued)

(b) Compensation of directors and key management personnel

| | Six months ended | |
|---|---------------------------------------|---------------------------------------|
| | 30/06/2020 HK\$'000 (unaudited) | 30/06/2019 HK\$'000 (unaudited) |
| Salaries and other allowances | 6,872 | 7,354 |
| Retirement benefit scheme contributions | 36 | 42 |
| Other benefits (note) | 828 | 828 |
| | 7,736 | 8,224 |

Note: Other benefits represent rentals for directors' quarters.

The remuneration of directors and key management personnel are determined having regard to the performance of the individuals and contribution to the Group.

(c) Related party balances

The Group had the following outstanding balances with its related party at the end of the reporting period:

| | At 30 June 2020 HK\$'000 (unaudited) | At 31 December 2019 HK\$'000 (audited) |
|---|---|---|
| | Amount due to: | |
| Joint Venture | | |
| Kurabo Denim International Limited (note) | 236 | 122 |

Note: The amount due to a joint venture as at 30 June 2020 and 31 December 2019 was arising from management service fee.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

15. PLEDGED ASSETS

The Group's borrowings are secured by assets of the Group and the carrying amounts of which at the end of the reporting period are stated below:

| | At 30 June 2020 HK\$'000 (unaudited) | At 31 December 2019 HK\$'000 (audited) |
|---------------------|---|---|
| Right-of-use assets | 4,438 | 5,112 |

The pledged amounts of right-of-use assets represent the carrying amount of motor vehicles.

Restrictions on assets

In addition, as at 30 June 2020, lease liabilities of HK\$2,926,000 (31 December 2019: HK\$5,363,000) are recognised with related right-of-use assets of HK\$2,889,000 (31 December 2019: HK\$5,314,000). The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor and the relevant leased assets may not be used as security for borrowing purposes.

Corporate Information

EXECUTIVE DIRECTORS

Mr. Tung Tsun Hong (*Chairman*)
Mr. Tung Wai Ting Stephen
Mr. Tung Cheuk Ming Stanley

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tsang Ling Biu Gilbert
Mr. Cheung Che Kit Richard
Mr. Leung Wang Ching Clarence, *J.P.*

COMPANY SECRETARY

Mr. Cheung Ka Chun

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Mr. Tsang Ling Biu Gilbert (*Chairman*)
Mr. Cheung Che Kit Richard
Mr. Leung Wang Ching Clarence, *J.P.*

REMUNERATION COMMITTEE

Mr. Leung Wang Ching Clarence, *J.P.* (*Chairman*)
Mr. Cheung Che Kit Richard
Mr. Tung Wai Ting Stephen

NOMINATION COMMITTEE

Mr. Leung Wang Ching Clarence, *J.P.* (*Chairman*)
Mr. Cheung Che Kit Richard
Mr. Tung Cheuk Ming Stanley

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Mr. Cheung Ka Chun

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