



2023-2024 Interim Report

Tungtex (Holdings) Company Limited

Stock Code: 00518

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REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

TO THE BOARD OF DIRECTORS OF TUNGTEX (HOLDINGS) COMPANY LIMITED

(incorporated in Hong Kong with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Tungtex (Holdings) Company Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 3 to 18, which comprises the condensed consolidated statement of financial position as of 30 September 2023 and the related condensed consolidated statement of profit or loss, 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 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.

D & PARTNERS CPA LIMITED

Certified Public Accountants

Hong Kong
29 November 2023

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2023

	Notes	Six months ended 30 September	
		2023 HK\$'000 (unaudited)	2022 HK\$'000 (unaudited)
Revenue	3, 4	237,529	415,433
Cost of sales		(192,722)	(335,086)
Gross profit		44,807	80,347
Other income and other gain		7,053	3,538
Net reversal of impairment loss (impairment loss) recognised on financial assets		1,007	(15)
Increase (decrease) in fair value of investment property		1,654	(2,500)
Selling and distribution costs		(26,207)	(33,140)
Administrative expenses		(38,237)	(38,453)
Finance costs		(1,526)	(1,634)
Share of profit of an associate		27	19
(Loss) profit before tax	5	(11,422)	8,162
Income tax expenses	6	(170)	(2,376)
(Loss) profit for the period		(11,592)	5,786
(Loss) profit for the period attributable to:			
Owners of the Company		(10,979)	6,165
Non-controlling interests		(613)	(379)
		(11,592)	5,786
Basic and diluted (loss) earnings per share (HK cents)	8	(2.4)	1.4

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2023

	Six months ended 30 September	
	2023 HK\$'000 (unaudited)	2022 HK\$'000 (unaudited)
(Loss) profit for the period	(11,592)	5,786
Other comprehensive expense		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translating foreign operations	(4,282)	(8,974)
Other comprehensive expense for the period	(4,282)	(8,974)
Total comprehensive expense for the period	(15,874)	(3,188)
Total comprehensive expense for the period attributable to:		
Owners of the Company	(15,261)	(2,809)
Non-controlling interests	(613)	(379)
	(15,874)	(3,188)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2023

	Notes	30 September 2023 HK\$'000 (unaudited)	31 March 2023 HK\$'000 (audited)
Non-current assets			
Investment property	9	27,384	25,730
Property, plant and equipment	9	48,617	51,332
Right-of-use assets		12,049	13,921
Interests in an associate		460	433
		88,510	91,416
Current assets			
Inventories		74,328	65,265
Trade and other receivables	10	89,567	106,914
Tax recoverable		–	52
Pledged bank deposits		100,792	110,704
Bank balances and cash		182,087	184,620
		446,774	467,555
Current liabilities			
Trade and other payables	11	85,927	80,207
Contract liabilities		4,348	5,531
Lease liabilities		4,475	4,257
Amount due to an associate		118	158
Tax liabilities		4,203	4,207
Bank borrowings	12	45,968	54,474
		145,039	148,834
Net current assets		301,735	318,721
Total assets less current liabilities		390,245	410,137

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

At 30 September 2023

	Notes	30 September 2023 HK\$'000 (unaudited)	31 March 2023 HK\$'000 (audited)
Non-current liabilities			
Lease liabilities		3,079	4,842
Deferred tax liabilities		528	528
		3,607	5,370
		386,638	404,767
Capital and reserves			
Share capital	13	254,112	254,112
Reserves		145,297	162,813
Equity attributable to owners of the Company		399,409	416,925
Non-controlling interests		(12,771)	(12,158)
		386,638	404,767

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2023

	Attributable to owners of the Company					Total HKS'000	Non- controlling interests HKS'000	Total HKS'000
	Share capital HKS'000	Property revaluation reserve HKS'000 (Note i)	Statutory reserve HKS'000 (Note ii)	Translation reserve HKS'000	Retained profits HKS'000			
At 1 April 2022 (audited)	254,112	20,230	3,676	(10,371)	137,678	405,325	(11,240)	394,085
Profit (loss) for the period	–	–	–	–	6,165	6,165	(379)	5,786
Exchange differences arising on translating foreign operations	–	–	–	(8,974)	–	(8,974)	–	(8,974)
Total comprehensive expense for the period	–	–	–	(8,974)	6,165	(2,809)	(379)	(3,188)
Dividends recognised as distribution	–	–	–	–	(2,255)	(2,255)	–	(2,255)
At 30 September 2022 (unaudited)	254,112	20,230	3,676	(19,345)	141,588	400,261	(11,619)	388,642
At 1 April 2023 (audited)	254,112	20,230	3,676	(16,234)	155,141	416,925	(12,158)	404,767
Loss for the period	–	–	–	–	(10,979)	(10,979)	(613)	(11,592)
Exchange differences arising on translating foreign operations	–	–	–	(4,282)	–	(4,282)	–	(4,282)
Total comprehensive expense for the period	–	–	–	(4,282)	(10,979)	(15,261)	(613)	(15,874)
Dividends recognised as distribution (Note 7)	–	–	–	–	(2,255)	(2,255)	–	(2,255)
At 30 September 2023 (unaudited)	254,112	20,230	3,676	(20,516)	141,907	399,409	(12,771)	386,638

Note i: The property revaluation reserve represents the differences between net book value and fair value, net of deferred tax, if applicable, of the properties upon transfer from property, plant and equipment to investment property.

Note ii: The statutory reserve represents the amount transferred from profit after taxation of the subsidiaries established in the Mainland of People's Republic of China (the "PRC") in accordance with the relevant PRC laws until the PRC statutory reserve reaches 50% of the registered capital of the respective subsidiaries. The statutory reserve can be applied either in setting off the accumulated losses or increasing capital.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2023

	Six months ended 30 September	
	2023 HK\$'000 (unaudited)	2022 HK\$'000 (unaudited)
Net cash from operating activities	2,116	20,983
Net cash from (used in) investing activities:		
Purchase of property, plant and equipment	(1,540)	(642)
Deposits paid for right-of-use assets	(161)	–
Placement of pledged bank deposits	(88)	(5,000)
Refund of deposits for right-of-use assets	23	–
Proceeds from disposal of property, plant and equipment	102	12
Other investing cash flows	3,987	993
Withdrawal of pledged bank deposits	10,000	–
	12,323	(4,637)
Net cash used in financing activities:		
Repayments of bank borrowings	(81,352)	(146,814)
Repayments of lease liabilities, including related interests	(2,395)	(3,697)
Dividend paid	(2,255)	(2,255)
Other financing cash flows	(1,344)	(1,299)
Bank borrowings raised	72,846	141,695
	(14,500)	(12,370)
Net (decrease) increase in cash and cash equivalents	(61)	3,976
Cash and cash equivalents at the beginning of the period	184,620	187,551
Effect of foreign exchange rate changes	(2,472)	(6,016)
Cash and cash equivalents at the end of the period, represented by bank balances and cash	182,087	185,511

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2023

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute 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 of Hong Kong Limited.

The financial information relating to the year ended 31 March 2023 that is included in these condensed consolidated financial statements as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the “Companies Ordinance”) is as follows:

The Company has delivered the financial statements for the year ended 31 March 2023 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

The Company’s auditor has reported on the financial statements of the Group for the year ended 31 March 2023. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for the investment property which is measured at fair value.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2023 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2023.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

New and amendments to HKFRSs that are mandatorily effective for the current period

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1 April 2023 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform – Pillar Two Model Rules

The application of new and amendments to HKFRSs in the current period 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

Disaggregation of revenue from contracts with customers

Six months ended 30 September 2023:

	Six months ended 30 September 2023		
	Manufacturing and sales of garment products HK\$'000	Retail of garment products HK\$'000	Total HK\$'000
At point in time	149,774	87,755	237,529
Geographical market			
The PRC	29,826	87,755	117,581
The United States of America (the "USA")	59,467	–	59,467
Canada	43,009	–	43,009
Others	17,472	–	17,472
Total	149,774	87,755	237,529

3. REVENUE (Continued)

Disaggregation of revenue from contracts with customers (Continued)

Six months ended 30 September 2022:

	Six months ended 30 September 2022		
	Manufacturing and sales of garment products HK\$'000	Retail of garment products HK\$'000	Total HK\$'000
At point in time	315,765	99,668	415,433
Geographical market			
The PRC	30,898	99,668	130,566
The USA	150,038	–	150,038
Canada	102,369	–	102,369
Others	32,460	–	32,460
Total	315,765	99,668	415,433

4. SEGMENTAL INFORMATION

Information reported to the executive directors of the Company, being the chief operating decision makers for the purposes of resource allocation and assessment of performance focuses on the sales of operating segments based on the location of shipment. The Group is principally engaged in the manufacture and sale of garment products and retail of garment products. The Group currently has three operating segments – Asia, North America and Europe and others.

No segment assets and liabilities are disclosed as they are not reported to the chief operating decision makers.

Segment revenue and results

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

4. SEGMENTAL INFORMATION (Continued)

Segment revenue and results (Continued)

Six months ended 30 September 2023:

	Asia HK\$'000	North America HK\$'000	Europe and others HK\$'000	Consolidated HK\$'000
REVENUE				
Sales of goods – external	125,144	102,476	9,909	237,529
SEGMENT PROFIT (LOSS)	2,859	(1,103)	(35)	1,721
Increase in fair value of investment property				1,654
Finance costs				(1,526)
Unallocated income				7,053
Unallocated expenses				(20,351)
Share of profit of an associate				27
Loss before tax				(11,422)

Six months ended 30 September 2022:

	Asia HK\$'000	North America HK\$'000	Europe and others HK\$'000	Consolidated HK\$'000
REVENUE				
Sales of goods – external	138,435	252,407	24,591	415,433
SEGMENT PROFIT	7,678	21,434	2,110	31,222
Decrease in fair value of investment property				(2,500)
Finance costs				(1,634)
Unallocated income				3,538
Unallocated expenses				(22,483)
Share of profit of an associate				19
Profit before tax				8,162

4. SEGMENTAL INFORMATION *(Continued)*

Segment revenue and results *(Continued)*

Segment profit (loss) represents the profit (loss) earned (incurred) by each segment without allocation of central administration costs, directors' salaries, depreciation of property, plant and equipment, depreciation of right-of-use assets, change in fair value of investment property, share of profit of an associate, other income and other gain, and finance costs. This is the measure reported to the Company's executive directors for the purposes of resource allocation and assessment of performance.

5. (LOSS) PROFIT BEFORE TAX

	Six months ended 30 September	
	2023 HK\$'000	2022 HK\$'000
(Loss) profit before tax has been arrived at after charging (crediting):		
Directors' remunerations:		
Fees	625	612
Other emoluments	4,548	4,290
Contributions to retirement benefit schemes	54	54
	5,227	4,956
Other employee benefits expenses:		
Salaries, allowances and bonus	51,301	52,643
Contributions to retirement benefit schemes	6,371	6,135
Total employee benefits expenses	62,899	63,734
(Reversal of allowance) allowance for inventories (included in cost of sales), net	(48)	2,307
Depreciation of property, plant and equipment	3,482	3,582
Depreciation of right-of-use assets	2,449	3,463
Gain on disposal of property, plant and equipment	(10)	(6)
Bank interest income	(3,987)	(993)
Rental income, net of outgoings	(450)	(362)

6. INCOME TAX EXPENSES

	Six months ended 30 September	
	2023	2022
	HK\$'000	HK\$'000
Current tax:		
Hong Kong	–	2,193
The PRC	170	175
	170	2,368
Deferred taxation	–	8
	170	2,376

No provision for Hong Kong Profits Tax is made for the six months ended 30 September 2023 as the Group has no assessable profit arising in Hong Kong or the assessable profits are wholly absorbed by tax losses brought forward from prior years.

Hong Kong Profits Tax is calculated at the rate of 16.5% on the estimated assessable profits for the six months ended 30 September 2022, except for the first HK\$2,000,000 of a qualified entity's assessable profit which is calculated at 8.25%. The two tiered profits tax rates regime is applicable to one entity within the Group for the six months ended 30 September 2022.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, most of the tax rate of the PRC subsidiaries remains 25%.

PRC subsidiaries, which are micro and small enterprises, enjoy the preferential tax rates. According to the EIT Law and the Implementation Regulation of the EIT Law, an entity qualified as micro and small enterprises is subject to preferential tax treatments.

From 1 April 2022 to 30 September 2022, the annual taxable income not more than RMB1 million of a micro and small enterprise is subject to Enterprise Income Tax (the "EIT") calculated at 12.5% of its taxable income at a tax rate of 20% and the annual taxable income between RMB1 million and RMB3 million is calculated at 25% of its taxable income at a tax rate of 20%. From 1 April 2023 to 30 September 2023, the annual taxable income not more than RMB3 million of a micro and small enterprise is subject to the EIT calculated at 25% of its taxable income at a tax rate of 20%.

During the six months ended 30 September 2023 and 2022, two subsidiaries of the Company are qualified as micro and small enterprises and are subject to the relevant preferential tax treatments.

7. DIVIDENDS

A final dividend of HK0.5 cent per share for the year ended 31 March 2023, amounting to HK\$2.3 million was paid by the Company on 18 September 2023. The Board of Directors (the “Board”) does not recommend the payment of an interim dividend for the six months ended 30 September 2023 (six months ended 30 September 2022: Nil).

8. BASIC AND DILUTED (LOSS) EARNINGS PER SHARE

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

	Six months ended 30 September	
	2023	2022
	HK\$'000	HK\$'000
(Loss) profit for the period attributable to owners of the Company	(10,979)	6,165
	2023	2022
Weighted average number of ordinary shares in issue during the period for the purpose of basic and diluted (loss) earnings per share	451,067,557	451,067,557

No diluted (loss) earnings per share is presented as there was no potential dilutive ordinary share outstanding for the six months ended 30 September 2023 and 2022.

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

During the six months ended 30 September 2023, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of HK\$92,000 for proceeds of HK\$102,000, resulting in a gain on disposal of HK\$10,000.

During the six months ended 30 September 2022, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of HK\$6,000 for proceeds of HK\$12,000, resulting in a gain on disposal of HK\$6,000.

The Group spent HK\$1,540,000 (six months ended 30 September 2022: HK\$642,000) on acquisition of property, plant and equipment.

9. MOVEMENTS IN INVESTMENT PROPERTY, PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The fair values of the Group's investment property at 30 September 2023 and 31 March 2023 have been arrived at on the basis of a valuation carried out on that date by Graval Consulting Limited, independent qualified professional valuer not connected with the Group.

The fair value was determined by the income approach. The income approach operates by taking into account the rental income of the property derived from the existing tenancies with due allowance for the potential reversionary income of the tenanted and vacant portions, which are then capitalised at an appropriate capitalisation rate.

Under the income approach, one of the key inputs used in valuing the building and structures was the rental value per square meter which ranged from HK\$13 to HK\$26.

The resulting increase in fair value of investment property of HK\$1,654,000 has been recognised directly in profit or loss for the six months ended 30 September 2023 (six months ended 30 September 2022: decrease in fair value of HK\$2,500,000).

10. TRADE AND OTHER RECEIVABLES

The Group normally grants a credit period ranging from 14 days to 90 days to its trade customers. As at 30 September 2023, the carrying amount of trade and bills receivables was HK\$70,779,000, net of allowance for credit losses of HK\$36,000 (31 March 2023: HK\$89,401,000, net of allowance for credit losses of HK\$1,046,000). Included in trade and other receivables are trade and bills receivables, mainly denominated in USD and RMB, with the following aged analysis presented based on the invoice date which approximated revenue recognition date at the end of the reporting period:

	30 September 2023 HK\$'000	31 March 2023 HK\$'000
Up to 30 days	37,383	49,493
31–60 days	27,930	20,864
61–90 days	1,664	12,333
More than 90 days	3,802	6,711
	70,779	89,401

11. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade and bills payables with the following aged analysis presented based on the invoice date at the end of the reporting period:

	30 September 2023 HK\$'000	31 March 2023 HK\$'000
Up to 30 days	31,518	31,892
31–60 days	10,993	5,232
61–90 days	4,319	2,137
More than 90 days	3,853	5,722
	50,683	44,983

12. BANK BORROWINGS

The Group repaid bank borrowings of HK\$81,352,000 during the six months ended 30 September 2023 (six months ended 30 September 2022: HK\$146,814,000).

During the six months ended 30 September 2023, the Group raised new bank borrowings of HK\$72,846,000 (six months ended 30 September 2022: HK\$141,695,000), which were used as general working capital. The new bank borrowings bear variable interest at market rates and are repayable within one year.

13. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Issued and fully paid: At 1 April 2022, 30 September 2022, 31 March 2023 and 30 September 2023 Ordinary shares with no par value	451,067,557	254,112

14. RELATED PARTY DISCLOSURES

During the period, the Group had the following transactions with related parties:

	Six months ended 30 September	
	2023 HK\$'000	2022 HK\$'000
(i) Purchases from an associate	187	826
(ii) Compensation of key management personnel:		
Short-term benefits	7,445	7,113
Post-employment benefits (Note)	109	115
	7,554	7,228

Note: The amount represents contributions to retirement benefit schemes and has been included in the amount disclosed in note 5.

MANAGEMENT DISCUSSION AND ANALYSIS

During the interim period ended 30 September 2023 (the “Period”), retail and apparel industry around the world struggled to navigate a confluence of challenges, marked by among others, steep inflationary pressures in most western economies, tightening global financial conditions and further escalation of geopolitical tensions that resulted in subdued global economic growth and sapping consumption spending. The cost-of-living crisis under a sticky inflationary environment, coupled with progressively higher borrowing costs eroded purchasing power, weakened consumer confidence, and led to declining spending on non-essential categories such as fashion in key markets like North America and Europe. On the other hand, post-pandemic growth in China, though improving, still fell short of expectations. Retail growth prospects was plagued by the suppressed consumer sentiment amid a slower-than-anticipated pace of recovery and the more pessimistic economic outlook.

SUMMARY OF OPERATING RESULTS

Against the backdrop of sluggish overseas demand and a slowing Chinese economy, the Group posted revenue of HK\$237.5 million for the Period, representing a significant decrease of 42.8% period-over-period from the last corresponding period of HK\$415.4 million, which was primarily due to the drastic reduction in export orders from our brand customers in the North American markets. Gross profit declined to HK\$44.8 million (2022: HK\$80.3 million) which was in line with the reduced group revenue and the slight drop in gross profit margin of less than half a percentage point due to the deleverage from lower sales volume and pricing pressures during the Period.

Due to the decrease in sales revenue, selling and distribution costs for the Period decreased by 20.9% to HK\$26.2 million, as compared to HK\$33.1 million of the last corresponding period. Such decrease was mainly attributable to the decrease of HK\$2.6 million in export freight and handling charges, decrease of HK\$1.3 million in shop management fee, decrease of HK\$1.3 million in staff costs and decrease of HK\$1.4 million in other selling & distribution costs. Administrative expenses for the Period were HK\$38.2 million, as compared to a similar level of HK\$38.5 million of the last corresponding period. Of which, staff costs were HK\$26.1 million, representing a decrease of 5.1% or HK\$1.4 million, which was offset by the relative increase of exchange loss of HK\$1.5 million in the Period, as compared to that of the last corresponding period.

As a result of the foregoing, the Group recorded an operating loss before tax of HK\$13.1 million as compared to an operating profit before tax of HK\$10.7 million in the last corresponding period. Taking into account the financial effects of the non-operating items, the Group recorded a loss before tax of HK\$11.4 million, as compared to a profit before tax of HK\$8.2 million in the last corresponding period.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

BUSINESS REVIEW

After a spike of post-pandemic revenge spending, consumers in major western markets including North America were pulling back on retail spending and discretionary consumption. The elevated prices for everyday consumer goods and soaring borrowing costs had significantly limited households' spending capacity on discretionary purchases and adversely affected the sales performance of retailers and brands in those markets, including our major customers.

The Group's export business was further constricted by the industry-wide high inventory levels in overseas market as a result of aggressive customer buildups during periods of pandemic-related supply chain disruptions. Grappling with stalling end consumer spending, our customers progressively scaled back manufacturing orders while proactively concentrating on normalising their stock level in line with the lower sales base. As a result, the Group recorded substantial reduction in sales orders from our customers in the United States of America (the "U.S.A.") and Canada, the Group's largest export destinations.

The waning apparel demand since the end of 2022 from the North American and major European markets had posed detrimental effect to apparel manufacturers in Southeast Asia and resulted in underutilised production capacity, significant pricing pressures and reduced revenue.

The Group consciously streamlined management structure, and emphasised on cost control measures and restructuring initiatives that further reduced production cost to minimise the financial impact of reduced orders and squeezed margins.

Taking into account the unprecedented challenges and uncertainties surrounding the prevailing economic environment, the Group maintained prudent financial discipline with respect to our working capital and cashflow management across the organisation while consciously managing overall cost structures and optimising our internal operations to reflect the depressed market demand.

In China, despite the normalisation of economic activity, the three-year-long pandemic has wreaked havoc on the domestic economy. Moreover, turmoil in the property market, coupled with a complex external environment and ongoing political conflicts continued to linger, putting considerable pressure on the country's post-pandemic recovery. A more worrying economic outlook stifled consumer confidence and led to more frugal spending patterns and reduced appetite for discretionary consumptions.

Against the unfavourable economic backdrop, we closely monitored the market environment and flexibly formulated our retail sales and product strategies in accordance with the changing customer behaviours while continuing to drive brand awareness and sales conversion. However, China's retail landscape remained impacted by a slowing economy, the more cautious consumer sentiment, as well as hypercompetition in the digital realm which resulted in below-expectation retail sales performance in our largest market during the Period.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

BUSINESS REVIEW *(continued)*

Operating under the weak market sentiment with sluggish customer demand, our domestic brand customers in China opted for a low-inventory strategy and adopted a more prudent and wait-and-see approach to inventory restocking leading to a challenging path to recovery in sales to domestic brand owners during the Period.

Sales to Asia

During the Period, the Group's sales to Asia registered a drop of 9.6% to HK\$125.1 million (2022: HK\$138.4 million) and accounted for 52.7% of the Group's total revenue. The majority of the Group's revenue continued to be realised from the China market which represented 94.0% of total sales to Asia and amounted to HK\$117.6 million, representing a moderate decrease of 9.9% as compared to the last corresponding period.

Emerging from its zero-covid regime, China's economy remained under severe headwinds on several fronts including concern about the turmoil in property sector, alongside mounting external challenges from frail export demand and reduced foreign investment. The slower-than-expected post-pandemic recovery had eroded consumer confidence, dampened consumption sentiment, and led to increased price sensitivity that tapered off the pace of retail growth momentum, with the biggest hit to the more discretionary categories.

Operating under an unfavourable economic backdrop, retailers and brands in China were facing unparalleled market competition resulting in a heightened promotional environment with severe pricing pressure. We proactively recalibrated our product portfolio, marketing, and pricing strategies to adapt to the changing market dynamics, while staying committed to maintain customer satisfaction, brand competitiveness and growth momentum in the retail industry. Nonetheless, the wobbly consumer situation together with an intensely competitive e-commerce landscape had compromised the Group's business recovery efforts and total retail sales posted a decrease of 12.0% to HK\$87.8 million from the last corresponding period.

The subdued domestic economy and an uncertain consumer demand had also created an atmosphere of caution among brands and retailers in China and adversely impacted their restocking decisions. As our manufacturing segment continued to demonstrate resilience in meeting the manufacturing needs of our domestic brand customers in a timely and cost-effective manner, sales to domestic brands were maintained at a stable level at HK\$29.6 million, or a slight drop of 2.2% from HK\$30.3 million in the last corresponding period.

Sales to North America

Inflicted by the all-time high inflationary environment, sales to North America were severely impacted and declined by a period-on-period 59.4% to HK\$102.5 million (2022: HK\$252.4 million), and constituted 43.1% of the Group's total revenue during the Period. Among which, sales to the U.S.A. suffered a steep slowdown and contracted by 60.4% to HK\$59.5 million (2022: HK\$150.0 million).

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

BUSINESS REVIEW *(continued)*

Sales to North America *(continued)*

In the U.S.A., the phenomenal post-pandemic revenge spending had given way to more prudent purchasing behaviour in the wake of soaring energy costs, interest rate and cost of living. With the vanishing of covid-related government handouts and depletion of pandemic savings, households and consumers became more budget-conscious and notably reined in their discretionary spending.

In addition to the softer end consumer demand, the drag of record high channel inventory due to the intentional stock up by apparel retailers and brands to hedge against supply chain risks had resulted in an industry-wide overstocking situation which was further exacerbated by the slower inventory turnover during the Period.

Mindful of the uncertain market demand and taking into account the gradual normalisation of global supply chain, our customers consciously prioritised on offloading the accumulated stock on hand while adopting a more rational inventory replenishment strategy resulting in drastic reduction in the pace, volume and value of reorder.

In Canada, economic momentum had notably decelerated as the country was increasingly beset by persistent inflation, a tighter credit environment with rising borrowing costs as well as sluggish global economic growth. Amid the headwinds, Canada's economy contracted by 0.2% at an annualised rate in the second quarter of 2023. The elevated cost of living alongside an uncertain economic outlook negatively impacted households' consumption confidence and led to significantly reduced discretionary spending and apparel demand.

The combined effects of a high degree of economic unpredictability and weaker apparel demand had resulted in high customers' inventory and faltering business confidence which adversely impacted the purchasing decisions of our customers and led to a dramatic reduction in demand for the Group's apparel products. As a consequence, sales to Canada decreased by 58.0% to HK\$43.0 million during the Period (2022: HK\$102.4 million).

Retailing

Following a strong consumption-led rebound in the first quarter of 2023, China's post-lockdown economic recovery began to lose steam in the face of multiplying domestic and external challenges. Market and consumer confidence was weakened due to a growing lack of confidence in the future, which continued to cast a shadow over the recovery of domestic consumption and the Group's retail sales performance during the Period. Under the combined impacts of stagnant physical retail growth and rising challenges facing China's e-commerce, the Group reported total retail sales of HK\$87.8 million during the Period, representing a drop of 12.0% from the last corresponding period.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

BUSINESS REVIEW *(continued)*

Retailing *(continued)*

Against a backdrop of slowing economic growth, we constantly reviewed the performance of physical shops, enhanced customers' in-store experience and sharpened our focus on meeting the changing customer and market needs while executing sales and promotional campaigns in a timely and effective manner to drive store traffic, propel higher sales volume and foster brand loyalty. As a result, sales performance from physical retail remained relatively stable with minimal decrease of less than one percentage point during the Period despite the lacklustre consumer demand.

Concurrent with the return of foot traffic to brick-and-mortar stores in the post pandemic era, online channels encountered corresponding slowdown during the Period as consumers were eager for real-life shopping experience after almost three years of lockdown. In addition, the more cautious consumer sentiment and their shifting preferences including a prioritisation of service consumption over goods also put a dent in e-commerce growth. The stiffened competition across the entire industry environment resulted in stagnant growth and significant margin pressures. Our retail management worked tirelessly to monitor the market situation and stayed in tune with the evolving consumption patterns and spending habit while rolling out effective marketing campaigns and competitive promotions. Sales from the Group's digital channels decreased by 15.2% during the Period amid a fiercely contested e-commerce market alongside lower consumer demand and accounted for over 75% of the Group's total retail sales.

In response to the lower-than-anticipated pace of recovery, we conducted decisive cost streamlining measures and retail refinement strategy which, together with the cost optimisation initiatives implemented during these last few years, enabled the Group to consistently improve operating performance and control overall expenditure more effectively. Besides, we enhanced production efficiency and enforced strict inventory control to counteract the challenges under a highly competitive market environment. As a result, our retail segment was able to offset the impact of decreased sales and sustained an operating profit of HK\$2.0 million.

PROSPECTS

Heading into the second half of the financial year, markets and businesses are expected to operate under the most challenging macroeconomic pressures amid the persistent inflation, high global interest rates and geopolitical instability whereas demand softness in leading economies such as North America and China will look set to continue.

While economic indicators in the U.S.A. remain surprisingly solid defying expectations of a recession, a combination of the potentially "higher for longer" interest rates and tight liquidity conditions continue to squeeze households and business which, coupled with the high inventory base and ongoing destocking adjustment taking place across the industry, is dimming the prospects of export growth to the North American markets in the near term.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

PROSPECTS *(Continued)*

Constrained by intertwined domestic issues and external uncertainties, China's post-pandemic economic recovery has encountered significant headwinds which is further compounded by stalling domestic demand and growing worries for potential deflationary risk that continue to paint a conservative outlook for the retail industry.

As we recognise the many challenges and difficulties that lie ahead, we will proactively monitor the impacts of the evolving macro-economic environment to our business and dynamically allocate our resources and manufacturing capacity under high level of flexibility and agility in accordance with changing market situation and status of our order book.

With respect to our manufacturing business, the North American markets will continue to be the Group's development focus despite limited near term visibility. Being key centre stage for global fashion companies, we expect consumer demand to gradually gain support from the moderating inflation and rising employment income, and will benefit the momentum of our customers in order placement for the second half of the current financial year, as compared to the reporting Period. We aim to expedite business expansion through development of new markets, broadening of customer base as well as further diversifying our product mix which will strengthen our revenue base and reduce the risk of over reliance in specific markets. Meanwhile, we strive to further enhance the production efficiency and manpower efficiency, and further tighten production cost control across the board of our factories.

As the slowing economic recovery in China continues to impact short-term retail outlook, the Group will closely observe development in the state of the economy. Yet, fuelled by the rollout of favourable national policies to restore and expand consumption, together with an impressive pace of innovation, China's growth prospects continue to possess immeasurable potential. The Group reaffirms our confidence in the resilience of China's economy over the long term, driven by an expanding middle class, rising incomes and technological advance.

As the post-pandemic era in China slowly unfolds, the Group will pay close attention to the evolving customer preferences and market dynamics like new technologies in the retail landscape. Building on our solid foundation and integrated manufacturing capability, the Group will continue to devote our best efforts to enhance the quality of our product offerings and our omnichannel operation. We will enhance resilience in e-commerce by ramping our presence on diversified online retail platforms and novel marketing channels to improve brand awareness, facilitate cost-effective consumer acquisition and above all connect with our customers in personalised ways through innovative multichannel marketing strategies.

To better withstand near-term challenges and endeavour to restore profitability, we set our focus on stringent and effective cost control measures and ongoing optimisation of operational and financial management. Over the long-term, we will further enhance our business fundamentals and core competencies and reset our path to recovery and sustainable growth.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

CAPITAL EXPENDITURE

During the Period, the Group incurred HK\$1.5 million capital expenditure as compared to HK\$0.6 million of the corresponding period last year. Such capital expenditure mainly represented the regular replacement and upgrading of production facilities and the leasehold improvement of the Group.

LIQUIDITY AND FINANCIAL RESOURCES

The Group adopted a prudent financial management and sustained a sound financial position throughout the Period. As at 30 September 2023, the Group's cash level was recorded at HK\$282.9 million (of which HK\$100.8 million was pledged bank deposits) as compared to HK\$295.3 million (of which HK\$110.7 million was pledged bank deposits) as at 31 March 2023. Most of the bank balances were placed in USD, HKD and RMB short term deposits with major banks. As at 30 September 2023, total bank borrowings of the Group were HK\$46.0 million (which were all short-term bank borrowings and mainly denominated in USD and HKD), as compared to HK\$54.5 million as at 31 March 2023. The Group had no borrowings at fixed interest rates during the Period. As at 30 September 2023, the gearing ratio (total bank borrowings to total equity) was 11.9%. During the Period, working capital was under stringent management and remained at healthy level.

As at 30 September 2023, certain buildings with an aggregate net book value of approximately HK\$33.5 million (31 March 2023: HK\$34.3 million) were pledged to bank to secure general banking facilities granted to the Group.

As at 30 September 2023, excluding the pledged bank deposits of HK\$100.8 million which were pledged to banks to secure the general banking facilities of the Group, net cash balance of the Group was HK\$136.1 million, as compared to HK\$130.1 million as at 31 March 2023.

The Group is of the opinion that, after taking into consideration of the current banking facilities and the repayment obligations of bank borrowings, the Group will continue to retain sufficient funds to meet the financial obligations of its business when they fall due, supporting its business growth and financing its future investment.

TREASURY POLICY

The Group continues to adopt prudent policies consistently to hedge exchange rate and interest rate risks associated with our core business. The revenue and cost are denominated in RMB, USD, HKD, VND and EUR. The Group considers the foreign exchange risk is not high as the Group will consider the foreign exchange effect of the terms of purchase and sale contracts dealt with foreign enterprises and enter into forward contracts to hedge the risks as deemed appropriate.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

FOREIGN EXCHANGE RISK

The Group has currency exposures as substantial portion of sales, purchases, assets and liabilities are denominated in USD, RMB and VND. As such, the Group is exposed to foreign exchange risk arising from such exposure to USD, RMB and VND. As HKD is pegged to USD, the Group considers the relevant foreign exchange risk to be minimal. Also, the appreciation or devaluation of RMB and VND against USD and HKD may have an impact on the Group's results.

The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and mitigate the impact on exchange rate fluctuations by entering into currency hedge arrangement, if necessary. The Group will continue to evaluate the Group's foreign currency exposure and take actions as appropriate.

INTEREST RATE RISK

The Group is exposed to interest rate risk primarily through interest bearing borrowings. Borrowings at floating rates expose the Group to cash flow interest rate risk. The Group regularly monitors its interest rate risk to ensure there are no undue exposures to significant interest rate movements and will consider taking appropriate actions, including but not limited to hedging should the need arise.

HUMAN RESOURCES

As at 30 September 2023 and 31 March 2023, the Group has approximately 1,400 employees. The Group hires, inspires, retains and rewards competent staff with dedication to develop their careers in line with its core corporate values and strategic goals. The Group offers career development opportunities, job satisfaction via empowerment, harmonious teamwork and competitive remuneration package.

Total employee benefits expenses, including directors' remunerations, of the Group amounted to HK\$62.9 million for the Period (six months ended 30 September 2022: HK\$63.7 million). Remuneration of the employees is determined with reference to market terms and the performance, qualification and experience of individual employees. In addition to a basic salary, year-end discretionary bonuses are offered to those staff with outstanding performance to attract and retain eligible employees to contribute to the Group. The Company also operates a share option scheme for the purpose of attracting, retaining, motivating and rewarding the employees.

OTHER INFORMATION

INTERIM DIVIDEND

The Board of Directors does not recommend the payment of an interim dividend for the six months ended 30 September 2023 (the “Period”) (six months ended 30 September 2022: Nil).

DIRECTORS’ AND CHIEF EXECUTIVES’ INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2023, the interests and short positions of the directors and the chief executives 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 (the “SFO”)) which have been notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such director or chief executive was taken or deemed to have under such provisions of the SFO) and have been recorded in the register maintained by the Company pursuant to section 352 of the SFO, or which have been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) contained in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) were as follows:

Long Positions in Shares of the Company

Name of director	Capacity	Number of issued ordinary shares held/ interested	Percentage of the issued shares of the Company
Martin Tung Hau Man	Beneficial owner	1,604,000	0.36%
Billy Tung Chung Man	Beneficial owner	3,052,400	0.68%
Raymond Tung Wai Man	Beneficial owner	360,000	0.08%
Tony Chang Chung Kay	Beneficial owner	3,844,760	0.85%

Save as disclosed above, as at 30 September 2023, none of the directors nor chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which has been recorded in the register maintained by the Company pursuant to Section 352 of the SFO or which has been notified to the Company and the Stock Exchange pursuant to the Model Code.

OTHER INFORMATION *(continued)*

SHARE OPTION SCHEME

The Company operates a share option scheme (the “Share Option Scheme”) adopted on 31 August 2018 which will remain in force until 30 August 2028, being 10 years after the date of its adoption.

During the Period, no share option was granted, vested, exercised, cancelled or lapsed under the Share Option Scheme. There was no outstanding share option under the Share Option Scheme as at 1 April 2023 and 30 September 2023.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed under the heading “SHARE OPTION SCHEME” above, at no time during the Period was the Company, or any of its subsidiaries, a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS’ INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company or entities connected with the director had a material interest, whether directly or indirectly, subsisted at the end of the Period or at any time during the Period.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2023, the following substantial shareholders, other than directors and chief executives of the Company, had the interests and short positions in the shares and underlying shares of the Company which have been disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, have been recorded in the register kept by the Company pursuant to Section 336 of the SFO:

Long Positions in Shares of the Company

Name of shareholder	Capacity	Number of issued ordinary shares held/ interested	Percentage of the issued shares of the Company (note c)
Corona Investments Limited (“Corona”)	Beneficial owner (note a)	150,059,268	33.27%
Benson Tung Wah Wing	Interest of controlled corporation (note a)	150,059,268	33.27%
Madam Wong Fung Lin	Interest of controlled corporation (note a)	150,059,268	33.27%

OTHER INFORMATION *(continued)*

SUBSTANTIAL SHAREHOLDERS *(continued)*

Long Positions in Shares of the Company (continued)

Name of shareholder	Capacity	Number of issued ordinary shares held/ interested	Percentage of the issued shares of the Company (note c)
Preferable Situation Assets Limited (“Preferable”)	Beneficial owner (note b)	31,594,200	7.00%
Webb David Michael	Beneficial owner (note b) Interest of controlled corporation (note b)	22,563,800 31,594,200	5.00% 7.00%

Notes:

- (a) 150,059,268 shares are owned by Corona. Mr. Benson Tung Wah Wing and his spouse, Madam Wong Fung Lin, together own the entire equity interests in equal shares in Corona. Accordingly, by virtue of the SFO, they are deemed to be interested in the 150,059,268 shares held by Corona.
- (b) Based on the notice of disclosure of interests of Webb David Michael filed on 27 September 2023, he is beneficial owner of 22,563,800 shares. In addition, Webb David Michael was deemed to be interested in 31,594,200 shares which are held under Preferable, by virtue of his 100% shareholding interest in Preferable. In total, Webb David Michael is interested in 54,158,000 shares, representing 12.00% of the issued shares of the Company as at 30 September 2023.
- (c) The percentage of shareholding is calculated based on the total number of issued shares of the Company in issue as at 30 September 2023. As at 30 September 2023, the total number of issued shares of the Company was 451,067,557.

BOARD OF DIRECTORS

Executive directors:

Mr. Martin Tung Hau Man (*Chairman*)

Mr. Billy Tung Chung Man (*Vice Chairman*)

Mr. Raymond Tung Wai Man (*Managing Director*)

Independent non-executive directors:

Mr. Tony Chang Chung Kay

Mr. Robert Yau Ming Kim

Mr. Kenneth Yuen Ki Lok

Mr. Wilson Yu Wing Sang

Ms. Lee Siu Mei

OTHER INFORMATION *(continued)*

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

During the Period, the Company has not redeemed, and neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee, which comprises four independent non-executive directors of the Company, has reviewed with management and the Group's external auditor, D & PARTNERS CPA LIMITED, the accounting principles and practices adopted by the Group and discussed risk management and internal control and financial reporting matters including the review of the unaudited interim results and interim report of the Group for the Period.

The Audit Committee of the Company comprises four independent non-executive directors, namely Mr. Kenneth Yuen Ki Lok, Mr. Tony Chang Chung Kay, Mr. Robert Yau Ming Kim and Ms. Lee Siu Mei, with Mr. Kenneth Yuen Ki Lok as the Chairman.

CORPORATE GOVERNANCE

Throughout the Period, the Company has complied with all the code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by directors of the Company. Having made specific enquiry of all directors, all directors confirmed that they have complied with the required standard set out in the Model Code throughout the Period.

Martin Tung Hau Man
Chairman

Hong Kong
29 November 2023
Website: www.tungtex.com