

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



TUNGTEX (HOLDINGS) COMPANY LIMITED

同得仕（集團）有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00518)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 MARCH 2024

RESULTS

The audited consolidated results of Tungtex (Holdings) Company Limited (the “Company”) and its subsidiaries (the “Group”) for the year ended 31 March 2024 (the “Year”), together with the comparative figures for the year ended 31 March 2023 are as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 March 2024

	Notes	2024 HK\$'000	2023 HK\$'000
Revenue	3	516,783	753,214
Cost of sales		(410,964)	(591,772)
Gross profit		105,819	161,442
Other income and other gain		12,978	6,744
Net reversal of impairment loss/(impairment loss) recognised on financial assets		1,019	(896)
Increase/(decrease) in fair value of investment property		2,287	(1,287)
Selling and distribution costs		(55,307)	(60,044)
Administrative expenses		(76,798)	(79,104)
Finance costs		(3,326)	(3,837)
Share of profit/(loss) of an associate		18	(74)
(Loss)/profit before tax	4	(13,310)	22,944
Income tax expenses	5	(679)	(4,144)
(Loss)/profit for the year		(13,989)	18,800
(Loss)/profit for the year attributable to:			
Owners of the Company		(12,796)	19,718
Non-controlling interests		(1,193)	(918)
		(13,989)	18,800
(Loss)/earnings per share			
Basic and diluted (HK cents)	7	(2.8)	4.4

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2024

	2024 <i>HK\$'000</i>	2023 <i>HK\$'000</i>
(Loss)/profit for the year	(13,989)	18,800
Other comprehensive expense		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translating foreign operations:		
– exchange differences arising during the year	<u>(2,446)</u>	<u>(5,863)</u>
Other comprehensive expense for the year	<u>(2,446)</u>	<u>(5,863)</u>
Total comprehensive (expense)/income for the year	<u>(16,435)</u>	<u>12,937</u>
Total comprehensive (expense)/income for the year attributable to:		
Owners of the Company	(15,242)	13,855
Non-controlling interests	<u>(1,193)</u>	<u>(918)</u>
	<u>(16,435)</u>	<u>12,937</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2024

	<i>Notes</i>	2024 HK\$'000	2023 <i>HK\$'000</i>
Non-current assets			
Investment property		28,017	25,730
Property, plant and equipment		45,817	51,332
Right-of-use assets		10,670	13,921
Interests in an associate		451	433
		<hr/> 84,955	<hr/> 91,416
Current assets			
Inventories		99,643	65,265
Trade and other receivables	8	103,896	106,914
Tax recoverable		–	52
Pledged bank deposits		101,114	110,704
Bank balances and cash		168,162	184,620
		<hr/> 472,815	<hr/> 467,555

	<i>Notes</i>	2024 <i>HK\$'000</i>	2023 <i>HK\$'000</i>
Current liabilities			
Trade and other payables	9	107,785	80,207
Contract liabilities		5,076	5,531
Lease liabilities		4,661	4,257
Amount due to an associate		–	158
Tax liabilities		891	4,207
Bank borrowings		51,392	54,474
		169,805	148,834
Net current assets		303,010	318,721
Total assets less current liabilities		387,965	410,137
Non-current liabilities			
Lease liabilities		1,523	4,842
Deferred tax liabilities		365	528
		1,888	5,370
		386,077	404,767
Capital and reserves			
Share capital	10	254,112	254,112
Reserves		145,316	162,813
Equity attributable to owners of the Company		399,428	416,925
Non-controlling interests		(13,351)	(12,158)
		386,077	404,767

Notes:

1. BASIS OF PREPARATION

The financial information presented above and notes thereto are extracted from the Group's consolidated financial statements and presented in accordance with Appendix D2 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Board of Directors (the "Board") is responsible for the preparation of the Group's consolidated financial statements. The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards. The consolidated financial statements have been prepared under the historical cost convention except that an investment property, certain financial assets and financial liabilities are stated at fair values.

The consolidated financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance which concern the preparation of financial statements, in accordance with the requirement of Part 9 of the Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit".

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

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

In the current year, the Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the annual periods beginning on or after 1 April 2023 for the preparation of the consolidated financial statements:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts
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
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies

Except as described below, the application of the new and amendments to HKFRSs in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Change in accounting policy as a result of application of the HKICPA guidance on the accounting implications of the abolition of the Mandatory Provident Fund ("MPF") – Long Service Payment ("LSP") offsetting mechanism in Hong Kong

The Company and its certain subsidiaries are operating in Hong Kong which are obliged to pay LSP to employees under certain circumstances. Meanwhile, the Group makes mandatory MPF contributions to the trustee who administers the assets held in a trust solely for the retirement benefits of each individual employee. Offsetting of LSP against an employee's accrued retirement benefits derived from employers' MPF contributions was allowed under the Employment Ordinance (Cap.57).

In June 2022, the Government of the Hong Kong Special Administrative Region gazetted the Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (the "Amendment Ordinance") which abolishes the use of the accrued benefits derived from employers' mandatory MPF contributions to offset severance payment and LSP (the "Abolition"). The Abolition will officially take effect on 1 May 2025 (the "Transition Date"). In addition, under the Amendment Ordinance, the last month's salary immediately preceding the Transition Date (instead of the date of termination of employment) is used to calculate the portion of LSP in respect of the employment period before the Transition Date.

The application of this HKICPA guidance has had no material impact on the consolidated financial statements.

Amendments to HKFRSs issued but not yet effective

The Group has not early applied the following amendments to HKFRSs that have been issued but are not yet effective:

Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback ¹
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ¹
Amendments to HKAS 1	Non-current Liabilities with Covenants ¹
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements ¹
Amendments to HKAS 21	Lack of Exchangeability ²

¹ Effective for annual periods beginning on or after 1 January 2024.

² Effective for annual periods beginning on or after 1 January 2025.

³ Effective for annual periods beginning on or after a date to be determined.

The directors of the Company anticipate that the application of all the amendments to HKFRSs will have no material impact on the Group's financial positions and performance and/or on the disclosures to the Group in the foreseeable future.

3. REVENUE AND 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.

For the year ended 31 March 2024:

	Asia HK\$'000	North America HK\$'000	Europe and others HK\$'000	Consolidated HK\$'000
REVENUE				
Sales of goods – external	<u>277,712</u>	<u>220,875</u>	<u>18,196</u>	<u>516,783</u>
SEGMENT PROFIT	<u>11,977</u>	<u>1,385</u>	<u>62</u>	13,424
Increase in fair value of investment property				2,287
Finance costs				(3,326)
Unallocated income				12,978
Unallocated expenses				(38,691)
Share of profit of an associate				<u>18</u>
Loss before tax				<u>(13,310)</u>

For the year ended 31 March 2023:

	Asia HK\$'000	North America HK\$'000	Europe and others HK\$'000	Consolidated HK\$'000
REVENUE				
Sales of goods – external	271,762	444,490	36,962	753,214
SEGMENT PROFIT	15,664	43,052	3,596	62,312
Decrease in fair value of investment property				(1,287)
Finance costs				(3,837)
Unallocated income				6,744
Unallocated expenses				(40,914)
Share of loss of an associate				(74)
Profit before tax				22,944

Segment profit represents the profit earned by each segment without allocation of central administrative 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/(loss) 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.

Geographical information

The Group's revenue is mainly derived from garment products shipped to the People's Republic of China (the "PRC"), the United States of America (the "USA") and Canada. The Group's revenue from external customers by the location of shipment are detailed below:

	2024 HK\$'000	2023 HK\$'000
The PRC	258,911	254,369
The USA	135,620	260,815
Canada	85,255	183,675
Others	36,997	54,355
	516,783	753,214

The Group's business activities are conducted predominantly in Hong Kong, the PRC and Vietnam. Information about the Group's non-current assets by the location of the assets is detailed below:

	2024 HK\$'000	2023 HK\$'000
Hong Kong	35,906	38,305
The PRC	34,167	36,422
Vietnam	14,431	16,256
	84,504	90,983

Note: Non-current assets excluded interests in an associate.

Information about major customers

For the year ended 31 March 2024, there are one external customer in Asia and two external customers in North America (2023: two external customers in North America) who contributed over 10% of the total sales of the Group. Their contributions were approximately HK\$181 million (2023: HK\$241 million).

4. (LOSS)/PROFIT BEFORE TAX

	2024 <i>HK\$'000</i>	2023 <i>HK\$'000</i>
(Loss)/profit before tax has been arrived at after charging/(crediting):		
Directors' remunerations:		
Fees	1,250	1,237
Other emoluments	9,095	9,095
Contributions to retirement benefit schemes	108	108
	<u>10,453</u>	<u>10,440</u>
Other employee benefits expenses:		
Salaries, allowances and bonus	103,714	104,452
Contributions to retirement benefit schemes	13,155	11,999
	<u>127,322</u>	<u>126,891</u>
Auditor's remuneration		
– Audit service	820	860
– Non-audit services	276	275
Cost of inventories recognised as an expense (including reversal of allowance for inventories of HK\$3,921,000 (2023: allowance for inventories of HK\$6,524,000))	410,964	591,772
Depreciation of property, plant and equipment	6,631	7,082
Depreciation of right-of-use assets	4,914	6,042
Loss/(gain) on disposal/write-off of property, plant and equipment	15	(5)
Net exchange loss/(gain)	715	(82)
	<u>715</u>	<u>(82)</u>

5. INCOME TAX EXPENSES

	2024 <i>HK\$'000</i>	2023 <i>HK\$'000</i>
Current tax:		
Hong Kong	(873)	(4,200)
The PRC	(196)	(127)
	<u>(1,069)</u>	<u>(4,327)</u>
Over provision in prior years:		
Hong Kong	203	–
PRC	24	–
	<u>227</u>	<u>–</u>
Deferred taxation	163	183
	<u>163</u>	<u>183</u>
	<u>(679)</u>	<u>(4,144)</u>

Hong Kong Profits Tax is calculated at the rate of 16.5% on the estimated assessable profits for the years ended 31 March 2024 and 2023, 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 years ended 31 March 2024 and 2023.

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 January 2022 to 31 December 2022, the annual taxable income not more than RMB1,000,000 of a micro and small enterprise is subject to the 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 RMB1,000,000 and RMB3,000,000 is calculated at 25% of its taxable income at a tax rate of 20%. From 1 January 2023 to 31 December 2024, the annual taxable income not more than RMB3,000,000 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 years ended 31 March 2024 and 2023, there are two subsidiaries of the Company qualified as micro and small enterprises and subject to the relevant preferential tax treatments.

6. DIVIDEND

The Board has recommended the payment of a final dividend for the year ended 31 March 2024 of HK0.5 cent per share (2023: HK0.5 cent per share). Subject to shareholders’ approval at the annual general meeting of the Company, the final dividend will be paid on 20 September 2024 to shareholders whose names appear on the register of members of the Company on 5 September 2024. The payment date of the final dividend for the year ended 31 March 2023 was Monday, 18 September 2023.

7. 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:

	2024 <i>HK\$'000</i>	2023 <i>HK\$'000</i>
(Loss)/profit for the year attributable to owners of the Company	<u>(12,796)</u>	<u>19,718</u>
	2024	2023
Weighted average number of ordinary shares in issue during the year for the purposes of basic and diluted (loss)/earnings per share	<u>451,067,557</u>	<u>451,067,557</u>

No diluted (loss)/earnings per share is presented as there was no potential dilutive ordinary share outstanding for the years ended 31 March 2024 and 2023.

8. TRADE AND OTHER RECEIVABLES

The Group normally grants a credit period ranging from 14 days to 90 days to its trade customers. As at 31 March 2024, the carrying amount of trade and bills receivables was HK\$86,379,000, net of allowance for credit losses: HK\$18,000 (2023: HK\$89,401,000, net of allowance for credit losses: 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:

	2024 <i>HK\$'000</i>	2023 <i>HK\$'000</i>
Up to 30 days	56,249	49,493
31 – 60 days	24,339	20,864
61 – 90 days	2,861	12,333
More than 90 days	<u>2,930</u>	<u>6,711</u>
	<u>86,379</u>	<u>89,401</u>

9. TRADE AND OTHER PAYABLES

The aged analysis of the Group's trade and bills payables presented based on the invoice date at the end of the reporting period are as follows:

	2024 <i>HK\$'000</i>	2023 <i>HK\$'000</i>
Up to 30 days	39,026	31,892
31 – 60 days	8,491	5,232
61 – 90 days	11,081	2,137
More than 90 days	7,842	5,722
	<u>66,440</u>	<u>44,983</u>

10. SHARE CAPITAL

	Number of shares	Amount <i>HK\$'000</i>
Issued and fully paid: At 1 April 2022, 31 March 2023 and 31 March 2024 Ordinary shares with no par value	<u>451,067,557</u>	<u>254,112</u>

FINAL DIVIDEND

The Board of Directors (the “Board”) has recommended the payment of a final dividend for the year ended 31 March 2024 of HK0.5 per share (2023: HK0.5 cent per share). Subject to shareholders’ approval at the annual general meeting of the Company, the final dividend will be paid on 20 September 2024 to shareholders whose names appear on the register of members of the Company on 5 September 2024. The payment date of the final dividend for the year ended 31 March 2023 was Monday, 18 September 2023.

CLOSURE OF REGISTER OF MEMBERS

For determining the shareholders’ entitlement to receive the proposed final dividend:

Latest time to lodge transfers	4:30 p.m. on Wednesday, 4 September 2024
Closure of register of members of the Company	Thursday, 5 September 2024
Record date	Thursday, 5 September 2024
Payment date	Friday, 20 September 2024

In order to qualify for the proposed final dividend, all transfer documents accompanied by the relevant share certificates, must be lodged with the Company’s share registrar and transfer office in Hong Kong, Tricor Secretaries Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong before the relevant latest time to lodge transfers.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS AND FINANCIAL REVIEW

The Key Performance Indicators (“KPI”) judged by the directors to be effective in measuring the development, performance or position of the business of the Group include:

Revenue

The comparison of revenue is as follows:

	2024	2023
	<i>HK\$’000</i>	<i>HK\$’000</i>
Revenue	<u>516,783</u>	<u>753,214</u>

Amidst the challenging macroeconomic and consumer landscape, the Group recorded total revenue of HK\$516.8 million for the year ended 31 March 2024 (the “Year”) (2023: HK\$753.2 million), representing a year-on-year decline of 31.4%. This significant decline was primarily attributable to the dramatic reduction in export sales activities to the North American markets under the combined effect of (i) inflation-induced slowdown in end consumer demand of our brand customers; (ii) an elevated inventory level persisting across the industry; and (iii) a relatively high base of the last corresponding year.

Percentage of consolidated cost of sales

The comparison of percentage of consolidated cost of sales is as follows:

	2024 <i>HK\$'000</i>	2023 <i>HK\$'000</i>
Revenue	516,783	753,214
Cost of sales	<u>(410,964)</u>	<u>(591,772)</u>
Percentage of consolidated cost of sales	<u>79.5%</u>	<u>78.6%</u>

Percentage of consolidated cost of sales for the Year increased to 79.5% (2023: 78.6%). The increase of 0.9 percentage point in cost of sales was mainly attributable to the unfavorable global and regional economic and business conditions.

Selling and distribution costs

The comparison of selling and distribution costs is as follows:

	2024 <i>HK\$'000</i>	2023 <i>HK\$'000</i>	Changes <i>HK\$'000</i>	% <i>Changes</i>
Advertising & promotion expense	15,960	14,407	1,553	10.8%
Freight and handling charge	3,160	5,622	(2,462)	(43.8%)
Shop management fee	8,824	10,087	(1,263)	(12.5%)
Retail shop rental and running expenses	10,296	10,078	218	2.2%
Staff costs	12,069	14,252	(2,183)	(15.3%)
Other selling and distribution costs	<u>4,998</u>	<u>5,598</u>	<u>(600)</u>	<u>(10.7%)</u>
Total	<u>55,307</u>	<u>60,044</u>	<u>(4,737)</u>	<u>(7.9%)</u>

Selling and distribution costs decreased by 7.9% year-on-year to HK\$55.3 million.

Following the transformation of consumer's online consumption and shopping habits, the Group continued to extend our digital presence, and closed non-performing retail physical stores during the Year. As a result, the Group's advertising and promotion expense increased by HK\$1.6 million, shop management fee decreased by HK\$1.3 million, and staff costs decreased by HK\$2.2 million.

The decrease in freight and handling charge was attributable to the decrease in total revenue of the Group for the Year and the stringent cost control over shipment and delivery.

Administrative expenses

The comparison of administrative expenses is as follows:

	2024	2023	Changes	%
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>Changes</i>
Auditor's remuneration	1,096	1,135	(39)	(3.4%)
Depreciation and amortisation	5,509	6,272	(763)	(12.2%)
Entertainment and travelling	2,941	2,318	623	26.9%
Exchange loss/(gain)	715	(82)	797	972.0%
Legal and professional fee	2,976	2,823	153	5.4%
Staff costs	53,380	54,431	(1,051)	(1.9%)
Office expenses	3,875	5,023	(1,148)	(22.9%)
Other administrative expenses	6,306	7,184	(878)	(12.2%)
Total	<u>76,798</u>	<u>79,104</u>	<u>(2,306)</u>	<u>(2.9%)</u>

Administrative expenses decreased slightly by 2.9% year-on-year to HK\$76.8 million.

The decrease in staff costs, office expenses and other administrative expenses were mainly attributable to (i) the decrease in performance-based staff bonus; and (ii) the Group's overall cost control during the Year.

Finance costs

The comparison of finance costs is as follows:

	2024	2023
	<i>HK\$'000</i>	<i>HK\$'000</i>
Finance costs	<u>3,326</u>	<u>3,837</u>

The decrease in finance costs was mainly attributable to the decrease in bank interest for trade finance borrowings corresponding to the significant decrease in export sales activities but at the backdrop of higher interest rate for the Year.

Earnings before interest, taxes, depreciation and amortisation (“EBITDA”)

The comparison of EBITDA is as follows:

	2024 <i>HK\$'000</i>	2023 <i>HK\$'000</i>
(Loss)/profit for the year	(13,989)	18,800
Add:		
Finance costs	3,326	3,837
Income tax expenses	679	4,144
Depreciation	11,545	13,124
EBITDA	<u>1,561</u>	<u>39,905</u>

The Group’s EBITDA for the Year is HK\$1.6 million (2023: HK\$39.9 million).

Operating (loss)/profit

The comparison of operating (loss)/profit is as follows:

	2024 <i>HK\$'000</i>	2023 <i>HK\$'000</i>
(Loss)/profit before tax	(13,310)	22,944
Less:		
Increase/(decrease) in fair value of investment property	<u>2,287</u>	<u>(1,287)</u>
Operating (loss)/profit before tax	<u>(15,597)</u>	<u>24,231</u>

The Group incurred an operating loss before tax of HK\$15.6 million for the Year (2023: operating profit before tax of HK\$24.2 million).

(Loss)/profit before tax

The Group’s loss before tax for the Year was HK\$13.3 million (2023: profit before tax of HK\$22.9 million).

(Loss)/earnings per share

The Group's loss per share for the Year was HK2.8 cents (2023: earnings per share of HK4.4 cents).

Inventory turnover days

The comparison of inventory turnover days is as follows:

	2024 <i>HK\$'000</i>	2023 <i>HK\$'000</i>
Revenue	516,783	753,214
Inventory as at 31 March	99,643	65,265
Inventory turnover days	71 days	32 days

Inventory turnover days increased by 39 days to 71 days for the Year (2023: 32 days). The increase of inventory turnover days was mainly attributable to the higher inventory level of the manufacturing segment as at the year-end date to support the relatively higher order volume from the Group's customers for delivery in the first quarter subsequent to 31 March 2024.

Trade receivable turnover days

The comparison of trade receivable turnover days is as follows:

	2024 <i>HK\$'000</i>	2023 <i>HK\$'000</i>
Revenue	516,783	753,214
Trade and bills receivables as at 31 March	86,379	89,401
Trade receivable turnover days	61 days	43 days

Trade receivable turnover days increased by 18 days to 61 days for the Year (2023: 43 days). The increase of trade receivable turnover days was mainly attributable to the similar level of trade receivable amount (reflecting mainly the sales in the fourth quarter) relative to the much lower full-year sales of the Year as compared to the last corresponding year.

Other receivables

The comparison of other receivables is as follows:

	2024 <i>HK\$'000</i>	2023 <i>HK\$'000</i>	Changes <i>HK\$'000</i>	% <i>Changes</i>
Deposits paid to suppliers and vendors	10,756	6,751	4,005	59.3%
Other tax receivables	1,503	5,322	(3,819)	(71.8%)
Prepayment	1,512	1,275	237	18.6%
Rental and utilities deposits	1,087	1,440	(353)	(24.5%)
Others	2,659	2,725	(66)	(2.4%)
Total	<u>17,517</u>	<u>17,513</u>	<u>4</u>	<u>0.0%</u>

The substantial increase in deposits paid to suppliers and vendors was mainly attributable to the higher volume of purchase orders placed with the suppliers and vendors of the manufacturing segment as at 31 March 2024 in line with the relatively higher order volume from the customers for delivery in the first quarter subsequent to 31 March 2024.

Other payables and contract liabilities

The comparison of other payables and contract liabilities is as follows:

	2024 <i>HK\$'000</i>	2023 <i>HK\$'000</i>	Changes <i>HK\$'000</i>	% <i>Changes</i>
Accrued subcontracting and processing fees	8,727	1,964	6,763	344.3%
Franchise deposits received	1,130	1,361	(231)	(17.0%)
Other tax payables	800	2,885	(2,085)	(72.3%)
Other accruals and receipts in advance	9,360	5,964	3,396	56.9%
Wages payable	9,520	10,671	(1,151)	(10.8%)
Contract liabilities	5,076	5,531	(455)	(8.2%)
Others	11,808	12,379	(571)	(4.6%)
Total	<u>46,421</u>	<u>40,755</u>	<u>5,666</u>	<u>13.9%</u>

BUSINESS REVIEW

The Year was unfolding under a highly complex scenario marked by a volatile macroeconomic and geopolitical backdrop, aggravated by a challenging consumer environment with suppressed discretionary demand across our key markets which further compounded the difficulties faced by our manufacturing and export operations.

Affected by retail spending downturn in most western consumer markets, supply chain ecosystem in Vietnam grappled with the challenges of overcapacities and inefficiencies. Wrestling with a weaker order book with reduced margins, the Group responded by dynamically allocating manufacturing capacity to balance customer demand, pipeline on hand and available resources while further optimising our production scheduling, workflows and supply chain networks to enhance factory utilisation rate, increase efficiency, and reduce production costs in order to mitigate the adverse impacts of substantially weaker manufacturing orders.

On the other hand, facing intense competition, the Group proactively fostered stronger alliance with our existing brand customers to capture their production needs while offering competitive quotes to secure potential sales orders under flexible volume and schedule that aligned with customers' inventory cycles to better support their growth amidst market uncertainty. Nonetheless, their longer-than-expected excess inventory levels, coupled with sluggish end consumer demand had significantly slowed down the buying activity of our major brand customers, resulting in dramatic drop in shipment volume and value during the Year.

Against the backdrop of strong economic headwinds, the post pandemic growth in Mainland China fell short of expectation and took a toll on consumer confidence leading to dampened consumer sentiment with more prudent purchasing behaviour. Amidst slowing retail demand, the Group swiftly adapted to the post pandemic consumption trends and flexibly adjusted our strategies to deliver to our customers the best value offerings in terms of product quality, pricing and customer experience to increase their purchase intent. Meanwhile, capturing the increasing adoption of digital lifestyle, we committed more effort to extend our digital presence across multiple channels to engage and interact with new and existing customers, leading to robust recovery of our online sales in the second half of the Year.

Operating under a highly promotional marketplace, our China retail management closely monitored the bottom line while implementing more rigorous cost optimisation measures that further enhanced our competitiveness and improved overall profitability. As a result of our strategic initiatives, we saw meaningful recovery in our sales and financial performance in the second half of the Year which offset the decline during the first half of the Year and brought our retail sales performance back on a stable track with improved profitability.

While manufacturing sector was fraught with inadequate demand and capacity utilisation, our manufactory segment in China benefitted from the high level of integration into our retail business which fostered product innovation and allowed the Group to optimise our production capacity, resource allocation and supply chain management with improved efficiency. Our ability to deliver competitive, quality and highly customised apparel sourcing solutions with faster speed-to-market and greater flexibility led to deepened customer relationship and increased orders. As a result, sales to domestic brand customers in China successfully swung back into growth during the Year.

SALES TO ASIAN MARKET

Sales to Asian markets maintained stable performance with a modest increase of 2.2% to HK\$277.7 million (2023: HK\$271.8 million), mainly driven by the Group's sales to China market totalling HK\$258.9 million (2023: HK\$254.4 million) which contributed approximately 93.2% of total sales to Asian markets.

Following the full restoration of economic order, China's economy was recovering under the Government's keynote of "seeking progress while maintaining stability" and China's Gross Domestic Product ("GDP") grew by a promising 5.2% year-on-year in 2023. However, challenges including cooling demand at home and abroad, prolonged slumps in its real property sector, and a weakening labour market under an increasingly complex external environment persistently pressured the path to recovery. Consumer Price Index (CPI) in China rose by just 0.2% for the full year of 2023, indicative of the lacklustre domestic demand underpinned by sinking consumer confidence among Chinese consumers.

The Group closely monitored the consumers' demand and expectation in China while tailoring strategic initiatives that allowed us to reach and engage our customers through their preferred mode of consumption. Taking note of the cautious consumer sentiment and changing consumption patterns, our management team actively adapted our product portfolio, omnichannel capabilities as well as digital marketing strategies that addressed and resonated with post-pandemic consumers behaviour shifts that emphasised quality, superior values, exceptional experiences, and emotional connection.

At the same time, the Group actively grasped the development trend of online consumption models through boosting our online presence, driving brand visibility and establishing meaningful engagement with our potential and existing customers. Led by improved sales performance from all channels, our retail business regained growth momentum in the second half of the year, leading to a slight increase in retail sales on a year-on-year basis.

During the Year, garment manufacturing landscape was operating under the combined influence of sluggish production demand, weakened business sentiment and intense competition. Leveraging on our production excellence and robust supply chain capabilities, our domestic sales in China was able to devise tailored and flexible manufacturing solutions which balanced cost efficiency, on time delivery and quality offerings under a highly uncertain market environment resulting in increase of inventory replenishment orders from existing and new customers. Sales to domestic brand customers regained growth momentum and increased by 9.9% year-on-year to HK\$56.6 million (2023: HK\$51.5 million).

SALES TO NORTH AMERICAN MARKET

With the daunting market and inventory challenges facing our brand customers, sales to North American markets decreased by 50.3% as compared with the high base of the last corresponding year to HK\$220.9 million (2023: HK\$444.5 million). Sales to the United States of America (the "U.S.A.") and Canada amounted to HK\$135.6 million and HK\$85.3 million representing a year-on-year decline of 48.0% and 53.6% respectively and contributed to 26.2% and 16.5% of the Group's total revenue during the Year.

Despite surprising economic resilience in the U.S.A., prolonged inflationary pressure and soaring borrowing costs had eroded households' purchasing power which, coupled with depletion of pandemic-era savings, further dampened households' consumption sentiment. With concerns over the cost of living occupying the top spot, consumers prioritised essential consumption over discretionary spendings like fashion clothing leading to tepid consumer demand of our customers' apparel products who in turn reduced their production orders with the Group accordingly. Reflecting these trends, apparel imports by the U.S.A. declined by 22.0% in 2023.

Amidst moderating consumer demand, retailers and brand owners were confronted with the challenges of a prolonged destocking cycle during the Year. Although down from their peak, inventory levels remained high under the prevailing sales levels. The pressure to manage costs and business risks associated with massive excessive inventory under the uncertain market environment forced our customers to reevaluate their inventory management strategies and replenishment decisions more carefully leading to a more risk-averse ordering patterns by our major customers which, alongside the normalisation of global supply chain led to further compression of production orders during the Year. As a result, sales to the U.S.A. market recorded a substantial decrease of 48.0% year-on-year.

While the Canadian economy successfully beat recession fears and posted an annualised GDP of 1.2% for full year of 2023, it was the weakest growth since 2016 as the economy continued to face pressure from high interest rates.

Our customers struggled with slowdown in sales as rising costs of living and financing inhibited spendings on non-essential products including fashion and clothing accessories. Besides the inventory backlogs, the impact of the overall economic uncertainty, a high interest rate environment as well as the widespread potential recession expectations continued to weigh on business sentiments of our customers who were more cautious with the risk of excessive inventory and significantly scaled back their production orders in response. Under these circumstances, sales to Canada amounted to HK\$85.3 million (2023: HK\$183.7 million), representing a substantial decline of 53.6% year-on-year.

RETAILING

After a short burst of economic rebound in the first quarter of the year 2023, China's recovery momentum started to lose steam as multiple domestic and international headwinds combined to exert a strong downward pressure on the economy and the long-awaited post-pandemic boom turned out to be weaker than expected. A more moderated consumption growth was driven by widespread pessimism among Chinese consumers over the economic outlook which dampened consumer confidence and led to more rational, price sensitive and value seeking behaviour.

Under the challenging consumer landscape, we closely monitored the post-pandemic changes in consumption behaviour and recalibrated our flexible operating model by constantly optimising our product offerings, sales network, multi-channels as well as our promotional and marketing strategies in line with the evolving consumer expectations to stay resilient throughout the challenging times.

Against a backdrop of conservative consumer sentiment, we returned to the fundamentals of maximising customer value. We adapted our product assortments to focus on high-quality, versatile wardrobe staples offering styles, ease and comfort, and adopted competitive pricing strategies and promotional offers to enhance our product competitiveness and drive sales. We also developed complementary marketing campaigns that highlighted propositions which emphasised value, affordability, and quality that resonated with our cautious consumers and enhanced our brand image.

Meanwhile, our online business was equally challenging as traditional e-commerce fell into a low-price competition landscape. Against this backdrop, we accelerated digital transformation of our omnichannel business model which capitalised our online and offline strengths to deliver a more seamless, personalised and engaging consumer experience with an aim to enhance overall customer satisfaction, foster loyalty and drive sales.

During the Year, the Group operated our own WeChat store, and set our footprint into a portfolio of online channels spanning across Taobao, T-mall, JD.com, Vipshop, Douyin, Xiaohongshu and Tiktok, with plans to further diversify into emerging online channels and leverage the diversities and extensive influence of China's flourishing online channels to drive our brand awareness and engagement.

As our adjusted strategies continued to trend in the right direction, we saw remarkable progress in our online sales performance which in turn drove increasing in-store footfall in the second half of the Year and led to a steady sales performance for a full-year basis. Recovering from a decline of 12.0% in the first half of the Year, the Group's retail sales for the Year stabilised at HK\$201.6 million (2023: HK\$201.5 million), or an increase of 4.0% excluding the effect of foreign exchange.

Facing heightened uncertainty, the Group closely monitored our retail business under a profit-driven approach while maintaining strong cost discipline through streamlining of our cost structure, further refining of our retail networks and implementation of various efficiency-improving initiatives to defend profit margins and stay competitive. At the same time, we optimised our inventory health that struck the right balance between customer demand and optimal inventory replenishment management. As a result, our retail operation accomplished an operating profit of HK\$8.5 million (2023: HK\$4.1 million) albeit the volatile retail landscape.

PROSPECTS

The ongoing macroeconomic headwinds and uncertainties have carried into the new fiscal year. A multiple of other disruptions such as escalating geopolitical tensions, the upcoming U.S.A. presidential election as well as an uncertain pace of the Federal Reserve's rate cutting cycle in the U.S.A. have the potential of creating additional turbulence that will continue to influence consumer and industry outlook over the near term and impact our overall performance.

In the meantime, global trade conflicts and greater fragmentation, together with demand volatility in key export markets will continue to have knock-on effect on supply chain destinations including Vietnam posing challenges to the broader manufacturing sector including our production operation and profitability. In response, we will continue to bolster the efficiency and flexibility of our manufacturing platform and closely monitor orders recovery rate and adjust our strategies accordingly. Our innovative capabilities and versatile production platforms for export-oriented business provide the foundation we need to deliver agile, efficient and scalable operations while enabling us to deliver organic customer-centric growth by meeting the diversified needs and manufacturing requirements of our global brand customers.

The Group has established design team to apply AI techniques to enhance creativity. Leveraging our core capabilities from product design and development, production and logistics management, the Group endeavours the delivery of comprehensive and integrated end-to-end solutions while focusing on innovative product categories and value-added services to further strengthen our distinctive position in the market, foster even stronger customer relationship and endeavour to widen our market and customer base.

In respect of the domestic brands market in China, the Group will maximise and lean into the synergies with our retail business to diversify our product offerings to include popular categories with appealing designs that will meet the diversified needs of our domestic brand customers and further broaden our customer and revenue base.

Despite economic activities and consumer confidence continue to be volatile in China market, we are cautiously optimistic that the short-term disruptions experienced in the retail sector have not altered the medium to long-term trend of China's consumption upgrading under a large and still growing younger generation middle class with an appetite for high quality products and services. Besides, under the more proactive and vigilant policy responses by the Chinese government to address the challenges facing its economy and boost domestic consumption, China is steering towards a more stable, high-quality and sustainable demand-driven growth path in the post-COVID era. We envisage new challenges, opportunities and new needs generated from this vibrant consumer market with the most innovative and diversified retail platforms.

The accelerated development of digital economy in China will continue to drive the upgrading of online consumption and promote the proliferation of emerging consumption models that requires even more sophisticated online and offline integration. To stay ahead of changing trends, the Group will invest in digital, data and advanced technology that will enable development of innovative retail models fostering more focused and robust online and mobile presence, while at the same time further refining and optimising the profit model of our omnichannels.

We are also committed to build up and maintain our strong brand equity through balanced marketing investment strategies that establishes consistent, well-defined brand positioning and value proposition to enhance the long-term appeal of our digitally savvy retail brand "Betu" which will drive brand trust and customer loyalty.

The Group ensures strong financial capacity and flexibility needed to sustain operations and drive future strategies, guided by our commitment to maintaining adequate cash flow, as well as a more effective and cautious working capital management under tight cost control discipline. That said, the Group will continue to align with our customer-centric business philosophy, and prioritise customer-facing spending and strategic investment in technology and people talents for the long-term sustainable growth and the delivery of enduring value for our customers, shareholders and communities.

CAPITAL EXPENDITURE

During the Year, the Group incurred HK\$2.1 million capital expenditure compared to HK\$1.8 million of the last corresponding year. Such capital expenditure mainly represented the regular replacement and upgrading of production facilities, and leasehold improvement of the Group.

LIQUIDITY AND FINANCIAL RESOURCES

The Group adopted prudent financial management and sustained a sound financial position throughout the Year. The Group performed stringent working capital management and effective deployment of cash flows. As at 31 March 2024, the Group's cash level was recorded at HK\$269.3 million (of which HK\$101.1 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 31 March 2024, total bank borrowings of the Group were HK\$51.4 million (which were all short-term bank borrowings and mainly denominated in RMB, HKD and USD), as compared to HK\$54.5 million as at 31 March 2023. The Group had no borrowings at fixed interest rates during the Year. As at 31 March 2024, the gearing ratio (total bank borrowings to total equity) was 13.3%.

At 31 March 2024, certain buildings with an aggregate net book value of approximately HK\$32.8 million (2023: HK\$34.3 million) were pledged to secure general banking facilities granted to the Group.

As at 31 March 2024, excluding the pledged bank deposits of HK\$101.1 million which were pledged to banks to secure the general banking facilities of the Group, net cash balance of the Group was HK\$116.8 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 for meeting 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.

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 31 March 2024, the Group has approximately 1,500 employees as compared to approximately 1,400 as at 31 March 2023. Such increase is mainly attributable to the increase in labour force in the Group's factories in Vietnam during the Year.

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\$127.3 million for the Year (2023: HK\$126.9 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.

PRELIMINARY ANNOUNCEMENT OF AUDITED ANNUAL RESULTS

The financial information relating to the years ended 31 March 2024 and 2023 included in this preliminary announcement of annual results 2024 do not constitute the Company's statutory annual consolidated financial statements for those years 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 Companies Ordinance is as follows:

The Company has delivered the consolidated 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 and will deliver the consolidated financial statements for the year ended 31 March 2024 to the Registrar of Companies in due course.

The Company's auditor has reported on the financial statements of the Group for both years. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

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

During the Year, 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 audited consolidated financial statements of the Group for the Year.

CORPORATE GOVERNANCE

Throughout the Year, the Company has complied with all the code provisions set out in the Corporate Governance Code contained in Appendix C1 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix C3 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 Year.

PUBLICATION OF FINAL RESULTS AND ANNUAL REPORT

This results announcement is published on the Company’s website (www.tungtex.com) and The Stock Exchange of Hong Kong Limited’s website (www.hkexnews.hk). The Annual Report containing all the information required by the Listing Rules will be despatched to shareholders of the Company and available on the same websites in due course.

For and on behalf of the Board
Tungtex (Holdings) Company Limited
Martin Tung Hau Man
Chairman

Hong Kong, 27 June 2024

As at the date of this announcement, the executive directors of the Company are Mr. Martin Tung Hau Man, Mr. Billy Tung Chung Man, and Mr. Raymond Tung Wai Man; and the independent non-executive directors are Mr. Tony Chang Chung Kay, Mr. Robert Yau Ming Kim, Mr. Kenneth Yuen Ki Lok, Mr. Wilson Yu Wing Sang and Ms. Lee Siu Mei.