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TUNGTEX (HOLDINGS) COMPANY LIMITED

同得仕（集團）有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00518)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2016

RESULTS

The interim results of Tungtex (Holdings) Company Limited (the “Company”) and its subsidiaries (the “Group”) for the six months ended September 30, 2016, together with the comparative figures for the six months ended September 30, 2015 are as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended September 30, 2016

		Six months ended September 30, 2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
	Notes		
Revenue	3	470,126	501,404
Cost of sales		(388,761)	(383,888)
Gross profit		81,365	117,516
Other income and other gain		2,401	3,692
Decrease in fair value of investment property	8	(62)	(457)
Fair value changes on derivative financial instruments		42	2
Selling and distribution costs		(61,145)	(64,861)
Administrative expenses		(81,287)	(86,111)
Finance costs		(1,302)	(1,174)
Gain on disposal of an associate		–	1,756
Loss before tax	4	(59,988)	(29,637)
Income tax credit (expense)	5	161	(119)
Loss for the period		(59,827)	(29,756)
Loss for the period attributable to:			
Owners of the Company		(59,456)	(29,126)
Non-controlling interests		(371)	(630)
		(59,827)	(29,756)
Loss per share (HK cents)	7	(14.1)	(6.9)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended September 30, 2016

	Six months ended September 30,	
	2016	2015
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Loss for the period	(59,827)	(29,756)
Other comprehensive expenses		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translating foreign operations		
– exchange differences arising during the period	(11,533)	(12,820)
– reclassification adjustments relating to a foreign operation disposed of during the period	–	(345)
Other comprehensive expenses for the period	(11,533)	(13,165)
Total comprehensive expenses for the period	(71,360)	(42,921)
Total comprehensive expenses for the period attributable to:		
Owners of the Company	(70,989)	(42,291)
Non-controlling interests	(371)	(630)
	(71,360)	(42,921)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At September 30, 2016

	Notes	September 30, 2016 HK\$'000 (unaudited)	March 31, 2016 HK\$'000 (audited)
Non-current assets			
Investment property	8	7,198	7,260
Property, plant and equipment	8	154,483	161,651
Prepaid lease payments	8	24,408	25,157
Intangible asset		–	–
Deferred tax assets		372	200
		<u>186,461</u>	<u>194,268</u>
Current assets			
Inventories		180,526	192,480
Trade and other receivables	9	146,687	166,171
Prepaid lease payments	8	802	815
Tax recoverable		1,183	1,183
Pledged bank deposits		96,000	96,000
Bank balances and cash		151,875	186,325
		<u>577,073</u>	<u>642,974</u>
Current liabilities			
Trade and other payables	10	188,603	180,571
Tax liabilities		895	959
Obligations under finance leases			
– due within one year		–	7
Derivative financial instruments		9	51
Bank borrowings		70,126	78,439
		<u>259,633</u>	<u>260,027</u>
Net current assets		<u>317,440</u>	<u>382,947</u>
Total assets less current liabilities		<u>503,901</u>	<u>577,215</u>
Non-current liabilities			
Bank borrowings		14,000	15,200
Deferred tax liabilities		748	1,502
		<u>14,748</u>	<u>16,702</u>
		<u>489,153</u>	<u>560,513</u>
Capital and reserves			
Share capital	11	212,932	212,932
Reserves		281,876	352,865
Equity attributable to owners of the Company		<u>494,808</u>	<u>565,797</u>
Non-controlling interests		<u>(5,655)</u>	<u>(5,284)</u>
		<u>489,153</u>	<u>560,513</u>

Notes:

1. Basis of preparation

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 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 “Listing Rules”).

The financial information relating to the year ended March 31, 2016 that is included in the half-year interim report 2016-2017 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 March 31, 2016 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 March 31, 2016. 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 an investment property and financial instruments, which are measured at fair values, as appropriate.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended September 30, 2016 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended March 31, 2016.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are relevant for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle

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

3. Segment information

The Group's operating segments, based on information reported to the chief operating decision makers, the Company's executive directors, for the purposes of resource allocation and assessment of performance which are analysed based on the location of customers, are as follows:

1. North America
2. Asia
3. Europe and others

Information regarding the above segments is reported below.

Six months ended September 30, 2016:

	North America HK\$'000	Asia HK\$'000	Europe and others HK\$'000	Consolidated HK\$'000
SEGMENT REVENUE				
Sales of goods – external	250,483	186,144	33,499	470,126
SEGMENT LOSS	(11,985)	(21,815)	(713)	(34,513)
Decrease in fair value of investment property				(62)
Unallocated income				2,443
Unallocated expenses				(26,554)
Finance costs				(1,302)
Loss before tax				(59,988)

Six months ended September 30, 2015:

	North America HK\$'000	Asia HK\$'000	Europe and others HK\$'000	Consolidated HK\$'000
SEGMENT REVENUE				
Sales of goods – external	284,455	180,799	36,150	501,404
SEGMENT PROFITS (LOSS)	5,496	(2,610)	1,199	4,085
Decrease in fair value of investment property				(457)
Unallocated income				3,694
Unallocated expenses				(37,541)
Finance costs				(1,174)
Gain on disposal of an associate				1,756
Loss before tax				(29,637)

Segment (loss) profits represents the (loss) profits (expensed) earned by each segment without allocation of central administration costs, directors' salaries, depreciation of property, plant and equipment, amortisation of prepaid lease payments, change in fair value of investment property, fair value changes on derivative financial instruments, gain on disposal 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.

4. Loss before tax

	Six months ended September 30,	
	2016	2015
	HK\$'000	HK\$'000
Loss before tax has been arrived at after charging (crediting):		
Amortisation of prepaid lease payments	401	411
Depreciation of property, plant and equipment	9,792	9,444
Loss (gain) on disposal of property, plant and equipment	199	(278)
Bank interest income	(554)	(1,998)
Rental income from investment property under operating leases, net of outgoings of HK\$Nil (2015: HK\$Nil)	(28)	(181)

5. Income tax (credit) expense

	Six months ended September 30,	
	2016	2015
	HK\$'000	HK\$'000
Current tax:		
Hong Kong	765	–
Deferred taxation	(926)	119
	(161)	119

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

No provision for Hong Kong Profits Tax was made for the six months ended September 30, 2015 as the Group had no assessable profit arising in Hong Kong or the assessable profits were wholly absorbed by tax losses brought forward from prior period.

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

No provision for PRC Enterprise Income Tax is made for the six months ended September 30, 2016 and 2015 as the Group has no assessable profit arising in the PRC.

According to the EIT Law, the profits of the PRC subsidiaries of the Company and the PRC associates of the Group derived since January 1, 2008 will be subject to withholding tax at a rate of 5% upon the distribution of such profits to foreign investors incorporated in Hong Kong, or at a rate of 10% for other foreign investors. The Group determined that no deferred tax on withholding tax liabilities shall be recognised since no significant distributable profit was derived by the PRC subsidiaries and associates from January 1, 2008.

6. Dividends

A special dividend of HK1 cent per share for the year ended March 31, 2016, amounting to HK\$4.2 million has been paid by the Company (six months ended September 30, 2015: Nil).

The Board of Directors (the "Board") does not recommend the payment of an interim dividend for the six months ended September 30, 2016 (six months ended September 30, 2015: special dividend of HK1.0 cent per share).

7. Loss per share

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

	Six months ended September 30,	
	2016	2015
	HK\$'000	HK\$'000
Loss for the period attributable to owners of the Company	(59,456)	(29,126)
	2016	2015
Number of ordinary shares in issue during the period for the purpose of loss per share	422,077,557	422,077,557

No diluted loss per share is presented as there was no potential dilutive ordinary share outstanding for the six months ended September 30, 2016 and 2015.

8. Movements in investment property, property, plant and equipment and prepaid lease payments

During the six months ended September 30, 2016, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of HK\$433,000 for proceeds of HK\$234,000, resulting in a loss on disposal of HK\$199,000.

During the six months ended September 30, 2015, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of HK\$1,316,000 for proceeds of HK\$1,594,000, resulting in a gain on disposal of HK\$278,000.

The Group spent HK\$7,015,000 (six months ended September 30, 2015: HK\$13,464,000) on acquisition of property, plant and equipment.

The Group's investment property was fair valued by Grant Sherman Appraisal Limited and DTZ Cushman & Wakefield Limited (formerly known as DTZ Debenham Tie Leung Limited), independent qualified professional valuers not connected with the Group, as at September 30, 2016 and March 31, 2016, respectively. In determining the fair value of investment property, direct comparison method and income capitalisation method are adopted. Direct comparison method is based on comparing the properties to be valued directly with other comparable properties, which have recently transferred its legal ownership. Income capitalisation method is based on the capitalisation of the net income potential by adopting appropriate capitalisation rate, which is derived from analysis of sale transactions and the interpretation of prevailing investor requirements or expectations. There has been no change from the valuation technique used in prior year.

The resulting decrease in fair value of investment property of HK\$62,000 has been recognised directly in profit or loss for the six months ended September 30, 2016 (six months ended September 30, 2015: HK\$457,000).

9. Trade and other receivables

The Group allows a credit period ranging from 30 days to 90 days to its trade customers. Included in trade and other receivables are trade and bills receivables, mainly denominated in United States Dollars, with the following aged analysis presented based on the invoice date which approximated revenue recognition date at the end of the reporting period:

	September 30, 2016 HK\$'000	March 31, 2016 HK\$'000
Up to 30 days	73,886	77,820
31 – 60 days	18,612	33,871
61 – 90 days	10,503	11,696
More than 90 days	5,335	7,174
	<u>108,336</u>	<u>130,561</u>

10. Trade and other payables

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

	September 30, 2016 HK\$'000	March 31, 2016 HK\$'000
Up to 30 days	67,203	57,583
31 – 60 days	9,573	27,808
61 – 90 days	7,516	5,221
More than 90 days	7,487	7,089
	<u>91,779</u>	<u>97,701</u>

11. Share capital

	Number of shares	Amount HK\$'000
Issued and fully paid:		
At March 31, 2015, September 30, 2015, March 31, 2016 and September 30, 2016		
Ordinary shares with no par value	<u>422,077,557</u>	<u>212,932</u>

DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended September 30, 2016 (six months ended September 30, 2015: special dividend of HK1.0 cent per share).

MANAGEMENT DISCUSSION AND ANALYSIS

Summary of Operating Results

The Group's operating environment for the six months ended September 30, 2016 ("Reporting Period") remained difficult. Certain of the Group's customers in the United States ("US") had closed down their operations, or shifted their product sourcing out of China. Such developments resulted in significant decline in sales which had, in turn, impacted on the Group's turnover, as well as its gross margin due to diminished benefit from economies of scale. Furthermore, customer purchasing preference had moved toward fast changing fashion at competitive prices. To accommodate customers' needs and to maintain its niches in the market, the Group had adjusted its manufacturing model and pricing strategy, leading to further shrinkage in gross margin during the six-month period.

The Group recorded an operating loss before tax of HK\$60.0 million for the Reporting Period, as compared to an operating loss before tax of HK\$30.9 million for the corresponding period last year. The Group's loss attributable to owners of the Company and loss per share were HK\$59.5 million and HK14.1 cents respectively. The Board does not recommend the payment of an interim dividend.

	Six months ended	
	September 30,	
	2016	2015
	HK\$'000	HK\$'000
Loss before tax	(59,988)	(29,637)
Less:		
Decrease in fair value of an investment property	(62)	(457)
Fair value changes on derivative financial instruments	42	2
Gain on disposal of an associate	—	1,756
Operating loss before tax	<u>(59,968)</u>	<u>(30,938)</u>

Business Review

During the Reporting Period, the Group faced escalated challenges in operations amid complex economic environment and severe market conditions. The US economy basically remained tepid in the first half of the calendar year 2016, although there were signs of resilience in the third quarter. The Euro zone also exhibited stagnation in its GDP growth. Soft economic conditions along with changing consumption patterns and shifting of production orders to lower-cost Asian countries had resulted in significant decline in both volume and value of the Group's sales to these markets. On the other hand, China reported a moderate 6.7% GDP growth for the first three quarters of the calendar year 2016, with a 9.7% real growth (after taking into account price factors) in total retail sales of consumer products for the first half of the year. During the Reporting Period, the Group's total turnover was HK\$470.1 million, representing a decrease of 6.2% year-on-year. In terms of geographical segment, sales to North America, the Group's principal export market, adjusted down by 11.9% year-on-year to HK\$250.5 million; sales to Europe and other markets dropped by 7.3% year-on-year to HK\$33.5 million; while sales to Asia rose by 3.0% year-on-year to HK\$186.1 million, due to healthy sales and strong reception of the Group's products in China. Of the Group's total turnover, North America, Europe and other markets and Asia accounted for 53.3%, 7.1% and 39.6% respectively.

Due to changing customer purchasing preference mentioned above, the Group had adjusted its manufacturing model and pricing strategy, leading to a lower gross margin of 17.3%, as compared to a gross margin of 21.6% for the full year ended March 31, 2016. During the Reporting Period, the Group realised a gross profit of HK\$81.4 million. The year-on-year retreat in gross profit was mainly due to a reduced turnover. Selling and distribution costs decreased by 5.7% year-on-year, which was a result of the Group's downsizing of its retail network by discontinuing under-performed stores, and strengthening of e-commerce sales in the China market. On the other hand, administrative expenses decreased by 5.6% year-on-year, reflecting the effect of the Group's stringent cost control. Finance costs increased by 10.9% year-on-year. This was mainly attributable to increased bank borrowings for operational needs during the Reporting Period.

Despite the Group's improved sales from online platform, its domestic retail chain had suffered from changing customer behaviour. During the Reporting Period, the Group's retail sales in China adjusted down by 5.7% year-on-year and accounted for 27.1% of the Group's total turnover. As at the end of the Reporting Period, there were 133 self-managed stores and 91 franchised and associated stores in operation. The Group's products were also available on leading online channels such as Tmall, vip.com, etc.

Prospects

Uncertainties will continue to shroud the global economy for the second half of the current financial year. With the recent changes in global political landscapes in major countries such as Britain's exit from the EU, the process of which is likely to start in early 2017, and the start of a new presidency in the US, markets worldwide are expected to face radical and unpredictable changes. The aforesaid factors are expected to continue to impact on the Group's sales in the US and Europe.

Domestic demand and consumer sentiment are still under the shadow of a softened economy. To mitigate the impact of a slowing down Chinese economy, the Group will maintain prudent investment in brand building and distribution network development, as well as in enhancing its store efficiency and competitiveness.

To cope with surging production costs in China and to address international customers purchasing needs, the Group began to develop a production plant in Vietnam in 2012. The Group will continue to strengthen the plant's operations with improvement in production process, administration system and logistics control.

At the Group's plants in Zhongshan and Dongguan, efficiency is gradually improved through intensified automation in production. The Group's recently installed "programmable electronic large area pattern sewing machine" is capable of producing quality products in vast quantity, thus minimizing wastage, and improving its cost efficiency. To optimize its production capacity, the Group continues to enlarge its sales to domestic customers to offset the impact of diminished export sales.

In reacting to demanding market and operation environments, the Group will adhere to its strategy of stringent cost control and improving efficiency through restructuring of operations and realignment of resources, which include consolidation of businesses with favourable performance and divesting of non-core business and suspension of under-performed units. To achieve optimal return, the Group will review its asset portfolio from time to time. To strengthen its competitiveness, the Group will take advantage of its advanced garment facilities established in Vietnam, Zhongshan and Dongguan to further improve production efficiency and cost effectiveness. Furthermore, the Group will continue to fine-tune its strategies on marketing and product positioning, while striving for product diversification, with an aim to expand its customer base and to broaden its income stream.

The management will focus on maintaining the Group's niches in production skill and scale of operations, and capitalising on its healthy financial position, to steer the Group through the stormy waters of a volatile market.

CAPITAL EXPENDITURE

During the period under review, the Group incurred HK\$7.0 million capital expenditure as compared to HK\$13.5 million of the corresponding period last year. Such capital expenditure mainly represented leasehold improvement for retail business and regular replacement and upgrading of production facilities of the Group.

LIQUIDITY AND FINANCIAL RESOURCES

The Group continued to adopt a prudent financial management during the Reporting Period. As at September 30, 2016, the Group's cash level was recorded at HK\$247.9 million (of which HK\$96.0 million was pledged bank deposits) as compared to HK\$282.3 million (of which HK\$96.0 million was pledged bank deposits) as at March 31, 2016. Most of the bank balances were placed in USD, HKD and RMB short term deposits with major banks. Total bank borrowings of HK\$84.1 million, which were mainly denominated in USD, HKD and RMB, consisted of HK\$70.1 million short-term bank borrowings and HK\$14.0 million long-term bank borrowings. The Group had no borrowing at fixed interest rates during the Reporting Period. The gearing ratio (total bank borrowings to total equity) was 17.2%. The Group is of the opinion that, after taking into consideration of the internal available financial resources and the current banking facilities, the Group has sufficient funds to finance its operations and to meet the financial obligations of its business when they fall due. During the Reporting Period, working capital cycles remained under stringent control, where inventory turnover and trade receivable turnover remained healthy.

As at September 30, 2016, certain land and buildings with an aggregate net book value of approximately HK\$19.2 million (March 31, 2016: HK\$20.4 million) were pledged to banks to secure general banking facilities granted to the Group.

TREASURY POLICY

The Group continued to adopt prudent policies consistently to hedge exchange rate and interest rate risks associated with our core business. It is our Group's policy not to engage in speculative activities. The majority of our export sales are denominated in USD, while income from our retail business in China is denominated in RMB and a tiny portion destined for the European export markets is denominated in EUR. As a substantial portion of the purchases and overheads is denominated in RMB and the EUR exchange rate fluctuation may be significant, the Group entered into forward contracts to hedge the risks as deemed appropriate.

HUMAN RESOURCES

As at September 30, 2016, the Group had approximately 4,700 employees globally, as compared to 4,900 as at March 31, 2016. The Group regards employees as the most valuable asset and the core element of our long-term success. In spite of the harsh operating environment, we keep on retaining and inspiring competent staffs who dedicate to developing their careers in line with our core corporate values and strategic goals by offering career development opportunities, job satisfaction via empowerment, harmonious teamwork and competitive remuneration package with reference to the market practice and performance.

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

During the Reporting Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee, which comprises three independent non-executive directors of the Company, has reviewed with management and the Group's external auditor, 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 of the Group for the six months ended September 30, 2016.

CORPORATE GOVERNANCE

Throughout the Reporting Period, the Company complied with all the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Listing Rules, except for the deviation set out below:

Code Provision A.2.1 of the CG Code stipulates that the roles of the chairman and chief executive should be separate and should not be performed by the same individual. Following the resignation of Mr. Alan Lam Yiu On on August 1, 2016, Mr. Benson Tung Wah Wing (“Mr. Tung”), the Chairman of the Board, has been appointed as Managing Director (equivalent to chief executive) of the Company and has performed the roles of Chairman and Managing Director with effect from August 1, 2016. The Board considers that the function of the Chairman and the Managing Director in the Company’s strategic planning and development process, as well as corporate goals setting process are overlapping. Given the current size, condition and the present stage of development of the Group, and for a more effective implementation and execution of strategies and business plans, the Board considers that it is in the interests of the Group that Mr. Tung holds both the offices of the Chairman and the Managing Director. The Board believes that the balance of power and authority is adequately ensured by the operations of the Board which comprises experienced and high calibre individuals, with at least one-third of them being independent non-executive directors.

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 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 Reporting Period.

PUBLICATION OF INTERIM RESULTS AND REPORT

This interim results announcement is published on the Company’s website (www.tungtex.com) and Hong Kong Exchanges and Clearing Limited’s website (www.hkexnews.hk). The interim 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
同得仕（集團）有限公司
Benson Tung Wah Wing
Chairman and Managing Director

Hong Kong, November 29, 2016

As at the date of this announcement, the executive directors of the Company are Mr. Benson Tung Wah Wing, Mr. Raymond Tung Wai Man, Mr. Martin Tung Hau Man and Mr. Billy Tung Chung Man; and independent non-executive directors are Mr. Tony Chang Chung Kay, Mr. Robert Yau Ming Kim and Mr. Leslie Chang Shuk Chien.