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 30 SEPTEMBER 2019

RESULTS

The interim results of Tungtex (Holdings) Company Limited (the "Company") and its subsidiaries (the "Group") for the six months ended 30 September 2019 (the "period"), together with the comparative figures for the six months ended 30 September 2018 are as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the six months ended 30 September 2019

		Six months ended 30 September	
		2019	2018
	Notes	***HK$'000***	*HK$'000*
		(unaudited)	(unaudited)
Revenue	*4*	**394,830**	496,400
Cost of sales		**(310,899)**	(410,535)
Gross profit		**83,931**	85,865
Other income and other gain		**2,857**	3,286
Impairment loss recognised on financial assets		**(159)**	–
Decrease in fair value of financial assets at fair value through profit or loss ("FVTPL")		**(175)**	(15,761)
Increase in fair value of investment property		**–**	5,352
Selling and distribution costs		**(38,587)**	(60,399)
Administrative expenses		**(71,051)**	(68,769)
Finance costs		**(3,741)**	(3,133)
Loss before tax	*5*	**(26,925)**	(53,559)
Income tax expenses	*6*	**(3,882)**	(2,896)
Loss for the period		**(30,807)**	(56,455)
Loss for the period attributable to:			
Owners of the Company		**(30,493)**	(56,037)
Non-controlling interests		**(314)**	(418)
		(30,807)	(56,455)
Loss per share *(HK cents)*	*8*	**(6.6)**	(12.1)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2019

	Six months ended 30 September	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Loss for the period	**(30,807)**	(56,455)
Other comprehensive expense		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translating foreign operations	**(6,767)**	(20,340)
Other comprehensive expense for the period	**(6,767)**	(20,340)
Total comprehensive expense for the period	**(37,574)**	(76,795)
Total comprehensive expense for the period attributable to:		
Owners of the Company	**(37,260)**	(76,377)
Non-controlling interests	**(314)**	(418)
	(37,574)	(76,795)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 September 2019

	Notes	**30 September 2019** *HK$'000* **(unaudited)**	31 March 2019 *HK$'000* (audited)
Non-current assets			
Property, plant and equipment	*9*	**35,862**	76,815
Right-of-use assets	*10*	**14,822**	–
Prepaid lease payments		**–**	22,339
Intangible asset		**–**	–
Deferred tax assets		**52**	61
		50,736	99,215
Current assets			
Inventories		**130,649**	132,920
Trade and other receivables	*11*	**117,641**	124,989
Prepaid lease payments		**–**	797
Financial assets at FVTPL		**7,453**	7,628
Pledged bank deposits		**116,704**	116,704
Bank balances and cash		**138,424**	129,556
		510,871	512,594
Asset classified as held for sale		**45,876**	8,093
		556,747	520,687

	Notes	30 September 2019 HK$'000 (unaudited)	31 March 2019 HK$'000 (audited)
Current liabilities			
Trade and other payables	*12*	**107,521**	120,243
Contract liabilities		**14,607**	8,969
Lease liabilities		**644**	–
Tax liabilities		**188**	109
Bank borrowings		**163,903**	135,552
		286,863	264,873
Net current assets		**269,884**	255,814
Total assets less current liabilities		**320,620**	355,029
Non-current liabilities			
Bank borrowings		**6,800**	8,000
Lease liabilities		**929**	–
Deferred tax liabilities		**5,096**	1,346
		12,825	9,346
		307,795	345,683
Capital and reserves			
Share capital	*13*	**254,112**	254,112
Reserves		**63,167**	100,741
Equity attributable to owners of the Company		**317,279**	354,853
Non-controlling interests		**(9,484)**	(9,170)
		307,795	345,683

Notes:

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 "Listing Rules").

The financial information relating to the year ended 31 March 2019 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 2019 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 2019. 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 certain financial instruments, which are measured at fair values, as appropriate.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs") and the new interpretation, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2019.

New and amendments to HKFRSs and the new interpretation 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 and the new interpretation issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1 April 2019 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

2.1 Impacts and changes in accounting policies on application of HKFRS 16 *Leases*

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 *Leases* and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Short-term leases

The Group applies the short-term lease recognition exemption to leases of retail stores and offices that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the condensed consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 *Financial Instruments* and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period on which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

As a lessor

Allocation of consideration to components of a contract

Effective on 1 April 2019, the Group applies HKFRS 15 *Revenue from Contracts with Customers* to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) – Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 April 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has reviewed the impact of HKFRS 16 on all its contracts that are, or that contain, leases with effect from 1 April 2019. Based on the practical expedients under HKFRS 16, the Group has elected not to apply the requirements of HKFRS 16 in respect of recognition of lease liability and right-of-use asset to lease for which the lease term ends within twelve months of the date of initial application.

	At 1 April 2019
	HK$'000
Operating lease commitments disclosed as at 31 March 2019	1,605
Less: Recognition exemption – short-term leases	(1,605)
Lease liabilities relating to operating leases recognised upon application of HKFRS 16 and as at 1 April 2019	–

The carrying amount of right-of-use assets as at 1 April 2019 comprises the following:

		Right-of-use assets
	Note	*HK$'000*
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		–
Reclassified from prepaid lease payments	*(a)*	23,136
		23,136

Note:

(a) Prepaid lease payments

Upfront payments for leasehold lands in the PRC and Vietnam were classified as prepaid lease payments as at 31 March 2019. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to HK$797,000 and HK$22,339,000 respectively were reclassified to right-of-use assets as at 1 April 2019.

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

Upon application of HKFRS 16, new lease contracts entered into but commence after the date of initial application relating to the same underlying assets under existing lease contracts are accounted as if the existing leases are modified as at 1 April 2019. The application has had no impact on the Group's condensed consolidated statement of financial position as at 1 April 2019. However, effective on 1 April 2019, lease payments relating to the revised lease term after modification are recognised as income on straight-line basis over the extended lease term.

Effective on 1 April 2019, the Group has applied HKFRS 15 to allocate consideration in the contract to each lease and non-lease components. The change in allocation basis has had no material impact on the condensed consolidated financial statements of the Group for the current period.

The initial application of HKFRS 16 as a lessor has no material impact on the Group's condensed consolidated statement of financial position as at 1 April 2019 and 30 September 2019 and its condensed consolidated statement of profit or loss and other comprehensive income and statement of cash flows for the current interim period.

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 April 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 March 2019	**Adjustments**	**Carrying amounts under HKFRS 16 at 1 April 2019**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets			
Prepaid lease payments	22,339	(22,339)	–
Right-of-use assets	–	23,136	23,136
Current assets			
Prepaid lease payments	797	(797)	–

Note: For the purpose of reporting cash flows for the six months ended 30 September 2019, movements have been computed based on opening statement of financial position as at 1 April 2019 as disclosed above.

3. KEY SOURCES OF ESTIMATION UNCERTAINTY

In preparing the condensed consolidated financial statements for the six months ended 30 September 2019, the key sources of estimation uncertainty made by the directors of the Company were the same as those applied in the preparation of the Group's annual financial statements for the year ended 31 March 2019, except for the following key source of estimation uncertainty which is newly applied during the current interim period:

Lease term and discount rate determination

In determining the lease term, the Group considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Potential future cash outflows have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstance occurs which affects this assessment and that is within the control of the lessee.

In determining the discount rate, the Group is required to exercise considerable judgement in relation to determining the discount rate taking into account the nature of the underlying assets and the terms and conditions of the leases, at both the commencement date and the effective date of the modification.

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 geographical areas of sales made by the Group's operating divisions based on the location of customers. The Group is principally engaged in the manufacture and sale of garment products. The Group is currently organised into operating divisions which constitute three operating segments – North America, Asia, and Europe and others.

Segment revenue and results

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

Six months ended 30 September 2019:

	North America *HK$'000*	**Asia** *HK$'000*	**Europe and others** *HK$'000*	**Consolidated** *HK$'000*
REVENUE				
Sales of goods – external	**229,596**	**151,234**	**14,000**	**394,830**
SEGMENT (LOSS) PROFIT	**(4,216)**	**(1,638)**	**700**	**(5,154)**
Decrease in fair value of financial assets at FVTPL				**(175)**
Finance costs				**(3,741)**
Unallocated income				**2,857**
Unallocated expenses				**(20,712)**
Loss before tax				**(26,925)**

Six months ended 30 September 2018:

	North America *HK$'000*	Asia *HK$'000*	Europe and others *HK$'000*	Consolidated *HK$'000*
REVENUE				
Sales of goods – external	250,624	226,830	18,946	496,400
SEGMENT LOSS	(7,851)	(10,343)	(641)	(18,835)
Decrease in fair value of financial assets at FVTPL				(15,761)
Increase in fair value of investment property				5,352
Finance costs				(3,133)
Unallocated income				3,286
Unallocated expenses				(24,468)
Loss before tax				(53,559)

Segment (loss) profit represents the (loss) profit (incurred) earned by each segment without allocation of central administration costs, directors' salaries, depreciation of property, plant and equipment, depreciation of right-of-use assets, amortisation of prepaid lease payments, change in fair value of financial assets at FVTPL, change in fair value of investment property, other income 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 BEFORE TAX

	Six months ended 30 September	
	2019	2018
	HK$'000	*HK$'000*
Loss before tax has been arrived at after charging (crediting):		
Directors' remunerations:		
Fees	**310**	273
Other emoluments	**2,730**	2,730
Contributions to retirement benefit schemes	**45**	48
	3,085	3,051
Other employee benefits expenses:		
Salaries, allowances and bonus	**98,250**	120,442
Contributions to retirement benefit schemes	**9,730**	12,978
Total employee benefits expenses	**111,065**	136,471
Allowance for inventories (included in cost of sales)	**261**	–
Amortisation of prepaid lease payments	**–**	401
Depreciation of property, plant and equipment	**6,435**	8,847
Depreciation of right-of-use assets	**577**	–
(Gain) loss on disposal of asset classified as held for sale	**(2,338)**	92
Loss on disposal of property, plant and equipment	**212**	276
Bank interest income	**(721)**	(644)
Rental income, net of outgoings	**(10)**	(2,642)

6. INCOME TAX EXPENSES

	Six months ended 30 September	
	2019	2018
	HK$'000	*HK$'000*
Current tax:		
Hong Kong	**–**	–
The People's Republic of China (the "PRC")	**124**	491
	124	491
Deferred taxation	**3,758**	2,405
	3,882	2,896

No provision for Hong Kong Profits Tax is made for the six months ended 30 September 2019 as the Group has no assessable profit arising in Hong Kong.

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%.

One PRC subsidiary, which is a micro and small enterprise, enjoys the preferential tax rates. According to the circular of the State Administration of Taxation, Cai Shui (2019) No. 13, the first RMB1 million of the assessable profits, would be taxed at the rate of 5%; for the assessable profits which exceed RMB1 million but not exceeding RMB3 million, would be taxed at the rate of 10%.

Further, 5% withholding income tax is generally imposed on dividends relating to profits earned by PRC entities that are owned by non-PRC entities within the Group.

7. DIVIDENDS

No dividend was paid, declared or proposed during the interim period. The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2019 (six months ended 30 September 2018: Nil).

8. 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 30 September	
	2019	2018
	HK$'000	*HK$'000*
Loss for the period attributable to owners of the Company	**(30,493)**	(56,037)

	2019	2018
Weighted average number of ordinary shares in issue during the period for the purpose of loss per share	**464,053,076**	464,077,557

No diluted loss per share is presented as there was no potential dilutive ordinary share outstanding for the six months ended 30 September 2019 and 2018.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 September 2019, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of HK$869,000 for proceeds of HK$657,000, resulting in a loss on disposal of HK$212,000.

During the six months ended 30 September 2018, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of HK$316,000 for proceeds of HK$40,000, resulting in a loss on disposal of HK$276,000.

The Group spent HK$5,951,000 (six months ended 30 September 2018: HK$5,311,000) on acquisition of property, plant and equipment.

10. RIGHT-OF-USE ASSETS / LEASE LIABILITIES

During the current interim period, the Group entered into new lease agreements for the use of retail stores with lease terms generally between 2 to 3 years. Some of the leases in which the Group is the lessee contain variable lease payments terms that are linked to sales generated from retail stores. During the current interim period, the Group recognised right-of-use assets amounting to HK$1,765,000 and lease liabilities amounting to HK$1,745,000 upon lease commencement, respectively, excluding leases with a lease term of 12 months or less from the commencement date in which the short-term lease recognition exemption applies.

11. TRADE AND OTHER RECEIVABLES

Other than cash and credit card sales for retail transactions, the Group normally grants a credit period ranging from 30 days to 90 days to its trade customers. As at 30 September 2019, the carrying amount of trade and bills receivables was HK$88,976,000, net of allowance for doubtful debt: HK$711,000 (31 March 2019: HK$93,969,000, net of allowance for doubtful debt: HK$552,000). Included in trade and other receivables are trade and bills receivables, mainly denominated in United States Dollars and Renminbi, 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 2019 *HK$'000*	31 March 2019 *HK$'000*
Up to 30 days	**48,236**	59,555
31 – 60 days	**25,716**	22,896
61 – 90 days	**9,575**	7,020
More than 90 days	**5,449**	4,498
	88,976	93,969

12. 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 2019 *HK$'000*	31 March 2019 *HK$'000*
Up to 30 days	**53,053**	47,877
31 – 60 days	**10,291**	10,897
61 – 90 days	**3,678**	6,373
More than 90 days	**5,695**	9,219
	72,717	74,366

13. SHARE CAPITAL

	Number of shares	**Amount** *HK$'000*
Issued and fully paid:		
At 1 April 2018, 30 September 2018 and 31 March 2019		
Ordinary shares with no par value	464,077,557	254,112
Shares repurchased and cancelled *(Note)*	**(560,000)**	**–**
At 30 September 2019		
Ordinary shares with no par value	**463,517,557**	**254,112**

Note:

During the period ended 30 September 2019, the Company repurchased a total of 560,000 ordinary shares on The Stock Exchange of Hong Kong Limited at an aggregate purchase price (excluding expenses) of HK$313,660. Such repurchased shares were subsequently cancelled during the period ended 30 September 2019.

DIVIDEND

No dividend was paid, declared or proposed during the interim period. The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2019 (six months ended 30 September 2018: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

The financial period ended September 2019 was certainly a period of turbulence. The boiling tension between the world's two largest economies with a constant cycle of progress and collapse has rattled international markets sending both consumer confidence and investment sentiment into a rock-bottom low on a global scale. Operating against an unprecedented level of global uncertainty and slowing growth of our key markets, the Group's revenue for the period under review decreased notably by 20.5% to HK$394.8 million. Gross profit was HK$83.9 million, representing a gross margin of 21.3 percent which was about 4 percentage point higher than that of the last corresponding period. The increase in gross margin signaled the improved cost effectiveness and production efficiency of the Group's streamlined manufacturing facilities through migration and consolidation which substantially had driven down our costs of production. Furthermore, with the support of multi-country manufacturing platforms in China and Vietnam with enhanced cost effectiveness, our strategy of forgoing relatively lower-margin customers and sales volume also contributed a positive impact on our gross margin.

Despite the decrease in revenue, the Group's loss before tax for the period under review decreased dramatically by 49.7% to HK$26.9 million. The decrease in loss before tax was a positive result of our persistent discipline in streamlining of operation, cost controls and efficiency initiatives which resulted in significant across-the-board expenses reduction. Selling and distribution costs were HK$38.6 million, representing a decrease of 36.1% or HK$21.8 million as compared to HK$60.4 million of the last corresponding period. Such decrease was mainly attributable to the decrease in staff costs of HK$16.2 million, decrease in advertising and promotion expense of HK$2.9 million, and decrease in retail shop rental of HK$2.1 million, as compared to the last corresponding period. Administrative expenses were HK$71.1 million for the period under review which included severance and redundancy payments of HK$14.8 million, as compared to HK$68.8 million of the last corresponding period which included severance and redundancy payments of HK$3.5 million.

Excluding the impact of the change in fair value of financial assets at fair value through profit or loss ("FVTPL") and the change in fair value of investment property, if any, the operating loss before tax for the period under review was HK$26.8 million, representing a decrease of 38.0% as compared to HK$43.2 million of the last corresponding period. Loss for the period attributable to the owners of the Company was HK$30.5 million, representing a decrease of 45.6% as compared to HK$56.0 million of the last corresponding period.

Business Review

Trade growth experienced a dramatic slowdown since the second half of 2018 due to increasing protectionism and the slump in global demand. Compared with last corresponding period, we have seen even more uncertainties in the global economy. Economic outlook was clouded by the escalating trade war between the United States ("US") and China, a disorderly Brexit and geopolitical tensions in the Middle East. These escalating global issues have created an increasingly volatile playing field and have led to a more fragile global economy. We have started to see slowdown in growth in all the major developed economies, including the US and China which are our major markets.

The whole fashion and apparel industry is operating under a set of circumstances no more favorable than that of last year as global trade is roiled by increasing uncertainties and geo-political tensions. While the threat of tariffs on apparel kept escalating, our OEM customers supplying apparel to the US market have reacted by either cancelling or postponing their sourcing orders from China in an effort to reduce their dependence on China as their primary supply chain ecosystem.

During period of economic downturns, we became even more proactive to ongoing cost and cash flow control, not only to stay survival but to regain competitiveness in the market place. We continued to adjust our business models and take effective measures and determined actions to streamline our loss-making distribution networks and manufacturing operations.

In view of the escalating trade war between the US and China which was not expected to end any time soon, we further strengthened the consolidation of production capacities in China to target for better cost savings and effectiveness in the long term. In the second quarter of the period under review, we commenced to merge Dongguan production facilities and workforces into our Zhongshan production plant. We have paved away for a smooth integration and consolidation of our manufacturing facilities in China without disruption to our production schedule. Severance and redundancy payments arising from such strategic consolidation were mostly reflected in the results of the interim period under review.

For our China retail business, there was a decrease of about 30 unprofitable or non-performing retail shops either under self-management or operating as franchise or cooperative partnership during the 6 months' period under review. These initiatives prevented future losses of the non-performing units and reduced our cost base. In the current period, we achieved substantial costs savings which outpaced and offset the effects of decline in revenue. Over time, we aim to transform ourselves into a leaner and more agile platform to face the upcoming challenges and embark on faster growth.

During the period under review, our Vietnam manufacturing operation continued to grow and improve in terms of production output and results as planned. Besides our sophisticated channels for raw materials essential for production and efficient logistics networks interlinking the whole supply chain established in previous years, we set up a new sourcing office in Vietnam in the period for both apparel and accessory products business. We have a team of seasoned local management who has adapted to our company culture and mindsets. We are making an effort to further expand our production facility in Vietnam, and we believe a solid manufacturing base in Vietnam will buttress the foundation for our continued success and longevity of our core business.

Sales to North America

Sales to North America decreased by 8.4% to HK$229.6 million, and accounted for 58.2% of the Group's total revenue, with the sales to the US market alone accounted for 64.5% of sales in this segment.

The US Bureau of Economic Analysis reported the real GDP growth of the US was 2.0% and 1.9% respectively in the second and third quarter of 2019, both readings were well below this year's first quarter GDP figure of 3.1%. The successive decrease in the real GDP over the consecutive quarters of the year suggested that the economy was slowing after the growth spurts over the past few years. Business confidence remained skeptical because plenty of the uncertainties remained especially the unforeseen outcome of the trade war which posed the highest downside risk to spending, political uncertainties and a gloomy outlook on global demand growth. Against this backdrop, the Group's sales to the US during the period was negatively affected and decreased notably by 14.6% to HK$148.2 million. On the other hand, Canada registered a stronger than expected GDP growth rate of 3.7% in the second quarter. Unemployment and inflation remained low, together with a lower mortgage interest rate and a stabilized housing market, all were supportive for economic growth and better consumption confidence. Accordingly, the Group's sales to Canada during the period recorded a modest growth of 5.6% which amounted to HK$81.4 million.

Sales to Asia

Sales to Asia decreased significantly by 33.3% to HK$151.2 million, and accounted for 38.3% of the Group's total revenue. The decrease in sales to Asia was mainly attributable to the 32.3% decrease in sales to the China market, which alone contributed a sales amount of HK$147.4 million.

Chinese economy began to suffer as trade war prolonged. According to the National Bureau of Statistics of China, national GDP expanded at 6.2 % in the second quarter and 6.0% in the third quarter of the year respectively, both figures marked the three-decade low. The International Monetary Fund (the "IMF") predicted the GDP growth of China would even slow to 5.8% in 2020, falling short of official target. The weak economic prospect has negatively affected domestic consumption appetite.

Meanwhile, the government official figures have shown a broad-based slowdown was taking place in China. Chinese exports shrank 3.2 per cent in September from a year ago, while its imports tumbled by an even larger percentage, underscoring domestic weakness. The political tensions with the US and economic uncertainties have ruined business confidence and there was a notable slowdown in the manufacturing sector and fixed asset investment.

China Retailing Business

Our retailing business in China continued to operate on a platform of e-commerce and physical retail stores in order to extend the reach of our brand both online and offline, with our online sales mainly conducted in collaboration with major online marketplaces such as Tmall, JD.com and VIP. com.

For the period under review, the revenue contributed by the retailing business in China amounted to HK$119.0 million, registering a decrease of about 16.9% as compared to the last corresponding period. The decrease in sales was mainly due to the lower turnover as a result of the restructure of the retailing business platforms, the net decrease of more than 60 retail shops either under self-management or operating as franchise or cooperative partnership as compared to the last corresponding period end, and the overall decline in consumer sentiment as the Chinese economy weakened.

The retailing business recorded an operating loss before tax of HK$3.9 million, representing a decrease of 67.3% compared to HK$11.9 million of the last corresponding period, thanks to our decisive actions to right size the physical retail platforms by closing down unprofitable or non-performing shops or shops operating in non-strategic locations with the wrong demographics, rationalization of cost structure, stringent procurement and inventory control, and high discipline in expense control. Meanwhile, we continued to use our physical shops to build better connection with our customers and sharpen our brand strength, and to optimize omnichannel strategy to drive online traffic to offline stores and give our customers a new shopping experience to regain competitiveness and profitability in the market.

Disposal of a property in Thailand subsequent to the year end

As stated in the voluntary announcement made by the Company on 27 May 2019 in relation to the disposal of a property in Thailand, the Company entered into the sale and purchase agreement on the disposal of a factory premises in Thailand which was owned by Tung Thai Fashions Limited, a direct wholly-owned subsidiary of the Company with its operation already discontinued in 2016, at a cash consideration of Thai Baht 42 million (equivalent to approximately HK$10.8 million). The disposal and transfer of ownership of the property was completed on 26 June 2019.

Update on the group's proposed sale of its factory premises in Shenzhen

On 11 July 2019, the Company and a potential purchaser who is a third party independent of the Company and its connected persons (the "Potential Purchaser") entered into a memorandum of understanding (the "MOU") in relation to the proposed disposal (the "Possible Disposal") by the Company of all the shares of Sing Yang (Overseas) Limited ("SYOL"), a directly wholly owned subsidiary of the Company. SYOL owns an industrial building with the name "同得仕大廈" located at 中國深圳福田區北環路市政二號路(Shizheng No. 2 Road, Beihuan Road, Futian District, Shenzhen, the PRC). The Potential Purchaser is entitled to an exclusivity period of 20 days after payment of earnest money for due diligence process. The initial exclusivity period will be extended for 25 days for negotiation of the formal sale and purchase agreement if no material issue is identified by the Potential Purchaser in the due diligence process. The exclusivity period can be further extended by mutual agreement.

Following the expiry of the exclusivity period which expired on 25 August 2019 and pursuant to the announcement dated 26 August 2019 made by the Company, the exclusivity period was further extended to 9 September 2019.

Upon the expiry of the exclusivity period and in a further announcement made by the Company dated 9 September 2019, the exclusivity period was not extended, and the MOU was accordingly terminated. Notwithstanding the expiry of the exclusivity period and the termination of the MOU, commercial negotiations between the Company and the Potential Purchaser in relation to the Possible Disposal were still ongoing.

On 18 September 2019, the Company entered the second memorandum of understanding (the "Second MOU") with the Potential Purchaser to facilitate commercial negotiations on a non-exclusive basis.

On 18 October 2019, the Company announced the termination of the Second MOU. Notwithstanding the termination of the Second MOU, commercial negotiations between the Company and the Potential Purchaser in relation to the Possible Disposal are still ongoing. The Company will make further announcement(s) in respect of the Possible Disposal as and when required under the Listing Rules.

Prospects

Recent economic data has already pointed to a visible slowdown in the global growth trajectory resulting in a weakening global demand growth. In July 2019, the International Monetary Fund ("IMF") predicted rising tariffs and the ensuing escalation of trade tensions could reduce global economic growth by 0.5 percent by 2020. Meanwhile, it has slashed its global growth forecast for 2019 to 3 per cent – the weakest expansion since the global financial crisis a decade ago. In September 2019, The United Nations Conference on Trade and Development (UNCTAD) denoted the year 2019 would endure the weakest expansion in a decade and warned of a global recession in 2020 to be a clear and present danger.

While business outlook remains bleak and different sectors face distinct challenges and varying scales of uncertainty, central banks and governments across the world, without exception to China and the US, have actively responded to slowing global growth by necessary fiscal and monetary policies to support their economies.

Whereas slow growth aboard is very likely to take a toll in US export growth posing the biggest downside risk for the American economy. Recent economic data, however, pointed to a strong consumer consumption spending, a resilient job market and an unemployment rate which is still near a half-century low is keeping domestic demand afloat. We believe US market is still generating growth and remain key pillar of the Group's business.

The Group's existing manufacturing operations are situated in Vietnam and Zhongshan and are strategically aligned to our business growth strategy to serve our two largest markets and are well positioned to capture a wider global market.

Our Vietnam manufacturing operation will effectively and efficiently expand its production capacity for quality customer with higher profit margin. At present, we are expanding our production capacity by improving productivity and expansion of production lines. We have already invested in technology and automation to increase productivity and will continue to leverage technology to optimize process redesign and streamline production sequences to achieve cost efficiency and operational excellence. Our newly set up sourcing office will grow our exports from Vietnam and widen our scope of business to accessory products. In the meantime, we will continue to explore options of flexible production capabilities by means of outsourcing, joint venture and strategic cooperation or alliance in Vietnam or other South East Asian countries with cost advantage. In the medium to long term, we believe that our Vietnam manufacturing operation is well positioned to support the Group to grow our export sales to the respective member countries and regions under the EU-Vietnam Free Trade Agreement (EVFTA) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

Despite the recent diplomatic development and effort of both the US and China to resolve the year-long trade war, there is still no concrete indication of a signing date of an interim "phase 1" agreement between the US and China. The consolidation and integration of production facilities in China into a single centralized production hub in Zhongshan will avoid any dangerous outcome of the trade war which may result in large scale idle facilities if majority of the US customers resort to alternative sourcing outside China. With a centralised and integrated manufacturing platform, we can better leverage on lean management control, automated processes and robotics to enhance productivity and counteract the rising labour costs to maximise efficiency. Besides cost efficiency, speed to market is equally critical to survival and winning in China. Proximity of manufacturing operations enables greater responsiveness at reduced supply chain costs to the local Chinese market which is fast-changing, dynamic and rapidly evolving.

In China, despite the historical low on the GDP indices, retail sales kept growing albeit at a slower rate. Even with the slowdown in economy, clothing market is still expected to be on a growing trend due to the rise of the millennials with higher disposable income, general improvement in living standards, population growth as well as the urbanization. Urbanization will be a mega-trend in China over the next few years and together with infrastructure development, rollout of 5G and the growth of smart cities, they are likely to fuel up growth and domestic demand.

There is no doubt how globalisation and digital technology will continue to shape the retail market in China and the behaviour of its consumers, brands must respond almost instantly to changing trends, realign the product mix and even disrupt their existing business models. Research indicates global online retail apparel market will continue its strong growth compared to traditional brick-and-mortar platforms, with key ecommerce platforms to capture most of the upsides. Our online sales strategy will remain in close partnership with mega online marketplace to leverage their huge market reputability and traffic to foster our market visibility. We will continue to participate in their major marketing and promotional activities at material times to drive sales and popularity, in addition to offering special product variety exclusively to online customers. At the same time, we will continue to refine our omnichannel channels and concentrate our management effort and resources on retail stores with profitable growth potential.

The uncertainties and challenges of the interim period will certainly carry over to the balance of the current fiscal year and 2020. We will continue to assess and navigate our path with caution, and with all the efforts we have built up in the past, we are confident we are already on the right course to a sustainable recovery.

CAPITAL EXPENDITURE

During the period under review, the Group incurred HK$6.0 million capital expenditure as compared to HK$5.3 million of the corresponding period last year. Such capital expenditure mainly represented regular replacement, upgrading and automation of production facilities, and leasehold improvement of the Group.

LIQUIDITY AND FINANCIAL RESOURCES

The Group continued to adopt a prudent financial management during the six months ended 30 September 2019 (the "Reporting Period"). As at 30 September 2019, the Group's cash level was recorded at HK$255.1 million (of which HK$116.7 million was pledged bank deposits) as compared to HK$246.3 million (of which HK$116.7 million was pledged bank deposits) as at 31 March 2019. Most of the bank balances were placed in USD, HKD and RMB short term deposits with major banks. Total bank borrowings of HK$170.7 million, which were mainly denominated in USD, HKD and RMB, consisted of HK$163.9 million short-term bank borrowings and HK$6.8 million long-term bank borrowings. The Group had no borrowings at fixed interest rates during the Reporting Period. The gearing ratio (total bank borrowings to total equity) was 55.5%. 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 30 September 2019, certain land and buildings with an aggregate net book value of approximately HK$13.4 million (31 March 2019: HK$14.1 million) were pledged to banks to secure general banking facilities granted to the Group.

SIGNIFICANT INVESTMENTS

As at 30 September 2019, the financial assets at FVTPL of the Group amounted to approximately HK$7,453,000 which consist of securities of four companies listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). During the period, there were no movements in the Group's financial assets at FVTPL. Set out below is a breakdown of the Group's financial assets at FVTPL as at 30 September 2019 and their performance during the Reporting Period:

Description of investments	*Notes*	**Market value as at 30 September 2019** *HK$'000*	**Unrealised fair value gain (loss)** *HK$'000*	**Percentage to the Group's unaudited total assets as at 30 September 2019**	**Percentage to the Group's total securities investments as at 30 September 2019**	**Carrying value as at 31 March 2019** *HK$'000*
EPI (Holdings) Limited (Stock code: 689)	*(a)*	5,260	534	0.87%	70.58%	4,726
Other listed securities	*(b)*	2,193	(709)	0.36%	29.42%	2,902
		7,453	(175)	1.23%	100%	7,628

Notes:

(a) This investment represented 38,115,000 shares ("EPI Shares") of EPI (Holdings) Limited ("EPI"), representing approximately 0.73% of the total issued shares of EPI as at 30 September, 2019. There is no acquisition and disposal of EPI Shares during the period.

Based on the interim report ("EPI 2019 Interim Report") of EPI for the six months ended 30 June 2019, EPI together with its subsidiaries ("EPI Group") is engaged in the business of petroleum exploration and production, money lending and investment in securities. As disclosed in the EPI 2019 Interim Report, the EPI Group recorded a revenue of HK$31,293,000 (which is decreased by 5.5% compared to the prior period), and a loss for the period of HK$39,258,000 (which is decreased by 0.1% compared to the prior period). As disclosed in the EPI 2019 Interim Report, the management of EPI will keep on working on different various possible solution to improve its financial performance.

(b) These equity securities listed in Hong Kong represented the Group's investments in 3 companies whose shares are listed on the Main Board or the GEM of the Stock Exchange. Each of such investments has a market value or fair value that account for less than 0.5% of the Group's unaudited total assets as at 30 September 2019.

Looking forward, local economy will still weaken under the heightened trade war tensions between the US and China, the stock market in Hong Kong remains to be volatile. The management will continue its cautious approach in managing the securities investment portfolio to respond to the changes in the market.

TREASURY POLICY

The Group continued to adopt prudent policies consistently to hedge exchange rate and interest rate risks associated with our core business. The majority of our export sales are denominated in USD, while incomes from our business in China are denominated in RMB and a tiny portion destined for the European export markets is denominated in EURO ("EUR"). As a substantial portion of the purchases and overheads are denominated in RMB and the EUR exchange rate fluctuation may be significant, the Group enters into forward contracts to hedge the risks as deemed appropriate.

HUMAN RESOURCES

As at 30 September 2019, the Group has approximately 2,100 employees as compared to 2,800 as at 31 March 2019. Such decrease is mainly attributable to the cessation of production lines in Dongguan factory in the process of rationalization, and reduced number of self-operated retail shops. 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.

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

During the six months ended 30 September 2019, the Company repurchased a total of 560,000 issued shares on The Stock Exchange of Hong Kong Limited at an aggregate consideration (before transaction cost) of HK$313,660. All the repurchased shares were cancelled during the six months ended 30 September 2019.

Particulars of the repurchases are as follows:

Month of repurchases	Number of shares repurchased	Price paid per share		Aggregate consideration (before transaction cost)
		Highest	Lowest	
		HK$	*HK$*	*HK$*
August 2019	560,000	0.60	0.50	313,660

Save as disclosed above, the Company has not redeemed, and neither the Company nor any of its subsidiaries purchased or sold any of the listed securities of the Company during the six months ended 30 September 2019.

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, 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 Reporting Period.

CORPORATE GOVERNANCE

Throughout the Reporting 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 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 the 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
Martin Tung Hau Man
Chairman

Hong Kong, 28 November 2019

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