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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)

(1) VERY SUBSTANTIAL DISPOSAL – DISPOSAL OF A SUBSIDIARY;

AND

(2) RESUMPTION OF TRADING

Financial adviser to the Company



建泉融資有限公司

VBG Capital Limited

THE DISPOSAL

The Board wishes to announce that after trading hours on 31 March 2020, the Company and the Purchaser entered into the SP Agreement, pursuant to which the Company has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire, the Sale Shares (representing the entire issued share capital of SYO, which is a direct wholly-owned subsidiary of the Company as at the date of the SP Agreement) and the Sale Loan. The consideration for the Sale Shares is approximately HK\$172.8 million (being the difference of the total Consideration and the face value of the Sale Loan at Completion) and the consideration for the Sale Loan is its face value at Completion, which is approximately HK\$131.0 million as at the date of the SP Agreement. The gross proceeds to be received by the Company from the Disposal is RMB276.0 million (equivalent to approximately HK\$303.8 million translated at the Agreed Exchange Rate) and will be settled by the Purchaser in Hong Kong dollars by cashier's order issued by a licensed bank in Hong Kong in favour of the Company.

SYO owns Shenzhen Building, which is valued at RMB156.7 million (equivalent to approximately HK\$172.5 million) as at 31 March 2020.

As at the date of this announcement, SYO is a direct wholly-owned subsidiary of the Company. Upon Completion, the Company will cease to have any interest in SYO.

IMPLICATIONS UNDER THE LISTING RULES

As the highest applicable percentage ratio under the Listing Rules in respect of the Disposal exceeds 75%, the Disposal constitutes a very substantial disposal of the Company and is therefore subject to the notification, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

EGM

The EGM will be convened for the purpose of considering and, if thought fit, approving the SP Agreement and the Disposal contemplated thereunder. A circular containing, among other things, (1) details of the SP Agreement and the Disposal; (2) valuation report of Shenzhen Building; (3) other information as required to be disclosed under the Listing Rules; and (4) the notice of the EGM and a form of proxy is expected to be despatched to the Shareholders on or before 31 July 2020 as more time is required to prepare the information, including the financial information of the Group, for inclusion in the circular.

Completion of the Disposal may or may not proceed as it is subject to a number of conditions which may or may not be fulfilled. Shareholders and potential investors of the Company are therefore advised to exercise caution when dealing in the Shares.

RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange has been halted with effect from 9:00 a.m. on 1 April 2020, pending the release of this announcement.

Application has been made to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:00 a.m. on 3 April 2020.

DISPOSAL OF A SUBSIDIARY

The Board wishes to announce that after trading hours on 31 March 2020, the Company and the Purchaser entered into the SP Agreement, pursuant to which the Company has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire, the Sale Shares (representing the entire issued share capital of SYO, which is a direct wholly-owned subsidiary of the Company as at the date of the SP Agreement) and the Sale Loan.

The principal terms of the SP Agreement are set out below.

THE SP AGREEMENT

Date

31 March 2020 (after trading hours)

Parties

Vendor: the Company

Purchaser: PIONEER FORTRESS LIMITED, a company incorporated in the British Virgin Islands with limited liability

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, (i) the Purchaser is an investment holding company and (ii) the Purchaser and its UBO are Independent Third Parties.

Reference is made to the announcements of the Company dated 11 July 2019, 26 August 2019, 9 September 2019, 18 September 2019 and 18 October 2019 respectively (the "Announcements") where the Company announced, among other matters, the negotiation of the possible sale of SYO with the Potential Purchaser (as defined in the Announcements). The Purchaser of the SP Agreement was introduced to the Company by the Potential Purchaser. However, the Purchaser of the SP Agreement is not the Potential Purchaser referred to in the Announcements.

Assets to be disposed of

Subject to the terms and conditions of the SP Agreement, the Company, as legal and beneficial owner, has conditionally agreed to sell the Sale Shares and the Sale Loan, and the Purchaser has conditionally agreed to purchase the Sale Shares and the Sale Loan, free from all encumbrances and together with all rights and entitlements which the Company has in the Sale Shares and the Sale Loan with effect from the Completion Date.

The Sale Shares represent the entire issued share capital of SYO. The Sale Loan represents the entire sum owing by SYO to the Company as at the Completion Date. As at the date of the SP Agreement, the amount of Sale Loan is approximately HK\$131.0 million.

The SP Agreement does not contain any restrictions which apply to the subsequent sale of the Sale Shares.

Consideration

The consideration for the Sale Shares is approximately HK\$172.8 million (being the difference of the total Consideration and the face value of the Sale Loan at Completion) and the consideration for the Consideration Sale Loan is its face value at Completion, which is approximately HK\$131.0 million as at the date of the SP Agreement.

The gross proceeds to be received by the Company from the Disposal is RMB276.0 million (equivalent to approximately HK\$303.8 million translated at the Agreed Exchange Rate) and shall be settled by the Purchaser in Hong Kong dollars in the following stages by cashier's order issued by a licensed bank in Hong Kong in favour of the Company:

- (1) HK\$30.0 million shall be payable upon signing of the SP Agreement (“**Stage 1 Payment**”); and
- (2) the balance of the Consideration, which is approximately HK\$273.8 million, shall be payable upon Completion.

The Consideration was arrived at after arm's length negotiations between the Company and the Purchaser on normal commercial terms and making reference to (i) a draft valuation of Shenzhen Building conducted by an independent valuer, which values Shenzhen Building at RMB156.7 million (equivalent to approximately HK\$172.5 million) as at 31 March 2020 by adopting market approach as the valuation methodology; and (ii) the Group's operation needs as a whole.

If the Purchaser:

- (1) fails to make timely payment of any part of the Consideration in accordance with the SP Agreement; or
- (2) commits any breach of any terms under the SP Agreement (except for certain Purchaser's undertakings relating to provision of information), as a result of which Completion is incapable of taking place on or before the Long Stop Date,

the Company may serve written notice to the Purchaser and require the Purchaser to pay or remedy the breach, and the Purchaser shall thereafter elect to pay or remedy the breach within 30 Business Days, failing which the Company may, in its absolute discretion, elect to serve written notice to the Purchaser to terminate the SP Agreement with immediate effect and forfeit the amount paid by the Purchaser prior to the termination without any liability on the Company.

Conditions

Completion shall be subject to and conditional upon the following Conditions being satisfied:

- (1) the Company having convened and held a general meeting in accordance with the Listing Rules and other applicable laws, rules and regulations (“**Applicable Laws**”) and has obtained approval of the SP Agreement and the transactions contemplated thereunder from the Shareholders who are entitled to vote thereat under the Applicable Laws;
- (2) the Company having obtained all other necessary consents, approvals, waivers and authorisations in connection with the sale and purchase of the Sale Shares and the Sale Loan, and the signing and performance of the SP Agreement; and
- (3) the Property Charge having been released.

The Company shall use its reasonable efforts to ensure Conditions (1) to (3) are satisfied before the Long Stop Date. None of the Conditions is capable of being waived by either party.

If the Conditions (1) to (3) are not satisfied on or before the Long Stop Date for reasons unrelated to the Purchaser, the Company shall refund the Stage 1 Payment to the Purchaser within 3 Business Days after the Long Stop Date.

If the Conditions (1) to (3) are satisfied but the Company elects to serve written notice on the Purchaser not to proceed with the Completion, the Company shall refund the Stage 1 Payment to the Purchaser and additionally pay to the Purchaser an amount equivalent to the Stage 1 Payment as compensation.

Notwithstanding any provision to the contrary in the SP Agreement, if the SP Agreement is terminated and the parties do not proceed to Completion, the Purchaser and the Company shall be released from all their respective obligations and liabilities under the SP Agreement after the payment of sum pursuant to the provisions above, save for those resulting from breach of terms of confidentiality agreed between the parties in writing.

Completion

Completion shall take place within 5 Business Days after the satisfaction of Conditions (1) to (3) specified above (“**Completion Date**”).

As at the date of this announcement, SYO is a direct wholly-owned subsidiary of the Company. Upon Completion, the Company will cease to have any interest in SYO and the financial information of SYO will no longer be consolidated into the Group’s consolidated financial statements.

Post-completion arrangements

Within 3 Business Days from the Completion Date, the Company shall pass the possession of Shenzhen Building to the Purchaser where vacant possession of Shenzhen Building shall be delivered on as-is basis.

GAIN ON DISPOSAL AND NET PROCEEDS

The Group expects to record an unaudited gain before tax as a result of the Disposal of approximately HK\$290.5 million, being the difference between the Consideration and (i) the sum of the Group’s share of the unaudited net asset value of SYO as at 30 September 2019 of approximately HK\$6.3 million and (ii) the estimated transaction costs to be incurred from the Disposal. The above figures are for illustrative purpose only. The actual gain in connection with the Disposal will be determined based on the net proceeds received, the financial position of SYO at Completion and subject to the review and final audit by the auditors of the Company.

The net proceeds of the Disposal of approximately HK\$296.8 million, after deducting the transaction costs, will be used by the Group as follows:

- (i) as to approximately HK\$100.0 million, for payment of a special dividend which is subject to Completion, further announcement of which will be made by the Company after Completion has taken place;
- (ii) as to approximately HK\$17.0 million for repaying the Group’s bank borrowings;

- (iii) as to approximately HK\$65.0 million, for the strategic repositioning of the Group; and
- (iv) as to approximately HK\$114.8 million, as general working capital of the Remaining Group.

INFORMATION ON SYO

SYO is a company incorporated in Hong Kong with limited liability on 17 January 1991. At present, SYO is a property holding company holding the entire interest in Shenzhen Building.

Shenzhen Building is an industrial building with the name “同得仕大廈 (Tungtex Building)” 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) with total gross floor area of 11,033 sq.m. erected on a land parcel for industrial use with a site area of approximately 4,319.4 sq.m.. As at the date of this announcement, the ground floor and the first floor of Shenzhen Building are occupied by the Group for office, showroom and ancillary uses.

Set out below is a summary of certain financial information of SYO prepared in accordance with the Hong Kong Financial Reporting Standards for the two years ended 31 March 2018 and 31 March 2019 respectively:

	For the year ended 31 March 2018 <i>(audited)</i> <i>HK\$'000</i>	For the year ended 31 March 2019 <i>(audited)</i> <i>HK\$'000</i>
Profit before taxation	43,124	100,019
Profit after taxation	42,485	99,528

The profit after tax of SYO for the years ended 31 March 2018 and 2019 primarily consisted of (i) fair value changes of investment property, and (ii) reversal of impairment losses recognised in amount due from a subsidiary. The profit after tax of SYO was increased by approximately HK\$57.0 million or 134.1% from approximately HK\$42.5 million for the year ended 31 March 2018 to approximately HK\$99.5 million for the year ended 31 March 2019. The increase was primarily due to the reversal of impairment losses recognised in amount due from a subsidiary of approximately HK\$72.7 million recorded in the year ended 31 March 2019, which was partially set-off by the decrease in fair value gain of investment property of approximately HK\$15.2 million as compared to that of the year ended 31 March 2018.

The audited net asset value of SYO as at 31 March 2019 was approximately HK\$67,342,000.

REASONS FOR AND BENEFITS OF THE DISPOSAL

The Company is an investment holding company. The Group is principally engaged in (i) manufacture and trading of garments; and (ii) product design and retail sale of the Group's own brand apparel products.

SYO owns Shenzhen Building, which was built in 1992 and was one of the principal production and auxiliary facilities of the Group for the manufacturing of garments. After over almost 30 years in operation, the equipment in Shenzhen Building has not been able to operate up to the Group's required productivity, efficiency or cost-effectiveness, and has therefore become obsolescent. In view of the aforesaid, the Group issued an announcement regarding its intention to sell Shenzhen Building on 31 July 2018, and the Group has completed the relocation of the manufacturing operation at Shenzhen Building to the Group's other production plants in China during the fiscal year ended 31 March 2019.

Since the whole fashion and apparel industry has been operating with increasing uncertainties during the current fiscal year ending 31 March 2020, the Group has further strengthened the consolidation of production capacities in China to target for better cost savings and effectiveness in the longer term. As one of the Group's main strategic initiatives, the Group commenced to merge production facilities and workforces into the Group's Zhongshan production plant from July to September 2019. Thereafter, the manufacturing operation at Shenzhen Building has been ultimately and completely consolidated into the Group's Zhongshan production plant.

In Vietnam, the Group has been strategically expanding its manufacturing capacity and operation effectively to serve quality customers with higher profit margin by improving productivity and expansion of production lines. The Group will continue to commit further resources to its Vietnam production plant.

The Board considers that the Disposal represents a valuable opportunity for the Group to realize the gain and support the cash flow for its strategic repositioning and will enhance the Group's operations and financial prospects in the long term.

Upon completion of the Disposal, the remaining production bases of the Group's garment manufacturing activities will be situated in Vietnam and Zhongshan of China.

The Board considers that the Disposal will not have any material adverse impact on the Group's business. There will be no change to the principal business of the Remaining Group as a result of the Disposal. After the Disposal, the Remaining Group will continue to be principally engaged in (i) manufacture and trading of garments; and (ii) product design and retail sale of the Group's own brand apparel products.

All the Directors are of the view that the terms of the SP Agreement are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

As the highest applicable percentage ratio under the Listing Rules in respect of the Disposal exceeds 75%, the Disposal constitutes a very substantial disposal of the Company and is therefore subject to the notification, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

EGM

The EGM will be convened for the purpose of considering and, if thought fit, approving the SP Agreement and the Disposal contemplated thereunder. A circular containing, among other things, (1) details of the SP Agreement and the Disposal; (2) valuation report of Shenzhen Building; (3) other information as required to be disclosed under the Listing Rules; and (4) the notice of the EGM and a form of proxy is expected to be despatched to the Shareholders on or before 31 July 2020 as more time is required to prepare the information, including the financial information of the Group, for inclusion in the circular.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder and his/her close associates (as defined in the Listing Rules) has a material interest in the Disposal and no Shareholder is required to abstain from voting on the resolution(s) to be proposed at the EGM to approve the SP Agreement and the Disposal contemplated thereunder.

Completion of the Disposal may or may not proceed as it is subject to a number of conditions which may or may not be fulfilled. Shareholders and potential investors of the Company are therefore advised to exercise caution when dealing in the Shares.

RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange has been halted with effect from 9:00 a.m. on 1 April 2020, pending the release of this announcement.

Application has been made to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:00 a.m. on 3 April 2020.

DEFINITIONS

Unless otherwise specified, the following terms have the following meanings in this announcement:

“Agreed Exchange Rate” means the exchange rate of RMB0.9084 to HK\$1.00 as agreed by the Company and the Purchaser

“Board” the board of Directors

“Business Day(s)” means a day (excluding Saturday, Sunday, Hong Kong public holiday and any day on which a tropical cyclone warning no. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a “black” rainstorm warning is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which licensed banks in Hong Kong are generally open for business and a trading day on the Stock Exchange

“Company” Tungtex (Holdings) Company Limited, a company incorporated in Hong Kong with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 00518)

“Completion”	completion of the sale and purchase of the Sale Shares and the Sale Loan in accordance with the terms of the SP Agreement
“Completion Date”	has the meaning ascribed to it in the paragraph headed “Completion” in this announcement
“Condition(s)”	the condition(s) precedent for Completion
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the amount of RMB276.0 million (equivalent to approximately HK\$303.8 million translated at the Agreed Exchange Rate), being the total consideration for the purchase of the Sale Shares and the Sale Loan
“Director(s)”	the director(s) of the Company
“Disposal”	the disposal of the Sale Shares and the Sale Loan as contemplated under the SP Agreement
“EGM”	an extraordinary general meeting of the Company to be convened for the purposes of considering, and if thought fit, approving the SP Agreement and the Disposal contemplated thereunder
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Financial Reporting Standards”	the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
“Independent Third Party(ies)”	third party(ies) independent of the Company and its connected persons
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	31 October 2020 (or such other date as the Purchaser and the Company may agree in writing)
“PRC” or “China”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Property Charge”	the charge over Shenzhen Building provided by SYO in respect of a loan facility provided by HSBC Bank (China) Company Limited to Shenzhen Betu

“Purchaser”	PIONEER FORTRESS LIMITED, an Independent Third Party which is a company incorporated in the British Virgin Islands with limited liability
“Remaining Group”	the Group immediately after completion of the Disposal
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Loan”	such amount as equals the face value of the entire sum of shareholder’s loan owing by SYO to the Company as at the Completion Date; as at the date of the SP Agreement, it is in the sum of approximately HK\$131.0 million
“Sale Shares”	the entire issued share capital of SYO legally and beneficially owned by the Company immediately prior to Completion
“Shares”	ordinary shares in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Shenzhen Betu”	Shenzhen Betu Fashion Ltd. (深圳百多爾時裝有限公司), a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company as at the date of this announcement
“Shenzhen Building”	an industrial building with the name “同得仕大廈 (Tungtex Building)” (including the land, the buildings and ancillary structures constructed thereon) located in Shenzhen, PRC, which is entirely owned by SYO as at the date of the SP Agreement and immediately prior to Completion
“SP Agreement”	the sale and purchase agreement dated 31 March 2020 entered into between the Company and the Purchaser in respect of the Disposal
“sq.m.”	square metre(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“SYO”	Sing Yang (Overseas) Limited, a company incorporated in Hong Kong with limited liability and a direct wholly-owned subsidiary of the Company as at the date of this announcement and immediately prior to Completion
“UBO”	Mr. Chen Peiyuan (陳沛元), being the ultimate beneficial owner of the Purchaser
“%”	per cent.

For the purpose of illustration only and unless otherwise stated, conversion of RMB into HK\$ in this announcement is based on the exchange rate of RMB0.9084 to HK\$1.00. Such conversion should not be construed as a representation that any amount has been, could have been, or may be, exchanged at this or any other rate.

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

Hong Kong, 2 April 2020

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 the 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.