THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Tungtex (Holdings) Company Limited (the "Company"), you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

This circular is for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of the Company.

TUNGTEX (HOLDINGS) COMPANY LIMITED
同得仕(集團)有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00518)

VERY SUBSTANTIAL DISPOSAL – DISPOSAL OF A SUBSIDIARY; AND NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial adviser to the Company

建泉融資有限公司
VBG Capital Limited

A letter from the Board is set out on pages 5 to 13 of this circular.

A notice convening the extraordinary general meeting of the Company ("EGM") to be held at Room 2 & 3, 10/F, United Conference Centre, United Centre, 95 Queensway, Admiralty, Hong Kong on Wednesday, 26 August 2020 at 4:00 p.m. (or immediately after the conclusion of the annual general meeting of the Company to be held at 3:30 p.m. on the same day and at the same place) is set out from pages EGM-1 to EGM-3 of this circular.

Whether or not you are able to attend the EGM in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same by 4:00 p.m. (Hong Kong time) on Monday, 24 August 2020 or not later than 48 hours before the time appointed for any adjourned meeting of the EGM to the Company's share registrar, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish and in such event, the form of proxy previously submitted shall be deemed to be revoked.

PRECAUTIONARY MEASURES FOR THE EGM

Please see pages i to ii of this circular for measures being taken to try to prevent and control the spread of the COVID-19 pandemic at the EGM, including:

- **compulsory body temperature checks and health declarations**
- **requirement of wearing a surgical face mask for each attendee**
- **no distribution of corporate gift or refreshment**

Any person who does not comply with the precautionary measures or is subject to any Hong Kong Government prescribed quarantine may be denied entry into the meeting venue. The Company reminds Shareholders that they may appoint the chairman of the meeting as their proxy to vote on the relevant resolution(s) at the meeting as an alternative to attending the meeting in person.

10 August 2020

The Board has made reference to the "Joint Statement in relation to General Meetings in light of the Prevention and Control of Disease (Prohibition on Group Gathering) Regulation" jointly issued by the Stock Exchange and the Securities and Futures Commission of Hong Kong on 1 April 2020 in relation to the arrangement of the EGM.

Voting by proxy in advance of the EGM:

The Company does not in any way wish to diminish the opportunity available to the Shareholders to exercise their rights and to vote, but is conscious of the pressing need to protect the Shareholders from possible exposure to the coronavirus disease 2019 ("COVID-19") pandemic. For the health and safety of the Shareholders, the Company would like to encourage Shareholders to exercise their right to vote at the EGM by appointing the chairman of the EGM as their proxy instead of attending the EGM in person. **Physical attendance is not necessary for the purpose of exercising Shareholders' rights. Completion and return of the proxy form will not preclude the Shareholders from attending and voting in person at the EGM or any adjournment thereof should they subsequently so wish.**

Precautionary measures at the EGM

The Company will implement the following precautionary measures at the EGM to safeguard the health and safety of the attending Shareholders, staff and other stakeholders:

(i) Compulsory body temperature checks will be conducted on every attendee at the entrance of the EGM venue. Any person with a body temperature of over 37.5 degrees Celsius or exhibiting flu-like symptoms will be denied entry into or be required to leave the EGM venue.

(ii) All attendees are required to complete and submit at the entrance of the EGM venue a declaration form confirming their names and contact details, and confirming that they have not travelled to, or had physical contact with any person who to their best of knowledge has recently travelled to, any affected countries or areas outside Hong Kong (as per guidelines issued by the Hong Kong Government at www.chp.gov.hk/en/features/102742.html) at any time in the preceding 14 days. Any attendee who does not comply with this requirement will be denied entry into or be required to leave the EGM venue.

(iii) Every attendee will be required to wear a surgical face mask throughout the EGM. Please note that no masks will be provided at the EGM venue and attendees should bring and wear their own masks.

(iv) If the number of attendees at the EGM exceeds 20 persons, the attendees will be separated in different rooms or partitioned areas, each accommodating not more than 20 persons.

(v) Seating at the EGM will be arranged so as to reduce interaction between participants.

(vi) No refreshments will be served and there will be no corporate gifts.

To the extent permitted under law, the Company reserves the right to deny entry into the EGM venue or require any person to leave the EGM venue so as to ensure the health and safety of the attendees at the EGM.

The Company will closely monitor the development of the COVID-19 pandemic and any regulations or measures introduced or to be introduced by the Hong Kong Government in relation to the COVID-19 pandemic. The Company will ensure that the EGM will be conducted in compliance with the regulations or measures of the Hong Kong Government and Shareholders will not be deprived of their right of voting on the resolutions to be proposed at the EGM. Further announcements will be made by the Company as soon as possible if there is any update to the preventive measures as mentioned above.

If the Shareholders have any questions relating to the EGM, please contact Tricor Secretaries Limited, the Company's share registrar, as follows:

Tricor Secretaries Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

CONTENTS

In this circular, the following expressions have the following meanings, unless the context requires otherwise:

"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Agreed Exchange Rate"	means the exchange rate of RMB0.9084 to HK$1.00 as agreed by the Company and the Purchaser
"Articles of Association"	the articles of the Company, as amended from time to time
"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
"BVI"	the British Virgin Islands
"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 circular
"Conditions"	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
"controlling shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"COVID-19"	Coronavirus disease 2019, an infectious disease caused by a newly discovered coronavirus

"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
"Hong Kong Government"	the Government of the Hong Kong Special Administrative Region
"Independent Third Party(ies)"	third party(ies) independent of the Company and its connected persons
"Latest Practicable Date"	5 August 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"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)
"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 BVI 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
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"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 circular
"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" or "Target Company"	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 circular and immediately prior to Completion
"Valuation Report"	the valuation report prepared by independent valuer in relation to the Shenzhen Building as at 30 June 2020, the text of which is disclosed in Appendix V to this circular
"UBO"	Mr. Chen Peiyuan(陳沛元), being the ultimate beneficial owner of the Purchaser

"USD"	United States dollars, the lawful currency of the United States of America
"U.S."	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"%"	per cent.

For the purpose of illustration only and unless otherwise stated, conversion of RMB into HK$ in this circular 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.

TUNGTEX (HOLDINGS) COMPANY LIMITED
同得仕(集團)有限公司

(Incorporated in Hong Kong with limited liability)
(Stock Code: 00518)

Executive Directors:
Mr. Martin Tung Hau Man *(Chairman)*
Mr. Raymond Tung Wai Man *(Managing Director)*
Mr. Billy Tung Chung Man

Independent Non-Executive Directors:
Mr. Tony Chang Chung Kay
Mr. Robert Yau Ming Kim
Mr. Leslie Chang Shuk Chien
Mr. Kenneth Yuen Ki Lok

Registered office:
12/F., Tungtex Building
203 Wai Yip Street
Kwun Tong
Kowloon
Hong Kong

10 August 2020

To the Shareholders

Dear Sir or Madam,

**VERY SUBSTANTIAL DISPOSAL –
DISPOSAL OF A SUBSIDIARY;
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

1. INTRODUCTION

On 2 April 2020, the Company announced that on 31 March 2020 (after trading hours), 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 purpose of this circular is to provide you with: (i) further details of the SP Agreement and the Disposal; (ii) the financial and other information of the Group; (iii) the financial information of SYO and property valuation of the Shenzhen Building; (iv) the management discussion and analysis on the Remaining Group; (v) the unaudited pro forma financial information of the Remaining Group; and (vi) the notice of the EGM and a form of proxy to the Shareholders. The EGM is convened to be held for Shareholders to consider and, if thought fit, approve the SP Agreement and the transactions contemplated thereunder.

2. THE SP AGREEMENT

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

Date

31 March 2020 (after trading hours)

Parties:

Vendor: the Company

Purchaser: PIONEER FORTRESS LIMITED, a company incorporated in the BVI 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.

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. As at the Latest Practicable Date, the exact amount of the Sale Loan is approximately HK$131.2 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 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.

Stage 1 Payment has been paid by the Purchaser upon signing of the SP Agreement.

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) the 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. The Directors consider that the Consideration is fair and reasonable and is in the interests of the Company and the Shareholders.

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.

As at the Latest Practicable Date, Condition (3) has been satisfied.

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 circular, SYO is a direct wholly-owned subsidiary of the Company. Upon Completion, SYO will cease to be a subsidiary of the Company and 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.

3. 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 circular, the ground floor and the first floor of Shenzhen Building are occupied by the Group for office, showroom and ancillary uses. The detail of Valuation Report is disclosed in Appendix V to this circular.

Set out below is a summary of certain financial information of SYO prepared in accordance with the Hong Kong Financial Reporting Standards for the three years ended 31 March 2018, 2019 and 2020 respectively:

	For the year ended 31 March 2018	**For the year ended 31 March 2019**	**For the year ended 31 March 2020**
	(audited)	*(audited)*	*(audited)*
	HK$'000	*HK$'000*	*HK$'000*
Profit (loss) before taxation	43,124	100,019	(26,964)
Profit (loss) after taxation	42,485	99,528	(26,964)

The profit or loss after tax of SYO for the years ended 31 March 2018, 2019 and 2020 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 one-off 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 loss after tax of SYO for the year ended 31 March 2020 was approximately HK$27.0 million which mainly represented the decrease in fair value of investment property of approximately HK$26.7 million for the year ended 31 March 2020.

The unaudited net asset value of SYO as at 31 March 2020 was approximately HK$40.4 million.

Reconciliation statement of Shenzhen Building

A reconciliation of the fair value of Shenzhen Building as at 31 March 2020 of approximately RMB156,700,000 (equivalent to approximately HK$171,500,000 translated at the exchange rate HK$1.00 to RMB0.9137) as disclosed in Appendix II to this Circular, and the valuation of Shenzhen Building as at 30 June 2020 of approximately RMB156,700,000 (equivalent to approximately HK$171,900,000 translated at the exchange rate as at 30 June 2020, HK$1.00 to RMB0.9117) as disclosed in Appendix V to this circular are as follows:

	RMB'000	*HK$'000*
Net fair value as at 31 March 2020	156,700	171,500
Exchange realignment	—	400
Valuation as at 30 June 2020	156,700	171,900

4. INFORMATION ON THE GROUP AND THE PARTIES

The Group

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.

Vendor

The Vendor is the Company, principally engaged in investment holding.

Purchaser

The Purchaser is a company incorporated in the BVI with limited liability, principally engaged in investment holding. The Purchaser and its UBO are Independent Third Parties. The Purchaser of the SP Agreement was introduced to the Company by the Potential Purchaser (as referred to in the Company's announcement dated 11 July 2019).

5. FINANCIAL EFFECTS OF THE DISPOSAL AND USE OF PROCEEDS

The Group expects to record an unaudited gain before tax as a result of the Disposal of approximately HK$290.7 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 31 March 2020 of approximately HK$6.1 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, including but not limited to purchase of a new office premises in Hong Kong, development of a solar system in the Group's Vietnam production plant and procurement of face mask facilities and materials; and

(iv) as to approximately HK$114.8 million, as general working capital for the daily operation of the Remaining Group including but not limited to purchase of materials, salaries and rental expenses.

Assets and Liabilities

Pursuant to the audited consolidated financial statements of the Company as at 31 March 2020, prior to the Disposal, the Group had total assets and total liabilities of approximately HK$503.5 million and HK$248.0 million, respectively.

Pursuant to the unaudited pro forma financial information of the Remaining Group as set out in Appendix IV to this circular, assuming the Completion had taken place on 31 March 2020, the unaudited pro forma consolidated total assets and total liabilities of the Remaining Group as at 31 March 2020 would be approximately HK$796.6 million and HK$247.9 million, respectively.

Profits

Pursuant to the audited consolidated financial statements of the Company as at 31 March 2020, prior to the Disposal, the loss after tax of the Group for the year ended 31 March 2020 was approximately HK$84.3 million.

Pursuant to the unaudited pro forma financial information of the Remaining Group as set out in Appendix IV to this circular, assuming the Disposal had completed on 1 April 2019, the unaudited pro forma consolidated profits after tax for the Remaining Group for the year ended 31 March 2020 would be approximately HK$224.3 million.

6. REASONS AND BENEFITS FOR THE DISPOSAL

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 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.

7. LISTING RULES IMPLICATIONS

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.

8. EGM

A notice convening the EGM to be held at Room 2 & 3, 10/F, United Conference Centre, United Centre, 95 Queensway, Admiralty, Hong Kong on Wednesday, 26 August 2020 at 4:00 p.m. (or immediately after the conclusion of the annual general meeting of the Company to be held at 3:30 p.m. on the same day and at the same place) is set out from pages EGM-1 to EGM-3 of this circular. An ordinary resolution will be proposed at the EGM to seek Shareholders' approval of the SP Agreement and the transactions contemplated thereunder. As far as the Company is aware, none of the Shareholders is materially interested in the SP Agreement and the transactions contemplated thereunder and therefore no Shareholder is required to abstain from voting on the resolution in relation to the SP Agreement and the transactions contemplated thereunder at the EGM.

Pursuant to the existing Articles of Association, any vote of the Shareholders at a general meeting of the Company must be taken by way of poll except that the chairman of the meeting may, in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Accordingly, the resolution to be considered and, if thought fit, approved at the EGM will be voted by way of poll by the Shareholders.

9. RECOMMENDATION

Having considered the factors mentioned above, the Directors (including the independent non-executive Directors) are of the view that the Consideration of both the Sale Shares and the Sale Loan have been negotiated on an arm's length basis and on commercial terms which are fair and reasonable and are in the interest of the Shareholders and the Company as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the SP Agreement and the transactions contemplated thereunder.

10. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

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

1. FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial statements of the Group for the three financial years ended 31 March 2018, 2019 and 2020 respectively have been disclosed in the following documents which have been published on the websites of the HKEXnews (http://www.hkexnews.hk) and the Company (http://www.tungtex.com):

- annual report of the Company for the year ended 31 March 2020 published on 29 July 2020 (pages 42 to 100);
- annual report of the Company for the year ended 31 March 2019 published on 29 July 2019 (pages 40 to 96); and
- annual report of the Company for the year ended 31 March 2018 published on 27 July 2018 (pages 52 to 111).

2. INDEBTEDNESS STATEMENT

As at 30 June 2020, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group had outstanding indebtedness as summarised below.

Borrowings

As at 30 June 2020, the Group had interest-bearing bank borrowings of approximately HK$146.2 million, which consisted of (i) bank loan, secured and guaranteed in aggregate of HK$45.3 million; (ii) trust receipt loan, secured and guaranteed in aggregate of HK$7.0 million; (iii) trust receipt loan, unsecured and guaranteed in aggregate of HK$9.7 million; (iv) import trade loan, secured and guaranteed in aggregate of HK$46.9 million; and (v) import trade loan, secured and unguaranteed in aggregate of HK$37.3 million.

Certain bank borrowings were secured by the Group's properties, pledged bank deposits and corporate guarantees.

Lease liabilities

As at 30 June 2020, all lease liabilities of the Group amounting to approximately HK$5.7 million are secured by rental deposits and unguaranteed.

Contingent liabilities

The Group did not have any contingent liabilities as at 30 June 2020.

Disclaimer

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities and normal trade payables in the ordinary course of business, as at the close of business on 30 June 2020, the Group did not have any debt securities authorised or created but unissued, or any term loans, other borrowings or indebtedness in the nature of borrowing including bank overdrafts, loans, liabilities under acceptances (other than normal trade bills), acceptance credits, other recognised lease liabilities or lease commitments, mortgages or charges, material contingent liabilities or guarantees outstanding.

3. NO MATERIAL ADVERSE CHANGE

The Directors confirmed that there were no material adverse changes in the financial or trading position or prospects of the Group since 31 March 2020 (being the date which the latest published audited consolidated financial statements of the Group had been made up) up to the Latest Practicable Date.

4. WORKING CAPITAL

The Directors are of the opinion that after taking into account the Group's business prospects, the financial resources available to the Group, including the continuing availability of the financing facilities, following the completion of the Disposal and in the absence of unforeseen circumstances, the Group has sufficient working capital for its present requirements for at least the next twelve months from the date of this circular.

5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

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

Looking into the fiscal year ended 31 March 2020, amidst the protracted trade tensions and the outbreak of the COVID-19, the Group's revenue and gross profit suffered decreases of 26.6% and 21.4%, respectively. The Group's gross profit margin improved slightly to 20.0% benefitting from the more efficient operation of our Vietnam plant and in our unified factory facilities in Zhongshan China which effectively drove down costs of production. The Group responded to the challenges by maintaining a lean marketing platform, a right mix of product offering and effective marketing strategy. During the year ended 31 March 2020, the Group continued to close down unprofitable or non-performing shops and increase the proportion of quantity of shops operated by franchisees or under cooperative ownership, in order to reduce the operating overheads and improve cost effectiveness.

As detailed in the section headed "Reasons and Benefits for the Disposal" in the Letter from the Board of this circular, 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.

Looking forward, the economic outlook for the remainder of the fiscal year ahead continues to be extremely volatile as uncertainties such as the Sino-US trade conflict which showed no sign of abating and the damaging effect of the COVID-19 continues to cast a shadow over the economic development and the financial markets on a global scale. Pessimistic sentiment and unstable global economic prospects attributable to these uncertainties will continue to exert negative effect on the apparel industry. In addition, the post COVID-19 new normal will force the industry players to formulate sound business and market strategies to survive the dynamic market situation, changing consumer preferences and risky business exposures.

Despite governments all around the globe hastened to soften the economic blow by cutting rates to almost record-low and plumping up stimulus packages, these measures could hardly reverse the shocks as the stand-still situation of the globe in the past few months has already caused severe impact to the global economy. While there is little doubt that the global economy has headed into a recession, there is still great uncertainty as to how quick and to what extent a bounce back would take place.

Having moved past the worst of the COVID-19 pandemic, China and Vietnam are relatively successful Asian countries to contain the disease and lift tough movement restrictions which put the country on course to recover at a much faster pace. As such, the management remains cautiously optimistic about the economic prospects of China and Vietnam and their market outlooks for the apparel industry in the mid to longer term.

Despite the short-term impacts presented by the COVID-19, the Government of China's strategic initiative to steer China's economy towards domestic consumption and higher quality growth remains unchanged. The Remaining Group will strive to design more stylish and customised clothing coupled with better omnichannel shopping experience to meet the market demand for upgraded goods and services. In this respect, our Zhongshan production plant will make use of locational advantage of domestic production through making of smaller and quality batches with faster turnaround time to better respond to the ever-changing customer tastes and preferences.

As for the U.S., the government announced the biggest ever stimulus package at the end of March 2020 to revive the economy and relieved the damage caused by the COVID-19 pandemic. The economic resumption plan was somehow interrupted by the recent widespread outbreak of antiracism protests. However, market expects additional government aids to facilitate a quicker turnaround for the country.

Nevertheless, the Remaining Group expects the recovery will be characterized by a continued softening in customer demand across channels with the industry facing extreme challenges and uncertainties with respect to trade policies, tariffs and government regulations affecting trade between the U.S. and other countries, such as the threat of additional tariffs on imported consumer goods from China. All of which served to swiftly curtail business and consumer sentiments.

The Remaining Group will continue its commitment to strengthen our market position as a customer-centred provider of high-quality apparel items at affordable price to achieve steady growth, and the overall strategy of sustainable development driven by cost reduction, operational optimization, and innovation.

The Remaining Group envisages business environment in China to be overwhelmingly competitive and challenging in the coming quarters as retailers are trying to make up for the lost sales due to COVID-19-induced shop closures and lessened consumer traffic.

The Remaining Group will continue to rationalize the size of underperforming retail divisions or outlets to position ourselves for greater speed, agility and efficiency especially when operating in periods under dynamic changes as well as unexpected changes in external environment.

Customer engagement was critical during period of uncertainty to fortress their loyalty and trust in our brand. Our decades of genuine operation records and retailing experience enable us to earn a competitive advantage in localizing, reaching, and communicating with our customers in China.

Online shopping will be the new norm that remains in both export markets and China domestic market even after the crisis passes. To comply and sustain with this new norm, the Remaining Group's manufacturing management will endeavor to shorten the production leadtime and enhance the production efficiency and effectiveness, and the Remaining Group's retail management will evaluate partnership with other platforms with different shopping models or interesting mobile application elements to further enlarge and diversify its online community.

Although the pandemic is in basic control and economic backdrop has shown slight improvement that helped boost investment and consumer sentiment in most markets, many macro headwinds and uncertainties remain. The Remaining Group will cautiously monitor the markets, adopt appropriate measures and sustainable business strategies to navigate the challenges and mitigate risks.

Set out below are the unaudited financial information of Sing Yang (Overseas) Limited (the "Target Company") which comprises the unaudited statements of financial position of the Target Company as at 31 March 2018, 2019 and 2020 and the unaudited statements of profit or loss and other comprehensive income, unaudited statements of changes in equity and unaudited statements of cash flows for each of the years then ended and certain explanatory notes (altogether the "Unaudited Financial Information").

The Unaudited Financial Information has been prepared and presented on the basis as set out in note 2 to the Unaudited Financial Information and Rule 14.68(2)(a)(i)(A) of the Listing Rules.

The reporting accountants of the Target Company, D & PARTNERS CPA LIMITED, were engaged to review the Unaudited Financial Information set out on pages II-2 to II-7 of this circular in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" and with reference to Practice Note 750 "Review of Financial Information under the Hong Kong Listing Rules for a Very Substantial Disposal" issued by the Hong Kong Institute of Certified Public Accountants. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable the reporting accountants to obtain assurance that the reporting accountants would become aware of all significant matters that might be identified in an audit. Accordingly, the reporting accountants do not express an audit opinion.

Based on the review, nothing has come to the reporting accountants' attention that causes them to believe that the Unaudited Financial Information is not prepared, in all material respects, in accordance with the basis of preparation set out in note 2 below.

UNAUDITED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the years ended 31 March 2018, 2019 and 2020

	Year ended 31 March		
	2018	**2019**	**2020**
	HK$	*HK$*	*HK$*
	(unaudited)	*(unaudited)*	*(unaudited)*
Other income and other gain	3,314,018	1,294	1
Gain on disposal of a subsidiary	—	1	—
Increase (decrease) in fair value of investment property	53,442,115	38,213,466	(26,683,148)
Administrative expenses	(2,033,453)	(1,581,166)	(280,638)
Reversal of impairment loss recognised in amount due from a subsidiary	—	72,694,857	—
Reversal of imputed interest income from a subsidiary	—	(9,175,383)	—
Impairment loss recognised on investments in subsidiaries	(11,288,720)	—	—
Interest expenses	(309,488)	(134,549)	—
Profit (loss) before tax	43,124,472	100,018,520	(26,963,785)
Income tax expense	(639,943)	(490,702)	—
Profit (loss) for the year	42,484,529	99,527,818	(26,963,785)
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Gain on revaluation of a property transferred from property, plant and equipment to investment property	—	41,742,135	—
Other comprehensive income for the year	—	41,742,135	—
Total comprehensive income (expense) for the year	42,484,529	141,269,953	(26,963,785)

UNAUDITED STATEMENTS OF FINANCIAL POSITION

At 31 March 2018, 2019 and 2020

	At 31 March		
	2018	**2019**	**2020**
	HK$	*HK$*	*HK$*
	(unaudited)	*(unaudited)*	*(unaudited)*
Non-current assets			
Investment property	116,865,217	198,183,620	171,500,472
Property, plant and equipment	—	—	—
Prepaid lease payments	1,362,802	—	—
Amount due from a subsidiary	50,914,964	—	—
	169,142,983	198,183,620	171,500,472
Current assets			
Other receivables	38,445	7,839	—
Prepaid lease payments	63,386	—	—
Bank balances and cash	672,616	545,094	192,103
	774,447	552,933	192,103
Asset classified as held for sales	7,965,254	—	—
	8,739,701	552,933	192,103
Current liabilities			
Other payables	31,000	123,962	71,928
Amount due to ultimate holding company	320,764,801	131,242,207	131,242,207
Amount due to a subsidiary	27,724,668	28,159	—
	348,520,469	131,394,328	131,314,135
Net current liabilities	(339,780,768)	(130,841,395)	(131,122,032)
	(170,637,785)	67,342,225	40,378,440
Non-current liability			
Deferred tax liabilities	639,943	—	—
	(171,277,728)	67,342,225	40,378,440
Capital and reserve			
Share capital	100,000	97,450,000	97,450,000
Reserves	(171,377,728)	(30,107,775)	(57,071,560)
	(171,277,728)	67,342,225	40,378,440

UNAUDITED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Property revaluation reserve	Accumulated losses	Total
	HK$	*HK$*	*HK$*	*HK$*
	(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*
At 1 April 2017	100,000	—	(213,862,257)	(213,762,257)
Profit and total comprehensive income for the year	—	—	42,484,529	42,484,529
At 31 March 2018	100,000	—	(171,377,728)	(171,277,728)
Profit for the year	—	—	99,527,818	99,527,818
Gain on revaluation of a property transferred from property, plant and equipment to investment property	—	41,742,135	—	41,742,135
Total comprehensive income for the year	—	41,742,135	99,527,818	141,269,953
Ordinary shares issued	97,350,000	—	—	97,350,000
At 31 March 2019	97,450,000	41,742,135	(71,849,910)	67,342,225
Loss and total comprehensive expense for the year	—	—	(26,963,785)	(26,963,785)
At 31 March 2020	97,450,000	41,742,135	(98,813,695)	40,378,440

UNAUDITED STATEMENTS OF CASH FLOWS
For the years ended 31 March 2018, 2019 and 2020

	2018	2019	2020
	HK$	*HK$*	*HK$*
	(unaudited)	*(unaudited)*	*(unaudited)*
OPERATING ACTIVITIES			
Profit (loss) before tax	43,124,472	100,018,520	(26,963,785)
Gain on disposal of a subsidiary	—	(1)	—
Amortisation of prepaid lease payments	63,386	63,386	—
Depreciation of property, plant and equipment	198,212	—	—
Interest expenses	309,485	134,549	—
(Increase) decrease in fair value of investment properties	(53,442,115)	(38,213,466)	26,683,148
Interest income from a subsidiary	(3,160,673)	—	—
Reversal of imputed interest income from a subsidiary	—	9,175,383	—
Reversal of impairment loss recognised in amount due from a subsidiary	—	(72,694,857)	—
Impairment loss recognised on investment in a subsidiary	11,288,720	—	—
Operating cash flows before movements in working capital	(1,618,513)	(1,516,486)	(280,637)
Decrease in other receivables	211,234	30,606	7,839
(Decrease) increase in other payables	(308,690)	92,962	(52,034)
(Decrease) increase in amount due to fellow subsidiaries	(5,038,220)	1,398,549	(28,159)
Increase in amounts due to a subsidiary	27,724,668	—	—
Cash from (used in) operations	20,970,479	5,631	(352,991)
Taxation in other jurisdictions paid	—	(1,130,645)	—
NET CASH FROM (USED IN) OPERATIONS	20,970,479	(1,125,014)	(352,991)

	2018 *HK$* *(unaudited)*	2019 *HK$* *(unaudited)*	2020 *HK$* *(unaudited)*
INVESTING ACTIVITIES			
Decrease in amounts due from a subsidiary	4,731,156	5,305,435	—
Proceeds on disposal of asset classified as held for sale	—	7,965,254	—
Capital injection to a subsidiary	(11,288,720)	—	—
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(6,557,564)	13,270,689	—
FINANCING ACTIVITY			
Change in advance from ultimate holding company, net	(14,429,106)	(12,273,197)	—
NET DECREASE IN CASH AND CASH EQUIVALENT	(16,191)	(127,522)	(352,991)
CASH AND CASH EQUIVALENT AT THE BEGINNING OF THE YEAR	688,807	672,616	545,094
CASH AND CASH EQUIVALENT AT THE END OF THE YEAR, represented by bank balances and cash	672,616	545,094	192,103

NOTES TO THE UNAUDITED FINANCIAL INFORMATION

For the three years ended 31 March 2020

1. General Information

Sing Yang (Overseas) Limited (the "Target Company") was incorporated in Hong Kong with limited liability. The Target Company is an direct wholly-owned subsidiary of Tungtex (Holdings) Company Limited (the "Company"), a company incorporated in Hong Kong with limited liability with its shares listed on the Main Board of the Stock Exchange of Hong Kong Limited. The Target Company is principally engaged in property investment.

On 31 March 2020, the Company entered into a Sale and Purchase Agreement with Pioneer Fortress Limited (the "Purchaser"), pursuant to which the Company has conditionally agreed to sell to the Purchaser and the Purchaser has conditionally agreed to purchase from the Company, the entire issued shares of the Target Company and a loan owing by the Target Company to the Company, subject to the terms and conditions of the Sale and Purchase Agreement (the "Disposal").

The Unaudited Financial Information of the Target Company is presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest integer except when otherwise indicated.

2. Basis of preparation of the unaudited financial information

The Unaudited Financial Information of the Target Company for each of the years ended 31 March 2018, 2019 and 2020 (the "Unaudited Financial Information") has been prepared in accordance with paragraph 68(2)(a)(i) of Chapter 14 of the Listing Rules, and solely for the purposes of inclusion in this circular to be issued by the Company in connection with the Disposal.

The Unaudited Financial Information has been prepared using the same accounting policies adopted by the Company in the preparation of the consolidated financial statements of the Company and its subsidiaries for each of years ended 31 March 2018, 2019 and 2020, which conform with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The Unaudited Financial Information of the Target Company does not contain sufficient information to constitute a complete set of financial statements as defined in Hong Kong Accounting Standard 1 (Revised) "Presentation of Financial Statements" issued by the HKICPA nor an interim report as defined in Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the HKICPA.

The Unaudited Financial Information of the Target Company does not prepare for the purposes of compliance with HKFRS 10 *Consolidated Financial Statements* ("HKFRS 10"), so far as the preparation of consolidated financial statements is concerned. As a consequence, the Unaudited Financial Information of the Target Company do not give all the information required by HKFRS 10 about the economic activities of the group of which the Target Company is the parent.

As at 31 March 2020, the current liabilities of the Target Company exceeded its current assets by HK$131,122,032. The above conditions indicated the existence of uncertainties which may cast significant doubt on the abilities of the Target Company to continue as a going concern and therefore, the Target Company may not be able to realise its assets and discharge its liabilities in normal course of business. However, the Company has undertaken to provide continued financial support to enable the Target Company to fulfill its financial liabilities when they fall due. Accordingly, the Unaudited Financial Information has been prepared by the directors of the Company on a going concern basis.

BUSINESS REVIEW AND THE MANAGEMENT DISCUSSIONS AND ANALYSIS

After the Disposal, the Remaining Group will continue to carry out the existing businesses. Set out below is the management discussion and analysis of the Remaining Group for each of the three financial years ended 31 March 2018, 2019 and 2020.

A. For the financial year ended 31 March 2018

Summary of Operating Results

During the fiscal year ended 31 March 2018 (the "FY2018"), the Remaining Group's performance improved with reduction in net loss amidst challenging operating environment. The Remaining Group's revenue for the FY2018 increased by 2.8% year-on-year to approximately HK$998.1 million. During the FY2018, the Remaining Group registered a gross profit of HK$217.9 million, with a gross profit margin of 21.8%, which was 5.7 percentage point higher than that of the previous year. As a result of the Remaining Group's strenuous efforts in cost control and optimization of resources, and after taking into consideration of increases in fair values of held for trading investments and investment properties, the Remaining Group's loss before tax was trimmed by 66.4% to HK$39.7 million.

Business Review

During the FY2018, the U.S. gross domestic product ("GDP") increased at rates of 1.2%, 3.1% and 3.2% in the first three quarters of 2017 calendar year respectively, demonstrating a healthy momentum. This was the first time since 2014 that the economic growth of the U.S. economy enjoyed more than 3% growth for two consecutive quarters. The U.S. unemployment rate fell to 4.1% last year, reaching the lowest level for the past 17 years.

Despite steady recovery of the U.S. economy, the demand for the Remaining Group's fashion products was hampered by a return of locally manufactured garments in the U.S. and rapidly changing consumer preference in design and materials. Such challenges, signified by rapid and shortened fashion cycle with smaller order amount and shorter lead time, resulted in the retreat in total fashion consumption amount, undermining the economic benefit of operation scale and affecting the profit margin of fashion garment manufacturers. Apparel sales in the U.S. dropped by 2% in 2017 to USD215 billion, according to NPD Group, a market research company. A combination of the aforementioned factors contributed to a 12.5% year-on-year decline in the Remaining Group's revenue generated from the U.S. market to approximately HK$360.2 million.

Across the northern border of the U.S., Canada maintained a relatively strong household spending, supported by a healthy job market. The Remaining Group's sales to the country during the FY2018 improved by 47.5% year-on-year, and amounted to approximately HK$160.5 million, making it the third single largest market of the Remaining Group.

In the Eurozone, mature European economies experienced a gradual but slow pick up during FY2018. The aftermath of Brexit, political turmoil in major European industrial states, along with issues of aging population, contributed to continued shrinkage of garment consumption in the continent. During the FY2018, the Remaining Group's revenue generated from this market decreased by 48.4% year-on-year to approximately HK$23.3 million.

The Remaining Group's sales to its Asia market, in which China being the largest constituent, remained strong. The GDP of China in 2017 has exceeded 80 trillion yuan, representing an increase of 6.9% from that of the previous year. China's economy displayed stable development in 2017 driven by supply-side structural reform. With a mature middle class and a strong desire for trendy fashion from its youth population, China remained a market of enormous opportunity for the Remaining Group. To cater to the consumption habit of China mainland consumers, Remaining Group has developed a comprehensive e-commerce platform to actively engage other online outlets for product distribution. On the other hand, strong domestic demand also brought orders from China mainland local garment brands to the Remaining Group's advanced production plants in Guangdong Province. Increase in domestic orders enabled the Remaining Group to further reduce its reliance on overseas customers. During the FY2018, the Remaining Group recorded a growth in sales to Asia by 11.7% to approximately HK$447.7 million, of which China accounted for HK$425.7 million.

The retailing business of the Remaining Group in China attributed considerable revenue and gross profit to the Remaining Group in the FY2018. Thanks to the strong growth in online sales through the e-commerce platform and the management's stringent inventory and cost control, the retailing business improved its gross profit margin and contributed an operating profit of approximately HK$1.1 million to the Remaining Group for the FY2018.

During the FY2018, the Remaining Group continued to strengthen the manufacturing capacities in Dongguan and Zhongshan in China with automation investment. The relocation of its Shenzhen manufacturing operations to Dongguan has been progressing according to schedule. Leveraging the advanced facilities of its Dongguan plant, the Remaining Group is able to further optimize production efficiency. Substantial relocation compensation for employees incurred during the Group's production facility rationalization had inevitably led to the increase in administrative expenses of the Remaining Group during the FY2018.

High production costs and tightened labour regulations in traditional garment manufacturing hubs continued to drive production orders to lower-cost emerging economies. During the year under review, the Remaining Group committed further resources to its Vietnam plant for automation and strengthened staff training, resulting in enhanced efficiency and capacity.

The Remaining Group's e-commerce park transformed from previous idle factory plant in Hangzhou of China continued to generate stable revenue and recurrent cash flow. The Remaining Group's held for trading investment in a basket of equities also displayed positive return during the FY2018.

Prospects

The U.S. economy grew at a rate of only 2.2% in the first quarter of 2018. The nation's consumer spending eased to a 1.1% in the first quarter, the weakest in five years, although it began to bounce back since March 2018. The U.S.'s recent announcement of sanction against China and escalation of a trade war between the two giant economies are expected to cloud the atmosphere of China's export to the U.S., and may add uncertainty to China's garment manufacturing and export sectors. On the other side of the Atlantic, unstable political situation in Europe is likely to hinder fashion consumption of the continent.

China's economy reported a GDP growth of 6.8% in the first quarter of 2018, topping most expectation. Following the State government's avocation of superseding quantitative growth with qualitative growth in economic development, it is generally expected that the Chinese economy will maintain a mild single digit growth under government policy guidance. The Remaining Group will closely monitor the development in the Sino-US trade relationship and to assess possible impact on its export to the U.S. market. On the other hand, substantial emphasis will be placed on the Remaining Group's intensified penetration of the China market.

While rationalizing its production bases in Guangdong Province, advanced automated equipment is being added to the Remaining Group's plants in Dongguan and Zhongshan. Accelerated automation at the abovementioned facilities will enable the Remaining Group to mitigate its exposure to rising labour costs and to effectively standardize product quality.

In responding to deteriorating relationship between China and the U.S., the Remaining Group is expediting capacity expansion and efficiency enhancement at its Vietnam plant, allowing it the agility to cater for any redirected orders for the U.S. market. Additional resources are also being committed by the Remaining Group for further Vietnam plant's efficiency upgrade. In addition, joint venture with local manufacturers is also under consideration to expedite the Remaining Group's capacity expansion in the country. Further diversification and intensified automation in the Remaining Group's Vietnam production base offer it optimum flexibility to the Remaining Group in reacting to fluctuation of Renminbi and minimize its exposure to changing labour policies and rising labour costs in China. The Vietnam plant has been developed into the Remaining Group's major regional operational hub. The Remaining Group is considering further enlargement of its manufacturing capacity in lower-cost Asian countries, either through setting up its own facilities or collaboration with local partners.

The market operating environment is becoming less predictable and increasingly volatile. The dramatic change in the U.S. diplomatic and trade policies under current government administration have brought unprecedented uncertainty to the world's political and economic landscapes. The Remaining Group needs to stay alert of emerging trade barriers and other economic constraints that may impact on its earning power and its operations as a whole. The Remaining Group intends to fully utilize the advantage of its diversified distribution of production bases to swiftly transfer production orders addressing different market requirements.

It is imperative for the Remaining Group to maintain a streamlined and highly effective operation structure to survive the severe challenges through realigning of its assets and operations. The Remaining Group is committed to strengthen its return to shareholders via enhancement of operations and cost efficiency.

Capital Expenditure

During the FY2018, the Remaining Group incurred approximately HK$9.9 million capital expenditure as compared to approximately HK$10.5 million of the last fiscal year. Such capital expenditure mainly represented regular replacement, upgrading and automation of production facilities, and leasehold improvement of the Remaining Group.

Liquidity and Financial Resources

Throughout the FY2018, the Remaining Group's financial position continued to be prudently and precisely managed and remained healthy. At the end of FY2018, the Remaining Group's cash level decreased to HK$225.7 million (of which HK$116.9 million was pledged bank deposits) as compared to HK$319.5 million (of which HK$96.0 million was pledged bank deposits) of the financial year ended 31 March 2017 (the "FY2017"). Most of the bank balance was placed in USD, HK$ and RMB short term deposits with major banks. Total bank borrowings of HK$146.0 million, which were mainly denominated in USD, HK$ and RMB, consisted of HK$135.5 million short-term bank borrowings and HK$10.4 million long-term bank borrowings. The Remaining Group had no borrowings at fixed interest rates during the FY2018. The gearing ratio (total bank borrowings to total equity) was 31.6%. The Remaining Group is of the opinion that, after taking into consideration of the internal available financial resources and the current banking facilities, the Remaining Group has sufficient funds to finance its operations and to meet the financial obligations of its business when they fall due. During the FY2018, working capital cycle remained under stringent control. Trade receivable turnover remained 46 days for both years. Inventory turnover increased from last year's 53 days to 67 days, mainly due to the higher inventory level as at the year-end date to support the relatively higher order volume for delivery in the first quarter subsequent to the year-end date. Financial resources remained under stringent control where financial condition remained healthy.

At the end of FY2018, certain land and buildings with an aggregate net book value of approximately HK$9.1 million (2017: HK$10.2 million) were pledged to banks to secure general banking facilities granted to the Remaining Group.

Significant Investments

As at 31 March 2018, the held-for-trading investments of the Remaining Group amounted to approximately HK$39,540,000 which consist of securities of four companies listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Set out below is a breakdown of the Remaining Group's held-for-trading investments as at 31 March 2018 and their performance during the FY2018:

Description of investments	*Notes*	Market/fair value as at 31 March 2018 *HK$'000*	Realised fair value gain/(loss) *HK$'000*	Unrealised fair value gain/(loss) *HK$'000*	Percentage to the Remaining Group's audited total assets as at 31 March 2018	Percentage to the Remaining Group's total securities investments as at 31 March 2018	Carrying value as at 31 March 2017
EPI (Holdings) Limited (stock code: 689)	*(a)*	35,447	294	18,915	4.43%	89.65%	—
Hong Kong Exchanges & Clearing Limited (stock code: 388)		—	294	—	—	—	—
Other listed securities	*(b)*	4,093	100	1,077	0.51%	10.35%	—
		39,540	688	19,992	4.94%	100%	—

Notes:

(a) This investment represented 38,115,000 shares ("EPI Shares") of EPI (Holdings) Limited ("EPI"), representing approximately 0.76% of the total issued shares of EPI as at 31 March 2018. During the FY2018, the Remaining Group acquired a total of 39,225,000 EPI Shares at the aggregate consideration of HK$17,025,525 and disposed of a total of 1,110,000 EPI Shares at the consideration of HK$788,110.

Based on the annual report ("EPI 2017 Annual Report") of EPI for the year ended 31 December 2017, 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 2017 Annual Report, for the year ended 31 December 2017, the EPI Group recorded a revenue of HK$57,870,000 (which is decreased by 7% compared to the prior year), and a loss for the year of HK$54,855,000 (which is increased by 76.5% compared to the prior year). As disclosed in the EPI 2017 Annual Report, the management of EPI will seize business and investment opportunities with good prospects aiming to enhance value to EPI's shareholders. The EPI Group has also entered into a limited partnership agreement with two independent parties to invest in a series of projects in the smart city big data industry in China.

(b) These equity securities listed in Hong Kong represented the Remaining 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 Remaining Group's audited total assets as at 31 March 2018.

The Directors expect that the stock market in Hong Kong remains to be volatile in the second half of 2018 which may affect the performance of the Remaining Group's securities investments. Looking forward, the Board believes that the performance of the securities investments of the Remaining Group will be dependent on the financial and operating performance of investee companies and market sentiment which are affected by factors such as interest rate movements and performance of the macro economy. In order to mitigate the associated risk, the Remaining Group will continuously remain cautious in the allocation of resources and the identification and capture of appropriate securities investment opportunities and will review its investment strategy regularly so as to take appropriate actions whenever necessary in response to changes in the market.

Treasury Policy

The Remaining 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 Remaining Group entered into forward contracts to hedge the risks as deemed appropriate.

Human Resources

As at 31 March 2018, the Remaining Group has approximately 3,300 employees as compared to 4,100 as at 31 March 2017. Such decrease is mainly attributable to the cessation of certain production lines in Shenzhen factory in the process of rationalization during the FY2018. The Remaining 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 Remaining Group offers career development opportunities, job satisfaction via empowerment, harmonious teamwork and competitive remuneration package with reference to the market practice and performance.

Staff costs, including Directors' emoluments, of the Remaining Group amounted to approximately HK$303.8 million for the FY2018 (FY2017: approximately HK$335.7 million). Remuneration of the employees is determined with reference to market terms and the performance, qualification and experience of individual employees. In addition to a basic salary, year-end discretionary bonuses are offered to those staff with outstanding performance to attract and retain eligible employees to contribute to the Remaining Group.

B. For the financial year ended 31 March 2019

Summary of Operating Results

During the fiscal year ended 31 March 2019 ("FY2019"), the Remaining Group operated against the backdrop of a prolonged Sino-US trade disputes and a slowing of global momentum. As a result, both business and consumer consumption sentiment were softened, and the Remaining Group's revenue was affected with a slight reduction in sales of 3.2% year-on-year to HK$965.9 million.

Despite the economic slowdown, the costs of operation in China continued its rising trend. At the same time, the ever-intense global competition online and offline in the fashion and apparel industry further drove down prices and hurt margins. The gross profit of HK$180.2 million for the FY2019 represented a gross profit margin of 18.7%, which was 3.2 percentage points lower than that of the FY2018.

On the back of an array of political and economic uncertainties coupled with extreme volatility of the global stock markets especially approaching the second half of the year, the overall performance of the Remaining Group for the FY2019 was adversely affected and the loss before taxation enlarged to HK$90.0 million, representing an increase of about 126.7% compared with FY2018. Excluding the financial effect of the decrease in fair value of financial assets at fair value through profit or loss ("FVTPL") of HK$31.9 million, the increase in fair value of investment property of HK$5.3 million, the impairment loss recognised on financial assets of HK$0.2 million and the gain on disposal of subsidiaries of HK$11.4 million, which were non-operating in nature, the operating loss before taxation attributable to the main operating activities of the Remaining Group for the FY2019 was HK$74.6 million.

The operating loss before taxation attributable to the main operating activities of the Remaining Group for the FY2018 amounted to HK$67.8 million, which was arrived at after excluding the financial effect of the increase in fair value of held for trading investments of HK$20.0 million, the gain on sales of held for trading investments of HK$0.7 million and the increase in fair value of investment property of HK$7.4 million.

The operating loss before taxation attributable to the main operating activities of the Remaining Group for the FY2019 amounted to HK$74.6 million, represented an increase of 10.1% as compared to the FY2018. Such increase was mainly attributable to (i) the continuous yet reduced operating loss of the core manufacturing business of the Remaining Group against the backdrop of trade friction and then trade war between China and the U.S. during the FY2019, and (ii) the operating loss before taxation of HK$24.6 million recorded for the retailing business of the Remaining Group in China for the FY2019 as compared to an operating profit before taxation of HK$1.1 million for the FY2018.

Business Review

Faced with the intense competition and low growth prevailing in the global economic environment, and coupled with the impacts of Sino-US trade friction affecting the economy of the PRC, the overall apparel and fashion industry condition appeared gloomy in 2019.

Technological changes resulted in the emergence of cross border e-commerce. The speed and forces of technological innovations have led to tremendous threat to the existing industry players, driving up intensity of competition on a global scale and breaking down consumer loyalty on brands.

Acknowledging that change and uncertainty is the norm of business nowadays, the Remaining Group has already acted more proactively to review, adjust and fine tune its business strategies to mitigate downside risks associated with change and unpredictability.

The threat to the Remaining Group and the whole fashion and apparel industry brought along by the unpredictable Sino-US trade relations can both be a threat or an opportunity. While the trade dispute between the U.S. and China is still ongoing, the trend for the U.S. retailers and apparel brands to shift their sourcing away from Chinese suppliers continue to accelerate. Our business strategy implemented a few years ago to expand our production footprint beyond China into Vietnam enabled the Remaining Group to enjoy the market advantage of diversified sourcing which is the key to offsetting the risks associated with an ongoing trade war.

In response to the ever-rising costs of operating in China coupled with fluctuation of RMB, we continued to monitor our cost structure and closed under-performed business units and unprofitable retail outlets. During the FY2019, we have also completed the migration of our major manufacturing operations from Shenzhen to Zhongshan and Dongguan incurring one-off expenses relating to the migration of the factories and its associated lay-off and severance payment of approximately HK$9.4 million. We believe the efforts to consolidate and streamline the organisation will enhance the competitiveness of the Remaining Group in the long run.

Sales to U.S. and Canada

Sales to the North American countries constituted 49.0% of the Remaining Group's total revenue for the FY2019, amounted to HK$473.5 million representing a year-on-year decrease of 9.1%. Sales to the U.S. alone softened and decreased by 11.8% during the FY2019 to HK$317.6 million.

The U.S. economy started to cool approaching the end of 2018 on the back of a deteriorating economic confidence and a less robust private consumption due to multiple headwinds. According to the U.S. Bureau of Economic Analysis, the real GDP growth of the U.S. recorded a 2.6% annualized rate in the fourth quarter of 2018 which marked a significant slowdown from the middle of the year.

Ever since the Sino-US trade relations became intense in 2018, we have witnessed Vietnam garment exports to the U.S. on the rise. Brought on by years of operating and manufacturing experience, our Vietnam production subsidiary has developed into a competitive manufacturing hub which has become a regional one-stop shop for our customers ranging from material sourcing to logistics and delivery of final products offering a flexible outsourcing alternative to China.

As a result, the demand for manufacturing orders in Vietnam especially from our existing U.S. customers continued to increase steadily in the FY2019. Production orders originated in Vietnam accounted for an increase of 21.2% in sales dollar amount compared with the FY2018. We managed to safeguard production orders from our existing U.S. customers which would otherwise have been lost due to our customers' concern over the possible escalating tariffs in the foreseeable future. We have expanded a few more production lines to cope with the increasing purchase orders and we expect overseas orders to increase steadily. The flexible production capacity in our Vietnam production hub allows the Remaining Group to respond without delay sudden increase in customer orders. It also effectively offsets the loss of overseas customers due to the Sino-US trade war while mitigating the adverse impact on production costs brought by the wage increase and tighter environmental regulations in China.

Economic growth for Canada eased to 1.8% for the FY2018, with consumption slowing in response to smaller increase in housing wealth, and both employment and exports moderating as the U.S. growth declined. The Remaining Group's sales to Canada during the FY2019 amounted to HK$155.9 million, representing a year-on-year decrease of 2.9%. Nevertheless, Canada remains the third single largest market of the Remaining Group.

Sales to Asia

The Remaining Group recorded a growth in sales to Asia to reach HK$461.1 million for the FY2019, representing a year-on-year increment of 3.0%. Sales to China remained the largest constituent for sales to Asia accounting for sales revenue of approximately HK$442.7 million for the FY2019, a year-on-year increase of almost 4% and consistently representing over 95% of the total sales to Asia.

In China, the first half of 2018 was marked by notable growth in the consumption market. However, a slowdown was evident in the middle of the year following central government's regulatory campaigns to curb debt risks and even more so since July when the U.S. government has officially imposed tariffs on goods from China and started the wrestling trade war. Despite the challenging business environments, the mainland China market continued to generate largest revenue contributions to the Remaining Group and we expect it to remain so in the near future.

The most imminent difficulties facing fashion and apparel operations in China continued to be rising wages, decreasing population of skilled workforce, tightening government and environmental legislations as well as fluctuations in Renminbi. The Remaining Group has been actively responding by constant reviewing of cost structure and timely consolidating and streamlining of organization structures and operations to maintain cost efficiency and effectiveness in order to stay competitive in a difficult environment.

The fast-changing taste of consumers especially from the younger generation has given rise to the flourishing of domestic local brands who are seeking high quality and reliable manufacturers who can respond quickly to their order. Our steadfast efforts to maintain our core competitiveness has allowed our production plants to stay agile and nimble and react swiftly to different and changing orders from our local customers.

Retailing Business

Our retailing business was operating under a regime of slowing economic growth and a fiercely competitive market. Business environment took a turn for the worse in the latter half of 2018 following the initial round of tariffs imposed on China by the U.S. which triggered the lingering trade war. Adding to the challenge is a new group of customers who has a new mode of consumption and without brand loyalty.

Amid all the difficulties in the FY2018, the revenue contributed by our retailing business for the FY2019 amounted to HK$308.3 million, representing a decrease of 11.0% as compared to the FY2018. Such decrease in sales was a direct result of the closing down of non-performing retail stores and the fiercely competitive price pressure.

The retailing business recorded an operating loss of HK$24.6 million for the FY2019 (2018: operating profit of HK$1.1 million) which reflected the combined effect of a thinning margin caused by the decrease in sales and increase in discounts against the backdrop of weak consumer sentiment, unseasonal weather and severe competition in online sales platform.

Sales revenue from the retailing business remained driven by e-commerce and online sales which accounted for over half of the total sales of brand business, however, increasing competition from competing websites meant that increased sales could only come along with bigger sacrifice in margins.

Appealing to the next generation of customers is challenging, the Remaining Group has partnered with digital retail giants and major online platforms such as Tmall, JD.com and VIP.com and participated actively in online shopping and marketing events. In November 2019, the Remaining Group achieved remarkable sales records on Alibaba's Single Day, so far the largest online shopping day.

China is the largest e-commerce market in the world and is projected to become the world's largest cross-border e-commerce market by 2020, according to China Internet Watch. On the one hand, the growth and dynamism of China's e-commerce markets has brought new and innovative ways for businesses to access the huge markets, but on the other hand, the large number of participants also heightened competition and price pressures among the existing players. Besides the traditional online B2C platforms, the explosive growth of online sales in 2018 was also brought about by online platforms displaying innovative business models. The flourishing of social media platforms focusing on internet celebrities and those premium and life style online retailers which sell premium products at an affordable price have served to escalate the intensity of competition to an even higher level.

Business for our self-operated retail shops was also impacted by the dampened consumer sentiment in the second half of the year 2019. The Remaining Group decided to streamline the retail operation and close shops which were non-performing and unprofitable.

E-commerce operation park

As stated in the announcement for discloseable transaction made by the Company on 30 January 2019 in relation to the disposal of a subsidiary, the Company entered into the sales and purchase agreement on the disposal of a wholly-owned subsidiary which in turned owned 100% registered capital of Tungtex (Hangzhou) at a consideration of approximately HK$52.4 million. The principal asset of Tungtex (Hangzhou) is the Property which has been developed as an e-commerce operation park. As stated in the announcement, the net proceed from the disposal would be used for general working capital of the Remaining Group and the Company also recommended the payment of a special dividend, which is subject to the completion, in the amount of approximately HK$5.1 million. Both the disposal and the payment of the special dividend were completed as stated in the announcement of the Company made on 22 February 2019.

The disposal enables the Company to streamline the business of the Remaining Group so that more resources can be allocated to the existing business of the Company and to seek for other potential business and expansion opportunities.

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 42.0 million (equivalent to approximately HK$10.8 million). The disposal and transfer of ownership of the property was completed on 26 June 2019.

Prospects

Going forward, we are still surrounded by uncertainties and instabilities and a looming global economic slowdown threatened by the unpredictable Sino-US trade relation. The International Monetary Fund already projected slower global growth in 2019. The Remaining Group must still strive hard to meet the challenges and to adopt necessary changes for our future developments and long-term success.

Uncertainty about the direction of the economy has made our key customers in the U.S. more cautious. The trade war with China remains a key downside risk.

With geographical presence in Vietnam, we are in a better position to retain and even capture new U.S. customers who are reconsidering alternative sourcing options. The diversified sourcing has mitigated the risk of trade stand-off already escalated and turned uncertainty into opportunity of even a stronger supply chain. The Remaining Group will continue to expand and diversify its production and sourcing strategies by production facilities and by forging new strategic alliances in Vietnam or other low-costing sourcing countries.

In the meantime, we remain optimistic on the growth prospect in Vietnam especially after it has become the seventh country to ratify the Comprehensive and Progressive Agreement for Trans-Pacific Partnership ("CPTPP") which took effect in January 2019, following Japan, Canada, Australia, New Zealand, Mexico and Singapore, with customs duties on 95% of trade in goods due to be removed, including all textiles and apparel. This will allow Vietnam to access nearly 40% of the world apparel import market duty-free.

Being the second largest economic giant, China has responded to the economic slowdown by stepping up extensive fiscal stimulus and monetary easing policies. A salient feature is the focus on more long-term strategies to move the economies towards greater domestic consumption and services, as well as policies that can boost the quality of future growth. Despite the apparent moderation in consumption momentum due to a brewing trade war and the fluctuations of RMB, the Board believes long term opportunities will continue to unveil amid short term volatilities.

Our two manufacturing sites located in Zhongshan and Dongguan in China employ cost effective production facilities with extensive experiences serving reputable overseas customers and mainland China local fashion brand, and remain our strong foothold of production to grow the vast mainland China and Canada markets.

In the retail business, we are alert to changes in consumer taste, habits and behaviors and well connect with them, especially with the new generation of customers in popular online platforms. We will also engage more active participation in online promotion and offline marketing events. We consider customers' online shopping is a global phenomenon, but we want to be good at both, combining online with brick-and-mortar experience. Going forward, we will be dedicating more efforts into innovation and digital means to drive better outcomes.

Overall, the trade war is not expected to be resolved within a short period of time, the Remaining Group will remain observant of market conditions as well as government policies both at a local and international level. We continue to maintain a cautious stance and will timely adjust our strategic moves to rationalise our business and structure to mitigate possible economic risks and maximize opportunities. In the upcoming year and in the future, we will commit even further and stay focused and hardworking to reshape and prepare the Remaining Group to take on the challenge of this new era.

Capital Expenditure

During the FY2019, the Remaining Group incurred approximately HK$11.1 million capital expenditure as compared to approximately HK$9.9 million of the FY2018. Such capital expenditure mainly represented regular replacement, upgrading and automation of production facilities, and leasehold improvement of the Remaining Group.

Liquidity and Financial Resources

Throughout the FY2019, the Remaining Group's financial position continued to be prudently and precisely managed and remained healthy. At the end of the FY2019, the Remaining Group's cash level increased to HK$245.7 million (of which HK$116.7 million was pledged bank deposits) as compared to HK$225.7 million (of which HK$116.9 million was pledged bank deposits) of FY2018. Most of the bank balance was placed in USD, HK$ and RMB short term deposits with major banks. Total bank borrowings of HK$143.6 million, which were mainly denominated in USD, HK$ and RMB, consisted of HK$135.6 million short-term bank borrowings and HK$8.0 million long-term bank borrowings. The Remaining Group had no borrowings at fixed interest rates during the FY2019. The gearing ratio (total bank borrowings to total equity) was 42.3%. The Remaining Group is of the opinion that, after taking into consideration of the internal available financial resources and the current banking facilities, the Remaining Group has sufficient funds to finance its operations and to meet the financial obligations of its business when they fall due. During the FY2019, working capital cycle remained under stringent control. Trade receivable turnover decreased from 46 days for the FY2018 to 36 days for the FY2019. Inventory turnover decreased from 67 days for the FY2018 to 50 days for the FY2019. Financial resources remained under stringent control where financial condition remained healthy.

At the end of the FY2019, certain land and buildings with an aggregate net book value of approximately HK$7.9 million (2018: HK$9.1 million) were pledged to banks to secure general banking facilities granted to the Remaining Group.

Significant Investments

As at 31 March 2019, the financial assets at FVTPL of the Remaining Group amounted to approximately HK$7.6 million which consist of securities of four companies listed on the Stock Exchange. During the FY2019, there were no movements in the Remaining Group's financial assets at FVTPL. Set out below is a breakdown of the Remaining Group's financial assets at FVTPL as at 31 March 2019 and their performance during the year ended 31 March 2019:

Description of investments	Notes	Market value as at 31 March 2019 HK$'000	Unrealised fair value loss HK$'000	Percentage to the Group's audited total assets as at 31 March 2019	Percentage to the Group's total securities investments as at 31 March 2019	Carrying value as at 31 March 2018 HK$'000
EPI Holdings Limited (Stock code: 689)	*(a)*	4,726	(30,721)	0.76%	61.96%	35,447
Other listed securities	*(b)*	2,902	(1,191)	0.47%	38.04%	4,093
		7,628	(31,912)	1.23%	100.00%	39,540

Notes:

(a) This investment represented 38,115,000 shares of EPI (Holdings) Limited ("EPI"), representing approximately 0.73% of the total issued shares of EPI as at 31 March 2019. Based on the annual report ("EPI 2018 Annual Report") of EPI for the year ended 31 December 2018, 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 2018 Annual Report, for the year ended 31 December 2018, the EPI Group recorded a revenue of HK$71,419,000 (which is increased by 23.4% compared to the prior year), and a loss for the year of HK$115,227,000 (which is increased by 110.1% compared to the prior year). As disclosed in the EPI 2018 Annual Report, the management of EPI will seize business and investment opportunities with good prospects, particularly in the energy sector, create new value to shareholders.

(b) These equity securities listed in Hong Kong represented the Remaining 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 Remaining Group's audited total assets as at 31 March 2019.

Treasury Policy

The Remaining 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 EUR. As a substantial portion of the purchases and overheads are denominated in RMB and the EUR exchange rate fluctuation may be significant, the Remaining Group entered into forward contracts to hedge the risks as deemed appropriate.

Human Resources

As at 31 March 2019, the Remaining Group has approximately 2,800 employees as compared to 3,300 as at 31 March 2018. Such decrease is mainly attributable to the cessation of certain production lines in Shenzhen factory in the process of rationalization across two fiscal years, and reduced number of self-operated retail shops. The Remaining 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 Remaining Group offers career development opportunities, job satisfaction via empowerment, harmonious teamwork and competitive remuneration package.

Staff costs, including Directors' emoluments, of the Remaining Group amounted to approximately HK$252.7 million for the FY2019 (FY2018: approximately HK$303.8 million). Remuneration of the employees is determined with reference to market terms and the performance, qualification and experience of individual employees. In addition to a basic salary, year-end discretionary bonuses are offered to those staff with outstanding performance to attract and retain eligible employees to contribute to the Remaining Group.

C. For the financial year ended 31 March 2020

Summary of Operating Results

Amidst the protracted trade tensions and the outbreak of the COVID-19, the Remaining Group's revenue for the current fiscal year ended 31 March 2020 (the "FY2020") suffered a 26.6% decrease year-on-year to HK$709.0 million.

In line with the decline in revenue, gross profit dropped by 21.4% to HK$141.6 million. Gross profit margin improved slightly to 20.0% (2019: 18.7%) benefitting from the more efficient operation of our Vietnam plant and in our unified factory facilities in Zhongshan China which effectively drove down costs of production.

Albeit the hostile operating atmosphere, the loss before tax narrowed down by 7.2% to HK$83.6 million during the FY2020. Excluding the financial impacts of (i) the decrease in fair value of financial assets at FVTPL of HK$3.8 million; (ii) the impairment loss recognised on financial assets, net of reversal of HK$1.3 million; (iii) the impairment loss recognized on property, plant and equipment of HK$6.1 million and (iv) the loss on disposal of subsidiaries of HK$16.8 million, the operating loss before tax attributable to our main operating activities was HK$55.5 million.

The operating loss before tax for the FY2019 amounted to HK$74.6 million which was arrived at after excluding (i) the decrease in fair value of financial assets at FVTPL of HK$31.9 million; (ii) the increase in fair value of investment property of HK$5.3 million; (iii) the impairment loss recognised on financial assets, net of reversal of HK$0.2 million and (iv) the gain on disposal of subsidiaries of HK$11.4 million.

The Remaining Group reduced its operating loss before tax by 25.6% to HK$55.5 million to mitigate the adverse impact of a substantial reduction in revenue. The decline in operating loss was mainly accredited to our strict monitoring of cost control and strong focus on operational efficiencies which generated substantial cost savings and resulted in a decrease of HK$33.3 million or 30.5% in selling and distribution expenses and a decrease of HK$21.8 million or 15.0% in administrative expenses as compared to the FY2019.

Business Review

The new tariff regime as a result of the strategic confrontation between the U.S. and China was the major disrupting force since the second half of 2018, resulting in the disturbed trade patterns and supply chains which has ever since posed long-term implications for manufacturers and consumer behaviours.

Our strong presence in Vietnam armed us with the agility and ability to convert our Vietnam production hub into our focal production point for the U.S. market, and further tap into the growing market of Vietnam and its expanding list of treaties countries. The Remaining Group further strengthened its supply chain by the setup of a sourcing office in Vietnam to diversify our sourcing channels to reduce overreliance and enhance flexibility.

Accredited to a series of restructuring and consolidation efforts which have been completed during this fiscal year under review, the unified and lean production platforms located strategically in China and Vietnam enhanced our cost and locational advantage to simultaneously serve the U.S., global and China markets. This move also allowed the Remaining Group to offer a high degree of consistency in quality, leverage efficiencies of scale and increase our speed of reaction to changes in trends and customer tastes.

In the retail sector, the Remaining Group responded to the challenges by maintaining a lean marketing platform, a right mix of product offering and effective marketing strategy. During the FY2020, the Remaining Group continued to close down unprofitable or non-performing shops and increase the proportion of quantity of shops operated by franchisees or under cooperative ownership, in order to reduce the operating overheads and improve cost effectiveness.

COVID-19

Turning into 2020 was a year of unprecedented change since when the Remaining Group has witnessed the complete breakdown of both supply and demand chains. Since the COVID-19 outbreak, many countries, including China and Vietnam where our production facilities are situated, implemented emergency public health measures and various actions to curtail the spread of the pandemic including a full lockdown and, among others, imposing restrictions and conditions on enterprises on their operations. This partial or complete slowdown of all economic activities in most part of the world resulted in a general disruption of production, supply chains and logistic services on a global basis.

Attributed to our ongoing effort on building nimbleness and flexibility, the Remaining Group has proactively repositioned itself, and focused immediately on the emergencies of business continuity and safety.

In view of the acute challenge, we actively managed our expenses and cash flows on all aspects as our key initiative to mitigate the overall impact of the situation. The Remaining Group paid all attention to stringent cost control, sales network and workflow optimization, supply chain monitoring along with adjustments to capital commitment and growth plans.

At the same time, the Remaining Group began its arrangements to mitigate the spread of the COVID-19 by flexible work plan including telecommuting, suspension of all business-related international travel as well as communication and coordination with relevant government authorities on control measures regarding factory closures and resumption procedures.

While the COVID-19 also led to restrictions on operations of all offline non-essential service providers, our retail outlets in China were temporarily closed during and after the Chinese New Year holiday, and were gradually re-opened during February and March 2020. On a positive note, since the Remaining Group completed most of the planned retail closure by the third quarter of 2019, such strategic move mitigated to a certain extent the adversity of the widespread retail lockdown. The Remaining Group also engaged active negotiations with landlords to obtain rent relief to reduce fixed overheads during the period of mandatory closures.

While navigating health and safety concerns to mitigate the outbreak of the COVID-19, there was an exigent demand for protective face masks. To contribute in combating the COVID-19 and to ensure a provision of safe working environment with abundant supply of face masks to employees and labour force, the Remaining Group embraced efforts to combat the outbreak of COVID-19 into our business strategy by expanding into disposable face mask market. The expansion into face mask production did not require significant investment and utilised slack resources and existing support. This unearthed new opportunity not only satisfied our own internal consumption but also served to enrich our revenue stream.

Sales to U.S. and Canada

The total revenue for the North American countries made up to approximately 57.6% of the Remaining Group's total revenue amounting to HK$408.1 million, representing a year-on-year decrease of 13.8%. Sales to the U.S. recorded a notable drop of almost 19.9% during the FY2020 to HK$254.4 million.

According to the U.S. Commerce Department, the GDP of the U.S. grew at a 2.1% annual rate in the final quarter of 2019 and 2.3% for the whole of 2019. This was less than the 2.9% in 2018 with declining business investment and rate of consumer spending from the previous year.

The last quarter of the year under review posed a more disastrous quarter when the COVID-19 spread uncontrollably in the U.S. and brought the biggest turbulence to its financial market since the financial crisis in 2008. Services and manufacturing sectors contracted sharply with a staggering unemployment level as the economic disaster unfolded which weighed heavily on consumer sentiment. According to the National Retail Federation, retail sales dropped a historic 8.7% in March 2020, and our sales to the U.S. was thus inevitably affected.

Affected by the heightened global trade tensions and subdued global growth, the real GDP of Canada for 2019 slowed down to 1.6% annually due to weaker international trade and declines in investments. Helped by a resilient labour market with increased wage level, household spending remained robust despite notable contraction in business investments and trading activities, and the occurrence of the pandemic in the first quarter. As a result, the Remaining Group's sales to Canada remained approximately flat to the last fiscal year, amounted to HK$153.7 million and represented a modest decrease of 1.4%.

Sales to Asia

Sales to Asia amounted to HK$283.3 million, representing a significant decrease of 38.6% compared to the last fiscal year. The decline reflected the drastic decrease in sales to China which alone accounted for over 95.8% of our sales to the Asian markets. Affected by an array of unfavourable global, domestic and epidemic factors, the Remaining Group's sales to China in the current fiscal year plunged by more than 38.7% year-on-year to HK$271.5 million.

According to the National Bureau of Statistics, China saw its GDP expanded 6.1% for the year 2019, down from 6.6% in 2018, its lowest annual growth rate in 29 years amid lingering trade disputes with the U.S.

The U.S. tariff has already undermined the position of China as top choice of sourcing for the U.S. retailers and brand vendors and resulted in even more China factories competing for China domestic orders. The outbreak of the COVID-19 further upended the whole operating and business environment. A rising death tolls, the mandatory shutdown measures, stores closures and the restrictions on mobility cast overwhelming worries and uncertainties which threw business and consumer sentiment to rock bottom and eventually took a heavy toll on the Remaining Group's sales to the China market leading to an accelerating decline in the Remaining Group's sale to China especially during the last quarter of the fiscal year under review.

Retailing Business in China

While the brick-and-mortar stores of the retail industry undoubtedly would be in the front line of the outbreak's attack, online commerce skyrocketed during the crisis as mass quarantines and social distancing caused a huge spike in social media traffic.

The competition for online markets reached a new height when the COVID-19 sent global and local retailers who had originally viewed digital commerce as a secondary channel to scramble towards digital selling channels in China.

The domestic retailing business was already operating in a highly unpredictable and difficult environment. A subdued global growth together with the occurrence of the trade war and COVID-19 simply amplified the extent and depth of both online and offline competition in the current fiscal year to a level never seen before.

Operating against the above challenging backdrop saw a significant reduction in revenue contributed by our retailing business, which amounted to approximately HK$227.3 million, representing a decrease of 26.3% as compared to the last fiscal year. Such decrease was mainly attributable to poor market condition, the decrease in the number of shops, the mandatory shop closures due to the COVID-19 pandemic during February and early March 2020 and the relatively much lower sales volume in the early stage of the aftermath.

The retailing business recorded an operating loss of HK$12.2 million (2019: operating loss of HK$24.4 million). Our continuous stringent cost control measures at all levels together with a leaner retail networks served to offset the effect of decline in revenue and weather growing economic uncertainties. As at 31 March 2020, there were a total of 169 Betu-brand shops (2019: 188) operating in the Mainland China, representing a net decrease of 19 shops and the ratio of self-operated shops versus shops operated by franchisees or under cooperative ownership changed from 1:1.6 to 1:2.1 as compared to last year end date.

Disposal of a property in Thailand

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 operations already discontinued in 2016, at a cash consideration of Thai Baht 42 million (equivalent of approximately HK$10.8 million). The disposal and transfer of ownership of the property was completed on 26 June 2019 and the Remaining Group recorded a gain of approximately HK$2.3 million on the disposal of the property.

Disposal of factory premises in Dongguan

On 29 November 2019, Dongguan Tungtex Garments Co. Limited, an indirect wholly-owned subsidiary of the Company in China (as vendor), entered into a sale and purchase agreement (the "Disposal Agreement") with Dongguan Feng Tai Da Technology Co., Ltd (as purchaser), in relation to the vendor's disposal of the industrial land use rights with a total site area of 17,041.96 sq. m. until 31 March 2055 together with the buildings and ancillary facilities located thereon with a total gross floor area of 20,473.03 sq. m. located in 中國廣東省東莞市清溪鎮漁梁圍村 at an aggregate consideration of RMB70.5 million. The disposal has not yet been completed as at 31 March 2020.

Please refer to the announcement of the Company dated 1 December 2019 and the circular of the Company dated 8 January 2020 for further details.

Disposal of factory premises in Shenzhen

On 31 March 2020, the Company entered into the SP Agreement with the Purchaser, pursuant to which the Company has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire, the Sale Shares and the Sale Loan.

Please refer to the announcement of the Company dated 2 April 2020 and this circular for further details.

Prospects

Looking forward, the economic outlook for the remainder of the fiscal year ahead continues to be extremely volatile as uncertainties such as the Sino-US trade conflict which showed no sign of abating and the damaging effect of the COVID-19 continues to cast a shadow over the economic development and the financial markets on a global scale. Pessimistic sentiment and unstable global economic prospects attributable to these uncertainties will continue to exert negative effect on the apparel industry. In addition, the post COVID-19 new normal will force the industry players to formulate sound business and market strategies to survive the dynamic market situation, changing consumer preferences and risky business exposures.

Despite governments all around the globe hastened to soften the economic blow by cutting rates to almost record-low and plumping up stimulus packages, these measures could hardly reverse the shocks as the stand-still situation of the globe in the past few months has already caused severe impact to the global economy. While there is little doubt that the global economy has headed into a recession, there is still great uncertainty as to how quick and to what extent a bounce back would take place.

Having moved past the worst of the COVID-19 pandemic, China and Vietnam are relatively successful Asian countries to contain the disease and lift tough movement restrictions which put the country on course to recover at a much faster pace. As such, the management remains cautiously optimistic about the economic prospects of China and Vietnam and their market outlooks for the apparel industry in the mid to longer term.

Despite the short-term impacts presented by the COVID-19, the Government of China's strategic initiative to steer China's economy towards domestic consumption and higher quality growth remains unchanged. The Remaining Group will strive to design more stylish and customised clothing coupled with better omnichannel shopping experience to meet the market demand for upgraded goods and services. In this respect, our Zhongshan production plant will make use of locational advantage of domestic production through making of smaller and quality batches with faster turnaround time to better respond to the ever-changing customer tastes and preferences.

As for the U.S., the government announced the biggest ever stimulus package at the end of March to revive the economy and relieved the damage caused by the COVID-19 pandemic. The economic resumption plan was somehow interrupted by the recent widespread outbreak of antiracism protests. However, market expects additional government aids to facilitate a quicker turnaround for the country.

Nevertheless, the Remaining Group expects the recovery will be characterized by a continued softening in customer demand across channels with the industry facing extreme challenges and uncertainties with respect to trade policies, tariffs and government regulations affecting trade between the U.S. and other countries, such as the threat of additional tariffs on imported consumer goods from China. All of which served to swiftly curtail business and consumer sentiments.

The Remaining Group will continue its commitment to strengthen our market position as a customercentred provider of high-quality apparel items at affordable price to achieve steady growth, and the overall strategy of sustainable development driven by cost reduction, operational optimization, and innovation.

The Remaining Group envisages business environment in China to be overwhelmingly competitive and challenging in the coming quarters as retailers are trying to make up for the lost sales due to COVID-19-induced shop closures and lessened consumer traffic.

The Remaining Group will continue to rationalize the size of underperforming retail divisions or outlets to position ourselves for greater speed, agility and efficiency especially when operating in periods under dynamic changes as well as unexpected changes in external environment.

Customer engagement was critical during period of uncertainty to fortress their loyalty and trust in our brand. Our decades of genuine operation records and retailing experience enable us to earn a competitive advantage in localizing, reaching, and communicating with our customers in China.

Online shopping will be the new norm that remains in both export markets and China domestic market even after the crisis passes. To comply and sustain with this new norm, the Remaining Group's manufacturing management will endeavor to shorten the production leadtime and enhance the production efficiency and effectiveness, and the Remaining Group's retail management will evaluate partnership with other platforms with different shopping models or interesting mobile application elements to further enlarge and diversify its online community.

As of the date of financial report, although the pandemic is in basic control and economic backdrop has shown slight improvement that helped boost investment and consumer sentiment in most markets, many macro headwinds and uncertainties remain. The Remaining Group will cautiously monitor the markets, adopt appropriate measures and sustainable business strategies to navigate the challenges and mitigate risks.

Capital Expenditure

During the FY2020, the Remaining Group incurred approximately HK$8.6 million capital expenditure as compared to approximately HK$11.1 million of the last fiscal year. Such capital expenditure mainly represented regular replacement, upgrading and automation of production facilities, and leasehold improvement of the Remaining Group.

Liquidity and Financial Resources

Throughout the FY2020, the Remaining Group's financial position continued to be prudently managed and remained healthy. At the end of the FY2020, the Remaining Group's cash level decreased to HK$230.7 million (of which HK$116.7 million was pledged bank deposits) as compared to HK$245.7 million (of which HK$116.7 million was pledged bank deposits) of last year. Most of the bank balance was placed in USD, HK$ and RMB short term deposits with major banks. Total bank borrowings of HK$150.2 million, which were mainly denominated in USD, HKD and RMB, consisted of HK$144.4 million short-term bank borrowings and HK$5.8 million long-term bank borrowings. The Remaining Group had no borrowings at fixed interest rates during the fiscal year ended 31 March 2020. The gearing ratio (total bank borrowings to total equity) was 60.2%. The Remaining Group is of the opinion that, after taking into consideration of the internal available financial resources and the current banking facilities, the Remaining Group has sufficient funds to finance its operations and to meet the financial obligations of its business when they fall due. During the fiscal year ended 31 March 2020, working capital cycle remained under stringent control. Trade receivable turnover increased slightly from last year's 36 days to 37 days. Inventory turnover decreased slightly from last year's 50 days to 49 days.

At 31 March 2020, certain land and buildings with an aggregate net book value of approximately HK$6.7 million (2019: HK$7.9 million) were pledged to banks to secure general banking facilities granted to the Remaining Group.

Significant Investments

As at 31 March 2020, the Remaining Group had no significant investments held (2019: HK$7.6 million), after the disposal of a direct wholly-owned subsidiary, which held all financial assets at FVTPL (securities investments) of the Remaining Group during the fiscal year.

Treasury Policy

The Remaining 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 EUR. As a substantial portion of the purchases and overheads are denominated in RMB and the EUR exchange rate fluctuation may be significant, the Remaining Group entered into forward contracts to hedge the risks as deemed appropriate.

Human Resources

As at 31 March 2020, the Remaining Group has approximately 1,800 employees as compared to 2,800 as at 31 March 2019. Such decrease is mainly attributable to the cessation of production operation in Dongguan factory, and reduced number of self-operated retail shops. The Remaining 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 Remaining Group offers career development opportunities, job satisfaction via empowerment, harmonious teamwork and competitive remuneration package.

Staff costs, including Directors' emoluments, of the Remaining Group amounted to approximately HK$184.7 million for the FY2020 (2019: approximately HK$252.1 million). Remuneration of the employees is determined with reference to market terms and the performance, qualification and experience of individual employees. In addition to a basic salary, year-end discretionary bonuses are offered to those staff with outstanding performance to attract and retain eligible employees to contribute to the Remaining Group.

1. BASIS OF PREPARATION OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

The following is a summary of illustrative unaudited pro forma consolidated statement of financial position, unaudited pro forma consolidated statement of profit or loss and other comprehensive income, and unaudited pro forma consolidated statement of cash flows (collectively referred to as the "unaudited pro forma financial information"), in connection with the proposed disposal of the entire share capital of Sing Yang (Overseas) Limited ("SYO") and the shareholder's loan owing by the SYO to Tungtex (Holdings) Company Limited (the "Company") (the "Sale Loan") (the "Disposal").

The unaudited pro forma financial information presented below is prepared to illustrate (i) the financial position of the Company and its subsidiaries (collectively referred to as the "Group") immediately after completion of the Disposal (collectively referred to as the "Remaining Group") as at 31 March 2020 as if the Disposal had been completed on 31 March 2020; and (ii) the results and cash flows of the Remaining Group for the year ended 31 March 2020 as if the Disposal had been completed on 1 April 2019. The unaudited pro forma financial information is prepared based on the published annual report of the Group for the year ended 31 March 2020, after giving effect to the pro forma adjustments described in the notes.

The unaudited pro forma financial information is prepared in accordance with Paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and has been prepared by the directors of the Company for illustrative purposes only.

Narrative descriptions of the pro forma adjustments that are directly attributable to the Disposal and factually supportable are summarised in the accompanying notes to the unaudited pro forma financial information.

In respect of the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and unaudited pro forma consolidated statement of cash flows, the unaudited pro forma adjustments are not expected to have a continuing effect on the Group.

The unaudited pro forma financial information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial results, cash flows and financial position of the Remaining Group had the Disposal been completed as of the specified dates or any other dates.

The unaudited pro forma financial information should be read in conjunction with the historical financial information of the Group as set out in the published annual report of the Company for the year ended 31 March 2020 and other financial information included elsewhere in this circular.

2. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

Unaudited Pro Forma Consolidated Statement of Financial Position of the Remaining Group

As at 31 March 2020

	The Group	Pro forma adjustments			The Remaining Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2(b)*	*Note 3*	*Note 3 & 4*	
Non-current assets					
Property, plant and equipment	23,836	—	—	—	23,836
Right-of-use assets	13,221	—	—	—	13,221
Prepaid lease payments	—	—	—	—	—
Intangible asset	—	—	—	—	—
Deferred tax assets	59	—	—	—	59
	37,116				37,116
Current assets					
Inventories	94,506	—	—	—	94,506
Trade and other receivables	89,811	—	—	—	89,811
Prepaid lease payments	—	—	—	—	—
Financial assets at FVTPL	—	—	—	—	—
Pledged bank deposits	116,704	—	—	—	116,704
Bank balances and cash	113,946	—	131,242	167,958	413,146
	414,967				714,167
Assets classified as held for sale	51,455	(6,166)	—	—	45,289
	466,422	—	—	—	759,456
Current liabilities					
Trade and other payables	78,430	—	—	—	78,430
Contract liabilities	11,607	—	—	—	11,607
Lease liabilities	2,501	—	—	—	2,501
Tax liabilities	152	—	—	—	152
Amount due to ultimate holding company	—	(131,242)	131,242	—	—
Bank borrowings	144,388				144,388
	237,078				237,078

	The Group	Pro forma adjustments			The Remaining Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2(b)*	*Note 3*	*Note 3 & 4*	
Liabilities associated with assets classified as held for sale	72	(72)	—	—	—
	237,150				237,078
Net current assets	229,272				522,378
Total assets less current liabilities	266,388				559,494
Non-current liabilities					
Lease liabilities	3,834	—	—	—	3,834
Bank borrowings	5,800	—	—	—	5,800
Deferred tax liabilities	1,230	—	—	—	1,230
	10,864				10,864
	255,524				548,630
Capital and reserves					
Share capital	254,112	—	—	—	254,112
Treasury shares	(230)	—	—	—	(230)
Reserves	11,551	—	—	293,106	304,657
Equity attributable to owners of the Company	265,433				558,539
Non-controlling interests	(9,909)	—	—	—	(9,909)
	255,524				548,630

Unaudited Pro Forma Consolidated Statement of Profit or Loss and Other Comprehensive Income of the Remaining Group

For the year ended 31 March 2020

	The Group	Pro forma adjustments		The Remaining Group
	HK$'000	*HK'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2(c)*	*Note 5*	
Revenue	708,994	—	—	708,994
Cost of sales	(567,437)	—	—	(567,437)
Gross profit	141,557	—	—	141,557
Other income and other gain	3,820	—	—	3,820
Impairment loss recognised on financial assets, net of reversal	(1,318)	—	—	(1,318)
Decrease in fair value of financial assets at fair value through profit or loss ("FVTPL")	(3,817)	—	—	(3,817)
(Loss) gain on disposal of subsidiaries	(16,829)	—	308,134	291,305
Selling and distribution costs	(75,969)	—	—	(75,969)
Administrative expenses	(124,100)	512	—	(123,588)
Finance costs	(7,437)	—	—	(7,437)
(Loss) profit before tax	(84,093)			224,553
Income tax expenses	(252)	—	—	(252)
(Loss) profit for the year	(84,345)			224,301
Other comprehensive (expense) income				
Items that may be reclassified subsequently to profit or loss:				
Exchange differences arising on translating foreign operations:				
— exchange differences arising during the year	(12,385)	—	—	(12,385)

	The Group	**Pro forma adjustments**		**The Remaining Group**
	HK$'000	*HK'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2(c)*	*Note 5*	
Reclassification adjustments from foreign currencies translation reserves:				
— release upon disposal of subsidiaries	13,527	—	—	13,527
Other comprehensive income for the year	1,142			1,142
Total comprehensive (expense) income for the year	(83,203)			225,443
(Loss) profit for the year attributable to:				
Owners of the Company	(83,606)			225,040
Non-controlling interests	(739)			(739)
	(84,345)			224,301
Total comprehensive (expense) income for the year attributable to:				
Owners of the Company	(82,464)			226,182
Non-controlling interests	(739)			(739)
	(83,203)			225,443

Unaudited Pro Forma Consolidated Statements of Cash Flows of the Remaining Group

For the year ended 31 March 2020

	The Group	Pro forma adjustments			The Remaining Group
	HK$'000	*HK'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2(c)*	*Note 5*	*Note 5(iii)*	
OPERATING ACTIVITIES					
(Loss) profit before tax	(84,093)	512	308,134	—	224,553
Adjustments for:					
Depreciation of property, plant and equipment	12,062	—	—	—	12,062
Depreciation of right-of-use assets	1,604	(291)	—	—	1,313
Finance costs	7,437	—	—	—	7,437
Loss (gain) on disposal of subsidiaries	16,829	—	(308,134)	—	(291,305)
Impairment loss recognised on financial assets, net of reversal	1,318	—	—	—	1,318
Loss on disposal/write-off of property, plant and equipment	2,288	—	—	—	2,288
Gain on disposal of assets classified as held for sales	(2,338)	—	—	—	(2,338)
Decrease in fair value of financial assets at FVTPL	3,817	—	—	—	3,817
Allowance for inventories	9,327	—	—	—	9,327
Interest income	(1,472)	—	—	—	(1,472)
Impairment loss recognised on property, plant and equipment	6,112	—	—	—	6,112
Operating cash flows before movements in working capital	(27,109)				(26,888)
Decrease in inventories	23,387	—	—	—	23,387
Decrease in trade and other receivables	29,572	(8)	—		29,564
Increase (decrease) in amount due to fellow subsidiaries	—	28	—	(28)	—
Decrease in trade and other payables	(37,154)	52	—	28	(37,074)
Increase in contract liabilities	3,258	—	—	—	3,258
Cash used in operations	(8,046)				(7,753)
Hong Kong Profits Tax paid	(100)	—	—	—	(100)
Taxation in other jurisdictions paid	(223)	—	—	—	(223)
NET CASH USED IN OPERATING ACTIVITIES	(8,369)				(8,076)

	The Group	Pro forma adjustments			The Remaining Group
	HK$'000	*HK'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2(c)*	*Note 5*	*Note 5(iii)*	
INVESTING ACTIVITIES					
Withdrawal of pledged bank deposits	16,000	—	—	—	16,000
Proceeds on disposal of assets classified as held for sales	10,431	—	—	—	10,431
Interest received	1,472	—	—	—	1,472
Net cash inflow on disposal of subsidiaries	897	—	314,255	—	315,152
Proceeds on disposal of property, plant and equipment	896	—	—	—	896
Deposits paid for right-of-use assets	(211)	—	—	—	(211)
Purchase of property, plant and equipment	(8,640)	—	—	—	(8,640)
Placement of pledged bank deposits	(16,000)	—	—	—	(16,000)
NET CASH FROM INVESTING ACTIVITIES	4,845				319,100
FINANCING ACTIVITIES					
Bank borrowings raised	326,035	—	—	—	326,035
Repayment of lease liabilities, including related interests	(919)	—	—	—	(919)
Payment of repurchase of shares	(6,956)	—	—	—	(6,956)
Interest paid	(7,311)	—	—	—	(7,311)
Repayment of bank borrowings	(315,913)	—	—	—	(315,913)
NET CASH USED IN FINANCING ACTIVITIES	(5,064)				(5,064)

	The Group	Pro forma adjustments			The Remaining Group
	HK$'000	*HK'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2(c)*	*Note 5*	*Note 5(iii)*	
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(8,588)				305,960
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	129,556	—	—	—	129,556
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(6,830)	—	—	—	(6,830)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	114,138				428,686
ANALYSIS OF CASH AND CASH EQUIVALENTS					
Bank balances and cash	113,946				428,494
Bank balances and cash classified as held for sale	192				192
	114,138				428,686

Notes to the Unaudited Pro Forma Financial Information of the Remaining Group

1. The amounts of the consolidated statement of financial position as at 31 March 2020, the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of cash flows for the year ended 31 March 2020 are extracted from its consolidated financial statements as set out in the published annual report of the Company (the "consolidated financial information of the Company").

2. (a) SYO owns a building located in the Shenzhen (the "Shenzhen Building") and it is used by the subsidiaries of the Company. The Shenzhen Building is classified as assets classified as held for sale in the consolidated statement of financial position of the Company with net book value of HK$5,974,000 as at 31 March 2020. The Shenzhen Building is classified as investment property in SYO's statement of financial position at fair value of RMB156,700,000 (equivalent to HK$171,500,000) as at 31 March 2020.

   (b) The adjustments represent the exclusion of assets and liabilities of SYO as if the Disposal had taken place on 31 March 2020 which SYO is classified as assets classified as held for sale in the Company's consolidated statement of financial position. The unaudited financial position of SYO as at 31 March 2020 (the "SYO financial information") was extracted from the Appendix II to the circular dated 10 August 2020 which excluded the fair value of Shenzhen Building, as the Shenzhen Building is used by the subsidiaries of the Company and it is measured in cost model in the consolidated financial information of the Company.

	HK$000
SYO financial information:	
Investment property measured at fair value	171,500
Bank balances and cash	192
Total assets in SYO financial information	171,692

	HK$000
Breakdown of assets classified as held for sale in consolidated financial information of the Company:	
Right-of-use assets	5,974
Bank balances and cash	192
Total assets being adjusted in unaudited pro forma financial information of the Remaining Group	6,166

(c) The adjustments represent the exclusion of the results and cash flows of SYO attributable to the consolidated financial information of the Company for the year ended 31 March 2020 as if the Disposal had been completed on 1 April 2019. The unaudited financial information of SYO for the year ended 31 March 2020 was extracted from the Appendix II to the circular dated 10 August 2020 which excluded the fair value change of Shenzhen Building.

Reconciliation of unaudited statement of profit or loss and other comprehensive income of SYO to the pro forma adjustments is as follow:

		HK$000
Administrative expenses as recognised in unaudited statement of profit or loss and other comprehensive income of SYO		281
Depreciation charge in consolidated financial information of the Company	*(i)*	291
Intercompany administration charge	*(ii)*	(60)
Administrative expenses being adjusted in unaudited pro forma financial information of the Remaining Group		512

(i) As the Shenzhen Building was used by the fellow subsidiaries of SYO, depreciation charge for HK$291,000 was recognised in the consolidated financial information of the Company.

(ii) HK$60,000 was charged by intercompany and was eliminated.

3. Pursuant to the Sale and Purchase Agreement entered on 31 March 2020 (the "SPA"), the Group had agreed to disposal of Sale Loan. As at 1 April 2019 and 31 March 2020, the balances of the Sale Loan to the Company were approximately HK$131,242,000 for both years. The adjustment represents the exclusion of the cash flows arising from the Sale Loan for the year ended 31 March 2020 as if the Disposal had been completed on 1 April 2019.

4. The adjustment reflects estimated gain on the Disposal with the consideration of HK$306,200,000, as if the Disposal were completed on 31 March 2020 is as follows:

		HK$000
Consideration	*(i)*	306,200
Less: estimated direct expenses in relation to the Disposal		(7,000)
		299,200
Less: net assets disposed of in relation to the Disposal as at 31 March 2020	*(ii)*	(6,094)
Estimated gain on disposal		293,106

(i) Pursuant to the SPA, the gross proceeds to be received by the Company from the Disposal is RMB276.0 million (equivalent to approximately HK$306.2 million at the exchange rate of ruling at 31 March 2020 of HK$1 to RMB0.9014).

(ii) The net assets of SYO attributable to the consolidated financial information of the Company as at 31 March 2020 were as follows:

	HK$000
Right-of-use assets	5,974
Bank balances and cash	192
Other payables	(72)
	6,094

Reconciliation of net assets of SYO attributable to the consolidated financial information of the Company to the net asset of SYO financial information is as follow:

		HK$000
Net asset of SYO attributable to the consolidated financial information of the Company		6,094
Add: Investment property measured at fair value in SYO financial information	*(i)*	171,500
Less: Right-of-use assets measured in cost model in consolidated financial information of the Company	*(i)*	(5,974)
Less: Amount due to ultimate holding company in SYO financial information		(131,242)
Net asset of SYO financial information		40,378

(i) As the Shenzhen Building was used by the fellow subsidiaries of SYO, it was classified as investment property and measured at fair value in SYO financial information, hence the carrying amount of the Right-of-use assets in consolidated financial information of the Company was deducted.

The net assets of SYO was classified in "Assets classified as held for sale" and "Liabilities associated with assets classified as held for sale" in the consolidated statement of financial position of the Company as at 31 March 2020.

5. The adjustment reflects estimated gain on the Disposal with the consideration of HK$321,800,000, as if the Disposal were completed on 1 April 2019 is as follows:

		HK$000
Consideration	*(i)*	321,800
Less: estimated direct expenses in relation to the Disposal		(7,000)
		314,800
Less: net assets disposed of in relation to the Disposal as at 1 April 2019	*(ii)*	(6,666)
Estimated gain on disposal		308,134

(i) Pursuant to the SPA, the gross proceeds to be received by the Company from the Disposal is RMB276.0 million (equivalent to approximately HK$321.8 million at the exchange rate of ruling at 1 April 2019 of HK$1 to RMB0.8578).

(ii) The net assets of the SYO attributable to the consolidated financial information of the Company as at 1 April 2019 were as follows:

	HK$000
Right-of-use assets	6,265
Bank balances and cash	545
Other receivables	8
Amount due to fellow subsidiaries	(28)
Other payables	(124)
	6,666

(iii) The adjustment represents reclassification of amount due to fellow subsidiaries to other payables as if the Disposal completed on 1 April 2019.

(iv) The adjustment of approximately HK$314,255,000 represents the net cash inflows as if the Disposal had been completed by 1 April 2019 as below:

	HK$000
Consideration	321,800
Less:	
Estimated direct expenses in relation to the Disposal	(7,000)
Bank balances and cash as at 1 April 2019	(545)
Net cash inflows	314,255

6. All the above adjustments in respect of the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated cash flow statement above are not expected to have a continuing effect on the Remaining Group.

7. No adjustment has been made to reflect any trading results or other transaction of the Group entered into subsequent to 31 March 2020.

3. ASSURANCE REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of the independent reporting accountants' assurance report received from D & PARTNERS CPA LIMITED, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, in respect of the unaudited pro forma financial information of the Remaining Group prepared for the purpose of incorporation in this circular.

D & PARTNERS
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF TUNGTEX (HOLDINGS) COMPANY LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Tungtex (Holdings) Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of financial position as at 31 March 2020, the unaudited pro forma statement of profit or loss and other comprehensive income and the unaudited pro forma statement of cash flows for the year ended 31 March 2020 and related notes as set out on pages IV-1 to IV-12 of the circular issued by the Company dated 10 August 2020 (the "Circular"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages IV-1 to IV-12 of the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the very substantial disposal of the entire issued share capital of Sing Yang (Overseas) Limited ("SYO") and the shareholder's loan owing by SYO to the Company, on the Group's financial position as at 31 March 2020 and the Group's financial performance and cash flows for the year ended 31 March 2020 as if the transaction had taken place at 31 March 2020 and 1 April 2019 respectively. As part of this process, information about the Group's financial position, financial performance and cash flows has been extracted by the Directors from the Group's financial statements for the year ended 31 March 2020, on which an auditor's report has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 March 2020 or 1 April 2019 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

D & PARTNERS CPA LIMITED
Certified Public Accountants
Hong Kong
10 August 2020

The following is the text of letter and valuation report, prepared for the purpose of incorporation in this circular, received from Grant Sherman Appraisal Limited, an independent property valuer, in connection with their valuation as at 30 June 2020 of the property interests held by the Group in the People's Republic of China.

Grant Sherman

Unit 1005, 10/F., Capital Centre,
151 Gloucester Road,
Wanchai,
Hong Kong

10 August 2020

The Directors
Tungtex (Holdings) Company Limited
12/F, Tungtex Building,
203 Wai Yip Street,
Kwun Tong, Kowloon,
Hong Kong

Dear Sirs and Madams,

RE: Valuation of Tungtex Building, Beihuan Road Shizheng 2nd Road (also known as No.5 Meihua Road), Futian District, Shenzhen City, Guangdong Province, the People's Republic of China（中國廣東省深圳市福田區北環路市政二路（亦稱梅華路5號）同得仕大廈）(the "Property")

Background

In accordance with your instructions for us to value the property interests held by Tungtex (Holdings) Company Limited (the "Company") and its subsidiaries (together referred to as the "Group") in the People's Republic of China ("the PRC"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of such property interest as at 30 June 2020 (the "Valuation Date") for the purpose of incorporation into the circular issued by the Company on the date hereof (the "Circular").

Our valuation is our opinion of the market value of the property interests where we would define market value as intended to mean "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arms-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

Market Value is understood as the value of an asset or liability estimated without regard to costs of sale or purchase (or transaction) and without offset for any associated taxes or potential taxes.

Valuation Methodology (ies)

In valuing the property interests, we have adopted the market approach. The market approach provides an indication of value by comparing the asset with identical or comparable (that is similar) properties for which price information is available.

General Assumptions

Our valuation has been made on the assumption that the owner sells the Property on the open market in their existing state without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the values of the property interests. In addition, no forced sale situation in any manner is assumed in our valuation.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property interests or for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions, and outgoings of an onerous nature that could affect its value.

Moreover, it is assumed that the utilization of the land and improvements will be within the boundaries of the sites held by the owner or permitted to be occupied by the owner. In addition, we assumed that no encroachment or trespass exits, unless noted in the valuation report.

Title investigations

We have been provided with copies of extracts of title documents relating to the Property. However, we have not conducted land searches on the Property and we have not inspected the original documents to verify ownership or to verify any amendments which may not appear on the copies handed to us. No responsibility is assumed for legal matters in nature and no investigation has been made to the title of or any liabilities against the Property appraised. In this appraisal, it is presumed that the Property's rights are good and marketable, and there are no encumbrances on the Property which cannot be cleared through normal processes. For the purpose of the title establishment, it is advised to seek an opinion from competence legal consultants.

In undertaking our valuation for the property interests in the PRC, we have relied on the legal opinion ("the PRC Legal Opinions") provided by the Company's PRC legal advisers, DeHeng Law Offices.

Sources of information

We have relied to a considerable extent on information provided by the Group and have accepted the advice given to us by the Group on such matters as planning approvals or statutory notices, easements, tenure, occupancy, lettings, site and floor areas and in the identification of the Property and other relevant matter. We have no reason to doubt the truth and accuracy of the information provided to us by the Company which is material to the valuation. We have also been advised by the Group that no material facts had been concealed or omitted in the information provided to us and have no reason to suspect that any material information has been withheld. All documents have been used for reference only. We consider that we have been provided with sufficient information to reach an informed view.

All dimensions, measurements, and areas included in the valuation report are based on information contained in the documents provided to us by the Group and are approximations only. No on-site measurement has been taken.

Site investigations

We have inspected the exteriors of the Property. However, we have not carried out a structural survey nor have we inspected woodwork or other parts of the structures which are covered, unexposed or inaccessible and we are therefore unable to report that any such parts of the Property is free from defect though in the course of our inspections we did not note any serious defects. No tests were carried out on any of the services.

We have not carried out an investigation to determine the suitability of the ground conditions or the services for any property developments to be erected thereon. Our valuation is on the basis that these aspects are satisfactory and that no extraordinary expense or delay will be incurred during the construction period.

Valuation Standards

In valuing the property interests, we have fully complied with the HKIS Valuation Standards 2017 published by The Hong Kong Institute of Surveyors (HKIS) and the requirements set out in Chapter 5 of and Practice Note 12 to the Rule Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited.

Service terms

Unless otherwise stated, all money amounts stated are in Renminbi (RMB). The exchange rate adopted in valuing the property interest in the PRC as at the Valuation Date was HK$ 1: RMB 0.9117. There has been no significant fluctuation in the exchange rate for this currency against Hong Kong Dollars between that date and the date of this letter.

We enclose herewith the valuation report.

Respectfully submitted,
For and on behalf of
GRANT SHERMAN APPRAISAL LIMITED

Lawrence Chan Ka Wah
MRICS MHKIS RPS(GP) MCIREA MHIREA
RICS Registered Valuer
Director
Real Estate Group

Note:

Mr. Lawrence Chan Ka Wah is a member of the Royal Institution of Chartered Surveyors, a member of the Hong Kong Institute of Surveyors, Registered Professional Surveyors in the General Practice Section, a RICS Registered Valuer and a member of the China Institute of Real Estate Appraisers and Agents, who has over 17 years' experience in the valuation of properties in Hong Kong, Macau, the PRC and the Asian Rim.

VALUATION REPORT

Group I — Property interest held by the Group for self-occupation purpose in the PRC

Property	**Description and Tenure**	**Particulars of occupancy**	**Market Value in existing state as at 30 June 2020**
Tungtex Building, Beihuan Road Shizheng 2nd Road (also known as No.5 Meihua Road), Futian District, Shenzhen City, Guangdong Province, the PRC (中國廣東省深圳市福田區北環路市政二路(亦稱梅華路5號)同得仕大廈)	The Property comprises a parcel of land together with a 7-storey industrial and ancillary buildings and structures completed in about 1992 erected thereon. The Property has a site area and total gross floor area of approximately 4,319.4 sq.m. and 11,033 sq.m. (exclusive of 3 single-storey buildings without Real Estate Certificates) respectively. The land use rights of the Property were granted for a term of 50 years commencing on 10 October 1990 and expiring on 9 October 2040 for industrial use.	Levels 1 to 2 of the Property were owner-occupied for office, showroom and ancillary uses. Levels 3 to 7 of the Property were vacant as at the Valuation Date.	RMB156,700,000 (equivalent to approximately HK$171,900,000)

Notes:

1. Pursuant to a Real Estate Certificate (Document No.: Shen Fang Di Zi No. 0083897) dated 25 March 1993, the land use rights of the Property with a site area of approximately 4,319.4 sq.m. is granted to Sing Yang (Overseas) Limited for a term of 50 years commencing on 10 October 1990 and expiring on 9 October 2040 for industrial use.

   As stipulated in the Real Estate Certificate, the ownership of the building of the Property with a gross floor area of approximately 11,033 sq.m. is vested in Sing Yang (Overseas) Limited.

2. Mr. Liu Xiaolong *(MCom)* has inspected the Property on 26 April 2020, the external condition of the Property was reasonable.

3. The Property is situated at Shangmeilin in Futian District, buildings in the locality are medium to high-rise residential/commercial buildings and industrial complexes. Shenzhen Metro Shangmeilin Station is about 5-minutes walking distance from the Property. Shenzhen Metro, taxis and buses are accessible to the Property.

4. The unit rate of similar industrial premises in the locality as at the Valuation Date is in the range of RMB10,000 per sq.m. to RMB20,000 per sq.m.

5. Sing Yang (Overseas) Limited is a company incorporated in Hong Kong and a direct wholly-owned subsidiary of the Company which owns the entire interest of the Property.

6. We have been provided with a legal opinion on the Property prepared by the Company's PRC legal adviser, DeHeng Law Offices, which contains, inter alia, the following information:

   (a) the Property is subject to a Letter of Guarantee (Limited Amount) and a Real Estate Maximum Amount Mortgage Agreement in favour of Shenzhen Branch of HSBC Bank (China) Company Limited (the Mortgagee) for a loan amount of HK$40,000,000.

   (b) Sing Yang (Overseas) Limited is the sole owner of the Property and is entitled to occupy, transfer, lease and mortgage the Property, subject to the prior written approval from the Mortgagee; and;

   (c) Other than the mortgage stated on Note 6(a), the Property is free from any charges, orders and other legal encumbrances which may cause adverse effects to the ownership of the Property.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement contained herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Interests of Directors and chief executives

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") to be notified to the Company and the Stock Exchange were as follows:

Long positions in shares of the Company

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

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor chief executive of the Company had any interest and short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions in which they were deemed or taken to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein; or (iii) which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

(b) Interests of substantial Shareholders

As at the Latest Practicable Date, so far as was known to the Directors, the following persons, other than the Directors or chief executive of the Company, had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO.

Long positions in shares of the Company

Name of Director	Capacity	Number of issued ordinary shares held/ interested	Approximate percentage of shareholding in the Company
Corona Investments Limited ("Corona")	Beneficial owner *(note a)*	150,059,268	33.27%
Benson Tung Wah Wing	Interest of controlled corporation *(note a)*	150,059,268	33.27%
Madam Wong Fung Lin	Interest of controlled corporation *(note a)*	150,059,268	33.27%
Wykeham Capital Asia Value Fund ("WCAVF")	Beneficial owner *(note b)*	45,294,000	10.04%
Wykeham Capital Limited	Beneficial owner *(note b)*	45,294,000	10.04%

Name of Director	Capacity	Number of issued ordinary shares held/ interested	Approximate percentage of shareholding in the Company
Thomas Howel Gruffudd Rhys	Interest of controlled corporation *(note b)*	45,294,000	10.04%
Webb David Michael	Beneficial owner *(note c)*	11,289,334	2.50%
	Interest of controlled corporation *(note c)*	16,610,666	3.68%

Notes:

(a) 150,059,268 shares are owned by Corona. Mr. Benson Tung Wah Wing and his spouse, Madam Wong Fung Lin, together own the entire equity interests in equal shares in Corona. By virtue of the SFO, they are deemed to be interested in the 150,059,268 shares held by Corona.

(b) Based on the notice of disclosure of interests of Thomas Howel Gruffudd Rhys filed on 14 April 2020, he was deemed to be interested in the 45,294,000 shares owned by WCAVF by virtue of his 100% shareholding interest in Wykeham Capital Limited.

(c) Based on the notice of disclosure of interests of Webb David Michael filed on 9 February 2018, he is beneficial owner of 11,289,334 shares. In addition, 16,610,666 shares are held by Preferable Situation Assets Limited, a company 100% controlled by Webb David Michael. In total, he is interested in 27,900,000 shares, representing 6.18% of the issued shares of the Company.

(d) The percentage of shareholding is calculated based on the total number of issued shares of the Company in issue as at the Latest Practicable Date. As at the Latest Practicable Date, the total number of issued shares of the Company was 451,067,557.

Save as disclosed above, so far as is known to the Directors, as at the Latest Practicable Date, there was no other person who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO.

3. LITIGATION

In December 2010, the administratrix of the estate of Peter Mui (who was a 49% shareholder of Yellow River, Inc. ("Yellow River"), a 51% subsidiary of the Company) (the "Administratrix") filed a Verified Petition (the "Petition") against Tungtex (U.S.A.) Inc. ("Tungtex US"), a wholly-owned subsidiary of the Company and the 51% shareholder of Yellow River, and Yellow River in the Surrogate's Court of the State of New York, County of New York (the "Court") alleging Tungtex US was engaged in oppressive conduct as a majority shareholder of Yellow River and (a) seeking the dissolution of Yellow River and the appointment of receiver to oversee the dissolution; (b) requiring Tungtex US to turnover to the estate of Peter Mui 49% of the value of Yellow River; (c) requiring Tungtex US to account for sums received from Yellow River since 1 April 2009; (d) requiring Tungtex US to turnover to Yellow River funds improperly looted and diverted by it; and (e) seeking the grant of such other and further relief as the Court may deem just and proper. By the verified answers and counterclaims filed, Tungtex US and Yellow River both denied the allegations made by, and asserted counterclaims for damages against, the Administratrix. The Administratrix moved for summary judgement granting its claim for a judicial dissolution and dismissing the counterclaims. Tungtex US and Yellow River opposed the motion and cross-moved for summary judgement dismissing the Petition. By Decision and Order dated 8 November 2017, the Court denied the Administratrix's motion for summary judgement and cross-motions of Tungtex US and Yellow River for summary judgement, denied the Administratrix's motion to dismiss counterclaims of Yellow River except for the counterclaim for an accounting, and granted the Administratrix's motion to dismiss counterclaims of Tungtex US, holding that Tungtex US does not have an independent basis to assert the counterclaims, which allege damage to Yellow River and also were asserted by Yellow River. The Administratrix did not appeal from the decision, and its time to do so has expired. The next step is to finish discovery and then prepare for a trial (for which no date has yet been set). The Administratrix has not taken any steps to move the case forward.

Based on and after consideration of the legal advices obtained and the possible business and financial impacts, the Directors are of the view that Tungtex US and Yellow River have meritorious defenses against the claims asserted in the Petition as well as viable counterclaims and the legal proceeding is not of material importance to the Group.

So far as is known to the Directors, save for the legal proceedings disclosed above, no member of the Group was engaged in any litigation or claims of material importance and no litigation or claims of material importance was pending or threatened against any member of the Group as at the Latest Practicable Date.

4. DIRECTORS' SERVICE CONTRACT

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which will not expire or be determinable by the relevant member of the Group within one year without payment of compensation (other than statutory compensation).

5. COMPETING INTERESTS OF DIRECTORS AND CLOSE ASSOCIATES

As at the Latest Practicable Date, to the best of the knowledge, information and belief of the Directors after having made all reasonable enquiries, none of the Directors and their respective close associates were considered to have any interest in businesses which competes or was likely to compete, whether directly or indirectly, with the business of the Group that would need to be disclosed pursuant to Rule 8.10 of the Listing Rules.

6. DIRECTORS' INTERESTS IN ASSETS AND CONTRACTS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been, since 31 March 2020 (being the date to which the latest published audited consolidated financial statements of the Company were made up), acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting at such date and which was significant in relation to the business of the Group.

7. QUALIFICATION AND CONSENT OF EXPERT

The following is the qualification of the experts whose advice or opinion are included in this circular:

Name	Qualification
D & PARTNERS CPA LIMITED ("D&P")	Certified Public Accountants
Grant Sherman Appraisal Limited	Professional property valuer

As at the Latest Practicable Date, each of D&P and Grant Sherman Appraisal Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report or letter (as the case may be) and references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of D&P and Grant Sherman Appraisal Limited had any shareholding interests in the Company or any member of the Group, or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in the Company or any member of the Group.

As at the Latest Practicable Date, none of D&P and Grant Sherman Appraisal Limited had any interest, direct or indirect, in any assets which had been, since 31 March 2020 (being the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

8. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) had been entered into by the members of the Group within two years preceding the Latest Practicable Date and are or may be material:

(a) the sale and purchase agreement dated 30 January 2019 and entered into among the Company and Goldmax Hong Kong Investment Limited (金匯香港投資有限公司) (an independent third party) and On Time Investment Development Limited (安泰投資發展有限公司) (an independent third party), pursuant to which the Company has agreed to sell, and the purchasers have agreed to acquire 100% of the issued share capital of Cheergain Limited, and the shareholder's loan owed by Cheergain Limited to the Company at the consideration of HK$52,417,000, further details of which are set out in the announcement of the Company dated 30 January 2019;

(b) the Disposal Agreement, further details of which are set out in the announcement of the Company dated 1 December 2019 and the circular of the Company dated 8 January 2020; and

(c) the SP Agreement.

9. GENERAL

(a) The company secretary of the Company is Ms. Li Yuk Kwan ("**Ms. Li**"). Ms. Li is a manager at VBG Capital Limited. She has over 7 years of experience in audit, accounting and finance industry. Ms. Li is a member of the Hong Kong Institute of Certified Public Accountants.

(b) The share registrar and transfer office of the Company is Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(c) The English text of this circular shall prevail over the Chinese text in the case of any inconsistency.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the registered office of the Company at 12th Floor, Tungtex Building, 203 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. from the date of this circular up to and including the date of the EGM:

(a) the memorandum and articles of association of the Company;

(b) the annual reports of the Company for the three years ended 31 March 2018, 2019 and 2020, respectively;

(c) the unaudited pro forma financial information issued by D&P, the text of which is set out in Appendix IV to this circular;

(d) the valuation report on Shenzhen Building prepared by Grant Sherman Appraisal Limited, the text of which is set out in Appendix V to this circular;

(e) the written consent given by D&P and Grant Sherman Appraisal Limited, as referred to in the section headed “Qualification and Consent of Expert” in this Appendix;

(f) the material contracts referred to in the section headed “Material Contracts” in this Appendix;

(g) the circular in relation to the Disposal Agreement, dated 8 January 2020; and

(h) this circular.

TUNGTEX (HOLDINGS) COMPANY LIMITED
同得仕(集團)有限公司

(Incorporated in Hong Kong with limited liability)
(Stock Code: 00518)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting ("EGM") of Tungtex (Holdings) Company Limited (the "Company") will be held at Room 2 & 3, 10/F, United Conference Centre, United Centre, 95 Queensway, Admiralty, Hong Kong on Wednesday, 26 August 2020 at 4:00 p.m. (or immediately after the conclusion of the annual general meeting of the Company to be held at 3:30 p.m. on the same day and at the same place) for the following purposes:

ORDINARY RESOLUTION

1. "**THAT**:

(a) the SP Agreement dated 31 March 2020 entered into between the Company as vendor and PIONEER FORTRESS LIMITED, as purchaser in respect of the Disposal (as defined in the circular of the Company dated 10 August 2020 ("Circular"), a copy of which is marked "A" and signed by the chairman of the EGM for identification purpose has been tabled at the EGM) be and is hereby approved, confirmed and ratified and the transactions contemplated thereunder be and are hereby approved (terms as defined in the Circular having the same meanings when used in this resolution);

(b) any one of the directors of the Company ("Director(s)") be and is hereby authorised to do all such acts and things, to sign and execute such documents or agreements or deeds on behalf of the Company and to do such other things and to take all such actions as he considers necessary, appropriate, desirable and expedient for the purposes of giving effect to or in connection with the SP Agreement and all transactions contemplated thereunder, and to agree to such variation, amendments or waiver or matters relating thereto (including any variation, amendments or waiver of such documents or any terms thereof, which are not fundamentally different from those as provided in the SP Agreement) as are, in the opinion of such Director, in the interest of the Company and its shareholders as a whole."

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

Hong Kong, 10 August 2020

Registered Office
12th Floor, Tungtex Building
203 Wai Yip Street
Kwun Tong
Kowloon
Hong Kong

Notes:

1. The Board has made reference to the "Joint Statement in relation to General Meetings in light of the Prevention and Control of Disease (Prohibition on Group Gathering) Regulation" jointly issued by The Stock Exchange of Hong Kong Limited and the Securities and Futures Commission of Hong Kong on 1 April 2020 in relation to the arrangement of the EGM. The Company will implement certain precautionary measures at the EGM, the details of which are set out in the section headed "Precautionary Measures for the EGM" in the circular of the Company dated 10 August 2020, to safeguard the health and safety of the attending Shareholders, staff and other stakeholders.

2. The Company does not in any way wish to diminish the opportunity available to the members of the Company to exercise their rights and to vote, but is conscious of the pressing need to protect the members from possible exposure to the coronavirus (COVID-19) pandemic. For the health and safety of the members, the Company would like to encourage members to exercise their right to vote at the EGM by appointing the chairman of the EGM as their proxy instead of attending the EGM in person. Physical attendance is not necessary for the purpose of exercising shareholders' rights.

3. Any member of the Company entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company. If more than one proxy is appointed, the number of shares in respect of which each such proxy so appointed must be specified in the relevant form of proxy.

4. In order to be valid, the instrument appointing a proxy, together with the power of attorney or other authority, if any, under which it is signed or a notarial certified copy thereof, must be deposited at the Company's share registrar and transfer office, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the appointed time for holding of the EGM or any adjournment hereof (as the case may be). In calculating the aforesaid 48 hours period, no account will be taken of any part of a day that is a public holiday.

5. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjournment thereof.

6. For determining the qualification as members to attend and vote at the EGM, the register of members of the Company will be closed as set out below:

Latest time to lodge transfer documents for registration	4:30 p.m. on Wednesday, 19 August 2020
Closure of register of members	Thursday, 20 August 2020 to Wednesday, 26 August 2020 (both days inclusive)
Record Date	Thursday, 20 August 2020

During the above closure period, no transfer of shares will be registered. In order to be eligible to attend and vote at the EGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than the abovementioned latest time.

7. Where there are joint registered holders of any share, any one of such persons may vote at the EGM, either personally or by proxy, in respect of such share as if he was solely entitled thereto; but if more than one of such joint registered holders are present at the EGM personally or by proxy, then one of the registered holders so present whose name stands first on the Company's register of members in respect of such shares will alone be entitled to vote in respect thereof.

8. Voting on the above resolution(s) will be taken by poll.

As at the date of this notice, 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.