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HINGTEX HOLDINGS LIMITED

興紡控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1968)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

- Total revenue for the six months ended 30 June 2020 decreased by approximately 58.5% period-to-period to HK\$113.0 million, as compared with total revenue of HK\$272.0 million for the six months ended 30 June 2019.
- Net loss attributable to owners of the Company for the six months ended 30 June 2020 was approximately HK\$26.3 million, as compared with net profit of approximately HK\$13.5 million for the six months ended 30 June 2019.
- Basic loss per share for the six months ended 30 June 2020 was 4.11 HK cents, as compared with basic earnings per share of 2.12 HK cents for the six months ended 30 June 2019.

The board (the “Board”) of directors (the “Directors”) of Hingtex Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2020, together with the comparative figures for the corresponding period in 2019 (“1H2019”). These condensed consolidated interim financial statements have not been audited, but have been reviewed by Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants and, by the Audit Committee of the Company.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Six months ended	
		30/06/2020	30/06/2019
	NOTES	HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Revenue	3	112,992	271,962
Cost of sales		(104,007)	(203,554)
Gross profit		8,985	68,408
Other income	4	4,724	4,230
Other gains and losses		(720)	2,486
Impairment losses under expected credit loss model, net of reversal		(54)	(151)
Selling and distribution expenses		(8,637)	(12,702)
Administrative expenses		(28,575)	(39,701)
Share of results of a joint venture		—	(154)
Finance costs		(1,377)	(2,114)
(Loss) Profit before tax	5	(25,654)	20,302
Income tax expense	6	(626)	(6,765)
(Loss) Profit and total comprehensive (expense) income for the period attributable to owners of the Company		(26,280)	13,537
(LOSS) EARNINGS PER SHARE			
— Basic (HK cents)	8	(4.11)	2.12

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>NOTES</i>	30/06/2020 HK\$'000 (unaudited)	31/12/2019 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	9	109,585	113,754
Right-of-use assets	9	25,437	28,859
Other intangible assets		4,370	4,626
Goodwill		1,184	1,184
Interest in a joint venture		4,337	4,337
Deferred tax assets		103	88
Total non-current assets		145,016	152,848
Current assets			
Inventories		179,787	202,058
Trade and other receivables	10	59,396	68,828
Structured bank deposits		7,800	7,800
Bank balances and cash		118,774	156,789
Total current assets		365,757	435,475
Current liabilities			
Trade and other payables	11	33,240	80,594
Amount due to a joint venture	14	236	122
Tax liabilities		1,898	3,366
Bank borrowings	12	71,897	64,983
Lease liabilities		4,689	7,631
Contract liabilities		1,246	1,968
Total current liabilities		113,206	158,664
Net current assets		252,551	276,811
Total assets less current liabilities		397,567	429,659

	<i>NOTES</i>	30/06/2020 <i>HK\$'000</i> (unaudited)	31/12/2019 <i>HK\$'000</i> (audited)
Non-current liabilities			
Deferred tax liabilities		7,006	7,083
Lease liabilities		468	1,083
Total non-current liabilities		7,474	8,166
Net assets		390,093	421,493
Capital and reserves			
Share capital	<i>13</i>	6,400	6,400
Reserves		383,693	415,093
Equity attributable to owners of the Company and total equity		390,093	421,493

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

The Company was incorporated in the Cayman Islands on 3 November 2017 as an exempted company with limited liability under the Companies Law of the Cayman Islands and its shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 16 July 2018 (the “Listing Date”).

The Company’s immediate and ultimate holding company is Manford Investment Holdings Limited (“Manford Investment”), a company incorporated on 24 October 2017 in the British Virgin Islands (“BVI”) under the laws of BVI with limited liability.

The principal activities of the Group are the manufacturing and sales of denim fabric.

The functional currency of the Company is United States Dollar (“US\$”), as the sales activities of the Group are mainly denominated in US\$, and the presentation currency of the Group is Hong Kong dollars (“HK\$”), as the directors of the Company consider HK\$ can provide more meaningful information to the Company’s investors.

1A. Basis of Preparation

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (“HKAS 34”) *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange.

1B. Significant events and transactions in the current interim period

The outbreak of the 2019 Novel Coronavirus (“COVID-19”) and the subsequent quarantine measures as well as the travel restrictions imposed by many countries have had negative impacts to the global economy, business environment and directly and indirectly affect the operations of the Group. The Group stopped its manufacturing activities from end of January 2020 to mid of February 2020 due to mandatory government quarantine measures in an effort to contain the spread of the pandemic. On the other hand, the People’s Republic of China (the “PRC”) and Hong Kong governments have announced some financial measures and supports for corporates to overcome the negative impact arising from the pandemic. As such, the financial positions and performance of the Group were affected in different aspects, including reduction in revenue, increase in cost of sales due to fixed production overheads during the close-down period and received government grants in respect of COVID-19-related subsidies as disclosed in the relevant notes.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2019.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied the Amendments to References to Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

Except as described below, the application of the Amendments to References to Conceptual Framework in HKFRS Standards and amendments to HKFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

Impacts of application on Amendments to HKAS 1 and HKAS 8 Definition of Material

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current period had no impact on the condensed consolidated financial statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected on the consolidated financial statements for the year ending 31 December 2020.

3. REVENUE AND SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (the "CODM"), being the chief executive officer, in order to allocate resources to segments and to assess their performance.

During the six months ended 30 June 2020, the CODM assesses the operating performance and allocates the resources of the Group as a whole as the Group is primarily engaged in manufacturing of the denim fabrics. Therefore, the management considers that the Group only has one operating segment. The Group mainly operates in Hong Kong and the PRC, and the Group's non-current assets are mainly located in the PRC.

Disaggregation of revenue

The following is an analysis of the Group's revenue from its major products and services:

	Six months ended	
	30/06/2020	30/06/2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Stretchable blended denim fabrics	100,855	237,150
Stretchable cotton denim fabrics	5,955	25,126
Non-stretchable denim fabrics	5,714	6,574
Others (<i>note</i>)	468	3,112
Total	112,992	271,962

Note: Others mainly include revenue from sales of yarns.

	Six months ended	
	30/06/2020	30/06/2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Timing of revenue recognition:		
At a point in time	112,992	271,962

4. OTHER INCOME

	Six months ended	
	30/06/2020	30/06/2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Interest income from bank deposits	1,049	1,260
Services fee income (<i>note i</i>)	2,902	2,700
Storage income	180	210
Government grants (<i>note ii</i>)	593	60
	4,724	4,230

Notes:

- (i) Services fee income mainly includes income from provision of management services to a joint venture including the use of premises, office equipment, utilities, facilities and consumables at a monthly sum of HK\$450,000 (six months ended 30 June 2019: HK\$450,000).
- (ii) During the current interim period, the Group recognised government grants of HK\$414,000 in respect of COVID-19-related conditional subsidies in respect of Employment Support Scheme provided by the Hong Kong government. Other government grants represent unconditional incentives from the PRC government during the current and prior interim periods.

5. (LOSS) PROFIT BEFORE TAX

(Loss) profit before tax has been arrived at after charging (crediting):

	Six months ended	
	30/06/2020	30/06/2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Directors' remunerations:		
— Emoluments, salaries and other benefits	6,888	6,888
— Retirement benefits scheme contributions	18	18
	6,906	6,906
Other staff salaries and allowances	17,049	22,802
Retirement benefits scheme contributions, excluding those of directors	461	1,976
Total employee benefits expenses	24,416	31,684
Capitalised in cost of inventories manufactured	(6,729)	(10,572)
	17,687	21,112
Depreciation for property, plant and equipment	5,634	5,982
Depreciation of right-of-use assets	4,210	2,908
Amortisation of other intangible assets	256	255
	10,100	9,145
Capitalised in cost of inventories manufactured	(3,959)	(4,175)
	6,141	4,970
Cost of inventories recognised as expense	104,007	203,554
Net foreign exchange loss (gain)	774	(1,137)

6. INCOME TAX EXPENSE

	Six months ended	
	30/06/2020	30/06/2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Current tax:		
— Hong Kong Profits Tax	—	796
— PRC Enterprise Income Tax	154	5,705
Underprovision in prior years		
— Hong Kong Profits Tax	413	—
— PRC Enterprise Income Tax	151	251
Deferred tax	(92)	13
Total	626	6,765

7. DIVIDENDS

During the current interim period, a final dividend of HK 0.8 cents per share in respect of the year ended 31 December 2019 (2019: HK 2 cents per share in respect of the year ended 31 December 2018) was declared and paid to the owners of the Company. The aggregate amount of the final dividend declared and paid in the current interim period amounted to HK\$5,120,000 (2019: HK\$12,800,000).

The directors of the Company have determined that no dividend will be paid in respect of the current interim period.

8. (LOSS) EARNINGS PER SHARE

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

	Six months ended	
	30/06/2020	30/06/2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
(Loss) earning for the purpose of basic (loss) earnings per share		
(loss) profit for the period attributable to owners of the Company)	(26,280)	13,537
	Six months ended	
	30/06/2020	30/06/2019
	'000	'000
	(unaudited)	(unaudited)
Number of ordinary shares for the purpose of		
basic (loss) earnings per share	640,000	640,000

No diluted loss per share for the six months ended 30 June 2020 (six months ended 30 June 2019: no diluted earnings per share) was presented as the Company did not have any dilutive potential ordinary shares in issue for the current interim period.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

During the current interim period, the Group disposed of certain plant and machinery with an aggregate carrying amount of nil (six months ended 30 June 2019: HK\$17,000) for cash proceeds of HK\$230,000 (six months ended 30 June 2019: nil), resulting in a gain on disposal of HK\$230,000 (six months ended 30 June 2019: loss on disposal of HK\$17,000).

In addition, during the current interim period, the Group acquired manufacturing equipment of approximately HK\$1,465,000 (six months ended 30 June 2019: HK\$15,311,000) in order to upgrade its manufacturing capabilities.

During the current interim period, the Group entered into a new lease agreement with two years lease term. On lease commencement, the Group recognised right-of-use assets of HK\$793,000 (six months ended 30 June 2019: nil) and lease liabilities of HK\$788,000 (six months ended 30 June 2019: nil).

Impairment assessment

As a result of the changes in the current economic environment related to the COVID-19 pandemic, the Group is experiencing negative conditions including decreased revenues and order delays that indicate that the relevant property, plant and equipment, right-of-use assets, other intangible assets, goodwill may be impaired. During the current interim period, the Group performed impairment testing and the assessed value in use is above the net book value of the assets of the cash-generating unit as at 30 June 2020, thus no impairment loss is recognised for the current interim period.

10. TRADE AND OTHER RECEIVABLES

	At 30 June 2020 HK\$'000 (unaudited)	At 31 December 2019 HK\$'000 (audited)
Trade and bills receivables	29,774	33,303
Less: allowance for credit loss	(587)	(533)
	<u>29,187</u>	<u>32,770</u>
Prepayments	2,905	3,590
Value-added tax recoverable	24,822	28,917
Utility and rental deposits	1,338	1,436
Others	1,144	2,115
	<u>59,396</u>	<u>68,828</u>

As at 30 June 2020, the Group generally allows credit periods ranging from 30 days to 120 days regarding different customers. The following is an aged analysis of trade and bills receivables, presented based on the invoice date at the end of the reporting period:

	At 30 June 2020 HK\$'000 (unaudited)	At 31 December 2019 HK\$'000 (audited)
Within 30 days	19,017	23,004
31 to 60 days	8,052	4,408
61 to 120 days	2,144	5,233
121 to 180 days	56	172
181 to 365 days	114	69
More than 365 days	391	417
	<u>29,774</u>	<u>33,303</u>

11. TRADE AND OTHER PAYABLES

	At 30 June 2020 HK\$'000 (unaudited)	At 31 December 2019 HK\$'000 (audited)
Trade and bills payables	22,963	62,176
Deposits received	3,900	7,800
Payroll payables	3,529	6,271
Others	2,848	4,347
	<u>33,240</u>	<u>80,594</u>

The aged analysis of the trade and bills payables presented based on the goods receipt date at the end of each reporting period is as follows:

	At 30 June 2020 HK\$'000 (unaudited)	At 31 December 2019 HK\$'000 (audited)
Within 30 days	4,230	52,059
31 to 60 days	2,274	6,502
61 to 180 days	16,459	3,615
	<u>22,963</u>	<u>62,176</u>

The credit period on purchases of goods is ranging from 30 days to 180 days.

12. BANK BORROWINGS

During the current interim period, the Group obtained new bank borrowings with amounts of approximately HK\$44,071,000 (six months ended 30 June 2019: HK\$50,179,000). The proceeds were used to meet the working capital requirement and acquisitions of property, plant and equipment. Repayment of bank borrowings amounting to approximately HK\$37,157,000 (six months ended 30 June 2019: HK\$60,761,000) were made in line with the relevant repayment terms.

As at 30 June 2020, the Group's borrowings carried variable rates of 1.88% to 4.19% (31 December 2019: 2.23% to 4.10%) per annum.

13. SHARE CAPITAL

	Number of Shares	Share capital HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 January 2019, 30 June 2019, 1 January 2020 and 30 June 2020	<u>1,000,000,000</u>	<u>10,000</u>
Issued and fully paid:		
At 1 January 2019, 30 June 2019, 1 January 2020 and 30 June 2020	<u>640,000,000</u>	<u>6,400</u>

14. RELATED PARTY TRANSACTIONS

(a) Related party transactions

The Group entered into the following transactions with its related parties during the six months ended 30 June 2020 and 2019:

Related Party	Nature of transaction	Six months ended	
		30/06/2020 HK\$'000 (unaudited)	30/06/2019 HK\$'000 (unaudited)
Kurabo Denim International Limited (<i>note i</i>)	Services fees income	2,700	2,700
	Management service fee expense	2,160	2,160
	Royalty fee expense	1,012	2,039
Star Alliance Holdings Limited (<i>notes ii, iii</i>)	Interest expense on lease liabilities	54	105
	Expense relating to short-term leases	–	16
		<u> </u>	<u> </u>

Notes:

- (i) Kurabo Denim International Limited is a joint venture of the Group.
- (ii) The Controlling Shareholders have control or beneficial interests in this entity.
- (iii) The Group entered into lease agreements with Star Alliance Holdings Limited with the remaining lease term of 2 years from 1 January 2019 for the use of office located in Hong Kong. As at 1 January 2019, the Group recognised lease liabilities of HK\$6,944,000 and right-of-use assets of the same amount upon the adoption of HKFRS 16. During the current interim period, HK\$54,000 (six months ended 30 June 2019: HK\$105,000) of interest expense on lease liabilities has been made. As at 30 June 2020, the corresponding carrying amount of the lease liabilities is HK\$1,519,000 (31 December 2019: HK\$3,357,000).

(b) Compensation of directors and key management personnel

	Six months ended 30 June	
	2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
Salaries and other allowances	6,872	7,354
Retirement benefit scheme contributions	36	42
Other benefits (<i>note</i>)	828	828
	<u> </u>	<u> </u>
	<u>7,736</u>	<u>8,224</u>

Note:

Other benefits represent rentals for directors' quarters.

The remuneration of directors and key management personnel are determined having regard to the performance of the individuals and contribution to the Group.

(c) **Related party balances**

The Group had the following outstanding balances with its related party at the end of the reporting period:

	At 30 June 2020 HK\$'000 (unaudited)	At 31 December 2019 HK\$'000 (audited)
Amount due to:		
Joint Venture		
Kurabo Denim International Limited (<i>note</i>)	236	122

Note:

The amount due to a joint venture as at 30 June 2020 and 31 December 2019 was arising from management service fee.

15. PLEDGED ASSETS

The Group's borrowings are secured by assets of the Group and the carrying amounts of which at the end of the reporting period are stated below:

	At 30 June 2020 HK\$'000 (unaudited)	At 31 December 2019 HK\$'000 (audited)
Right-of-use assets	4,438	5,112

The pledged amounts of right-of-use assets represent the carrying amount of motor vehicles.

Restrictions on assets

In addition, as at 30 June 2020, lease liabilities of HK\$2,926,000 (31 December 2019: HK\$5,363,000) are recognised with related right-of-use assets of HK\$2,889,000 (31 December 2019: HK\$5,314,000). The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor and the relevant leased assets may not be used as security for borrowing purposes.

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2020, due to the impacts of COVID-19 pandemic and the trade conflict between the PRC and the United States (the “U.S.”), the global economy as well as the denim market and retail industry worldwide were greatly affected. The Group recorded declines in both sales revenue and profit during the first half of 2020, which was in line with expectations. For the six months ended 30 June 2020, the Group recorded a total revenue of HK\$113.0 million (1H2019: HK\$272.0 million). Owing to less cost advantage benefited from economics of scale, the sharing of tariff payment with business partners and an one-off write-down of inventories, gross profit margin recorded 8.0% (1H2019: 25.2%), and gross profit was approximately HK\$9.0 million (1H2019: HK\$68.4 million). Loss attributable to owners of the Company was HK\$26.3 million (1H2019: profit attributable to owners of HK\$13.5 million), while loss per share were 4.11 HK cents (1H2019: earnings per share of 2.12 HK cents) for the six months ended 30 June 2020.

The Group remains in a healthy financial position. In addition to its steady operating cash flows, the Group also holds cash and cash equivalents of approximately HK\$118.8 million as at 30 June 2020.

BUSINESS REVIEW

The first half of 2020 was a challenging time for the global denim market and retail industry. Despite the improving trade relations between the U.S. and the PRC after signing the Phase One of Economic and Trade Agreement between The Government of The United States of America and The Government of The People’s Republic of China in January 2020, which helped the placement of orders resume to normal in the first quarter of 2020, the outbreak of COVID-19 pandemic in Europe and the U.S. since March had inevitably posted a detrimental effect on the Group during the first half of 2020 as customers from the U.S. accounted for the majority of its client base. Given the implementation of travel restrictions globally and the shutdown of retail stores in many places in the U.S., this had resulted in the delay of denim fabric shipments and greater inventory pressure of the Group since March 2020. Battered by the impacts from the above factors, profitability of the denim market and retail industry declined significantly.

The Group has always valued the building of strong communication links and bonds with its customers. The U.S. has increased the additional tariffs (from 10% to 25%) on PRC products last year, thus posing a considerable burden to its customers. To maintain a long term business relationship with customers, the Group agreed to a sharing of tariff absorption during the review period, which eventually led to a decline in gross profit margin.

Besides, the COVID-19 pandemic has brought great impacts to the shipments of orders of the Group's denim products. Owing to the closure of factories in the PRC after lunar new year, coupled with lockdowns in the U.S. from March 2020, as well as travel restrictions and closure of physical stores, the COVID-19 pandemic resulted in a delay in shipments and also a drop in orders, which in turn led to a lower inventory turnover rate as well as affecting the Group's revenue and margins during the review period. The delay in shipments and seasonal factors in the textile industry also posed pressure on the price of retail products. Fortunately, the Group was able to maintain product shipments for its existing brand owner customers supported by the rising trend of online business. Also, the gradual reopening of states and physical stores in the U.S. from May 2020 further helped relieve the inventory pressure of the Group. The Group will closely monitor the market and keep in close contact with its brand owner customers and their designated denim garment factories.

Given the importance of research and development ("R&D"), albeit in the midst of the COVID-19 pandemic, the Group has continued to make great efforts in creating denim fabrics that possess advanced functionalities while maintaining the high-quality, comfort and aesthetic appeal. During the review period, the Group introduced more environmental and sustainable materials into its fabric mix. To bring such materials to the market, it has acquired new machinery to bolster capacity and exercised better control on the production costs. The Group will continue to conduct R&D and invest in such capabilities so as to bring even more breakthroughs to the market.

Financial review

As at 30 June 2020, the bank balances and cash amounted to approximately HK\$118.8 million (31 December 2019: HK\$156.8 million) and the net current assets amounted to approximately HK\$252.6 million (31 December 2019: HK\$276.8 million). Bank balances and cash decreased by approximately HK\$38.0 million primarily due to the settlement of trade and bills payables amounting to HK\$39.2 million as they fell due. Trade and bills receivables decreased by approximately HK\$3.6 million to HK\$29.2 million (31 December 2019: HK\$32.8 million) as less revenue was generated from the second quarter of 2020 due to the impact of the COVID-19 pandemic to the U.S. retail market, when compared to the revenue generated from the fourth quarter of 2019. Current liabilities decreased by approximately HK\$45.5 million to HK\$113.2 million (31 December 2019: HK\$158.7 million) mainly due to the aforementioned settlement of trade and bills payables.

In view of the impact from the outbreak of COVID-19 pandemic, we monitored closely our inventory level and maintained a lower reorder level so long as it meets our manufacturing requirements. Accordingly, our inventories decreased by approximately HK\$22.3 million to HK\$179.8 million (31 December 2019: HK\$202.1 million).

Capital commitment

As at 30 June 2020, the Group had no capital commitment (31 December 2019: Nil).

Liquidity, financial resources and capital structure

The Group finances its operations primarily with internally generated funds from operating activities and banking facilities currently available. It is anticipated that the Group has sufficient working capital to meet its present funding requirements.

As at 30 June 2020, net current assets were approximately HK\$252.6 million (31 December 2019: HK\$276.8 million). Bank balances and cash as at 30 June 2020 were approximately HK\$118.8 million (31 December 2019: HK\$156.8 million).

As at 30 June 2020, there were bank borrowings of approximately HK\$71.9 million (31 December 2019: HK\$65.0 million), and the Group had HK\$141.5 million in available banking facilities as at 30 June 2020 (31 December 2019: HK\$171.8 million).

Gearing ratio

As at 30 June 2020, the gearing ratio of the Group, based on total borrowings (including bank borrowings and lease liabilities) to total equity (including all capital and reserves) of the Group, was 19.8% (31 December 2019: 17.2%).

Employees and remuneration policies

As at 30 June 2020, the Group had 434 employees (31 December 2019: 443 employees). The Group recognises the importance of maintaining good relationship with its employees and retaining competent staff to ensure operational efficiency and effectiveness. Remuneration packages offered to the Group's employees are consistent with prevailing levels and are reviewed on a regular basis. Discretionary bonuses may be provided to selected employees taking into consideration the Group's performance and that of the individual employee. The Group provides training to employees. During the six months ended 30 June 2020, the Group had not encountered any significant problems with its employees, nor had there been any dispute between the Group and its employees that might have caused any disruption to the Group's business or operation. The Group has had no difficulty in recruiting and retaining experienced staff.

A share option scheme was adopted on 19 June 2018 by the Company. As at 30 June 2020 and up to the date of this announcement, no share options were granted.

Capital expenditure

The Group's capital expenditure was approximately HK\$1.5 million during the current interim period (1H2019: HK\$15.3 million), which was mainly due to the capital investments in the Group's property, plant and equipment.

Treasury policies and foreign currency exposure

The Group is exposed to foreign currency risk primarily through sales, purchases, bank balances and cash and bank borrowings that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk is primarily Renminbi. As at 30 June 2020, the Group's bank borrowings carried variable rates from 1.88% to 4.19% per annum (31 December 2019: 2.23% to 4.10%). The Group has not experienced any material difficulty or liquidity problems resulting from foreign exchange fluctuations.

The Group is not engaged in the use of any financial instruments for hedging purposes. However, the management closely monitors foreign exchange exposure and will consider hedging significant foreign currency exposure when the need arises.

Contingent liabilities

As at 30 June 2020, the Group had no material contingent liability (31 December 2019: Nil).

Pledge of assets

As at 30 June 2020, the Group's lease liabilities were secured by, among others, its property, plant and equipment with carrying value of approximately HK\$4.4 million (31 December 2019: HK\$5.1 million).

PROSPECTS

The past six months had been highly challenging due to the uncertainty arising from the strained relations between the U.S. and the PRC, compounded by the outbreak of COVID-19 pandemic globally since February 2020. Looking ahead, as the global economic growth is expected to remain subdued in the second half of the year given the above concerns, one should possess a more prudent view towards the industry and the prospects of the Group. Boasting a history of over three decades, Hingtex has already undergone numerous economic cycles. The Group will nonetheless persist in enhancing its competitiveness so that it can timely react to any positive market changes as they come up.

As such, the Group will continue to put efforts on R&D, including the development of environmentally friendly products and products with higher sustainability. Meanwhile, to better allocate its resources and achieve cost saving, the Group has purchased a new bleaching and dyeing machine. It is expected to finish installation and commence operation by the first quarter of 2021, and will help incorporate innovative ideas in the Group's denim fabrics while at the same time reduce production costs such as water, electricity and chemical feedstocks, further enhancing the Group's commitment, achievement and performance in respect of the environmental, social and governance ("ESG").

Hingtex has always strived to enhance its penetration into various markets. Over the past years, the Group has also started business in the PRC through participating in trade shows and co-operating with renowned designers. Moving forward, the Group will continue to strengthen its brand image as well as market share in various locations, and gradually explore business opportunities in its key markets, so as to establish a more diversified market network in the long term.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The shares of our Company (the “Shares”) were listed on the Stock Exchange on the Listing Date, raising total net proceeds of approximately HK\$147.0 million after deducting professional fees, underwriting commissions and other related listing expenses.

The following sets forth a summary of the utilisation of the net proceeds:

Purpose	Net proceeds from the Share Offer (Note) HK\$ million	Actual use of proceeds up to 30 June 2020 HK\$ million	Remaining proceeds as at 30 June 2020 HK\$ million	Expected timeline of full utilisation of the remaining proceeds
To purchase production machinery and equipment including (i) weaving, slasher dyeing and shrinking lines for increasing our production capacity and efficiency; and (ii) ozone bleaching and washing machineries for enhancing our product development capability	140.1	34.6	105.5	By the end of 2021
To attend overseas and the PRC fabric exhibitions for enhancing our market penetration and expanding our customer base	3.2	–	3.2	By the end of 2021
For general working capital and other general corporate purposes	3.7	3.7	–	
	<u>147.0</u>	<u>38.3</u>	<u>108.7</u>	

Note: The application of the net proceeds from the Share Offer is based on the proposed percentage of utilisation as specified in the section headed “Future Plan and Use of Proceeds” in the prospectus of the Company dated 28 June 2018.

All unutilised net proceeds have been placed with banks in Hong Kong. The Group intends to apply the remaining proceeds as shown above.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities from the Listing Date up to the date of this announcement.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the model code for securities transactions by Directors of listed issuers (the "Model Code") as the code of conduct regarding securities transactions by Directors. Following specific enquiry by the Company, all the Directors have confirmed that they have complied with the required standard as set out in the Model Code and its code of conduct regarding directors' securities transactions for the six months ended 30 June 2020 and up to the date of this announcement.

CORPORATE GOVERNANCE CODE

The Company has applied and complied with all code provisions of the Corporate Governance Code contained in Appendix 14 to the Listing Rules (the "CG Code") for the six months ended 30 June 2020 and up to the date of this announcement.

AUDIT COMMITTEE

Our Company has established an audit committee (the "Audit Committee") in accordance with the requirements of the CG Code for the purpose of reviewing and supervising the Group's financial reporting process. The Audit Committee currently has three Independent Non-executive Directors, Mr. Tsang Ling Bui Gilbert, Mr. Cheung Che Kit Richard and Mr. Leung Wan Ching Clarence, J.P.. Mr. Tsang Ling Bui Gilbert is the chairman of the Audit Committee. The latest meeting of the Audit Committee was held to review the results of the Group for the six months ended 30 June 2020.

INTERESTS OF DIRECTORS AND THE CHIEF EXECUTIVE

As at the date of this announcement, the interests and short positions of each Director and the chief executive of our Company in the shares, underlying shares and debentures of our Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)) which were required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to our Company and the Stock Exchange pursuant to the Model Code, are as follows:

(a) Interests and/or short positions in our Company

Director	Nature of interest	Number of Shares held ¹	Percentage of Interest in our Company
Mr. Tung Tsun Hong (“Mr. TH Tung”)	Interest in controlled corporation ⁽²⁾	480,000,000 (L)	75%
Mr. Tung Wai Ting Stephen (“Mr. Stephen Tung”)	Interest in controlled corporation ⁽²⁾	480,000,000 (L)	75%
Mr. Tung Cheuk Ming Stanley (“Mr. Stanley Tung”)	Interest in controlled corporation ⁽²⁾	480,000,000 (L)	75%

Notes:

1. The letter “L” denotes a long position in the Shares.
2. Mr. TH Tung, Mr. Stephen Tung, Mr. Stanley Tung, Ms. Lau Chung Chau (“Mrs. Tung”), Ms. Tung Wei Ling Barbara (“Ms. Barbara Tung”) and Ms. Tung Wai Lai Mabel (“Ms. Mabel Tung”) entered into the Deed of Concert Parties, pursuant to which, the parties confirmed that they have been acting in concert with each other in exercising and implementing the management and operations of our subsidiaries and that it is their intention to continue to act in the above manner upon the listing of our Shares on the Main Board of the Stock Exchange (the “Listing”). Accordingly, Manford Investment Holdings Limited (“Manford Investment”) is deemed to be accustomed and/or obliged to act in accordance with their directions and/or instructions and that, among others, each of Mr. TH Tung, Mr. Stanley Tung and Mr. Stephen Tung is deemed to be interested in all the Shares held by Manford Investment under the SFO.

(b) Interests and/or short positions in associated corporation(s)

Director	Company concerned	Nature of interests	Number of shares held in the company concerned¹	Percentage of interest in the company concerned
Mr. TH Tung	Manford Investment ²	Beneficial owner; a concert party to an agreement to buy shares described in s. 317(1)(a) of the SFO ³	100 (L)	100%
Mr. Stephen Tung	Manford Investment ²	Beneficial owner; a concert party to an agreement to buy shares described in s. 317(1)(a) of the SFO ³	100 (L)	100%
Mr. Stanley Tung	Manford Investment ²	Beneficial owner; a concert party to an agreement to buy shares described in s. 317(1)(a) of the SFO ³	100 (L)	100%

Note:

1. The letter “L” denotes long position in the shares held.
2. At the date of this announcement, Manford Investment is interested in 75% of the issued Shares and, accordingly, is the holding company of our Company within the meaning of the SFO.
3. Manford Investment is owned as to 30% by Mr. TH Tung, 20% each by Mr. Stephen Tung and Mr. Stanley Tung and 10% each by Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung, all of whom have entered into the Deed of Concert Parties, pursuant to which, the parties confirmed that they have been acting in concert with each other in exercising and implementing the management and operations of our subsidiaries and that it is their intention to continue to act in the above manner upon the Listing. Accordingly, each of Mr. TH Tung, Mr. Stephen Tung and Mr. Stanley Tung is deemed to be interested in the shares of Manford Investment held by the other parties to the Deed of Concert Parties under the SFO.

Save as disclosed above, as at the date of this announcement, none of our Directors nor the chief executive of our Company had any interests or short positions in the shares, underlying shares or debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to our Company and the Stock Exchange pursuant to the Model Code.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the date of this announcement, so far as our Directors are aware, the following persons had an interest or short position in the Shares or the underlying Shares which were required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Capacity/nature of interest	Number of Shares ⁽¹⁾	Percentage shareholding
Manford Investment ⁽²⁾	Beneficial owner	480,000,000 (L)	75%
Mr. TH Tung	Interest of controlled corporation ⁽³⁾	480,000,000 (L)	75%
Mr. Stephen Tung	Interest of controlled corporation ⁽³⁾	480,000,000 (L)	75%
Mr. Stanley Tung	Interest of controlled corporation ⁽³⁾	480,000,000 (L)	75%
Ms. Li Ka Mei	Interest of spouse ⁽⁴⁾	480,000,000 (L)	75%
Mrs. Tung	Interest of controlled corporation ⁽³⁾	480,000,000 (L)	75%
Ms. Barbara Tung	Interest of controlled corporation ⁽³⁾	480,000,000 (L)	75%
Mr. Li Chi Hiu Lawrence	Interest of spouse ⁽⁵⁾	480,000,000 (L)	75%
Ms. Mabel Tung	Interest of controlled corporation ⁽³⁾	480,000,000 (L)	75%
Mr. Fung Cheong Chi	Interest of spouse ⁽⁶⁾	480,000,000 (L)	75%

Notes:

1. The letter “L” denotes a long position in the Shares.
2. As at the date of this announcement, Manford Investment was owned as to 30% by Mr. TH Tung, 20% by Mr. Stephen Tung, 20% by Mr. Stanley Tung, 10% by Mrs. Tung, 10% by Ms. Barbara Tung and 10% by Ms. Mabel Tung.
3. Mr. TH Tung, Mr. Stanley Tung, Mr. Stephen Tung, Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung entered into the Deed of Concert Parties, pursuant to which, among others, the parties confirmed that they have been acting in concert with each other in exercising and implementing the management and operations of our subsidiaries and that it is their intention to continue to act in the above manner upon the Listing. Accordingly, Manford Investment is deemed to be accustomed and/or obliged to act in accordance with their directions and/or instructions and that each of Mr. TH Tung, Mr. Stephen Tung, Mr. Stanley Tung, Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung is deemed to be interested in all the Shares held by Manford Investment under the SFO.
4. Ms. Li Ka Mei is the spouse of Mr. Stanley Tung and is deemed, under the SFO, to be interested in all the Shares that Mr. Stanley Tung is interested.
5. Mr. Li Chi Hiu Lawrence is the spouse of Ms. Barbara Tung and is deemed, under the SFO, to be interested in all the Shares that Ms. Barbara Tung is interested.
6. Mr. Fung Cheong Chi is the spouse of Ms. Mabel Tung and is deemed, under the SFO, to be interested in all the Shares that Ms. Mabel Tung is interested.

Save as disclosed above, as at the date of the announcement, our Directors are not aware of any person who will have an interest or short position in the Shares or the underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Save as disclosed above, as at the date of this announcement, our Directors are not aware of any person who had an interest or short position in the Shares or the underlying Shares which were required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

IMPORTANT EVENTS AFTER THE INTERIM PERIOD UNDER REVIEW

There were no material events undertaken by the Group subsequent to 30 June 2020 and up to the date of this announcement.

PUBLICATION OF INTERIM REPORT

The interim report of our Company for the six months ended 30 June 2020 containing all the relevant information required by Appendix 16 to the Listing Rules and other applicable laws and regulations will be dispatched to our shareholders and published on the websites of the Stock Exchange and our Company in due course.

By order of the Board
HINGTEX HOLDINGS LIMITED
Tung Tsun Hong
Chairman and executive Director

Hong Kong, 28 August 2020

As at the date of this announcement, the chairman and executive Director is Mr. Tung Tsun Hong, the executive Directors are Mr. Tung Wai Ting Stephen and Mr. Tung Cheuk Ming Stanley, and the independent non-executive Directors are Mr. Tsang Ling Biu Gilbert, Mr. Cheung Che Kit Richard and Mr. Leung Wang Ching Clarence, J.P..