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

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00518)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020

RESULTS

The interim results of Tungtex (Holdings) Company Limited (the "Company") and its subsidiaries (the "Group") for the six months ended 30 September 2020 (the "period"), together with the comparative figures for the six months ended 30 September 2019 are as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2020

		Six months ended 30 September	
		2020	2019
	Notes	***HK$'000***	*HK$'000*
		(unaudited)	(unaudited)
Revenue	*3*	**226,736**	394,830
Cost of sales		**(189,492)**	(310,899)
Gross profit		**37,244**	83,931
Other income and other gain		**418**	2,857
Impairment loss recognised on financial assets, net of reversal		**(268)**	(159)
Decrease in fair value of financial assets at fair value through profit or loss ("FVTPL")		**—**	(175)
Gain on disposal of a subsidiary	*12*	**278,139**	—
Selling and distribution costs		**(23,497)**	(38,587)
Administrative expenses		**(49,263)**	(71,051)
Finance costs		**(2,966)**	(3,741)
Share of loss of an associate		**(48)**	—
Profit (loss) before tax	*4*	**239,759**	(26,925)
Income tax credit (expenses)	*5*	**22**	(3,882)
Profit (loss) for the period		**239,781**	(30,807)
Profit (loss) for the period attributable to:			
Owners of the Company		**240,142**	(30,493)
Non-controlling interests		**(361)**	(314)
		239,781	(30,807)
Basic and diluted earnings (loss) per share *(HK cents)*	*7*	**53.2**	(6.6)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2020

	Six months ended 30 September	
	2020	2019
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Profit (loss) for the period	**239,781**	(30,807)
Other comprehensive income (expense)		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translating foreign operations	**3,571**	(6,767)
Other comprehensive income (expense) for the period	**3,571**	(6,767)
Total comprehensive income (expense) for the period	**243,352**	(37,574)
Total comprehensive income (expense) for the period attributable to:		
Owners of the Company	**243,713**	(37,260)
Non-controlling interests	**(361)**	(314)
	243,352	(37,574)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2020

	Notes	30 September 2020 HK$'000 (unaudited)	31 March 2020 HK$'000 (audited)
Non-current assets			
Property, plant and equipment	*8*	**20,962**	23,836
Right-of-use assets		**23,042**	13,221
Intangible asset		**—**	—
Interests in an associate		**728**	—
Deferred tax assets		**53**	59
		44,785	37,116
Current assets			
Inventories		**78,552**	94,506
Trade and other receivables	*9*	**81,345**	89,811
Pledged bank deposits		**116,704**	116,704
Bank balances and cash		**372,495**	113,946
		649,096	414,967
Assets classified as held for sale		**47,092**	51,455
		696,188	466,422

	Notes	30 September 2020 HK$'000 (unaudited)	31 March 2020 HK$'000 (audited)
Current liabilities			
Trade and other payables	*10*	**77,460**	78,430
Contract liabilities		**10,505**	11,607
Lease liabilities		**5,109**	2,501
Tax liabilities		**14,360**	152
Bank borrowings		**122,248**	144,388
Dividend payable		**100,000**	—
		329,682	237,078
Liabilities associated with assets classified as held for sale		—	72
		329,682	237,150
Net current assets		**366,506**	229,272
Total assets less current liabilities		**411,291**	266,388
Non-current liabilities			
Lease liabilities		**11,321**	3,834
Bank borrowings		—	5,800
Deferred tax liabilities		**1,094**	1,230
		12,415	10,864
		398,876	255,524
Capital and reserves			
Share capital	*11*	**254,112**	254,112
Treasury shares		—	(230)
Reserves		**155,034**	11,551
Equity attributable to owners of the Company		**409,146**	265,433
Non-controlling interests		**(10,270)**	(9,909)
		398,876	255,524

Notes:

1. BASIS OF PREPARATION

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

The financial information relating to the year ended 31 March 2020 that is included in these condensed consolidated financial statements as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "Companies Ordinance") is as follows:

The Company has delivered the financial statements for the year ended 31 March 2020 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

The Company's auditor has reported on the financial statements of the Group for the year ended 31 March 2020. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in 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 September 2020 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2020.

Amendments to HKFRSs that are mandatorily effective for the current period

In the current interim period, the Group has applied, for the first time, the following amendments to HKFRSs issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1 April 2020 for the preparation of the Group's condensed consolidated financial statements:

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

The application of 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.

3. REVENUE AND SEGMENTAL INFORMATION

Information reported to the executive directors of the Company, being the chief operating decision makers for the purposes of resource allocation and assessment of performance focuses on the geographical areas of sales made by the Group's operating divisions based on the location of customers. The Group is principally engaged in the manufacture and sale of garment products. The Group is currently organised into operating divisions which constitute three operating segments – North America, Asia, and Europe and others.

No segment assets and liabilities are disclosed as they are not reported to the chief operating decision makers.

Segment revenue and results

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

Six months ended 30 September 2020:

	North America *HK$'000*	**Asia** *HK$'000*	**Europe and others** *HK$'000*	**Consolidated** *HK$'000*
REVENUE				
Sales of goods — external	**96,357**	**123,851**	**6,528**	**226,736**
SEGMENT (LOSS) PROFIT	**(12,728)**	**(5,888)**	**249**	**(18,367)**
Gain on disposal of a subsidiary				**278,139**
Finance costs				**(2,966)**
Unallocated income				**418**
Unallocated expenses				**(17,417)**
Share of loss of an associate				**(48)**
Profit before tax				**239,759**

Six months ended 30 September 2019:

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

Segment (loss) profit represents the (loss) profit (incurred) earned by each segment without allocation of central administration costs, directors' salaries, depreciation of property, plant and equipment, depreciation of right-of-use assets, change in fair value of financial assets at FVTPL, gain on disposal of a subsidiary, share of loss of an associate, other income and other gain, and finance costs. This is the measure reported to the Company's executive directors for the purposes of resource allocation and assessment of performance.

4. PROFIT (LOSS) BEFORE TAX

	Six months ended 30 September	
	2020	2019
	HK$'000	*HK$'000*
Profit (loss) before tax has been arrived at after charging (crediting):		
Directors' remunerations:		
Fees	**310**	310
Other emoluments	**2,730**	2,730
Contributions to retirement benefit schemes	**47**	45
	3,087	3,085
Other employee benefits expenses:		
Salaries, allowances and bonus	**54,081**	98,250
Contributions to retirement benefit schemes	**3,086**	9,730
Total employee benefits expenses	**60,254**	111,065
(Reversal of) allowance for inventories (included in cost of sales), net	**(373)**	261
Depreciation of property, plant and equipment	**3,749**	6,435
Depreciation of right-of-use assets	**2,370**	577
Gain on disposal of assets classified as held for sale	**—**	(2,338)
Loss on disposal of property, plant and equipment	**471**	212
Bank interest income	**(418)**	(721)
Rental income, net of outgoings	**—**	(10)

5. INCOME TAX (CREDIT) EXPENSES

	Six months ended 30 September	
	2020	**2019**
	HK$'000	*HK$'000*
Current tax:		
Hong Kong	**—**	**—**
The People's Republic of China (the "PRC")	**108**	**124**
	108	**124**
Deferred taxation	**(130)**	**3,758**
	(22)	**3,882**

No provision for Hong Kong Profits Tax is made for the six months ended 30 September 2020 as the Group has no assessable profit arising in Hong Kong or the assessable profits are wholly absorbed by tax losses brought forward from prior years.

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

One PRC subsidiary, which is a micro and small enterprise, enjoys the preferential tax rates. According to the circular of the State Administration of Taxation, Cai Shui (2019) No. 13, the first RMB 1 million of the assessable profits, would be taxed at the rate of 5%; for the assessable profits which exceed RMB 1 million but not exceeding RMB 3 million, would be taxed at the rate of 10%.

6. DIVIDENDS

On 13 November 2020, the Board of Directors (the "Board") has resolved to declare a special dividend of HK1.75 cents per share ("1st Special Dividend") in relation to a disposal of assets, details of which are set out in the announcement of the Company dated 1 December 2019, the circular of the Company dated 8 January 2020 and the announcement of the Company dated 3 November 2020. The payment date of the 1st Special Dividend is Thursday, 10 December 2020.

On 27 November 2020, the Board has resolved to declare an interim dividend of HK2.2 cents per share for the six months ended 30 September 2020 (six months ended 30 September 2019: Nil) and a special dividend of HK22.17 cents per share ("2nd Special Dividend") in relation to a disposal of a subsidiary, details of which are set out in the announcement of the Company dated 2 April 2020, the circular of the Company dated 10 August 2020 and the announcement of the Company dated 2 September 2020.

7. BASIC AND DILUTED EARNINGS (LOSS) PER SHARE

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

	Six months ended 30 September	
	2020	2019
	HK$'000	*HK$'000*
Profit (loss) for the period attributable to owners of the Company	**240,142**	(30,493)

	2020	2019
Weighted average number of ordinary shares in issue during the period for the purpose of basic and diluted earnings (loss) per share	**451,165,918**	464,053,076

No diluted earnings (loss) per share is presented as there was no potential dilutive ordinary share outstanding for the six months ended 30 September 2020 and 2019.

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 September 2020, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of HK$598,000 for proceeds of HK$127,000, resulting in a loss on disposal of HK$471,000.

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

The Group spent HK$780,000 (six months ended 30 September 2019: HK$5,951,000) on acquisition of property, plant and equipment.

9. TRADE AND OTHER RECEIVABLES

Other than cash and credit card sales for retail transactions, the Group normally grants a credit period ranging from 14 days to 90 days to its trade customers. As at 30 September 2020, the carrying amount of trade and bills receivables was HK$61,372,000, net of allowance for credit losses: HK$1,654,000 (31 March 2020: HK$71,276,000, net of allowance for credit losses: HK$1,870,000). Included in trade and other receivables are trade and bills receivables, mainly denominated in United States Dollars and Renminbi, with the following aged analysis presented based on the invoice date which approximated revenue recognition date at the end of the reporting period:

	30 September 2020	31 March 2020
	HK$'000	*HK$'000*
Up to 30 days	**34,840**	47,593
31 — 60 days	**15,306**	12,032
61 — 90 days	**7,056**	7,974
More than 90 days	**4,170**	3,677
	61,372	71,276

10. TRADE AND OTHER PAYABLES

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

	30 September 2020	31 March 2020
	HK$'000	*HK$'000*
Up to 30 days	**25,698**	33,683
31 — 60 days	**9,900**	2,361
61 — 90 days	**1,366**	3,523
More than 90 days	**3,275**	8,711
	40,239	48,278

11. SHARE CAPITAL

	Number of shares	**Amount**
		HK$'000
Issued and fully paid:		
At 1 April 2019		
Ordinary shares with no par value	464,077,557	254,112
Shares repurchased and cancelled *(Note i)*	(560,000)	
At 30 September 2019		
Ordinary shares with no par value	463,517,557	254,112
Shares repurchased and cancelled *(Note ii)*	(11,950,000)	
At 31 March 2020		
Ordinary shares with no par value	451,567,557	254,112
Shares repurchased and cancelled *(Note iii)*	**(500,000)**	
At 30 September 2020		
Ordinary shares with no par value	**451,067,557**	**254,112**

Notes:

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

(ii) During the six months ended 31 March 2020, the Company repurchased a total of 11,950,000 ordinary shares on the Stock Exchange at an aggregate purchase price (excluding expenses) of HK$6,412,600. Such repurchased shares were subsequently cancelled during the six months ended 31 March 2020.

(iii) The Company repurchased 500,000 of its ordinary shares on the Stock Exchange at a total consideration of HK$227,600 (excluding expenses) in March 2020. The repurchased shares were subsequently cancelled on 7 May 2020.

12. GAIN ON DISPOSAL OF A SUBSIDIARY

During the year ended 31 March 2020, the Company entered into a disposal agreement with an independent third party of its entire shares of Sing Yang (Overseas) Limited, which is an investment holding company, at a total consideration of HK$303,831,000 (the "SZ Disposal"). The SZ Disposal was completed on 2 September 2020.

	HK$'000
Consideration received	303,831
Assets classified as held for sale	
— Right-of-use assets	5,974
Liabilities classified as held for sale	
— Other payables	(125)
Net assets disposed of	5,849
Gain on disposal of a subsidiary:	
Consideration received	303,831
Net assets disposed of	(5,849)
Transaction costs:	
— PRC tax *(Note)*	(14,236)
— Others	(5,607)
Gain on disposal of a subsidiary	278,139
Net cash inflow arising from disposal, net of transaction costs	283,988

Note: As at 30 September 2020, the transaction costs included the Enterprise Income Tax payable of approximately HK$14,236,000, which was subsequently paid on 15 October 2020.

DIVIDEND

On 13 November 2020, the Board of Directors (the "Board") has resolved to declare a special dividend of HK1.75 cents per share ("1st Special Dividend") in relation to a disposal of assets, details of which are set out in the announcement of the Company dated 1 December 2019, the circular of the Company dated 8 January 2020 and the announcement of the Company dated 3 November 2020. The payment date of the 1st Special Dividend is Thursday, 10 December 2020.

On 27 November 2020, the Board has resolved to declare an interim dividend of HK2.2 cents per share for the six months ended 30 September 2020 (six months ended 30 September 2019: Nil) and a special dividend of HK22.17 cents per share ("2nd Special Dividend") in relation to a disposal of a subsidiary, details of which are set out in the announcement of the Company dated 2 April 2020, the circular of the Company dated 10 August 2020 and the announcement of the Company dated 2 September 2020.

CLOSURE OF REGISTER OF MEMBERS

For determining the Shareholders' entitlement to receive the interim dividend and 2nd Special Dividend:

Latest time to lodge transfers	4:30 p.m. on Friday, 11 December 2020
Closure of register of members of the Company for the interim dividend and 2nd Special Dividend	Monday, 14 December 2020
Record date	Monday, 14 December 2020
Interim dividend and 2nd Special Dividend payment date	Wednesday, 23 December 2020

In order to qualify for the interim dividend and 2nd Special Dividend, all transfer documents accompanied by the relevant share certificates, must be lodged with the Company's share registrar and transfer office in Hong Kong, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong before the relevant latest time to lodge transfers.

MANAGEMENT DISCUSSION AND ANALYSIS

While the uncertainty caused by trade protectionism has cast a shadow over the global economic development, the sudden outbreak of the coronavirus disease 2019 ("COVID-19") has created further volatility and uncertainties to the global economy.

Many sectors have been reeling from the economic fallout as a result of the coronavirus calamity. The fashion industry has taken a particularly hard hit due to the discretionary nature of the industry. The reduced customer orders in response to the lower customer demand in both of our manufacturing and retailing platforms adversely affected the sales performance of the Group for the half-year period under review.

Summary of Operating Results

For the six months ended 30 September 2020, the revenue of the Group dropped by 42.6% to HK$226.7 million. Gross profit was approximately HK$37.2 million, translated into a gross profit margin of 16.4% which was about 4.9 percentage point lower than the last corresponding period. The decrease in gross margin was caused primarily by the negative effects from the COVID-19 pandemic on sales and pricing, and the volume-leverage impact of fixed manufacturing expenses on a drastically lower sales base.

Selling and distribution costs for the period were HK$23.5 million, representing a decrease of 39.1% or HK$15.1 million as compared to HK$38.6 million of the last corresponding period. Such decrease was attributable to the decrease of HK$5.9 million in staff costs, decrease of HK$4.5 million in advertising and promotion expense, decrease of HK$2.4 million in shop management expense and decrease of HK$2.2 million in freight and handling charges. Administrative expenses for the period were HK$49.3 million, representing a decrease of 30.7% or HK$21.8 million as compared to HK$71.1 million of the last corresponding period. Such decrease was mainly attributable to the decrease of HK$19.3 million in staff costs including severance and redundancy payments and the decrease of HK$1.9 million in entertainment and travelling expense as compared to last corresponding period.

Despite the plunge in revenue, the Group recorded a profit before tax of HK$239.8 million for the six months ended 30 September 2020 (2019: loss before tax of HK$26.9 million). Thanks to the strenuous effort of the management team since the outbreak of the COVID-19, the disposal of our direct wholly-owned subsidiary which owned the factory premises in Shenzhen (the "SZ Disposal") completed in September 2020 and contributed to a gain on disposal of approximately HK$278.1 million after tax. Profit for the period attributable to the owners of the Company was HK$240.1 million, as compared to a loss of HK$30.5 million for the last corresponding period.

Excluding non-operating items such as gain on the SZ Disposal, the operating loss before tax for the period increased by 43.3% to approximately HK$38.1 million as compared to the HK$26.6 million of the last corresponding period. Despite our committed efforts of tight control in operating costs at all level and aspects, they were not enough to offset the depressing impacts of the COVID-19 on the Group's core business.

Business Review

The start of 2020 began with the COVID-19 which resulted in widespread societal and economic shutdowns, travel restrictions, disrupting global supply chains, and eventually plummeting of the global economy to a level never seen for decades. The Group acted quickly to secure business continuity by taking short-term immediate response to surviving the economic turmoil caused by the COVID-19 where employees safety, liquidity and cash preservation and financial sustainability were the top priorities.

Facing the multiple challenges of slowing global growth, trade protectionism and geographical uncertainties in the global apparel and fashion industry, the Group has been passing through costly stages of human resources adjustment in streamlining and consolidating its production facilities in the past few years. With the gradual completion of disposal of idle factory premises located in Shenzhen and Dongguan in the current financial year, such restructuring has been completed. Whereas the US-China ongoing tension has since speeded up the exploring of alternative sourcing locations, the experience of a global pandemic has created awareness of supply chain fragility and has further reaffirmed the importance of building resilient and flexible supply chains in order to be less dependent on a single geographic region or source. The current geographical layout of the Group's manufacturing facilities situated in Vietnam and China has laid a solid foundation to tackle the unpredictable economic and business risks as well as the ever-changing customer preferences.

During the period, although physical retailing came to a standstill and a shift towards online shopping was accentuated during the peak of the pandemic, physical retail remains an important brand touchpoint and is a vital component to deliver seamless customer experience for our retailing division in China. We re-evaluated our store networks and continued to adopt a conservative approach to manage our retail network alongside rigorous cost controls at all levels to enhance operating efficiency. The Group conducted further rightsizing of the retail network resulting in closure of self-operated shops and shops operated under cooperative ownership which had been underperforming even before the COVID-19 pandemic so as to focus investment on stronger locations and on the expansion of franchising model which capitalizes growth opportunities with reduced risk exposures.

Sales to North America

During the period, the Group's sales to North America decreased by 58.0% to HK$96.4 million, accounting for about 42.5% of the Group's total revenue.

The Group's sales to the United States decreased drastically by 60.4% to HK$58.8 million. The demand shock resulting from economic shutdown that took effect in March 2020 brought forth a severe economic downturn. Coupled with the high unemployment rate and the threat of an impending global recession, the dampened consumer sentiment brought a historic drop in US consumer confidence with spending on discretionary categories slowed drastically. As a result, annualized gross domestic product ("GDP") in the U.S contracted 31.4% in the second quarter.

Although the US economy grew 33.1% in the third quarter as resurgent consumer spending and government support fueled up spending, consumer confidence remained wary due to uncertainties both over the rising local COVID-19 cases and the timing of another stimulus package, whereas global uncertainties and unresolved tension with China continued to weigh on investor confidence.

The Group's sales to Canada for the period also reported a sizeable drop of 53.8% to HK$37.6 million. The COVID-19 pandemic also had serious repercussions on Canada's economy and society. The severe contractions in most industrial sectors and many service-based industries led to increase in unemployment and decrease in employment earnings. Unemployment rate hit 13.5% in May 2020 which was the highest since the 1980's. Household spending fell by record level as families faced heightened levels of job and income uncertainty. Despite stronger retail numbers and employment rebounded following the gradual reopening of businesses, long term impact of the pandemic remained, and uncertain business conditions persisted dimming the outlook of economic recovery.

Sales to Asia

The Group's sales to Asia slowed down by 18.1% to HK$123.9 million and accounted for 54.6% of the Group's total revenue. Of which, sales to China market alone accounted for over 92.2% of the total sales to Asia. Due to its early recovery than western counterparts, sales to this market segment dropped at a comparatively slower rate.

According to the National Bureau of Statistics of the PRC (the "NBS"), the GDP of the PRC grew by 3.2% and 4.9% year-on-year in the second and third quarter of 2020, rebounding from a record 6.8 percent contraction in the first quarter.

Due to the tight control over liquidity, purchases and inventory level risk for retail business during the COVID-19 pandemic, the Group recorded a 32.4% decrease in China retail sales as compared to the last corresponding period. On the other hand, alongside the gradual economic recovery and the trend of consumption-led growth, our OEM/ODM domestic sales to China recorded a 19.1% growth as compared to the last corresponding period.

Retailing Business

The crisis created by the COVID-19 hit the global retail industry especially hard when consumers become more cautious in making purchase decisions in the face of ongoing pandemic uncertainty which caused people to curtail spending specifically on non-essential categories such as apparel.

In China, as the COVID-19 pandemic was swiftly and effectively contained in the second quarter of 2020, there was a quick recovery in the domestic economic activities. However, accompanying the recovery was the fiercely staggering level of competition within and between local and foreign retailers, traditional players and new comers, online and offline. The change in consumer behavior in response to economic pressures, store closings, and changing priorities also led to a shattering of brand loyalties in favor of brands with reliable stock availability, convenience, and better value in terms of prices and quality.

The Group responded by focusing in parallel on online and offline sales and the growth of the franchising model with quality franchisees, stabilizing the supply chain and maintaining absolute prudence in all aspects of our daily operations to remain competitive. Nonetheless the COVID-19 pandemic represented the most challenging market condition the Group has ever faced, and our sales performance was adversely affected, especially in light of our tight control over purchases and inventory risk to mitigate the operating loss during the COVID-19 pandemic. As a result, albeit the retail sales in China for this period under review recorded a decrease of 32.4% to HK$80.4 million as compared to the last corresponding period, our retailing business in China managed to sustain an operating loss before tax at a low level of HK$3.7 million, as compared to an operating loss of HK$3.9 million of the last corresponding period.

We continued to maintain an optimal balance between online and offline channels to maximize their synergies. As at 30 September 2020, there were a total of 171 Betu-brand shops (As at 31 March 2020: 169) operating in the Mainland China. The net closure of 6 self-operated and shops operated under cooperative ownership were partly offset by a net addition of 8 franchising shops resulting in a net addition of 2 shops in the period under review. The growth of franchising shops provides the form of flexibility needed during times of frequent market changes with minimum cost impact to the Group.

Disposal of a direct wholly-owned subsidiary which owned the factory premises in Shenzhen

As announced by the Company on 2 April 2020, the Company (as Vendor) entered into a sale and purchase agreement on 31 March 2020 ("SP Agreement") with Pioneer Fortress Limited (as Purchaser), who and its ultimate beneficial owner are independent third parties, pursuant to which the Company has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire the entire issued share capital of Sing Yang (Overseas) Limited ("SYO"), which is a direct wholly-owned subsidiary of the Company (the "Sale Shares") and 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 (the "Sale Loan"). The consideration for the Sale Shares is approximately HK$172.8 million (being the difference of the total consideration and the face value of the Sale Loan at completion) and the consideration for the Sale Loan is its face value at completion, which is approximately HK$131.0 million as at the date of the SP Agreement.

SYO owns an industrial building with the name "同得仕大廈 (Tungtex Building)" located at Shizheng No. 2 Road, Beihuan Road, Futian District, Shenzhen, the PRC（中國深圳福田區北環路市政二號路）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. ("Shenzhen Building").

The SZ 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The SZ Disposal was unanimously approved by the shareholders of the Company attended and voted at the extraordinary general meeting of the Company held on 26 August 2020. The SZ Disposal was completed on 2 September 2020. The gross proceeds received by the Company from the SZ Disposal were RMB276.0 million (equivalent to approximately HK$303.8 million translated at the exchange rate of RMB0.9084 to HK$1.00 as agreed by the Company and the Purchaser).

In relation to the SZ Disposal, the Board has resolved to declare to a special dividend of HK22.17 cents per share. Please refer to the section headed "Dividend" above for further details.

Disposal of the factory premises in Dongguan

On 29 November 2019, 東莞同得仕時裝有限公司 ("Dongguan Tungtex"), an indirect wholly-owned subsidiary of the Company incorporated in China (as Vendor) entered into a sale and purchase agreement (the "Disposal Agreement") with 東莞市豐泰達科技有限公司 (as Purchaser), who and its ultimate beneficial owner are independent third parties, in relation to the disposal by Dongguan Tungtex to the purchaser 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, subject to the terms of the Disposal Agreement (the "DG Disposal").

The DG Disposal constitutes a major transaction for the Company which was subject to the announcement, circular and shareholders' approval requirements in accordance with the Listing Rules.

The DG Disposal was unanimously approved by the shareholders of the Company attended and voted at the extraordinary general meeting of the Company held on 31 January 2020. The DG Disposal was completed on 3 November 2020. Pursuant to a board meeting held on 13 November 2020, a dividend in cash of HK1.75 cents per share, amounting to approximately HK$7.89 million in total was approved by the Board and an announcement setting out the details of the 1st Special Dividend (including the amount and record date) was published on the same date.

The remittance of proceeds from the DG Disposal out of mainland China is subject to capital control in mainland China. The use of proceeds from DG Disposal is also subject to compliance of approved business scope of Dongguan Tungtex. Therefore, they are not immediately available for use by the Company and other companies of the Group in the short term. The Group is considering the merits and demerits of different advisable legitimate options of solution which include inter alia commencing and completing a long process of liquidation of Dongguan Tungtex for the purpose of remittance of the proceeds out of mainland China at the expense of withholding tax.

Once the proceeds from DG Disposal can be remitted out of China for use by the Company or other companies of the Group, it can replenish the working capital of the Group. Depending on the then business development needs and liquidity level of the Group, the Board may consider distributing further special dividends according to the dividend policy.

Prospects

The COVID-19 pandemic has swept through the world at an unprecedented pace causing long-lasting impacts not only on a health perspective but also on the outlook of the whole world economy. The virus has dealt a crippling blow to major economies in North America and China where most of our customers are situated. Before the arrival of proven vaccines, the relenting pandemic seems to have no clear end in sight and is hampering economic recovery in various countries impeding full rebound of consumer confidence and demands. Added to the worry about the future of global economic growth include the escalating economic tensions between the US and China and the rising geopolitical risks. With all the uncertainties still present, the speed and trajectory of the global market's recovery is difficult to project which will certainly alter the shape of the recovery for the apparel industry.

China has undergone a sharp but brief slowdown and relatively quick rebound to pre-crisis levels of activity notwithstanding the decrease of GDP in the first quarter. Indeed, China emerged as the only major global economy to post year-over-year growth in the second quarter. Its leading economic indicators pointed toward a strong recovery in the country. The Chinese government has since the outbreak of the COVID-19 put in place a number of policies to support its citizens and businesses to revive the public's spending power. We believe in the long-term growth potential of China's economy as the building up of domestic demand has become the main policy initiative of Chinese government's new formula for growth.

In the US, despite the massive correction since the COVID-19 pandemic set in, the government has stepped in with monetary and fiscal policies of unprecedented scale which was able to prevent further damage to the economy so a strong rebound could begin after the virus is contained. The US society is generally more consumerist, the young working adults has a habit of regular spending which will bring the US to achieve faster return to normal consumption levels once the pandemic is under control. According to the U.S. Census Bureau, retail sales began to recover in most goods sectors when some states lifted social distancing restrictions since early May and growth continued throughout the summer contributing to a restarting of the economy after the spring lockdown. While the recent breakthrough in the COVID-19 vaccines development is expected to help control the accelerating pandemic situation in the near future, the impact of the prevailing political tensions in the US on the recovery of economy is yet to be observed.

Despite suffering a serious slowdown in its manufacturing sector during the pandemic when all trading and production activities came to a standstill, Vietnam, one of our major production hub, implemented an early lockdown which enabled it to reopen and recover early compared to other East Asian countries. As a result, Vietnam is recently forecasted to be one of the fastest growing economies in Southeast Asia and economic prospects post-pandemic remained promising. The European Union Vietnam Free Trade Agreement (EVFTA), which eliminated most of customs duties between the EU and Vietnam, took effect in August this year paving way for increased trade between the EU and Vietnam and provides ample opportunities for market expansion once their economies begin to recover. In the medium to long term, we believe that our Vietnam manufacturing operation is well positioned to grow the export sales to the respective member countries and regions under the EVFTA, the Comprehensive and

Progressive Agreement for Trans-Pacific Partnership (CPTPP) and Regional Comprehensive Economic Partnership (RCEP). In the short term, we will invest in and complete the green factory solar system project in our Vietnam manufacturing operation and will continue to explore the potential of Vietnam's domestic market.

On the China retail front, society and business will adapt to a 'new reality' characterized by reshaped trends towards increased digital adoption, demand changes due to lower purchasing power and preference for personalized experiences even after the pandemic is over. The Group will continue to provide high-quality value-for-money merchandises that appeal to the rising number of millennials and middle-class consumers craving for quality and trendy products. Our strategy to leverage the collaborative nature of our omnichannel channels will contribute to improved operational efficiencies and lower operating costs. Simultaneously, we stay attuned to customer needs of unique service by crafting remarkable in-store experience and marketing strategies using the right social-media and mobile presence to raise customer digital engagement and our brand image.

Going forward, the economic uncertainty brought on by the COVID-19 pandemic is clouding the outlook for the apparel and fashion industry in the upcoming year. With that in mind, the Board will constantly assess our business model and make strategic changes in accordance with the changing and demanding environment to respond more effectively to complex challenges we face now and in the future. It is always our dividend policy to allow the Shareholders to participate in profits whilst preserving adequate reserves and liquidity for future business development. The Board will continue to carefully review our balance sheet from time to time to strive for the best interests of our Company and shareholders.

CAPITAL EXPENDITURE

During the period under review, the Group incurred HK$0.8 million capital expenditure as compared to HK$6.0 million of the corresponding period last year. Such capital expenditure mainly represented regular replacement, upgrading and automation of production facilities, and leasehold improvement of the Group.

LIQUIDITY AND FINANCIAL RESOURCES

The Group continued to adopt a prudent financial management during the six months ended 30 September 2020 (the "Reporting Period"). As at 30 September 2020, the Group's cash level was recorded at HK$489.2 million (of which HK$116.7 million was pledged bank deposits) as compared to HK$230.7 million (of which HK$116.7 million was pledged bank deposits) as at 31 March 2020. Most of the bank balances were placed in USD, HKD and RMB short term deposits with major banks. As at 30 September 2020, total bank borrowings of the Group were HK$122.2 million (which were all short-term bank borrowings and mainly denominated in USD, HKD and RMB), as compared to HK$150.2 million as at 31 March 2020. The Group had no borrowings at fixed interest rates during the period. The gearing ratio (total bank borrowings to total equity) was 30.6%. During the period, working capital cycles remained under stringent control, where inventory turnover and trade receivable turnover remained healthy.

As at 30 September 2020, certain land and buildings with an aggregate net book value of approximately HK$6.1 million (31 March 2020: HK$12.7 million) were pledged to banks to secure general banking facilities granted to the Group.

As at 30 September 2020, excluding the pledged bank deposits of HK$116.7 million which were pledged to banks to secure the general banking facilities of the Group, net cash balance of the Group was HK$250.2 million, as compared to a net borrowing balance of HK$36.2 million as at 31 March 2020. Such increase of HK$286.4 million in net cash was mainly attributable to the proceeds of HK$303.8 million received from SZ Disposal.

After setting aside specific funds for (i) the 2nd Special Dividend of HK$100.0 million and the capital expenditure and costs for strategic repositioning of HK$65.0 million (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) as planned and stated in the Circular dated 10 August 2020 regarding the use of net proceeds from the SZ Disposal; (ii) the PRC tax of HK$14.2 million assessed and paid subsequent to the end of the Reporting Period for the SZ Disposal; and (iii) the PRC tax of HK$3.3 million assessed and paid subsequent to the end of the Reporting Period for the DG Disposal and the 1st Special Dividend of HK$7.9 million declared on 13 November 2020, the net cash balance will be reduced by a total of HK$190.4 million. The Group is of the opinion that, after taking into consideration of the current banking facilities and the repayment obligations of bank borrowing, the Group has to retain sufficient funds to meet the financial obligations of its business when they fall due and to finance its operation and future growth in the post-pandemic era.

TREASURY POLICY

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

HUMAN RESOURCES

As at 30 September 2020, the Group has approximately 1,400 employees as compared to 1,800 as at 31 March 2020. The decrease was mainly attributable to the streamlining of workforce across all operating units and factories for cost effectiveness in view of the reduced orders and sales during the COVID-19 pandemic prevailed in the period under review. The Group hires, inspires, retains and rewards competent staff with dedication to develop their careers in line with its core corporate values and strategic goals. The Group offers career development opportunities, job satisfaction via empowerment, harmonious teamwork and competitive remuneration package.

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

During the Reporting Period, the Company has not redeemed, and neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities. 500,000 treasury shares as at 31 March 2020 were cancelled on 7 May 2020.

AUDIT COMMITTEE

The Audit Committee, which comprises four independent non-executive directors of the Company, has reviewed with management and the Group's external auditor, D & PARTNERS CPA LIMITED, the accounting principles and practices adopted by the Group and discussed risk management and internal control and financial reporting matters including the review of the unaudited interim results and interim report of the Group for the Reporting Period.

CORPORATE GOVERNANCE

Throughout the Reporting Period, the Company has complied with all the code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by directors of the Company. Having made specific enquiry of all directors, all directors confirmed that they have complied with the required standard set out in the Model Code throughout the Reporting Period.

PUBLICATION OF INTERIM RESULTS AND REPORT

This interim results announcement is published on the Company's website (www.tungtex.com) and the Hong Kong Exchanges and Clearing Limited's website (www.hkexnews.hk). The Interim Report containing all the information required by the Listing Rules will be despatched to shareholders of the Company and available on the same websites in due course.

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

Hong Kong, 27 November 2020

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