HINGTEX HOLDINGS LIMITED
興 紡 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1968)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

Total revenue for the year ended 31 December 2020 decreased by approximately 49.5% year-to-year to HK$255.4 million, as compared with total revenue of HK$506.3 million for the year ended 31 December 2019.

Net loss attributable to owners of the Company for the year ended 31 December 2020 was approximately HK$41.0 million, as compared with net profit of HK$5.3 million for the year ended 31 December 2019.

Basic loss per Share for the year ended 31 December 2020 was HK6.41 cents as compared with basic earnings per Share of HK0.82 cents for the year ended 31 December 2019.

The board (the "Board") of directors (the "Directors") of Hingtex Holdings Limited (the "Company" or "Hingtex") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2020, together with the comparative figures for the year ended 31 December 2019.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

		Year ended 31 December	
		2020	2019
	NOTES	***HK$'000***	*HK$'000*
Revenue	*4*	**255,443**	506,257
Cost of sales		**(231,643)**	(403,587)
Gross profit		**23,800**	102,670
Other income	*6*	**11,215**	10,078
Other gains and losses	*7*	**2,065**	3,549
Impairment losses under expected credit loss model, net of reversal		**(84)**	272
Selling and distribution expenses		**(17,929)**	(27,539)
Administrative expenses		**(59,422)**	(76,897)
Share of profit of a joint venture		**(27)**	90
Finance costs		**(2,272)**	(3,963)
(Loss) profit before tax	*8*	**(42,654)**	8,260
Income tax credit (expense)	*9*	**1,622**	(2,992)
(Loss) Profit and total comprehensive (expense) income for the year attributable to owners of the Company		**(41,032)**	5,268
(LOSS) EARNINGS PER SHARE			
— Basic (HK cents)	*10*	**(6.41)**	0.82

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

		At 31 December	
		2020	2019
	NOTES	***HK$'000***	*HK$'000*
Non-current assets			
Property, plant and equipment		**109,376**	113,754
Right-of-use assets		**28,196**	28,859
Other intangible assets		**4,134**	4,626
Goodwill		**1,184**	1,184
Interest in a joint venture		**4,310**	4,337
Deferred tax assets		**1,958**	88
Total non-current assets		**149,158**	152,848
Current assets			
Inventories		**145,210**	202,058
Trade and other receivables	*12*	**58,092**	68,828
Tax recoverable		**5,329**	5,054
Structured bank deposits		**–**	7,800
Bank balances and cash		**160,883**	156,789
Total current assets		**369,514**	440,529
Current liabilities			
Trade and other payables	*13*	**54,301**	80,594
Amount due to a joint venture		**137**	122
Tax liabilities		**7,159**	8,420
Lease liabilities		**4,462**	7,631
Bank borrowings		**66,550**	64,983
Contract liabilities		**562**	1,968
Total current liabilities		**133,171**	163,718
Net current assets		**236,343**	276,811
Total assets less current liabilities		**385,501**	429,659

		At 31 December	
		2020	2019
	NOTES	***HK$'000***	*HK$'000*
Non-current liabilities			
Lease liabilities		**3,231**	1,083
Deferred tax liabilities		**6,929**	7,083
Total non-current liabilities		**10,160**	8,166
Net assets		**375,341**	421,493
Capital and reserves			
Share capital	*14*	**6,400**	6,400
Reserves		**368,941**	415,093
Equity attributable to owners of the Company and total equity		**375,341**	421,493

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

Hingtex 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 dollar ("HK$"), as the directors of the Company consider HK$ can provide more meaningful information to the Company's investors.

1A. SIGNIFICANT EVENTS AND TRANSACTIONS IN THE CURRENT YEAR

The outbreak of 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, and business environment and directly and indirectly affect the operations of the Group. The Group temporarily suspended 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. As such, the financial position and performance of the Group were affected in different aspects, including reduction in revenue and decrease in gross profit as a result of fixed production overheads during the close-down period. To overcome the negative impact arising from the pandemic, the People's Republic of China ("PRC") and Hong Kong governments have announced certain financial measures and supports for corporates. Accordingly, the Group received government grants in respect of COVID-19-related subsidies during the current year, as disclosed in the relevant notes.

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (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 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 the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current year has had no material impact on the Group's financial position and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 1 and HKAS 8 ***Definition of Material***

The Group has applied the Amendments to HKAS 1 and HKAS 8 for the first time in the current year. 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 year had no impact on the consolidated financial statements.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts and the related Amendments[1]
Amendments to HKFRS 16	COVID-19-Related Rent Concessions[4]
Amendments to HKFRS 3	Reference to the Conceptual Framework[2]
Amendments to HKFRs 9, HKAS 39 and HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2[5]
Amendments to HKFRs 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[1]
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use[2]
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018 — 2020[2]

1 Effective for annual periods beginning on or after 1 January 2023
2 Effective for annual periods beginning on or after 1 January 2022
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 June 2020
5 Effective for annual periods beginning on or after 1 January 2021

Except for the amendments to HKFRSs and the revised Conceptual Framework for Financial Reporting mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to HKAS 1 ***Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)***

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:

  (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and

  (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and

- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying HKAS 32 *Financial Instruments: Presentation*.

In addition, Hong Kong Interpretation 5 was revised as a consequence of the Amendments to HKAS 1 to align the corresponding wordings with no change in conclusion.

Based on the Group's outstanding liabilities as at 31 December 2020, the application of the amendments will not result in reclassification of the Group's liabilities.

Amendments to HKAS 16 ***Property, Plant and Equipment — Proceeds before Intended Use***

The amendments specify that the costs of any item that were produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced when testing whether the relevant property, plant and equipment is functioning properly) and the proceeds from selling such items should be recognised and measured in the profit or loss in accordance with applicable standards. The cost of the items is measured in accordance with HKAS 2 *Inventories*.

The application of the amendments is not expected to have significant impact on the financial position and performance of the Group.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis at the end of each reporting period.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

4. REVENUE

Disaggregation of revenue from contracts with customers

	Year ended 31 December	
	2020	2019
	HK$'000	*HK$'000*
Types of goods or service		
Sales of denim fabrics		
Stretchable blended denim fabrics	**231,428**	430,610
Stretchable cotton denim fabrics	**14,965**	53,780
Non-stretchable denim fabrics	**8,742**	11,509
Others *(note)*	**308**	10,358
Total	**255,443**	506,257

Note: Others mainly include revenue from sales of yarns.

	Year ended 31 December	
	2020	2019
	HK$'000	*HK$'000*
Timing of revenue recognition		
At a point in time	**255,443**	506,257

Performance obligations for contracts with customers

The Group sells denim fabrics and yarns directly to customers, which are mainly garment manufacturers.

Revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the customers' specific locations (delivery). Following the delivery, the customers have full discretion over the manner of distribution and price to sell the goods, have the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods. The normal credit term is 30 to 120 days upon delivery.

All denim fabrics are delivered within period less than one year. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

5. OPERATING SEGMENTS

Information reported to the chief executive officer, being the chief operating decision maker, for the purposes of resource allocation and assessment focuses on revenue analysis by products. No other discrete financial information is provided other than the Group's results and financial position as a whole. Accordingly, only entity-wide disclosures, major customers and geographic information are presented.

Geographical information

The Group mainly operates in Hong Kong and the PRC, and the Group's non-current assets are mainly located in the PRC.

Information about the Group's revenue is presented based on the geographical location of the customers.

	Year ended 31 December	
	2020	2019
	HK$'000	*HK$'000*
The PRC	**73,432**	123,216
Vietnam	**56,496**	71,765
Bangladesh	**40,775**	131,313
Hong Kong	**33,249**	115,602
Taiwan	**30,632**	17,230
Jordan	**5,754**	12,440
Macau	**4,976**	11,857
Indonesia	**4,702**	3,214
Pakistan	**1,104**	14,450
Other countries and regions	**4,323**	5,170
Total	**255,443**	506,257

Information about major customers

The following illustrates the revenue from customers which contributing over 10% of the total revenue of the Group:

	Year ended 31 December	
	2020	2019
	HK$'000	*HK$'000*
Customer A	**46,546**	65,450
Customer B	**37,282**	N/A *(Note)*
Customer C	**30,632**	N/A *(Note)*
Customer D	**N/A** *(Note)*	70,084

Note: The corresponding revenue did not contribute over 10% of the total revenue of the Group for the corresponding reporting period.

6. OTHER INCOME

	Year ended 31 December	
	2020	2019
	HK$'000	*HK$'000*
Interest income from bank deposits	**1,379**	2,350
Services fee income *(note i)*	**5,602**	6,761
Storage income	**360**	405
Government grants *(note ii)*	**2,878**	562
Sample charge income	**996**	–
	11,215	10,078

Note:

(i) Service fee income mainly includes income from provision of management service to a joint venture including the use of premises, office equipment, utilities, facilities and consumables at a monthly sum of HK$450,000 (2019: HK$450,000).

(ii) During the current year, the Group recognised government grants of HK$2,484,000 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 years.

7. OTHER GAINS AND LOSSES

	Year ended 31 December	
	2020	2019
	HK$'000	*HK$'000*
Gain on disposal of property, plant and equipment	**196**	1,272
Net foreign exchange gain	**2,097**	2,615
Others	**(228)**	(338)
	2,065	3,549

8. (LOSS) PROFIT BEFORE TAX

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

	Year ended 31 December	
	2020	2019
	HK$'000	*HK$'000*
Directors' remuneration:		
— Emoluments, salaries and other benefits	**15,494**	17,526
— Retirement benefit scheme contributions	**36**	36
	15,530	17,562
Other staff salaries and allowances	**34,301**	47,007
Retirement benefit scheme contributions, excluding those of directors	**711**	3,921
Total employee benefits expenses	**50,542**	68,490
Capitalised as cost of inventories manufactured	**(13,321)**	(19,308)
	37,221	49,182
Depreciation of property, plant and equipment	**12,161**	11,745
Depreciation of right-of-use assets	**8,236**	8,591
Amortisation of other intangible assets	**492**	514
	20,889	20,850
Capitalised as cost of inventories manufactured	**(9,800)**	(9,770)
	11,089	11,080
Auditor's remuneration	**2,372**	2,045
Cost of inventories recognised as an expense	**230,693**	403,587
Write-down of inventories	**950**	–

9. INCOME TAX (CREDIT) EXPENSE

	Year ended 31 December	
	2020	2019
	HK$'000	*HK$'000*
Current tax:		
— Hong Kong profits tax	**–**	838
— PRC enterprise income tax	**1,747**	1,666
(Over) Under provision in prior years		
— Hong Kong profits tax	**(1,501)**	247
— PRC enterprise income tax	**156**	91
	402	2,842
Deferred tax	**(2,024)**	150
Total	**(1,622)**	2,992

Hong Kong

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

For the year ended 31 December 2019, the Hong Kong profits tax of the qualifying group entity was calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million. There is no assessable profits in Hong Kong for the year ended 31 December 2020.

The PRC

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the standard PRC Enterprise Income Rax rate ("PRC EIT rate") of the PRC subsidiaries is 25% (2019: 25%). As one of the PRC subsidiaries of the Group was qualified as "High-tech Enterprise" in 2020 in relation to their production activities, this PRC subsidiary was subject to a preferential PRC EIT rate of 15% for three years starting from 1 January 2020.

10. (LOSS) EARNINGS PER SHARE

The calculation of basic (loss) earnings per share for the years ended 31 December 2020 and 2019 is based on the following data:

	Year ended 31 December	
	2020	2019
	HK$'000	*HK$'000*
Earning for the purpose of basic (loss) earnings per share ((loss) profit for the year attributable to owners of the Company)	**(41,032)**	5,268

	Year ended 31 December	
	2020	2019
	'000	*'000*
Number of ordinary shares for the purpose of basic (loss) earnings per share	**640,000**	640,000

No diluted earnings per share for both 2020 and 2019 were presented as there were no potential ordinary shares in issue for both 2020 and 2019.

11. DIVIDEND

The Board does not recommend the payment of any dividend for the year ended 31 December 2020 (2019: a final dividend of HK0.8 cents).

12. TRADE AND OTHER RECEIVABLES

	At 31 December	
	2020	2019
	HK$'000	*HK$'000*
Trade and bills receivables	**29,108**	33,303
Less: Allowance for credit loss	**(617)**	(533)
	28,491	32,770
Prepayments	**3,687**	3,590
Value-added tax recoverable	**23,598**	28,917
Utility and rental deposits	**1,473**	1,436
Others	**843**	2,115
	58,092	68,828

As at 31 December 2020, trade receivables from contracts with customers carried a gross amount of HK$12,688,000 (2019: HK$20,346,000).

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

	At 31 December	
	2020	2019
	HK$'000	*HK$'000*
Within 30 days	**20,618**	23,004
31 to 60 days	**5,438**	4,408
61 to 120 days	**2,701**	5,233
121 to 180 days	**–**	172
181 to 365 days	**52**	69
More than 365 days	**299**	417
	29,108	33,303

13. TRADE AND OTHER PAYABLES

	At 31 December	
	2020	2019
	HK$'000	*HK$'000*
Trade and bills payables	**41,798**	62,176
Deposits received	**3,980**	7,800
Payroll payables	**5,615**	6,271
Others	**2,908**	4,347
	54,301	80,594

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 31 December	
	2020	2019
	HK$'000	*HK$'000*
Within 30 days	**19,665**	52,059
31 to 60 days	**14,415**	6,502
61 to 180 days	**7,718**	3,615
	41,798	62,176

14. SHARE CAPITAL OF THE COMPANY

	Number of Shares	**Share capital**
		HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
As at 1 January 2019, 31 December 2019 and 31 December 2020	1,000,000,000	10,000
Issued and fully paid:		
As at 1 January 2019, 31 December 2019 and 31 December 2020	640,000,000	6,400

CHAIRMAN'S STATEMENT

The combination of COVID-19 pandemic and trade tensions between the United States (the "U.S.") and the People's Republic of China (the "PRC") resulted in a highly challenging year, as reflected by a decline in economic growth and business investment around the world. Both the denim market and retail industry were invariably impacted, which in turn also affected the performance of the Group. Consequently, the Group recorded revenue totalling HK$255.4 million (2019: HK$506.3 million) and gross profit of HK$23.8 million (2019: HK$102.7 million) for the year ended 31 December 2020 (the "year"). Owing to suppressed economies of scale, gross profit margin decreased to 9.3% as at the year (2019: 20.3%). Loss attributable to owners of the Company was HK$41.0 million (2019: Profit attributable to owners of the Company of HK$5.27 million), while loss per share were HK6.41 cents (2019: Earnings per share of HK0.82 cents) for the year ended 31 December 2020.

Despite the difficult business environment, the Group remains in a healthy financial position. In addition to steady operating cash flows, the Group also has cash and cash equivalents of approximately HK$160.9 million for the year (2019: HK$156.8 million).

BUSINESS REVIEW

Impact of COVID-19

The outbreak of COVID-19 in late 2019, which subsequently was characterised by the World Health Organization as a pandemic in March 2020, brought lockdowns across many countries and cities around the world, including Europe and the U.S. As a result, a large majority of retail brands suspended the operation of their European and American outlets, leaving the textile industrial chain in dire straits. Compounding matters was a sharp spike in COVID-19 cases in the U.S. during the second quarter of 2020, which impacted the Group's business as the majority of its Brand Owner customers are based in the country. Furthermore, the implementation of travel restrictions globally due to the COVID-19 pandemic has led to the suspension of marketing activities, including product promotions in Europe and the PRC, which ultimately affected sales activities that would otherwise benefit U.S. Brand Owners. In view of the above, the Group has decided to temporarily suspend the expansion of production capacity in its Zhongshan factories. It will also forgo participation in overseas and PRC fabric exhibitions.

Measures taken to tackle COVID-19

Following the outbreak of COVID-19, the Group took swift action to mitigate its impact on operations, including the procurement of protective products to maintain high hygiene levels at all of the Group's workplaces in Hong Kong and the PRC. To ensure the safety of colleagues and visitors, the Group purchased large quantities of COVID-19 Rapid Test kits, along with ample hygiene and cleaning products. In addition, it implemented an alternating work-from-home policy when the pandemic took a turn for the worse in February and April 2020. Furthermore, more stringent cost-saving measures were introduced as conditions deteriorated.

Despite the tremendous impact of the COVID-19 pandemic, the Group was able to retain approximately 50% of its sales during the year, which in turn led to a lower inventory turnover rate as well as weakened the influence of the pandemic on its revenue and margins. Moreover, the "new normal" of remotely working from home and staying at home as part of social distancing measures has expedited the online shopping trend. This has subsequently led to the positive sales growth of leisure clothing and denim.

Impact of Sino-U.S. trade war

During the early part of the year, the protracted Sino-U.S. trade war continued, thus hindering the Group's financial growth. Though orders returned to normal levels in the first quarter after Phase One of the Economic and Trade Agreement was signed by the two parties in January 2020, this upturn was short lived as both Europe and the U.S. were impacted by COVID-19 in March, the aftermath of which was felt by the Group for the remaining year. Furthermore, shipment routes taken by garment manufacturers outside Hong Kong and the PRC have continued to decline during the year (2020: 41.8%; 2019: 47.2%) so as to avoid any additional tariffs imposed on products exported to the U.S. from the PRC. This has consequently resulted in fewer orders when compared with past years.

Prospects

The past year was highly challenging owing to uncertainties arising from strained trade ties between the PRC and the U.S., and the outbreak of the COVID-19 virus. In 2021, global economic growth is expected to remain subdued owing to both concerns, hence calling for more conservative expectations towards the industry and the Group's prospects.

With the rollout of COVID-19 vaccines around the world, the Group is nevertheless optimistic about its own business development further down the road. To support such optimism, it will persist in raising its competitiveness so as to quickly react to positive market adjustments when they appear. Correspondingly, the Group will continue with research and development ("R&D") efforts, including the development of environmentally friendly products and practices in order to improve its competitiveness and protect the environment.

Even though the outbreak of COVID-19 resulted in the temporary suspension of production, the Group has nonetheless been able to enhance production-related processes on an ongoing basis. This has been realised by increasing investment in equipment and other hardware, and has extended to enhancements made to the sewage disposal system. In addition, the Group has contracted an engineering company to build waste water treatment facilities within its Zhongshan factories in order to better utilise waste water. The treatment facilities will commence operation in early April 2021, and will enable the Group to reuse water throughout the different stages of the dyeing and finishing processes. Consequently, alongside controlling costs and enhancing production efficiency, the Group will be able to further reduce its environmental footprint — in terms of curbing air and water pollution, all at the same time.

In addition, the Group has continued to focus R&D on creating denim fabrics that have advanced functionalities while maintaining the high-quality, comfort and sustainable qualities that Hingtex is renowned for. Even though most of the Group's business partners adopted work-from-home practices, the Group was able to efficiently research and develop different recyclable fabrics while concurrently liaise with such partners, leading to the securing of more orders. Moreover, with social distancing now becoming part of the "new normal", the Group will place greater effort on seizing opportunities arising from e-commerce so as to develop additional income streams.

Following a review of operating expenses, the Group has elected to re-allocate part of the unutilised net proceeds from its Share Offer as general working capital. Such proceeds will be used for daily business operations and as a contingency for coping with possible economic uncertainties in the future. Since the re-allocation supplements the Group's general working capital, this will enable the Group to have greater flexibility in terms of cash flow management given the enriched financial resources at its disposal. The Group reserves the right to apply the proceeds for its business expansion as and when suitable opportunities arise.

It is worth noting as well that with agreements reached on the sharing of tariff-related costs with its business partners, the Group anticipates business will gradually return to normal. Also, as the turbulent business environment eventually subsides, orders are expected to take an even more encouraging turn. With 40 years in the textile industry, the Group will leverage all of its experience and might to further enhance Hingtex's brand equity and explore business opportunities across various markets. In this way, the Group can transform into a more diversified operation, complete with extensive business network for facilitating its long-term advancement.

TUNG Tsun Hong
Chairman and Executive Director

Hong Kong, 29 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

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.

As disclosed in the announcement of the Company dated 9 March 2021, having considered, among others, (i) the impact of COVID-19 on the Group's operating results for the year; (ii) the cash outflows experienced by the Group since early 2020 due to customers' request for longer credit period while the Group continued to settle its payment obligations to its suppliers on time; and (iii) the implementation of travel restrictions globally due to COVID-19, the Board has resolved to temporarily put on hold (i) the expansion of the Group's production capacity in Zhongshan, the PRC; and (ii) participation in overseas and PRC fabric exhibitions, and revise the allocation of the net proceeds as shown below.

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

	Net Proceeds from the Share Offer *(Note)* *HK$' million*	**Revised allocation of the proceeds** *HK$' million*	**Actual use of proceeds as at the date of this announcement** *HK$' million*	**Remaining proceeds as at the date of this announcement** *HK$' million*	**Expected timeframe of full utilisation of the remaining proceeds**
Purchase of production machinery and equipment and enhance product development capacity	140.1	103.3	53.2	50.1	By the end of 2022
Attend overseas and PRC fabric exhibitions	3.2	–	–	–	–
General working capital	3.7	43.7	3.7	40.0	By the end of 2022
	147.0	147.0	56.9	90.1	

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.

FINANCIAL REVIEW

As at 31 December 2020, bank balances and cash increased by HK$4.1 million to HK$160.9 million (2019: HK$156.8 million), primarily due to the expiry of the term of the structured bank deposit of HK$7.8 million during the year. Inventories decreased by HK$56.9 million to HK$145.2 million (2019: HK$202.1 million) as a result of strategic utilisation of existing raw materials and the approach of maintaining purchases to a minimum. Trade and bills receivables decreased by HK$4.3 million to HK$28.5 million (2019: HK$32.8 million) mainly due to less denim fabrics sold and delivered in the fourth quarter of 2020 against the comparable period in 2019. Current liabilities decreased by HK$30.5 million to HK$133.2 million (2019: HK$163.7 million) mainly due to less purchases made close to 2020 year-end when compared with the same period in 2019.

CAPITAL COMMITMENT

As at 31 December 2020, the Group had no capital commitment.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group generally 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 31 December 2020, net current assets were approximately HK$236.3 million (2019: HK$276.8 million). Bank balances and cash as at 31 December 2020 were approximately HK$160.9 million (2019: HK$156.8 million).

As at 31 December 2020, there were bank borrowings of approximately HK$66.6 million (2019: HK$65.0 million), and the Group has HK$112.3 million in available banking facilities as at 31 December 2020 (2019: HK$171.8 million).

GEARING RATIO

As at 31 December 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% (2019: 17.5%).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2020, the Group had 394 employees (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. In the year ended 31 December 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 31 December 2020 and up to the date of this announcement, no share options were granted.

CAPITAL EXPENDITURE

The Group's capital expenditure was HK$8.1 million during the year (2019: HK$41.9 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. The Group has not experienced any material difficulty or liquidity problems resulting from foreign exchange fluctuations.

As at 31 December 2020, the Group's bank borrowings carried variable rates from 1.4% to 4.2% per annum (2019: 2.2% to 4.1%).

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 31 December 2020, the Group had no material contingent liability.

PLEDGE OF ASSETS

As at 31 December 2020, the Group's lease liabilities were secured by, among others, its property, plant and equipment with carrying value of approximately HK$3.8 million (2019: HK$5.1 million).

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 since the Listing Date and up to the date of this announcement.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (THE "MODEL CODE")

The Company has adopted the Model Code as rules governing dealings by the Directors in the listed securities of the Company since the Listing Date. Based on specific enquiry with the Directors, all Directors have compiled with the required standards as set out in the Model Code since the Listing Date and up to the date of this announcement.

CORPORATE GOVERNANCE

The Company has adopted the Code on Corporate Governance (the "CG Code") as set out in Appendix 14 of the Listing Rules since the Listing Date. The Company confirms it has met the required standards as set out in the CG Code since the Listing Date and up to the date of this announcement.

SCOPE OF WORK OF DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2020 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary 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 Biu Gilbert, Mr. Cheung Che Kit Richard and Mr. Leung Wang Ching Clarence, J.P.. Mr. Tsang Ling Biu Gilbert is the chairman of the Audit Committee. Disclosure of financial information in this announcement complies with Appendix 16 to the Listing Rules. The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2020 in conjunction with the external auditor.

EVENT AFTER THE REPORTING PERIOD

On 9 March 2021, the Board resolved to re-allocate the net proceeds from the initial public offering. For details, please refer to the paragraph headed "Use of Proceeds from the Initial Public Offering" under the section headed "Management Discussion and Analysis" of this announcement.

Save for the above, there were no material events undertaken by the Group subsequent to 31 December 2020 and up to the date of this announcement.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held at 10:00 a.m. on Friday, 28 May 2021 (the "2020 Annual General Meeting"). For determining the entitlement to attend and vote at the 2020 Annual General Meeting, the register of members of the Company will be closed from Tuesday, 25 May 2021 to Friday, 28 May 2021, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the 2020 Annual General Meeting, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 24 May 2021.

DIVIDEND

The Board does not recommend the payment of any dividend for the year ended 31 December 2020.

PUBLICATION OF ANNUAL REPORT

The annual report of our Company for the year ended 31 December 2020 containing all the relevant information required by the Listing Rules and other applicable laws and regulations will be dispatched to the shareholders of the Company 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, 29 March 2021

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..