

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 2021

RESULTS

The interim results of Tungtex (Holdings) Company Limited (the “Company”) and its subsidiaries (the “Group”) for the six months ended 30 September 2021 (the “period”), together with the comparative figures for the six months ended 30 September 2020 are as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2021

		Six months ended 30 September	
		2021	2020
	Notes	HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Revenue	3	232,444	226,736
Cost of sales		(196,821)	(189,492)
Gross profit		35,623	37,244
Other income and other gain		3,107	418
Net reversal of impairment loss (impairment loss) recognised on financial assets		18	(268)
Increase in fair value of investment property		482	—
Gain on disposal of a subsidiary		—	278,139
Selling and distribution costs		(33,153)	(23,497)
Administrative expenses		(36,657)	(49,263)
Finance costs		(1,681)	(2,966)
Share of loss of an associate		(132)	(48)
(Loss) profit before tax	4	(32,393)	239,759
Income tax credit	5	59	22
(Loss) profit for the period		(32,334)	239,781
(Loss) profit for the period attributable to:			
Owners of the Company		(32,022)	240,142
Non-controlling interests		(312)	(361)
		(32,334)	239,781
Basic and diluted (loss) earnings per share (HK cents)	7	(7.1)	53.2

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

For the six months ended 30 September 2021

	Six months ended 30 September	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
(Loss) profit for the period	(32,334)	239,781
Other comprehensive income		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translating foreign operations	1,434	3,571
Other comprehensive income for the period	1,434	3,571
Total comprehensive (expense) income for the period	(30,900)	243,352
Total comprehensive (expense) income for the period attributable to:		
Owners of the Company	(30,588)	243,713
Non-controlling interests	(312)	(361)
	(30,900)	243,352

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2021

		30 September	31 March
		2021	2021
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(unaudited)	(audited)
Non-current assets			
Investment property	8	22,082	21,600
Property, plant and equipment	8	59,095	20,852
Right-of-use assets		21,341	20,808
Intangible asset		—	—
Interests in an associate		679	811
Deferred tax assets		28	34
		<hr/> 103,225	<hr/> 64,105
Current assets			
Inventories		96,344	78,582
Trade and other receivables	9	80,878	81,839
Pledged bank deposits		115,704	115,704
Bank balances and cash		178,035	278,082
		<hr/> 470,961	<hr/> 554,207

		30 September	31 March
		2021	2021
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(unaudited)	(audited)
Current liabilities			
Trade and other payables	<i>10</i>	95,351	74,754
Contract liabilities		6,604	12,270
Lease liabilities		6,405	5,633
Amount due to an associate		189	544
Tax liabilities		25	58
Bank borrowings		72,044	93,590
		<u>180,618</u>	<u>186,849</u>
Net current assets		<u>290,343</u>	<u>367,358</u>
Total assets less current liabilities		<u>393,568</u>	<u>431,463</u>
Non-current liabilities			
Lease liabilities		9,519	9,658
Deferred tax liabilities		704	794
		<u>10,223</u>	<u>10,452</u>
		<u>383,345</u>	<u>421,011</u>
Capital and reserves			
Share capital	<i>11</i>	254,112	254,112
Reserves		140,152	177,506
Equity attributable to owners of the Company		<u>394,264</u>	<u>431,618</u>
Non-controlling interests		<u>(10,919)</u>	<u>(10,607)</u>
		<u>383,345</u>	<u>421,011</u>

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 2021 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 2021 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 2021. 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 2021 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2021.

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 2021 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2
--	--

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 — Asia, North America 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 2021:

	Asia HK\$'000	North America HK\$'000	Europe and others HK\$'000	Consolidated HK\$'000
REVENUE				
Sales of goods — external	<u>139,367</u>	<u>86,940</u>	<u>6,137</u>	<u>232,444</u>
SEGMENT LOSS	<u>(4,116)</u>	<u>(10,887)</u>	<u>(787)</u>	<u>(15,790)</u>
Increase in fair value of investment property				482
Finance costs				(1,681)
Unallocated income				3,107
Unallocated expenses				(18,379)
Share of loss of an associate				(132)
Loss before tax				<u>(32,393)</u>

Six months ended 30 September 2020:

	Asia HK\$'000	North America HK\$'000	Europe and others HK\$'000	Consolidated HK\$'000
REVENUE				
Sales of goods — external	<u>123,851</u>	<u>96,357</u>	<u>6,528</u>	<u>226,736</u>
SEGMENT (LOSS) PROFIT	<u>(5,888)</u>	<u>(12,728)</u>	<u>249</u>	<u>(18,367)</u>
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				<u>239,759</u>

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, gain on disposal of a subsidiary, change in fair value of investment property, 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. (LOSS) PROFIT BEFORE TAX

	Six months ended 30 September	
	2021 HK\$'000	2020 HK\$'000
(Loss) profit before tax has been arrived at after charging (crediting):		
Directors' remunerations:		
Fees	545	310
Other emoluments	3,050	2,730
Contributions to retirement benefit schemes	54	47
	<u>3,649</u>	<u>3,087</u>
Other employee benefits expenses:		
Salaries, allowances and bonus	47,961	54,081
Contributions to retirement benefit schemes	5,120	3,086
	<u>56,730</u>	<u>60,254</u>
Total employee benefits expenses		
	<u>56,730</u>	<u>60,254</u>
Reversal of allowance for inventories (included in cost of sales), net	(6,892)	(373)
Depreciation of property, plant and equipment	3,014	3,749
Depreciation of right-of-use assets	3,525	2,370
(Gain) loss on disposal of property, plant and equipment	(94)	471
Bank interest income	(1,554)	(418)
Rental income, net of outgoings	(234)	—
	<u>(6,892)</u>	<u>(373)</u>

5. INCOME TAX CREDIT

	Six months ended 30 September	
	2021 HK\$'000	2020 HK\$'000
Current tax:		
Hong Kong	—	—
The People's Republic of China (the "PRC")	25	108
	<u>25</u>	<u>108</u>
Deferred taxation	(84)	(130)
	<u>(59)</u>	<u>(22)</u>

No provision for Hong Kong Profits Tax is made for the six months ended 30 September 2021 and 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 EIT Law and the Implementation Regulation of the EIT Law of the PRC, an entity qualified as micro and small enterprises is subject to preferential tax treatments.

From 1 April 2020 to 30 September 2020, for the first RMB1 million of the assessable profits, it would be taxed at the rate of 5%; for the assessable profits which exceed RMB1 million but not exceeding RMB3 million, would be taxed at the rate of 10%. From 1 April 2021 to 30 September 2021, the portion of annual taxable income not more than RMB1 million of a micro and small enterprise is subject to Enterprise Income Tax calculated at 12.5% of its taxable income at a tax rate of 20%. During the six months ended 30 September 2021 and 2020, a subsidiary of the Company is qualified as a micro and small enterprise and is subject to the relevant preferential tax treatments.

6. DIVIDENDS

A final dividend of HK1.5 cents per share for the year ended 31 March 2021, amounting to HK\$6.8 million was paid by the Company on 15 September 2021. The Board of Directors (the “Board”) does not recommend the payment of an interim dividend for the six months ended 30 September 2021 (six months ended 30 September 2020: HK2.2 cents per share).

On 13 November 2020, the Board 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 were 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 was Thursday, 10 December 2020.

On 27 November 2020, the Board resolved to declare a special dividend of HK22.17 cents per share (“2nd Special Dividend”) in relation to a disposal of a subsidiary, details of which were 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. The payment date of the 2nd Special Dividend was Wednesday, 23 December 2020.

7. BASIC AND DILUTED (LOSS) EARNINGS PER SHARE

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

	Six months ended 30 September	
	2021	2020
	HK\$'000	HK\$'000
(Loss) profit for the period attributable to owners of the Company	<u>(32,022)</u>	<u>240,142</u>
	2021	2020
Weighted average number of ordinary shares in issue during the period for the purpose of basic and diluted (loss) earnings per share	<u>451,067,557</u>	<u>451,165,918</u>

No diluted (loss) earnings per share is presented as there was no potential dilutive ordinary share outstanding for the six months ended 30 September 2021 and 2020.

8. MOVEMENTS IN INVESTMENT PROPERTY, PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 September 2021, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of HK\$35,000 for proceeds of HK\$129,000, resulting in a gain on disposal of HK\$94,000.

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.

The Group spent HK\$41,001,000 (six months ended 30 September 2020: HK\$780,000) on acquisition of property, plant and equipment.

The fair values of the Group’s investment property at 30 September 2021 and 31 March 2021 have been arrived at on the basis of a valuation carried out on that date by Graval Consulting Limited, independent qualified professional valuer not connected with the Group.

The fair value was determined by direct comparison method and depreciated replacement cost method. Direct comparison method, where price per square meter of the property is assessed by reference to market evidence transaction prices for similar use of properties in similar location and conditions in the PRC. Depreciated replacement cost method provides an indication of value by calculating the current replacement or reproduction cost of an asset or building and making deductions for physical deterioration and all other relevant forms of obsolescence.

Under the depreciated replacement cost method, one of the key inputs used in valuing the building and structures was the construction cost per square meter which ranged from HK\$1,348 to HK\$1,549. Under the direct comparison method, one of the key inputs used in valuing the land was the transaction prices per square meter of comparable properties, which ranged from HK\$814 to HK\$1,077.

The resulting increase in fair value of investment property of HK\$482,000 has been recognised directly in profit or loss for the six months ended 30 September 2021.

9. TRADE AND OTHER RECEIVABLES

The Group normally grants a credit period ranging from 14 days to 90 days to its trade customers. As at 30 September 2021, the carrying amount of trade and bills receivables was HK\$53,392,000, net of allowance for credit losses: HK\$84,000 (31 March 2021: HK\$62,699,000, net of allowance for credit losses: HK\$101,000). Included in trade and other receivables are trade and bills receivables, mainly denominated in USD and RMB, 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 2021 HK\$'000	31 March 2021 HK\$'000
Up to 30 days	37,645	38,761
31 — 60 days	12,234	14,092
61 — 90 days	417	7,405
More than 90 days	3,096	2,441
	<u>53,392</u>	<u>62,699</u>

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 2021 HK\$'000	31 March 2021 HK\$'000
Up to 30 days	39,958	23,477
31 — 60 days	12,407	7,414
61 — 90 days	4,052	5,427
More than 90 days	4,771	3,790
	<u>61,188</u>	<u>40,108</u>

11. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Issued and fully paid:		
At 1 April 2020		
Ordinary shares with no par value	451,567,557	254,112
Shares repurchased and cancelled (<i>Note</i>)	(500,000)	
	<u>451,067,557</u>	<u>254,112</u>
At 30 September 2020, 31 March 2021 and 30 September 2021		
Ordinary shares with no par value	<u>451,067,557</u>	<u>254,112</u>

Note:

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

DIVIDEND

A final dividend of HK1.5 cents per share for the year ended 31 March 2021, amounting to HK\$6.8 million was paid by the Company on 15 September 2021. The Board of Directors (the “Board”) does not recommend the payment of an interim dividend for the six months ended 30 September 2021 (six months ended 30 September 2020: HK2.2 cents per share).

On 13 November 2020, the Board 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 were 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 was Thursday, 10 December 2020.

On 27 November 2020, the Board resolved to declare a special dividend of HK22.17 cents per share (“2nd Special Dividend”) in relation to a disposal of a subsidiary, details of which were 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. The payment date of the 2nd Special Dividend was Wednesday, 23 December 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

During the six-month period under review ended 30 September 2021 (the “Period”), continuous economic recovery and increasing consumer confidence were driven by the global vaccination roll-out, massive quantitative easing from the major economies and reopening of major markets.

On the other hand, the world remained in the grip of the coronavirus disease 2019 (“COVID-19”) pandemic and its powerful Delta variant. The recurring waves of the pandemic raged on and triggered different level of social restrictions, even community lockdowns, in many countries including the United States of America (the “USA”), China and Vietnam where our operations, customers and suppliers were located. In addition, uncertainties related to the resurgence of the pandemic and the responsive containment and mitigation measures continued to dampen consumer sentiment and slowed down retail growth.

With the impact of the pandemic continuing to reverberate around many countries and industries, we actively mitigated adverse disruptions in our business and manufacturing operations and our sales performance remained stable for the Period.

Summary of Operating Results

Despite ongoing pandemic-related challenges during the Period, the Group reported steady revenue amounting to HK\$232.4 million, representing a period-on-period increment of 2.5%. Compared with the last corresponding period, the gross profit margin recorded a slight decrease of 1.1 percentage point. Such decrease was mainly due to the temporary diseconomies of scale as a result

of the temporary suspension of operation of our Vietnam production base during mid of July to end of September 2021 (the “Temporary Suspension of Operation of Vietnam Factory”) due to the resurgence of the COVID-19 pandemic in Vietnam, and the additional costs and production inefficiencies incurred during the contingent process of reallocating the production orders from Vietnam production base to the production base in Zhongshan of China in the Period.

Selling and distribution costs for the Period were HK\$33.2 million, representing an increase of 41.1% or HK\$9.7 million as compared to HK\$23.5 million of the last corresponding period. Such increase was mainly attributable to the increase of HK\$3.7 million in advertising and promotion expense, increase of HK\$1.9 million in shop management fee, increase of HK\$2.3 million in retail shop rental and running expenses and increase of HK\$1.2 million in staff costs. Administrative expenses for the Period were HK\$36.7 million, representing a decrease of 25.6% or HK\$12.6 million as compared to HK\$49.3 million of the last corresponding period. Such decrease was mainly attributable to the decrease of staff costs and the savings of other administrative expenses after the complete cessation of manufacturing operation in Shenzhen and Dongguan in 2020.

During the Period, the Group posted a loss before tax of approximately HK\$32.4 million, as compared to the profit before tax of HK\$239.8 million for the last corresponding period which was attributable to a one-off non-operating gain of HK\$278.1 million on disposal of a subsidiary owning a factory in Shenzhen. Excluding all items which were non-operating in nature, the Group recorded an operating loss before tax of HK\$32.9 million for the Period as compared to the operating loss before tax of HK\$38.1 million for the last corresponding period.

Business Review

The continued progress in vaccination campaign and the effective control of the COVID-19 pandemic led to an early and more stabilized recovery of its domestic market in China. China’s economy was poised for expected growth as consumer demand continued to gain traction.

Leveraging on our established manufacturing base in Zhongshan, the Group successfully shifted strategic focus to capture the business opportunities of China’s post-pandemic domestic market. During the Period under review, China continued to be our largest market and major business and manufacturing foothold of the Group.

However, even with the rebound in demand for apparel products, heightened pandemic restrictions in response to widespread regional outbreaks of the COVID-19 Delta variant during the Period negatively affected consumer ardor during major part of China’s summer holidays and led to a more conservative attitude of our domestic customers consisting of premium local brands and retailers in placing their purchase orders. Moreover, strict public health measures remained in place nationwide which continued to post operating difficulties for the retailing and manufacturing industry as a whole. As a result of the precarious pandemic situation, growth of sales to Mainland China domestic retail brands market was adversely affected.

In light of the ongoing threat from the COVID-19 pandemic, we proactively readjusted our retail sales platform and implement strategic initiatives designed to strengthen our competitive position. Online sales and the franchising business continue to be our focus of development. The resiliency of business model together with flexible responses enabled a remarkable growth in our retail revenue and a continuous improvement in operating results of our retail business despite a highly challenging business and operating environment.

Our Vietnam production base strategically mitigates the Group from the adverse impact of the continuing trade tension between China and the USA and allows us to stay competitive on the cost front to well respond to a surge in apparel demands from the West. However, a new round of outbreaks of the COVID-19 Delta variant during the Period in Vietnam resulted in the Temporary Suspension of Operation of Vietnam Factory which interrupted the sales order fulfilment for our major customers in the USA market. We took immediate actions to manage costs and swiftly reallocated certain production orders to Zhongshan by leveraging through the scalability and flexibility of our existing production base in Zhongshan. Against the unfavorable backdrop, sales performance to the USA market remained weak and suffered a decline in the Period.

As of the date of this report, our offices, production bases and sales platforms are operating with the various measures and precautions in place according to the latest national guidelines to ensure a safe and healthy working environment that can brace the sustainable development of its business while minimizing the risk of spreading the COVID-19.

Sales to Asia

During the Period, the Group's sales to Asia, which was mainly the sales to China market, amounted to HK\$139.4 million and posted a period-on-period increase of 12.5%. Of which, our retail business achieved a growth in sales of 28.1% to HK\$102.9 million, and sales to Mainland China domestic retail brands market increased by 1.7% to HK\$34.5 million as compared to the last corresponding period. Besides, sales to other Asian markets declined from HK\$9.6 million to HK\$2.0 million accounting for 1.4% of the entire sales to Asia.

The GDP of China has recorded an increase of around 7.9% and 4.9% for the second and third quarters of 2021 respectively. With the high vaccination ratio and effective ongoing pandemic prevention and control measures, China's domestic consumption spending remained on a path of growth, although ongoing uncertainties of the pandemic continued to be the key factor in affecting consumer confidence.

During the Period, the heightened pandemic restrictions imposed by the respective governments of China and other Asian countries in response to widespread regional outbreaks of the COVID-19 Delta variant continued to adversely impact on the business operation of the retailing and the manufacturing industry as a whole and the Group's sales to those markets accordingly.

Sales to North America

During the Period, the Group's sales to North America decreased moderately by 9.8% to HK\$86.9 million and accounted for about 37.4% of the Group's total revenue.

According to the Bureau of Economic Analysis of the USA, the real GDP of the USA recorded a continued growth of 6.3% and 6.7% in the first and second quarter of 2021 respectively. However, the GDP growth rate of 2% in the third quarter of 2021 marked a sharp slowdown.

Economic recovery of the USA remained to be affected by multitude of challenges such as the impending inflationary pressure and worsened supply chain bottlenecks. While consumer sentiment remained weak as employment was well below pre-pandemic levels, the surge in the COVID-19 cases and fading impact of the government stimulus took a further toll on consumer spending.

With the high level of uncertainty surrounding the economic outlook and evolving pandemic situation, our major retailer customers adopted conservative business strategies and remained prudent when making inventory purchase.

Further, the government-mandated lockdowns in Vietnam had led to the Temporary Suspension of Operation of Vietnam Factory and distortion of our order fulfilment schedule for a significant portion of time during the Period. Against the background of numerous disruptive events, the Group's sales to the USA market experienced a decline of 20.4% as compared to the last corresponding period.

Meanwhile, consumer confidence in Canada was restored due to the improved economic conditions and the progressive vaccination programs which led to more widespread store re-openings. The Group's sales to Canada showed modest growth and recorded an increase of 6.9% as compared to the last corresponding period.

Retailing Business

Whereas many countries across the globe were still subject to massive pandemic-induced disruptions, the relatively fairly stable pandemic situation in China enabled the world's second largest economy to be the first country to show promising rebound and steady recovery of consumer confidence and domestic market.

Against the backdrop of the ongoing threat from the COVID-19 pandemic and entering the age of new normal, our retail team acted with agility and devised various effective sales and marketing improvement initiatives to capture the improved vitality in China's domestic consumption market and to expand our brand awareness across our sales channels. Online sales continued to be our main focus of development, which provided the combined elements of convenience, comfort, and

safety shopping to consumers particularly under the current situation where pandemic threat was still prominent. Albeit keen competition, our online sales channel surpassed expectations and achieved a staggering growth of 51.7% during the Period as compared to the last corresponding period.

Besides online sales channels, franchising business was also a focus of development, particularly in the underpenetrated regions. During the Period, our franchise stores utilized their local knowledge to deepen their engagement with customers and developed flexible marketing and promotional strategies that adapted to the changing pandemic situation.

The Chinese government's zero-tolerance attitude and heightened pandemic restrictions in response to a widespread regional outbreak of the COVID-19 Delta variant during the Period, especially in Guangzhou at the early stage, adversely affected the business volume and gross profit of our self-operating physical channels. As one of our key initiatives, we continued to perform ongoing evaluations of our physical retail sales platform and further streamlined the less cost-effective retail shops to restore profitability. As at 30 September 2021, there were 174 Betu-brand physical shops (31 March 2021: 177 shops) operating in Mainland China.

Surrounded by various uncertainties, we adhered to a light asset operation and lean cost approach to improve our operational flexibility to navigate the challenges, and maintained stringent controls on working capital. During the Period, our broad-based efforts contributed to an encouraging growth of 28.1% in retail revenue to HK\$102.9 million, as compared to HK\$80.4 million of the last corresponding period, and we managed to lower the operating loss before tax to HK\$2.8 million as compared to an operating loss of HK\$3.7 million of the last corresponding period.

Acquisition of Property in Hong Kong

As announced by the Company on 4 June 2021, Fintech (HK) Limited, an indirect wholly-owned subsidiary of the Company (as Purchaser), entered into a provisional agreement with Larry Gross Metal International Limited (as Vendor), who is an independent third party, pursuant to which the Purchaser agreed to acquire and the Vendor agreed to sell a commercial property (including an office premises and a car parking space) situated in Hong Kong at the consideration of HK\$35 million (the "Acquisition").

The Acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and is therefore subject to the notification and announcement requirements in accordance with the Listing Rules.

The completion of the Acquisition took place on 15 July 2021. The Acquisition is in line with the development plan of the Group and the proposed use of proceeds as disclosed previously by the Company in relation to the disposal of a direct wholly-owned subsidiary which owned the factory premises in Shenzhen. The Group will relocate its head office in Hong Kong to the property after the completion of the property renovation in the near future.

Prospects

The emergence of the COVID-19 Delta variant continues to dominate global economic outlook. Moreover, deteriorating geopolitical tension, global supply chain constraints and rising inflationary pressures add complexities to the already volatile external environment, all of which continue to affect the apparel industry and our business operations.

Although China government's swift actions to contain the recent sporadic outbreaks has brought the pandemic situation largely under control, China's economy is now grappling with economic challenges including electric power shortage and property sector's liquidity crunch besides the lingering supply bottlenecks.

Operating under the unpredictable environment, the Group remains vigilant and responds by solid execution and continued expense management on the one hand, while preserving liquidity and financial flexibility to maintain sustainability of our business on the other. We leverage on our competitive edges to enhance our production efficiency and productivity so as to safeguard our firm market position and any business opportunities to drive further business growth.

Meanwhile, given the strong economic fundamentals and the effective monitoring measures in China, the Group remains cautiously confident in the long-term economic development of China's economy which will form the driving force behind the steady growth of China's retail industry and usher in new opportunities for the Group. The Group will continue to devote resources and further optimize our Betu brand retail networks and seize the vast potential of the online sales channels by further exploring popular platforms where target customer groups gather. We will continue to improve customer satisfaction and enhance shopping experience across our omnichannel to maximize sales and improve profit margin.

To cater for the needs of the vast domestic retail brands market, our production base in Zhongshan makes use of locational advantage of domestic production and supplies quality garments with faster turnaround time to better respond to the ever-changing customer tastes and preferences. Our production base in Zhongshan employs cost effective and upgraded production facilities, adopts lean management and runs with extensive experience serving reputable overseas customers and mainland China domestic retail brands including a nation-renowned sportswear group in China.

Despite being hit by the worst outbreaks since the second quarter, Vietnam's economic foundation remains solid and stable. Further, armed with the wide spectrum of trade agreements with many countries including the EU, the UK and other regions, Vietnam still has tremendous development potential favouring the overall development of the country post-pandemic once output and social activities begin to normalise following the gradual roll out of national vaccination programmes.

Our manufacturing plant in Vietnam has been gradually resuming operation since the end of September 2021. We remain watchful on factors affecting our manufacturing operation and will implement relevant measures as and when appropriate.

CAPITAL EXPENDITURE

During the Period, the Group incurred HK\$41.0 million capital expenditure as compared to HK\$0.8 million of the corresponding period last year. Such capital expenditure mainly represented the acquisition of a commercial property in Hong Kong, the regular replacement and upgrading of production facilities and the leasehold improvement of the Group.

LIQUIDITY AND FINANCIAL RESOURCES

The Group continued to adopt a prudent financial management during the Period. As at 30 September 2021, the Group's cash level was recorded at HK\$293.7 million (of which HK\$115.7 million was pledged bank deposits) as compared to HK\$393.8 million (of which HK\$115.7 million was pledged bank deposits) as at 31 March 2021. Most of the bank balances were placed in USD, HKD and RMB short term deposits with major banks. As at 30 September 2021, total bank borrowings of the Group were HK\$72.0 million (which were all short-term bank borrowings and mainly denominated in USD and HKD), as compared to HK\$93.6 million as at 31 March 2021. The Group had no borrowings at fixed interest rates during the Period. The gearing ratio (total bank borrowings to total equity) was 18.8%. During the Period, working capital cycles remained under stringent control, where inventory turnover and trade receivable turnover remained healthy.

As at 30 September 2021, no land and buildings (31 March 2021: HK\$25.6 million) were pledged to banks to secure general banking facilities granted to the Group.

As at 30 September 2021, excluding the pledged bank deposits of HK\$115.7 million which were pledged to banks to secure the general banking facilities of the Group, net cash balance of the Group was HK\$106.0 million, as compared to a net cash balance of HK\$184.5 million as at 31 March 2021. Such decrease of HK\$78.5 million in net cash was mainly attributable to the capital expenditure and operating loss incurred for the Period, and the payment of the final dividend declared for the year ended 31 March 2021 in the Period.

The Group is of the opinion that, after taking into consideration of the internal available financial resources, the current banking facilities and the repayment obligations of bank borrowings, 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 during the prevailing pandemic environment and 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 revenue and cost are denominated in RMB, USD, HKD, VND and EUR. The Group considers the foreign exchange risk is not high as the Group will consider the foreign exchange effect of the terms of purchase and sale contracts dealt with foreign enterprises. The Group enters into forward contracts to hedge the risks as deemed appropriate.

HUMAN RESOURCES

As at 30 September 2021 and 31 March 2021, the Group has approximately 1,300 employees. The Group hires, inspires, retains and rewards competent employees 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.

Total employee benefits expenses, including Directors' remunerations, of the Group amounted to HK\$56.7 million for the Period (six months ended 30 September 2020: HK\$60.3 million). Remuneration of the employees is determined with reference to market terms and the performance, qualification and experience of individual employees. In addition to a basic salary, year-end discretionary bonuses are offered to those staff with outstanding performance to attract and retain eligible employees to contribute to the Group.

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

During the 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.

AUDIT COMMITTEE

The Audit Committee, which comprises three 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 Period.

CORPORATE GOVERNANCE

Throughout the 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 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, 26 November 2021

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