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

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00518)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 MARCH 2022

RESULTS

The audited consolidated results of Tungtex (Holdings) Company Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 March 2022 (the "Year"), together with the comparative figures for the year ended 31 March 2021 are as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 March 2022

	Notes	**2022** ***HK$'000***	2021 *HK$'000*
Revenue	3	**588,269**	460,377
Cost of sales		**(476,223)**	(361,888)
Gross profit		**112,046**	98,489
Other income and other gain		**4,972**	43,060
Net (impairment loss) reversal of impairment loss recognised on financial assets		**(122)**	450
Increase in fair value of investment property		**3,051**	1,056
Gain on disposal of a subsidiary		**–**	278,139
Selling and distribution costs		**(68,947)**	(59,288)
Administrative expenses		**(74,322)**	(101,816)
Finance costs		**(2,908)**	(5,182)
Share of (loss) profit of an associate		**(304)**	35
(Loss) profit before tax	4	**(26,534)**	254,943
Income tax (expenses) credit	5	**(163)**	355
(Loss) profit for the year		**(26,697)**	255,298
(Loss) profit for the year attributable to:			
Owners of the Company		**(26,064)**	255,996
Non-controlling interests		**(633)**	(698)
		(26,697)	255,298
(Loss) earnings per share	7		
Basic and diluted *(HK cents)*		**(5.8)**	56.7

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2022

	2022	2021
	HK$'000	*HK$'000*
(Loss) profit for the year	**(26,697)**	255,298
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translating foreign operations:		
– exchange differences arising during the year	**4,319**	9,996
Items that will not be reclassified to profit or loss:		
Gain on revaluation of a property transferred from property, plant and equipment to investment property	**2,218**	18,012
Other comprehensive income for the year	**6,537**	28,008
Total comprehensive (expense) income for the year	**(20,160)**	283,306
Total comprehensive (expense) income for the year attributable to:		
Owners of the Company	**(19,527)**	284,004
Non-controlling interests	**(633)**	(698)
	(20,160)	283,306

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2022

	Notes	**2022** **HK$'000**	2021 *HK$'000*
Non-current assets			
Investment property		**27,017**	21,600
Property, plant and equipment		**57,482**	20,852
Right-of-use assets		**18,950**	20,808
Intangible asset		**–**	–
Interests in an associate		**507**	811
Deferred tax assets		**12**	34
		103,968	64,105
Current assets			
Inventories		**114,902**	78,582
Trade and other receivables	*8*	**108,907**	81,839
Pledged bank deposits		**105,704**	115,704
Bank balances and cash		**187,551**	278,082
		517,064	554,207

	Notes	2022 HK$'000	2021 HK$'000
Current liabilities			
Trade and other payables	*9*	**113,663**	74,754
Contract liabilities		**12,797**	12,270
Lease liabilities		**6,748**	5,633
Amount due to an associate		**–**	544
Tax liabilities		**171**	58
Bank borrowings		**85,598**	93,590
		218,977	186,849
Net current assets		**298,087**	367,358
Total assets less current liabilities		**402,055**	431,463
Non-current liabilities			
Lease liabilities		**7,247**	9,658
Deferred tax liabilities		**723**	794
		7,970	10,452
		394,085	421,011
Capital and reserves			
Share capital	*10*	**254,112**	254,112
Reserves		**151,213**	177,506
Equity attributable to owners of the Company		**405,325**	431,618
Non-controlling interests		**(11,240)**	(10,607)
		394,085	421,011

Notes:

1. BASIS OF PREPARATION

The financial information presented above and notes thereto are extracted from the Group's consolidated financial statements and presented in accordance with Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Board of Directors (the "Board") is responsible for the preparation of the Group's consolidated financial statements. The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards. The consolidated financial statements have been prepared under the historical cost convention except that an investment property, certain financial assets and financial liabilities are stated at fair values.

The consolidated financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance which concern the preparation of financial statements, in accordance with the requirement of Part 9 of the Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit".

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

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the annual periods beginning on or after 1 April 2021 for the preparation of the consolidated financial statements:

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

In addition, the Group applied the agenda decision of the IFRS Interpretations Committee (the "Committee") of the International Accounting Standards Board issued in June 2021 which clarified the costs an entity should include as "estimated costs necessary to make the sale" which determining the net realisable value of inventories.

Except as described below, the application of the amendments to HKFRSs in the current year had no material impact on the Groups' financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Impacts on application of the agenda decision of the Committee – Cost necessary to sell inventories (HKAS 2 Inventories)

In June 2021, the Committee, through its agenda decision, clarified the costs an entity should include as "estimated costs necessary to make the sale" when determining the net realisable value of inventories. In particular, whether such costs should be limited to those that are incremental to the sale. The Committee concluded that the estimated costs necessary to make the sale should not be limited to those that are incremental but should also include costs that an entity must incur to sell its inventories including those that are not incremental to a particular sale.

The Group's accounting policy prior to the Committee's agenda decision was to determine the net realisable value of inventories taking into consideration incremental costs only. Upon application of the Committee's agenda decision, the Group changed its accounting policy to determine the net realisable value of inventories taking into consideration both incremental costs and other cost necessary to sell inventories. The new accounting policy has been applied retrospectively.

The application of the Committee's agenda decision has had no material impact on the Group's financial positions and performance.

New and amendments to HKFRSs and the new interpretation issued but not yet effective

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

Amendments to HKAS 1	Classification of Liabilities as Current or Non-current[2]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[2]
Amendments to HKFRS 4	Extension of the Temporary Exemption from Applying HKFRS 9[2]
Amendments to HKAS 8	Definition of Accounting Estimates[2]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[2]
Amendments to HKFRS 3, HKAS 16 and HKAS 37	Narrow-Scope Amendments[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
HKFRS 17 and Amendments to HKFRS 17	Insurance Contracts[2]
Accounting Guideline 5 (revised)	Merger Accounting for Common Control Combinations[1]
HK Interpretation 5 (2020)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020[1]

1 Effective for annual periods beginning on or after 1 January 2022
2 Effective for annual periods beginning on or after 1 January 2023
3 No mandatory effective date is determined yet, but early application is permitted.

The directors of the Company anticipate that the application of all the new and amendments to HKFRSs and the new interpretation will have no material impact on the Group's financial positions and performance and/or on the disclosures to the Group in foreseeable future.

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.

For the year ended 31 March 2022:

	Asia	**North America**	**Europe and others**	**Consolidated**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
REVENUE				
Sales of goods – external	**300,800**	**269,176**	**18,293**	**588,269**
SEGMENT PROFIT (LOSS)	**10,011**	**(1,654)**	**(292)**	**8,065**
Increase in fair value of investment property				**3,051**
Finance costs				**(2,908)**
Unallocated income				**4,972**
Unallocated expenses				**(39,410)**
Share of loss of an associate				**(304)**
Loss before tax				**(26,534)**

For the year ended 31 March 2021:

	Asia	North America	Europe and others	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE				
Sales of goods – external	275,564	171,451	13,362	460,377
SEGMENT LOSS	(1,099)	(17,597)	(557)	(19,253)
Increase in fair value of investment property				1,056
Gain on disposal of a subsidiary				278,139
Finance costs				(5,182)
Unallocated income				43,060
Unallocated expenses				(42,912)
Share of profit of an associate				35
Profit before tax				254,943

Segment profit (loss) represents the profit (loss) earned (incurred) 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 investment property, gain on disposal of a subsidiary, share of (loss) profit 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.

Geographical information

The Group's revenue is mainly derived from customers located in the People's Republic of China (the "PRC"), the United States of America (the "USA"), and Canada. The Group's revenue from external customers by the geographical location of the customers are detailed below:

	2022	2021
	HK$'000	*HK$'000*
The PRC	**291,421**	258,821
The USA	**144,943**	86,804
Canada	**124,233**	84,647
Others	**27,672**	30,105
	588,269	460,377

The Group's business activities are conducted predominantly in Hong Kong, the PRC and Vietnam. Information about the Group's non-current assets by the geographical location of the assets is detailed below:

	2022	2021
	HK$'000	*HK$'000*
Hong Kong	**41,964**	8,150
The PRC	**43,798**	38,118
Vietnam	**17,687**	16,992
	103,449	63,260

Note: Non-current assets excluded interests in an associate and deferred tax assets.

Information about major customers

For the year ended 31 March 2022, there is one external customer in North America and one external customer in Asia operating segment (2021: one external customer in North America operating segment) who contributed over 10% of the total sales of the Group. Their contributions were approximately HK$192 million (2021: HK$64 million).

4. (LOSS) PROFIT BEFORE TAX

	2022	2021
	HK$'000	*HK$'000*
(Loss) profit before tax has been arrived at after charging (crediting):		
Directors' remunerations:		
Fees	**1,090**	830
Other emoluments	**7,855**	11,425
Contributions to retirement benefit schemes	**108**	101
	9,053	12,356
Other employee benefits expenses:		
Salaries, allowances and bonus	**98,123**	108,962
Contributions to retirement benefit schemes	**10,932**	12,781
Total employee benefits expenses	**118,108**	134,099
Auditor's remuneration		
– Audit service	**855**	805
– Non-audit services	**279**	722
Cost of inventories recognised as an expense (including reversal of allowance for inventories of HK$5,452,000 (2021: allowance for inventories of HK$5,905,000))	**476,223**	361,888
Depreciation of property, plant and equipment	**7,217**	5,008
Depreciation of right-of-use assets	**7,546**	5,456
Gain on disposal of assets classified as held for sale	**–**	(31,292)
Gain on disposal/write-off of property, plant and equipment	**(451)**	(75)
Net exchange (gain) loss	**(2,577)**	991

5. INCOME TAX (EXPENSES) CREDIT

	2022	2021
	HK$'000	*HK$'000*
Current tax:		
Hong Kong	**–**	–
The PRC	**(212)**	(56)
	(212)	(56)
Deferred taxation	**49**	411
	(163)	355

No provision for Hong Kong Profits Tax is made for the years ended 31 March 2022 and 2021 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%.

PRC subsidiaries, which are micro and small enterprises, enjoy the preferential tax rates. According to the EIT Law and the Implementation Regulation of the EIT Law, an entity qualified as micro and small enterprises is subject to preferential tax treatments.

From 1 January 2019 to 31 December 2020, the annual taxable income not more than RMB1,000,000 of a micro and small enterprises is subject to Enterprise Income Tax (the "EIT") calculated at 25% of its taxable income at a tax rate of 20% and the annual taxable income between RMB1,000,000 and RMB3,000,000 is calculated at 50% of its taxable income at a tax rate of 20%. From 1 January 2021 to 31 December 2021, the annual taxable income not more than RMB1,000,000 of a micro and small enterprises is subject to the EIT calculated at 12.5% of its taxable income at a tax rate of 20% and the annual taxable income between RMB1,000,000 and RMB3,000,000 is calculated at 50% of its taxable income at a tax rate of 20%. From 1 January 2022 to 31 December 2022, the annual taxable income not more than RMB1,000,000 of a micro and small enterprises is subject to the EIT calculated at 12.5% of its taxable income at a tax rate of 20% and the annual taxable income between RMB1,000,000 and RMB3,000,000 is calculated at 25% of its taxable income at a tax rate of 20%. Pursuant to the Notice of the Ministry of Finance and the State Taxation Administration issued in March 2022, the annual taxable income between RMB1,000,000 and RMB3,000,000 will be calculated at 25% of its taxable income at a tax rate of 20%, effective until 31 December 2024.

During the year ended 31 March 2022, there are two subsidiaries (2021: one subsidiary) of the Company qualified as micro and small enterprises and subject to the relevant preferential tax treatments.

6. DIVIDEND

The Board has recommended the payment of a final dividend for the year ended 31 March 2022 of HK0.5 cent per share (2021: HK1.5 cents per share). Subject to shareholders' approval at the annual general meeting of the Company, the final dividend will be paid on 16 September 2022 to shareholders whose names appear on the register of members of the Company on 2 September 2022. The payment date of the final dividend for the year ended 31 March 2021 was Wednesday, 15 September 2021.

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 an interim dividend of HK2.2 cents per share for the six months ended 30 September 2020 and 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:

	2022 ***HK$'000***	2021 *HK$'000*
(Loss) profit for the year attributable to owners of the Company	**(26,064)**	255,996

	2022	2021
Weighted average number of ordinary shares in issue during the year for the purposes of basic and diluted (loss) earnings per share	**451,067,557**	451,116,872

No diluted (loss) earnings per share is presented as there was no potential dilutive ordinary share outstanding for the year ended 31 March 2022 and 2021.

8. TRADE AND OTHER RECEIVABLES

The Group normally grants a credit period ranging from 14 days to 90 days to its trade customers. As at 31 March 2022, the carrying amount of trade and bills receivables was HK$82,681,000, net of allowance for credit losses: HK$144,000 (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:

	2022	2021
	HK$'000	*HK$'000*
Up to 30 days	**61,122**	38,761
31 – 60 days	**10,738**	14,092
61 – 90 days	**6,830**	7,405
More than 90 days	**3,991**	2,441
	82,681	62,699

9. TRADE AND OTHER PAYABLES

The aged analysis of the Group's trade and bills payables presented based on the invoice date at the end of the reporting period are as follows:

	2022	2021
	HK$'000	*HK$'000*
Up to 30 days	**52,571**	23,477
31 – 60 days	**10,102**	7,414
61 – 90 days	**7,342**	5,427
More than 90 days	**7,973**	3,790
	77,988	40,108

10. 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 *(Note)*	(500,000)	
At 31 March 2021 and 31 March 2022		
Ordinary shares with no par value	**451,067,557**	**254,112**

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.

FINAL DIVIDEND

The Board of Directors (the "Board") has recommended the payment of a final dividend for the year ended 31 March 2022 of HK0.5 cent per share (2021: HK1.5 cents per share). Subject to shareholders' approval at the annual general meeting of the Company, the final dividend will be paid on 16 September 2022 to shareholders whose names appear on the register of members of the Company on 2 September 2022. The payment date of the final dividend for the year ended 31 March 2021 was Wednesday, 15 September 2021.

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.

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CLOSURE OF REGISTER OF MEMBERS

For determining the shareholders' entitlement to receive the proposed final dividend:

Latest time to lodge transfers	4:30 p.m. on Thursday, 1 September 2022
Closure of register of members of the Company	Friday, 2 September 2022
Record date	Friday, 2 September 2022
Payment date	Friday, 16 September 2022

In order to qualify for the proposed final 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

SUMMARY OF OPERATING RESULTS

Benefiting from the strong growth in export demand from our North American market, the Group achieved total revenue of HK$588.3 million during the year ended 31 March 2022 (the "Year") as compared to HK$460.4 million of the last corresponding year, representing an encouraging increase of 27.8% despite the broad-based disruptive shocks from the coronavirus disease 2019 ("COVID-19").

With the upturn in revenue, gross profit increased by 13.8% year-on-year to HK$112.0 million, representing gross profit margin of 19.0% which was about 2.4 percentage point lower than that of the last corresponding year, mainly due to (i) the significant cost pressure and inefficiencies arising from the widespread supply and logistical bottlenecks on top of an adverse impact of production stoppage caused by the outbreak of the COVID-19 variants during the Year and (ii) the relatively higher growth rate of sales in manufacturing segment for the Year.

The Group posted a loss before tax of HK$26.5 million for the Year, as compared to a profit before tax of HK$254.9 million for the last corresponding year which included one-off non-operating gains of HK$278.1 million on disposal of a subsidiary owning a factory premises in Shenzhen and HK$31.3 million on disposal of assets classified as held for sale in relation to the disposal of the factory premises in Dongguan respectively.

Without taking into account the impact of one-off and non-operating items, the Group recorded year-on-year reduction of 46.7% in operating loss before tax to HK$29.6 million as compared to the operating loss before tax of HK$55.5 million for the last corresponding year, reflecting the combined favourable outcome of the rebound in revenue alongside our proactive and ongoing cost and efficiency improvement initiatives during the Year.

In line with our business growth, selling and distribution costs increased by 16.3% to HK$68.9 million for the Year (2021: HK$59.3 million) which was mainly as a result of (i) the increase in advertising and promotion expense driven by the increase of 43.8% in online sales and the Group's conscious brand-building efforts to enhance our brand awareness, and (ii) the increase in freight and handling charges driven by the significant growth in export sales and the escalating freight costs against the backdrop of widespread delivery and logistical bottlenecks caused by the outbreak of the COVID-19 variants during the Year.

Administrative expenses decreased by 27.0% to HK$74.3 million for the Year (2021: HK$101.8 million) primarily due to (i) the complete cessation of the Group's manufacturing operation in Shenzhen and Dongguan in 2020, (ii) the decrease in staff costs as a result of the consolidated factory operation and streamlined human resources and operational management of the Group, (iii) the decrease in performance-based directors' emoluments and (iv) the Group's overall stringent cost control during the Year.

Finance costs decreased from HK$5.2 million for the last corresponding year to approximately HK$2.9 million for the Year, representing a drop of 43.9% which was attributable to the Group's effective deployment of cashflows and working capital management.

BUSINESS REVIEW

Due to its effective pandemic control policy, China began 2021 in a relatively strong position. We improved our performance during the first half of the Year and our retail business was on track to pick up further momentum. However, retail industry and the overall consumption sector in the second half of the Year was reeling from the adverse impacts of renewed outbreaks driven by new variants of the COVID-19 leading to aggressive restrictions and swift lockdowns of some of China's largest cities including Shenzhen and Guangzhou, resulting in dampened consumer confidence, significant decline in foot traffic and reduced consumer spending in our physical stores. Inevitably, the growth prospects and performance of our physical retail operation were negatively affected.

Notwithstanding the adverse impact of the COVID-19 pandemic (the "Pandemic") on in-store shopping, domestic spending in the form of e-commerce continued to register gigantic growth in China. Throughout the period of disruptions, the Group proactively served our customers through our online channels. We repositioned to upscale the scope, coverage, and offerings of our e-commerce operation, and drove our customers online and experienced a sustained and promising acceleration in sales fulfilled through the digital channel. Given our strength in digital sales and in line with the complementary advantage of our physical platform to provide quality in-store experience, the management managed to grow the overall revenue of our retail business despite the volatile environment.

Apart from retail operations, manufacturing industries in China also fraught with multitude of domestic issues and faced new and existing challenges brought on by the global supply shocks and logistical bottlenecks resulting in rising costs and shortages of many kinds.

Our management effectively adjusted the Group's sourcing policy by leveraging on our own local supply ecosystems of onshore or nearshore suppliers for a wide range of raw materials and inputs to reduce the pressure associated with rising freight and unscheduled delays. At the same time, we integrated and consolidated our production capacity to prepare for the anticipated uncertainties in production demand. Benefited from flexible operating scale and significantly enhanced sample room system which speedily responded to customers' needs, our production platform in Zhongshan demonstrated exceptional operation resilience in serving the dynamic China market while accommodating with the surging production needs from our export business particularly during the second half of the Year. As a result, production originated from China accounted for 88.1% (2021: 78.6%) of the Group's total output during the Year.

The prevailing Pandemic in Southeast Asia and the unpredictable lockdown measures by local authorities had led to intermittent disruptions or temporary unavailability of production capacity in our manufacturing operation in Vietnam during the first half of the Year. Besides the operational disruptions, exports to overseas markets also faced unprecedented uncertainty of global logistics interruptions resulting in escalating freight rate and unpredictable delivery schedule. Amid the unforeseen difficulties, the Company worked closely than ever with our key customers in the North American regions to best accommodate their needs. The Company also took actions to manage through the disruptions, including shipping customer orders by air freight and switching over production as necessary to our Zhongshan production plant to mitigate the adverse impact of delayed deliveries or cancellation of orders from our overseas customers.

Our strong production capability and unwavering commitment to serve our long-standing customers brought forth strong demand of our apparel products and led to remarkable rebound in export sales in the second half of the Year despite the rampant outbreaks of the highly transmissible Delta variant and subsequent Omicron variant.

As of 31 March 2022, all of our operations and facilities have resumed and have adopted health measures that are in full compliance with relevant government health regulations. Meanwhile, we continue to put the spotlight on protecting the health and well-being of our employees by implementing effective anti-Pandemic measures and allowing extra flexibility in work arrangement, which boosted positive morale and enhance productivity during the difficult period.

SALES TO ASIA

The Group's sales to Asia recorded a moderate increase of 9.2% to HK$300.8 million during the Year (2021: HK$275.6 million). Sales to China remained the key market and contributed to 96.9% and 49.5% of sales to Asia and total sales of the Group respectively.

China's gross domestic product (the "GDP") growth was 4% in the fourth quarter of 2021 but reached a year-on-year growth rate of 8.1% to record the fastest expansion in nearly a decade, despite strict COVID-19 curbs in many regions and domestic headwinds particularly from the sluggish property sector which temporarily slowed down the pace of the country's growth.

During the Year, as the Pandemic continued to spread globally, international tourism remained restricted, and consumers concentrated their accumulated savings and suppressed consumption desires into local consumption. Moreover, despite the imposition of stringent mobility restrictions by the local authorities continued to hard hit in-store shopping, retail sales growth was propelled by new levels of consumer activity across e-commerce platforms. Benefited from the management's proactive strategic response and our strength in online channels which well adapted to the shift in consumption patterns, the Group was able to achieve an overall growth of 16.0% to HK$225.4 million in our retail sales amid an intensely competitive environment.

In view of the opportunities and challenges presented by the ongoing Pandemic controls, our domestic brand customers maintained a cautiously optimistic outlook towards the local retail market. The flexible response of our Zhongshan production base to swiftly address to their changing production needs led to increasing production orders from our business customers and a slight growth of 0.8% to HK$65.0 million in sales to domestic retail brands segment was recorded accordingly.

SALES TO NORTH AMERICA

During the Year, driven by dramatic growth in demands from our customers, sales to North America regained momentum and registered an impressive increase of 57.0% to of HK$269.2 million (2021: HK$171.5 million). Sales to the U.S. and Canada demonstrated exceptional resilience and recorded revenue of HK$144.9 million and HK$124.2 million, representing a remarkable growth of 67.0% and 46.8% respectively when compared with the last corresponding year and become the key drivers of growth.

Following a record 3.5% contraction in 2020, the American economy expanded an annualised 6.9% during the fourth quarter and advanced 5.7% for the full year of 2021, the most since 1984 despite soaring prices and impact of the Omicron variant wave.

On the back of a high rate of vaccinations and saving, strong end-customer demand surged forth as people unleashed their pent-up buying power amid the relaxing of COVID-19 measures leading to upturn in retail sales and increasing confidence of our apparel brand customers to replenish their depleted stock level.

Order sentiment was further reinforced by the adverse impact of the lingering Pandemic on major apparel manufacturing hubs in East Asia regions and international shipment capacity which caused global brands to place their manufacturing orders ahead of schedule in order to lock up future deliveries and mitigate the risks of unpredictable delivery and stockouts during major festive seasons.

In a similar vein, even though multiple Omicron variant waves had slowed down Canada's economic recovery, the country's GDP expanded on a high note of 4.6% in 2021, after a 5.2% contraction in 2020 as mass vaccination allowed for more reopening across the country. Household financial position remained strong with high accumulated savings and hence following the relaxation of COVID-19 restrictions, consumer confidence was largely restored and accelerated consumer spending towards discretionary consumption.

RETAILING

Despite the relatively effective anti-epidemic measures in China, retail activities remained dampened by the emergence of new COVID-19 variants. Revenue from physical store operation in the Year declined by a year-on-year 18.1% due to the continued and cumulative depressing effects of the Pandemic control measures. On the other hand, as the Group has pivoted towards e-commerce, our remarkable performance from online channels outpaced the lower revenue from offline store channels and led to an overall increase of 16.0% in total retail sales of the Group from HK$194.3 million in the last corresponding year to HK$225.4 million during the Year. The overall costs correspondingly rose on account of changes in channel mix, supply chain disruptions, as well as increased labour and operating cost in China.

Operating under the impact of the evolving Pandemic and ever-changing consumers' behaviours, management is cognizant of the new challenges and growth opportunities facing the retail industry in China. Besides the intense level of competition, management was aware of the domestic headwinds during the Year which were significantly impacting costs, margins and profitability of our retailing business.

In response, the Group managed the retail operations under the two-pronged approach of efficiency maximisation and cost minimisation in order to improve our operating performance and maintain margins, while constantly adjusting our strategies and priorities to better adapt to the prevailing circumstances. Our steadfast commitment to maintain a favourable cost structure enabled our retailing business to record an operating profit of HK$3.1 million despite an incredibly challenging operating environment.

Concurrently, we cautiously evaluated the appropriate store base in light of the prevailing economic and Pandemic conditions as well as our repositioned sales platform strategy which focused on maximizing our omni-channel capabilities. Management continued to close loss-making stores or stores in location unaligned to present strategy. As at 31 March 2022, there were a total number of 173 Betu-brand physical stores (including self-owned and franchised stores) in China, representing a net decrease of 4 since the beginning of the Year.

On the other hand, the Pandemic has powered and accelerated the megatrend towards the growth of online consumption in an otherwise difficult retail environment. During the Year, partnership with traditional e-commerce platforms in China remained one of our most important sales strategies of the Group to foster brand popularity and grow online sales more efficiently and effectively. Benefited from long history of cooperation with major e-commerce platforms, the Group capitalised on their huge customer base and marketing resources to maintain progressive sales performance which contributed to a growth of 43.8% in online revenue and an increasing proportion of online to total retail sales from 55.1% to 68.3% during the Year.

Building upon the strong growth momentum from well-established e-commerce platforms, we actively boosted additional leads through exploring new marketing tactics and diversifying into popular social media platforms, such as Xiaohongshu (小紅書), Douyin and wechat to facilitate a deeper communication of our brand and sales conversion. Recognising the shift to digital interactions will only accelerate, we will continue to broaden and elevate our online product offerings in order to improve customer experience, expand our customer base and market share. At the same time, the Group also expedited to optimise our distribution capabilities and capacity to cater for the increase in digital demand and pave way for future growth.

PROSPECTS

While year 2022 began with a new global wave of COVID-19 which has reversed much of global recovery progress, the prospects for the rest of the year and beyond remains hinged on the big unknown of future COVID-19 variants. Despite the reopening of various countries and increase in vaccine distribution, global economy and our industry continue to face multiple challenges brought forth by the lingering pandemic, a highly volatile global supply chain environment, hiking inflation, rising interest rate and recently compounded by the Russia-Ukraine war which have further decelerated growth momentum. Against these backdrops, management expects there will be continued uncertainty and challenges in the near-term.

In China, following the effective enforcement of the "dynamic-zero" COVID-19 policy at different economically important locations to contain the spread of the virus, the government has once again successfully stabilised the country from the worst of the Pandemic. However, in view of the significant downward pressures on China's economy, the State Council has recently issued a new set of opinions aiming at boosting post-COVID-19 recovery and domestic consumption to fuel the country's long-term growth objectives. Besides, it is expected that the Chinese government will further bolster economic stability by undertaking more aggressive measures including further policy easing and prioritizing of infrastructure investment.

Under the strong support of national policies and barring further severe waves of infection, the Group believes the long-term vitality and growth outlook of the PRC economy will not change. Meanwhile, we witness the emergence of a younger generation of consumers in China who possess substantial consumption power and demand fashionable apparels that express their individuality and distinguished lifestyles without inclining to international brands. We believe the consumption upgrade due to a change in consumer structure and government's efforts towards high quality domestic spending will provide new impetus for the development of the retail industry driving the next wave of consumption growth as well as continual flourishing of domestic retail brands.

With decades of solid operating history, our production platform in Zhongshan has demonstrated high level of competence and resilience to maintain excellent quality and on-time production under an adverse operating environment. The Group has great commitment to capitalise on our industry knowledge, advanced and scalable production capabilities, and together with the strong local supply chain networks to sustain our competitive edge as a premium apparel manufacturer to capture future growth, expand customer base and improve margins.

In response to the digital dominant shopping preference and a younger generation consumer group who are more digital savvy, the Group will aggressively increase the pace and scale of online sales by capitalising on the popularity of traditional e-commerce platforms as well as rapid development of emerging social media platforms to further expand brand exposure and customer growth. Meanwhile, we continue to deliver improved and personalised customer experience by maximizing omni-channel efficiency and market coverage. We aspire to harness the huge transformative potential of digital and innovative technologies to evolve into a responsive and agile organization to better serve our customers under the new consumption landscape.

As for our export business, the order book from our existing customers as at 31 March 2022 remains strong. The close collaboration with our customers in the North American market to overcome the global logistical turmoil has fostered a strong relationship of mutual trust with the Group being viewed as their long-term strategic partner in critical links of their value chains.

A wider vaccination coverage has led to a more "co-existent" approach to dealing with the virus by the Vietnamese government since the end of 2021. With full vaccination of our employees and the taking of effective prevention and protection measures, operational disruptions to production in Vietnam have gradually subsided and the management is now actively refocusing our efforts to drive stability and expansion of our production capacity in preparation for the surging post-pandemic demand growth in our overseas markets.

Looking ahead, as the crisis continues to evolve, the Group remains vigilant and reactive for health measures under the guidance of local authorities to ensure the safety of our employees, customers, and business associates. In view of the near-term challenges, we continue to be prudent in financial and liquidity management, while optimizing production and any cost-saving initiatives. More importantly, as we stay focused on driving long-term growth, we remain mindful to balance the needs of various stakeholders to create value for our customers, shareholders, the broader environment, and the communities in which we operate.

CAPITAL EXPENDITURE

During the Year, the Group incurred HK$43.6 million capital expenditure compared to HK$2.4 million of the last corresponding year. Such capital expenditure mainly represented the acquisition of a commercial property in Hong Kong, the regular replacement and upgrading of production facilities, and leasehold improvement of the Group.

LIQUIDITY AND FINANCIAL RESOURCES

The Group adopted prudent financial management and sustain a sound financial position throughout the Year. As at 31 March 2022, the Group's cash level was recorded at HK$293.3 million (of which HK$105.7 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 31 March 2022, total bank borrowings of the Group were HK$85.6 million (which were all short-term bank borrowings and mainly denominated in HKD and USD), as compared to HK$93.6 million as at 31 March 2021. The Group had no borrowings at fixed interest rates during the Year. As at 31 March 2022, the gearing ratio (total bank borrowings to total equity) was 21.7%.

Throughout the Year, the Group performed effective deployment of cashflows and working capital management. Working capital cycles remained under stringent control. Inventory turnover is 71 days compared to 62 days of last corresponding year. The increase of inventory turnover days was mainly attributable to the higher inventory level of the manufacturing segment as at the year-end date to support the relatively higher order volume for delivery in the first quarter subsequent to the year-end date.

Trade receivable turnover is 51 days as compared to 50 days of the last corresponding year, reflecting the higher export sales in the fourth quarter of the Year on a year-on-year basis.

At 31 March 2022, no land and buildings (2021: HK$25.6 million) were pledged to banks to secure general banking facilities granted to the Group.

As at 31 March 2022, excluding the pledged bank deposits of HK$105.7 million which were pledged to banks to secure the general banking facilities of the Group, net cash balance of the Group was HK$102.0 million, as compared to HK$184.5 million as at 31 March 2021. Such decrease of HK$82.5 million in net cash was mainly attributable to the operating loss for the Year, the capital expenditure incurred for the purchase and corresponding renovation of the new head office premises of the Company and the payment of the final dividend declared for the year ended 31 March 2021 in the Year.

The Group is of the opinion that, after taking into consideration of the current banking facilities and the repayment obligations of bank borrowings, the Group will continue to retain sufficient funds for meeting the financial obligations of its business when they fall due, supporting its business growth and financing its future investment.

FINANCIAL REVIEW

The Key Performance Indicators ("KPI") judged by the directors to be effective in measuring the development, performance or position of the business of the Group include:

Percentage of consolidated cost of sales

Percentage of consolidated cost of sales for the Year increased to 81.0% (2021: 78.6%). The comparison of percentage of consolidated cost of sales is as follows:

	2022	2021
	HK$'000	*HK$'000*
Revenue	**588,269**	460,377
Cost of sales	**(476,223)**	(361,888)
Percentage of consolidated cost of sales	**81.0%**	78.6%

The increase of 2.4 percentage point in cost of sales was mainly due to (i) the significant cost pressure and inefficiencies arising from the widespread supply and logistical bottlenecks on top of an adverse impact of production stoppage caused by the outbreak of the COVID-19 variants during the Year, and (ii) the relatively higher growth rate of sales in the manufacturing segment for the Year.

Selling and distribution costs and administrative expenses

The comparison of selling and distribution costs and administrative expenses for the Year to last corresponding year is as follows:

	2022	2021	%
	HK$'000	*HK$'000*	*Changes*
Selling and distribution costs	**68,947**	59,288	16.3%
Administrative expenses	**74,322**	101,816	(27.0%)

Selling and distribution costs

	2022	2021	Changes	%
	HK$'000	*HK$'000*	*HK$'000*	*Changes*
Advertising & promotion expense	**15,738**	11,550	4,188	36.3%
Freight and handling charge	**5,415**	2,442	2,973	121.7%
Shop management fee	**11,546**	9,936	1,610	16.2%
Retail shop rental and running expenses	**12,839**	12,460	379	3.0%
Staff costs	**17,253**	18,071	(818)	(4.5%)
Other selling and distribution costs	**6,156**	4,829	1,327	27.5%
Total	**68,947**	59,288	9,659	16.3%

Advertising and promotion expense was essential for the retail operation and brand building, especially for promoting sales through e-commerce platform such as Tmall, Jingdong and Vips. The increase in advertising and promotion expense was attributable to (i) the increase of 43.8% in online sales and (ii) the Group's conscious brand-building efforts to enhance our brand awareness.

The increase of freight and handling charges was attributable to (i) the significant increase in export sales and (ii) the escalating freight costs against the backdrop of widespread delivery and logistical bottlenecks caused by the outbreak of the COVID-19 variants during the Year.

The increase of shop management fee was attributable to the increase of 16.0% in retail sales during the Year.

Administrative expenses

	2022	2021	Changes	%
	HK$'000	*HK$'000*	*HK$'000*	*Changes*
Auditor's remuneration	**1,134**	1,527	(393)	(25.7%)
Depreciation and amortisation	**6,824**	3,496	3,328	95.2%
Entertainment and travelling	**1,946**	2,204	(258)	(11.7%)
Exchange (gain) loss	**(2,577)**	991	(3,568)	(360.0%)
Legal and professional fee	**2,304**	2,944	(640)	(21.7%)
Staff costs	**54,268**	71,305	(17,037)	(23.9%)
Office expenses	**4,177**	4,771	(594)	(12.5%)
Other administrative expenses	**6,246**	14,578	(8,332)	(57.2%)
Total	**74,322**	101,816	(27,494)	(27.0%)

The increase in depreciation and amortisation was mainly attributable to (i) the purchase of the new office premises as the Company's head office during the Year and (ii) the renovation of retail operation.

The decreases in staff costs and other administrative expenses were mainly attributable to (i) the complete cessation of the Group's manufacturing operation in Shenzhen and Dongguan in 2020, (ii) the decrease in staff costs as a result of the consolidated factory operation and streamlined human resources and operational management of the Group, (iii) the decrease in performance-based directors' emoluments and (iv) the Group's overall stringent cost control during the Year.

Earnings before interest, taxes, depreciation and amortisation ("EBITDA")

The Group's negative EBITDA for the Year is HK$8.9 million (2021: EBITDA of HK$270.6 million). The comparison of EBITDA is as follows:

	2022	2021
	HK$'000	*HK$'000*
(Loss) profit for the year	**(26,697)**	255,298
Add:		
Finance costs	**2,908**	5,182
Income tax expenses (credit)	**163**	(355)
Depreciation	**14,763**	10,464
EBITDA	**(8,863)**	270,589

Operating loss

The Group incurred an operating loss before tax of HK$29.6 million for the Year (2021: HK$55.5 million). The comparison of operating loss is as follows:

	2022	2021
	HK$'000	*HK$'000*
(Loss) profit before tax	**(26,534)**	254,943
Less:		
Increase in fair value of investment property	**3,051**	1,056
Gain on disposal of a subsidiary	**–**	278,139
Gain on disposal of assets classified as held for sale	**–**	31,292
Operating loss before tax	**(29,585)**	(55,544)

(Loss) profit before tax

The Group's loss before tax for the Year is HK$26.5 million (2021: profit before tax of HK$254.9 million).

(Loss) earnings per share

The Group's loss per share for the Year is HK5.8 cents (2021: earnings per share of HK56.7 cents).

Inventory turnover days

Inventory turnover days increased by 9 days to 71 days for the Year (2021: 62 days). The comparison of inventory turnover days is as follows:

	2022	2021
	HK$'000	*HK$'000*
Revenue	**588,269**	460,377
Inventory as at 31 March	**114,902**	78,582
Inventory turnover days	**71 days**	62 days

The increase of inventory turnover days was mainly attributable to the higher inventory level of the manufacturing segment as at the year-end date to support the relatively higher order volume from the Group's customers for delivery in the first quarter subsequent to 31 March 2022.

Trade receivable turnover days

Trade receivable turnover days increased by 1 day to 51 days for the Year (2021: 50 days). The comparison of trade receivable turnover days is as follows:

	2022	2021
	HK$'000	*HK$'000*
Revenue	**588,269**	460,377
Trade and bills receivables as at 31 March	**82,681**	62,699
Trade receivable turnover days	**51 days**	50 days

The trade receivable turnover days for the Year reflected the higher export sales in the fourth quarter of the Year on a year-on-year basis.

Other receivables

	2022	2021	Changes	*%*
	HK$'000	*HK$'000*	*HK$'000*	*Changes*
Deposits paid to suppliers and vendors	**17,417**	9,151	8,266	90.3%
Other tax receivables	**3,603**	4,308	(705)	(16.4%)
Prepayment	**1,420**	1,183	237	20.0%
Rental and utilities deposits	**1,840**	2,220	(380)	(17.1%)
Others	**1,946**	2,278	(332)	(14.6%)
Total	**26,226**	19,140	7,086	37.0%

The substantial increase in deposits paid to suppliers and vendors was mainly attributable to the higher volume of purchase orders placed with the suppliers and vendors of the manufacturing segment as at 31 March 2022 to support the relatively higher order volume from the Group's customers for delivery in the first quarter subsequent to 31 March 2022.

Other payables and contract liabilities

	2022	2021	Changes	*%*
	HK$'000	*HK$'000*	*HK$'000*	*Changes*
Accrued subcontracting and processing fees	**5,233**	1,558	3,675	235.9%
Franchise deposits received	**1,744**	1,816	(72)	(4.0%)
Other tax payables	**2,682**	3,408	(726)	(21.3%)
Other accruals and receipts in advance	**3,858**	1,647	2,211	134.2%
Wages payable	**7,160**	6,703	457	6.8%
Contract liabilities	**12,797**	12,270	527	4.3%
Others	**14,998**	19,514	(4,516)	(23.1%)
Total	**48,472**	46,916	1,556	3.3%

TREASURY POLICY

The Group continues 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 and enter into forward contracts to hedge the risks as deemed appropriate.

HUMAN RESOURCES

As at 31 March 2022, the Group has approximately 1,200 employees as compared to approximately 1,300 as at 31 March 2021. Such decrease is mainly attributable to the continuous internal rationalization and streamlining of both manufacturing and retail operations of the Group during the Year.

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. Total employee benefits expenses, including Directors' remunerations, of the Group amounted to HK$118.1 million for the Year (2021: HK$134.1 million). Remuneration of the employees is determined with reference to market terms and the performance, qualification and experience of individual employees. In addition to a basic salary, year-end discretionary bonuses are offered to those staff with outstanding performance to attract and retain eligible employees to contribute to the Group.

PRELIMINARY ANNOUNCEMENT OF AUDITED ANNUAL RESULTS

The financial information relating to the years ended 31 March 2022 and 2021 included in this preliminary announcement of annual results 2022 do not constitute the Company's statutory annual consolidated financial statements for those years 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 Companies Ordinance is as follows:

The Company has delivered the consolidated 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 and will deliver the consolidated financial statements for the year ended 31 March 2022 to the Registrar of Companies in due course.

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

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

During the Year, 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 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 audited consolidated financial statements of the Group for the Year.

CORPORATE GOVERNANCE

Throughout the Year, the Company has complied with all the code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 Year.

PUBLICATION OF FINAL RESULTS AND ANNUAL REPORT

This 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 Annual 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, 28 June 2022

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, Mr. Wilson Yu Wing Sang and Ms. Lee Siu Mei.