# 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 2022

### RESULTS

The unaudited condensed consolidated interim results of Tungtex (Holdings) Company Limited (the "Company") and its subsidiaries (the "Group") for the six months ended 30 September 2022 (the "Period"), together with the comparative figures for the six months ended 30 September 2021 are as follows:

### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*For the six months ended 30 September 2022*

| | | **Six months ended 30 September** | |
|---|---|---|---|
| | *Notes* | **2022**<br>***HK$'000***<br>**(unaudited)** | 2021<br>*HK$'000*<br>(unaudited) |
| Revenue | *3* | **415,433** | 232,444 |
| Cost of sales | | **(335,086)** | (196,821) |
| Gross profit | | **80,347** | 35,623 |
| Other income and other gain | | **3,538** | 3,107 |
| Net (impairment loss) reversal of impairment loss recognised on financial assets | | **(15)** | 18 |
| (Decrease) increase in fair value of investment property | | **(2,500)** | 482 |
| Selling and distribution costs | | **(33,140)** | (33,153) |
| Administrative expenses | | **(38,453)** | (36,657) |
| Finance costs | | **(1,634)** | (1,681) |
| Share of profit (loss) of an associate | | **19** | (132) |
| Profit (loss) before tax | *4* | **8,162** | (32,393) |
| Income tax (expenses) credit | *5* | **(2,376)** | 59 |
| Profit (loss) for the period | | **5,786** | (32,334) |
| Profit (loss) for the period attributable to: | | | |
| Owners of the Company | | **6,165** | (32,022) |
| Non-controlling interests | | **(379)** | (312) |
| | | **5,786** | (32,334) |
| Basic and diluted earnings (loss) per share *(HK cents)* | *7* | **1.4** | (7.1) |

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

*For the six months ended 30 September 2022*

| | Six months ended 30 September | |
|---|---|---|
| | **2022** | 2021 |
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) |
| Profit (loss) for the period | **5,786** | (32,334) |
| Other comprehensive (expense) income | | |
| Item that may be reclassified subsequently to profit or loss: | | |
| Exchange differences arising on translating foreign operations | **(8,974)** | 1,434 |
| Other comprehensive (expense) income for the period | **(8,974)** | 1,434 |
| Total comprehensive expense for the period | **(3,188)** | (30,900) |
| Total comprehensive expense for the period attributable to: | | |
| Owners of the Company | **(2,809)** | (30,588) |
| Non-controlling interests | **(379)** | (312) |
| | **(3,188)** | (30,900) |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 30 September 2022*

| | Notes | 30 September 2022 HK$'000 (unaudited) | 31 March 2022 HK$'000 (audited) |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment property | 8 | **24,517** | 27,017 |
| Property, plant and equipment | 8 | **53,408** | 57,482 |
| Right-of-use assets | | **14,483** | 18,950 |
| Interests in an associate | | **526** | 507 |
| Deferred tax assets | | **4** | 12 |
| | | **92,938** | 103,968 |
| **Current assets** | | | |
| Inventories | | **83,093** | 114,902 |
| Trade and other receivables | 9 | **120,868** | 108,907 |
| Pledged bank deposits | | **110,704** | 105,704 |
| Bank balances and cash | | **185,511** | 187,551 |
| | | **500,176** | 517,064 |
| **Current liabilities** | | | |
| Trade and other payables | 10 | **101,462** | 113,663 |
| Contract liabilities | | **9,799** | 12,797 |
| Lease liabilities | | **4,890** | 6,748 |
| Amount due to an associate | | **59** | – |
| Tax liabilities | | **2,292** | 171 |
| Bank borrowings | | **80,479** | 85,598 |
| | | **198,981** | 218,977 |
| **Net current assets** | | **301,195** | 298,087 |
| **Total assets less current liabilities** | | **394,133** | 402,055 |
| **Non-current liabilities** | | | |
| Lease liabilities | | **4,768** | 7,247 |
| Deferred tax liabilities | | **723** | 723 |
| | | **5,491** | 7,970 |
| | | **388,642** | 394,085 |
| **Capital and reserves** | | | |
| Share capital | 11 | **254,112** | 254,112 |
| Reserves | | **146,149** | 151,213 |
| **Equity attributable to owners of the Company** | | **400,261** | 405,325 |
| **Non-controlling interests** | | **(11,619)** | (11,240) |
| | | **388,642** | 394,085 |

*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 financial information relating to the year ended 31 March 2022 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 2022 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 2022. 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, except for the investment property which is measured at fair value.

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 2022 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2022.

**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 2022 for the preparation of the Group's condensed consolidated financial statements:

| | |
|---|---|
| Amendments to HKFRS 3 | Reference to the Conceptual Framework |
| Amendments to HKAS 16 | Property, Plant and Equipment – Proceeds before Intended Use |
| Amendments to HKAS 37 | Onerous Contracts – Cost of Fulfilling a Contract |
| Amendments to HKFRS 9 | Fees in the '10 Per Cent' Test for Derecognition of Financial Liabilities |
| Accounting Guideline 5 (revised) | Merger Accounting for Common Control Combinations |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2018-2020 |

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 sales of operating segments based on the location of shipment. The Group is principally engaged in the manufacture and sale of garment products and retail of garment products. The Group currently has three operating segments – North America, Asia, and Europe and others.

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

**Segment revenue and results**

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

***Six months ended 30 September 2022:***

| | **North America** *HK$'000* | **Asia** *HK$'000* | **Europe and others** *HK$'000* | **Consolidated** *HK$'000* |
|---|---|---|---|---|
| **REVENUE** | | | | |
| Sales of goods – external | **252,407** | **138,435** | **24,591** | **415,433** |
| **SEGMENT PROFIT** | **21,434** | **7,678** | **2,110** | **31,222** |
| Decrease in fair value of investment property | | | | **(2,500)** |
| Finance costs | | | | **(1,634)** |
| Unallocated income | | | | **3,538** |
| Unallocated expenses | | | | **(22,483)** |
| Share of profit of an associate | | | | **19** |
| Profit before tax | | | | **8,162** |

*Six months ended 30 September 2021:*

| | North America *HK$'000* | Asia *HK$'000* | Europe and others *HK$'000* | Consolidated *HK$'000* |
|---|---|---|---|---|
| **REVENUE** | | | | |
| Sales of goods – external | 86,940 | 139,367 | 6,137 | 232,444 |
| **SEGMENT LOSS** | (10,887) | (4,116) | (787) | (15,790) |
| 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 | | | | (32,393) |

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, share of profit (loss) of an associate, other income and other gain, and finance costs. This is the measure reported to the Company's executive directors for the purposes of resource allocation and assessment of performance.

## 4. PROFIT (LOSS) BEFORE TAX

| | Six months ended 30 September | |
|---|---|---|
| | **2022** | 2021 |
| | ***HK$'000*** | *HK$'000* |
| Profit (loss) before tax has been arrived at after charging (crediting): | | |
| Directors' remunerations: | | |
| Fees | **612** | 545 |
| Other emoluments | **4,290** | 3,050 |
| Contributions to retirement benefit schemes | **54** | 54 |
| | **4,956** | 3,649 |
| Other employee benefits expenses: | | |
| Salaries, allowances and bonus | **52,643** | 47,961 |
| Contributions to retirement benefit schemes | **6,135** | 5,120 |
| Total employee benefits expenses | **63,734** | 56,730 |
| Allowance (reversal of allowance) for inventories (included in cost of sales), net | **2,307** | (6,892) |
| Depreciation of property, plant and equipment | **3,582** | 3,014 |
| Depreciation of right-of-use assets | **3,463** | 3,525 |
| Gain on disposal of property, plant and equipment | **(6)** | (94) |
| Bank interest income | **(993)** | (1,554) |
| Rental income, net of outgoings | **(362)** | (234) |

## 5. INCOME TAX (EXPENSES) CREDIT

| | Six months ended 30 September | |
|---|---|---|
| | **2022** | 2021 |
| | ***HK$'000*** | *HK$'000* |
| Current tax: | | |
| Hong Kong | **(2,193)** | – |
| The People's Republic of China (the "PRC") | **(175)** | (25) |
| | **(2,368)** | (25) |
| Deferred taxation | **(8)** | 84 |
| | **(2,376)** | 59 |

Hong Kong Profits Tax is calculated at the rate of 16.5% on the estimated assessable profits for the Period, except for the first HK$2,000,000 of a qualified entity's assessable profit which is calculated at 8.25%. The two tiered profits tax rates regime is applicable to one entity within the Group for the six months ended 30 September 2022.

No provision for Hong Kong Profits Tax is made for the six months ended 30 September 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 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 (the "EIT") calculated at 12.5% of its taxable income at a tax rate of 20% and the portion of annual taxable income between RMB1 million and RMB3 million is calculated at 50% of its taxable income at a tax rate of 20%. From 1 April 2022 to 30 September 2022, the portion of annual taxable income not more than RMB1 million 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 portion of annual taxable income between RMB1 million and RMB3 million is calculated at 25% of its taxable income at a tax rate of 20%.

During the six months ended 30 September 2022, two subsidiaries (2021: one subsidiary) of the Company are qualified as micro and small enterprises and are subject to the relevant preferential tax treatments.

## 6. DIVIDENDS

A final dividend of HK0.5 cent per share for the year ended 31 March 2022, amounting to HK$2.3 million was paid by the Company on 16 September 2022. The Board of Directors (the "Board") does not recommend the payment of an interim dividend for the six months ended 30 September 2022 (six months ended 30 September 2021: Nil).

## 7. BASIC AND DILUTED EARNINGS (LOSS) PER SHARE

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

| | Six months ended 30 September | |
|---|---|---|
| | **2022** | 2021 |
| | ***HK$'000*** | *HK$'000* |
| Profit (loss) for the period attributable to owners of the Company | **6,165** | (32,022) |

| | **2022** | 2021 |
|---|---|---|
| Weighted average number of ordinary shares in issue during the period for the purpose of basic and diluted earnings (loss) per share | **451,067,557** | 451,067,557 |

No diluted earnings (loss) per share is presented as there was no potential dilutive ordinary share outstanding for the six months ended 30 September 2022 and 2021.

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

During the six months ended 30 September 2022, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of HK$6,000 for proceeds of HK$12,000, resulting in a gain on disposal of HK$6,000.

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.

The Group spent HK$642,000 (six months ended 30 September 2021: HK$41,001,000) on acquisition of property, plant and equipment.

The fair values of the Group's investment property at 30 September 2022 and 31 March 2022 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 the income approach. The income approach operates by taking into account the rental income of the property derived from the existing tenancies with due allowance for the potential reversionary income of the tenanted and vacant portions, which are then capitalised at an appropriate capitalisation rate.

Under the income approach, one of the key inputs used in valuing the building and structures was the rental value per square meter which ranged from HK$11 to HK$26.

The resulting decrease in fair value of investment property of HK$2,500,000 has been recognised directly in profit or loss for the six months ended 30 September 2022 (six months ended 30 September 2021: increase in fair value of HK$482,000).

## 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 2022, the carrying amount of trade and bills receivables was HK$96,567,000, net of allowance for credit losses of HK$147,000 (31 March 2022: HK$82,681,000, net of allowance for credit losses of HK$144,000). 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 2022** *HK$'000* | 31 March 2022 *HK$'000* |
|---|---|---|
| Up to 30 days | **50,488** | 61,122 |
| 31 – 60 days | **33,361** | 10,738 |
| 61 – 90 days | **10,409** | 6,830 |
| More than 90 days | **2,309** | 3,991 |
| | **96,567** | 82,681 |

## 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 2022** *HK$'000* | 31 March 2022 *HK$'000* |
|---|---|---|
| Up to 30 days | **39,040** | 52,571 |
| 31 – 60 days | **12,556** | 10,102 |
| 61 – 90 days | **4,911** | 7,342 |
| More than 90 days | **4,477** | 7,973 |
| | **60,984** | 77,988 |

## 11. SHARE CAPITAL

| | **Number of shares** | **Amount** *HK$'000* |
|---|---|---|
| Issued and fully paid: | | |
| At 1 April 2021, 30 September 2021, 31 March 2022 and 30 September 2022 | | |
| Ordinary shares with no par value | **451,067,557** | **254,112** |

## INTERIM DIVIDEND

The Board of Directors (the "Board") does not recommend the payment of an interim dividend for the six months ended 30 September 2022 (six months ended 30 September 2021: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

During the interim period ended 30 September 2022 (the "Period"), the unfavorable impacts from the lingering threats of the pandemic and the ongoing Russia-Ukraine war led to new waves of disruptions including elevated inflation, interest rate hikes and the lingering supply constraints which continued to weaken consumption sentiment in our major consumer markets, and created mounting challenges for the fashion and apparel industry. Nevertheless, our strong business fundamentals, coupled with our prompt response and agile business strategies, have led to remarkable sales growth and a turnaround financial performance of our core manufacturing and export business for the Period.

### Summary of Operating Results

Driven by the exceptional strength in our North American markets, revenue of the Group sustained unprecedented growth momentum, increased by 78.7% over the last corresponding period to HK$415.4 million (2021: HK$232.4 million), reflecting our robust recovery from the pandemic despite the challenging macroeconomic backdrop.

With the significant increase in revenue, the Group's gross profit rose to HK$80.3 million (2021: HK$35.6 million), and the gross profit margin during the Period increased by 4 percentage point mainly as a result of cost synergy savings arising from the optimised supply chains, together with better capacity utilisation and the economies of scale in line with the incremental sales volume.

Notwithstanding the significant increase in revenue, the overall selling and distribution costs, administrative expenses and finance costs for the Period were maintained at a level similar to that of the last corresponding period, thanks to the Group's persistent discipline in streamlining of operations and the across-the-board conscious efforts to maintain a lean base and effective control on costs and expenses and efficiency initiatives.

Selling and distribution costs for the Period were HK$33.1 million (representing 8.0% of revenue), as compared to HK$33.2 million (representing 14.3% of revenue) of the last corresponding period. Within which, freight and handling charges increased by HK$2.5 million which was more than offset by the decrease of HK$1.9 million in staff costs and the decrease of HK$1.5 million in retail shop rental and running expenses. Administrative expenses for the Period were HK$38.5 million (representing 9.3% of revenue), increased slightly by 4.9% as compared to HK$36.7 million (representing 15.8% of revenue) of the last corresponding period. Such slight increase was mainly attributable to the increase in factoring commission and credit insurance expenses in line with the significant increase in export sales.

As a result, the Group achieved a turnaround financial performance for the Period with a profit before tax of HK$8.2 million, as compared to a loss before tax of HK$32.4 million in the last corresponding period. Excluding non-operating item relating to the change in fair value of investment property, the Group recorded an operating profit before tax of HK$10.7 million as compared to an operating loss before tax of HK$32.9 million in the last corresponding period.

## Business Review

During the Period, the ongoing COVID-19 pandemic and unfavourable global developments continued to impact the Group's sales and operations. Nevertheless, the exceptional resilience the team has built up over years empowered the Group to flexibly pivot our strategic focus from China to the North American markets to keep up with the extraordinary demand while continuing to engage with our customers through a deeper online presence in the Greater China market.

As most of our overseas markets continued to recover from stringent mobility controls, the Group experienced significant upsurge in export order demand. To capture the emerging opportunities, the management promptly refocused on upscaling and recalibrating the capacity and manufacturing operations of our Vietnam factory which significantly strengthened our order fulfilment capability. Meanwhile, the growing demand caused new bottlenecks in the supply chains of Southeast Asian countries which were yet to recover. By leveraging on our extensive experience in strategic sourcing and supply chain management together with the optimised manufacturing capacities of our China production hub, the Group consistently met the delivery commitments of our overseas business customers and drove the substantial acceleration of revenue growth for the Period to reach pre-pandemic sales level.

Geographically, sales to North American region recorded strongest growth of nearly two-fold against the last corresponding period and became our largest market segment during the Period. The Group also experienced a broad-based improvement across other Western and Asian markets besides China following a general recovery after the gradual reopening of their economies, whereas sales to China slowed down due to the significant COVID-19 restrictions.

While our store networks in China remained adversely impacted by the COVID-19 related mobility measures, the Group swiftly reprioritised and strengthened our business development efforts and marketing strategies for customers' demand on online platforms. Digital channels, therefore, continued a path of steady growth and partially offset the revenue decline from our offline channels. Inevitably, sales from the Group's retail segment registered low single-digit decrease during the Period.

To address the challenging retail environment, the Group took swift measures to adjust the inventory and expense base, while continuing to close non-performing operations to be in line with the demand trends and improve profitability. As a result, the management successfully mitigated the adverse financial impacts of the pandemic on the performance of retail segment.

Besides retail operations, the prolonged pandemic also disrupted our manufacturing facilities in Zhongshan and caused turmoil in supply chains. The management made flexible adjustment to our production schedules, capacity planning and choice of production location to address the short-term uncertainties while further optimising our supply chain networks to minimise undue fluctuations in delivery schedule and input costs. However, the frequent and unpredictable COVID-19 lockdowns severely dampened consumer sentiment and led to a high level of business uncertainty, domestic retailers and brand customers therefore turned very conservative in placing orders.

With the adoption of effective anti-epidemic measures together with contingency strategies in place for unpredictable crisis, our Zhongshan production base successfully managed the various disruptions and maintained stable production capacity and steady operations to fulfil the demand of our manufacturing and retail businesses throughout the Period.

***Sales to North America***

Benefitting from relaxation of COVID-19 related mobility restrictions, sales growth in the North American markets increased by 190.3% over the last corresponding period to HK$252.4 million (2021: HK$86.9 million), representing 60.8% of the Group's total revenue during the Period. Of which, sales to the USA increased by 2.2 times to HK$150.0 million, as compared to HK$46.8 million in the last corresponding period.

Heightened inflation and a series of interest rate hikes triggered downturn in economic activity. The gross domestic product ("GDP") of the America decreased at an annual rate of 1.6% and 0.6% in the first two quarters of 2022, before returning to a growth of 2.6% in the third quarter of the year, reflecting the extreme volatility in the economy.

Demand for quality apparel products strongly rebounded as consumers returned to more normalised activities and social occasions. Spending momentum, which was underpinned by a robust labour market and solid wage growth, remained resilient. Household spending was further supported by the accumulated savings built up and due in part to stimulus measures rolled out during the pandemic.

In addition, our unwavering commitments and consistent product quality continued to gain wide recognition from our export customers. Benefitting from the readjustment of supply chains and coupled with the strong recovery of end-consumer demand for fashion apparel, sales to existing as well as new brand customers recorded substantial increase during the Period.

Supported by high commodity exports, the Canadian economy grew at a steady pace which continued to propel domestic spending despite the impact of higher interest rates and rising inflation which increasingly weighed on consumers' affordability. Increase in household spending was also led by higher wage growth along with increased economic activity as well as the strong savings accumulated over the course of the pandemic. Accordingly, sales to Canada sustained continued growth and increased over 1.5 times period-over-period to reach HK$102.4 million (2021: HK$40.2 million).

***Sales to Asia***

During the Period, the Group's sales to Asia remained flat at HK$138.4 million (2021: HK$139.4 million), representing 33.3% of the Group's total revenue for the Period. Sales to China, which accounted for 94.3% of total Group sales to Asian market, decreased by approximately 5.0% period-over-period to HK$130.6 million (2021: HK$137.4 million).

Due to the combination of the prolonged COVID-19 pandemic, crisis in the property market and deteriorating economic conditions, China's GDP grew by only 0.4% in the second quarter and 3.9% in the third quarter of 2022, down from the 4.8% growth seen in the first quarter of the year.

With the frequent outbreaks, the Group closely monitored the pandemic conditions and constantly adapted our operations and retail strategies under the strict COVID-19 control policy. While instore shopping remained subdued due to the stringent mobility restrictions, we continued to cater to consumers' changing shopping needs and preference for convenience, flexibility, speed, and safety through our diversified e-commerce platforms.

Nevertheless, retail sales slightly declined by 3.2% period-over-period to HK$99.7 million (2021: HK$102.9 million), reflecting the adverse impact of the ongoing pandemic on consumer sentiment and weakened in-store sales, though partially offset by ongoing strength of our online channels.

While the ongoing pandemic disruptions had led to sluggish consumer sentiment and dampened retail growth, business confidence was further undermined by the slowing economy and broader worries about global economic outlook, resulting in most of our domestic brand customers reducing their purchases to mitigate the higher risk of excessive stocks. Sales to domestic retail brand customers was therefore adversely affected and reported a decrease of 12.1% period-over-period to HK$30.3 million during the Period.

***Retailing***

During the Period, domestic consumption spending and retail growth in China continued to be overshadowed by threat of the pandemic. The recurring outbreaks which affected Guangzhou and Shenzhen to varying degrees since the beginning of 2022 had led to reduced consumer foot traffic, slow-down and disruptions in operation of certain of our retail stores in those regions and decelerated the pace of our business recovery. As lockdowns and strict activity restrictions became the new normal, consumers' shopping and social networking habits were shifted online leading to a strong uptake of e-commerce.

Under such circumstances, the management remained mindful of epidemic prevention and control, and closely assessed the pandemic's impacts on the market and customer demands, while at the same time nimbly responded by redirecting resources to online channels in line with the changing consumer preferences and consumption behaviour.

While we continued to grow sales incrementally through our long-term partnership with top ecommerce platforms, the Group also made full use of multi-platform and multi-channel marketing scenarios and capitalised on the popularity of social media platforms that closely followed consumer habits and preferences to promote our "betu" brand and drive brand awareness, with an objective to further deepen customer engagement and unlock potential demand.

At a time when physical stores remained impacted by the stringent COVID-19 measures and our sales from offline channels were down by approximately 34.2% when compared to the last corresponding period, our digital channels continued its growth trajectory and sales increased period-over-period by 11.7%. Overall performance of our retail business as a whole remained stable and revenue recorded a marginal decline of 3.2% to HK$99.7 million (2021: HK$102.9 million) for the Period notwithstanding the volatile COVID-19 situation.

As retail industry in China continued to evolve amid the stringent COVID-19 control policy, increased inflationary pressures, demand volatility, and the ever-shifting consumption patterns, the management strategically formulated promotion plans across channels to capture sales while at the same time proactively managing costs and inventory level to better align our retail operations with the weakened demand. Despite the difficult backdrop, our retail operations in China recorded an operating profit before tax of HK$1.7 million, as compared to an operating loss before tax of HK$2.8 million in the last corresponding period.

Given the sluggish and uncertain outlook, the Group closely monitored the cost efficiency of our retail sales channels and right-set the coverage of our store network in line with our omnichannel strategy while closing unprofitable operations that did not meet our strict performance criteria. At the end of the Period, the Group had a total of 155 physical stores in Mainland China, the majority of which were franchised stores, and represented a net reduction of 18 stores when compared to the year ended 31 March 2022.

**Prospects**

The existing and foreseeable economic climate is expected to remain one of heightened uncertainty due to the ongoing war in Ukraine as well as slowdown in major economies including China where its strict COVID-19 control policy remains. While historically high inflation and interest rate hikes, especially in the USA and Europe, continue to weaken consumer discretionary spending, a higher-than-anticipated risk of recession across the globe further weighs on consumer confidence and the retail industry, all of which might adversely affect our operating and financial performance. Taking these factors into account, we anticipate a more disruptive and challenging year ahead.

Notwithstanding the increasing macro-economic headwinds, our solid growth momentum during the Period has reinforced our confidence to cautiously forge ahead in this unprecedented moment where risks and opportunities abound. The turbulence during the Period also underlined the importance of constantly building up agility and flexibility which has enabled the Group to manage through crisis.

Despite the host of challenges facing Mainland China, we remain confident in the growth prospects for the local retail industry in the long run as the development of high-quality domestic consumption remains forefront of the country's long term economic goal. Meanwhile, the central government's supportive measures to revive the economy, together with a younger consumer group structure, the accelerated speed of digitalisation, and popularity of "China-chic" culture will continue to propel the engine of growth for China's vibrant retailing industry and the development of local and home-grown brands.

With our solid brand equity, the Group will continue to optimise our retail operations with digital technology and further deepen engagement with our customers in order to maximise customer satisfaction and evolve with the rapidly changing dynamics of the retail landscape. At the meantime, we will continue to exercise strict control on inventory and expenses and close non-performing physical stores.

Although outlook for the USA remains challenging due to the decades-high inflation and rapid monetary tightening, consumer spending has demonstrated a degree of resilience. Moreover, with the decreasing health threats posed by the COVID-19 and the moving to an endemic approach, together with the government's supportive policy such as the bipartisan infrastructure Bill, we believe domestic consumption growth will continue, albeit at a much slower pace in the near term. As such, the Group remains prudently optimistic on the prospects for high quality apparel products at competitive price. With the US-China relationship remaining competitive going forward, Vietnam will continue to be one of the dominant sourcing bases in Asia for Western markets including the USA and Europe. While our Vietnam factory allows us to stay strategically competitive in the cost front, we endeavour to further strengthen the fundamentals of our manufacturing and supply chain operations in order to remain as the trusted supply partner of choice to our existing and future customers and be well-positioned to capitalise on the growth opportunities in the major consumer markets. In our manufacturing hubs in China and Vietnam, we emphasise lean production and management, ongoing streamlining, cost savings and efficiency enhancement initiatives. We integrate sustainability improvement practice and constantly identify cost efficiencies from reduced waste and resource consumption.

Given ongoing external uncertainties and challenges, the Group will continue to exercise rigorous cost controls in all aspects of the Group's business and organisation, optimise working capital, and proactively strengthen our financial position, while driving utmost efforts towards operational, production and supply chain efficiency to better capture business opportunities. Nevertheless, the Group remains committed to investing in our long-term strategic initiatives, specifically in digital, technology, people and sustainability objectives which will further enhance the Group's resilience and core competencies to stay nimble with the evolving trends shaping the industry and the markets in which we operate.

## CAPITAL EXPENDITURE

During the Period, the Group incurred HK$0.6 million capital expenditure as compared to HK$41.0 million of the corresponding period last year. Such capital expenditure mainly represented the regular replacement and upgrading of production facilities and the leasehold improvement of the Group.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group adopted a prudent financial management and sustained a sound financial position throughout the Period. As at 30 September 2022, the Group's cash level was recorded at HK$296.2 million (of which HK$110.7 million was pledged bank deposits) as compared to HK$293.3 million (of which HK$105.7 million was pledged bank deposits) as at 31 March 2022. Most of the bank balances were placed in USD, HKD and RMB short term deposits with major banks. As at 30 September 2022, total bank borrowings of the Group were HK$80.5 million (which were all short-term bank borrowings and mainly denominated in USD and HKD), as compared to HK$85.6 million as at 31 March 2022. The Group had no borrowings at fixed interest rates during the Period. As at 30 September 2022, the gearing ratio (total bank borrowings to total equity) was 20.7%. During the Period, working capital was under stringent management and remained at healthy level.

As at 30 September 2022, certain buildings with an aggregate net book value of approximately HK$35.0 million (31 March 2022: Nil) were pledged to bank to secure general banking facilities granted to the Group.

As at 30 September 2022, excluding the pledged bank deposits of HK$110.7 million which were pledged to banks to secure the general banking facilities of the Group, net cash balance of the Group was HK$105.0 million, as compared to HK$102.0 million as at 31 March 2022.

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 to meet the financial obligations of its business when they fall due, supporting its business growth and financing its future investment.

## 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.

## FOREIGN EXCHANGE RISK

The Group has currency exposures as substantial portion of sales, purchases, assets and liabilities are denominated in USD, RMB and VND. As such, the Group is exposed to foreign exchange risk arising from such exposure to USD, RMB and VND. The appreciation or devaluation of RMB and VND against USD and HKD may have an impact on the Group's results.

The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and to mitigate the impact on exchange rate fluctuations by entering into currency hedge arrangement, if necessary. The Group will continue to evaluate the Group's foreign currency exposure and take actions as appropriate.

## INTEREST RATE RISK

The Group is exposed to interest rate risk primarily through interest bearing borrowings. Borrowings at floating rates expose the Group to cash flow interest rate risk. The Group regularly monitors its interest rate risk to ensure there are no undue exposures to significant interest rate movements and will consider taking appropriate actions, including but not limited to hedging should the need arise.

## HUMAN RESOURCES

As at 30 September 2022, the Group has approximately 1,300 employees as compared to 1,200 as at 31 March 2022, which was mainly attributable to the increase in production labour headcount during the Period. 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$63.7 million for the Period (six months ended 30 September 2021: HK$56.7 million). Such increase was mainly attributable to the increase in production labour costs during the Period. 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 four independent non-executive directors of the Company, has reviewed with management and the Group's external auditor, D & PARTNERS CPA LIMITED, the accounting principles and practices adopted by the Group and discussed risk management and internal control and financial reporting matters including the review of the unaudited interim results and interim report of the Group for the 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 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 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, 28 November 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.*