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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 2023

RESULTS

The audited consolidated results of Tungtex (Holdings) Company Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 March 2023 (the "Year"), together with the comparative figures for the year ended 31 March 2022 are as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 March 2023

	Notes	**2023** *HK$'000*	2022 *HK$'000*
Revenue	*3*	**753,214**	588,269
Cost of sales		**(591,772)**	(476,223)
Gross profit		**161,442**	112,046
Other income and other gain		**6,744**	4,972
Net impairment loss recognised on financial assets		**(896)**	(122)
(Decrease) increase in fair value of investment property		**(1,287)**	3,051
Selling and distribution costs		**(60,044)**	(68,947)
Administrative expenses		**(79,104)**	(74,322)
Finance costs		**(3,837)**	(2,908)
Share of loss of an associate		**(74)**	(304)
Profit (loss) before tax	*4*	**22,944**	(26,534)
Income tax expenses	*5*	**(4,144)**	(163)
Profit (loss) for the year		**18,800**	(26,697)
Profit (loss) for the year attributable to:			
Owners of the Company		**19,718**	(26,064)
Non-controlling interests		**(918)**	(633)
		18,800	(26,697)
Earnings (loss) per share	*7*		
Basic and diluted *(HK cents)*		**4.4**	(5.8)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2023

	2023	2022
	HK$'000	*HK$'000*
Profit (loss) for the year	**18,800**	(26,697)
Other comprehensive (expense) income		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translating foreign operations:		
– exchange differences arising during the year	**(5,863)**	4,319
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
Other comprehensive (expense) income for the year	**(5,863)**	6,537
Total comprehensive income (expense) for the year	**12,937**	(20,160)
Total comprehensive income (expense) for the year attributable to:		
Owners of the Company	**13,855**	(19,527)
Non-controlling interests	**(918)**	(633)
	12,937	(20,160)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2023

	Notes	**2023**	2022
		HK$'000	*HK$'000*
Non-current assets			
Investment property		**25,730**	27,017
Property, plant and equipment		**51,332**	57,482
Right-of-use assets		**13,921**	18,950
Interests in an associate		**433**	507
Deferred tax assets		**–**	12
		91,416	103,968
Current assets			
Inventories		**65,265**	114,902
Trade and other receivables	*8*	**106,914**	108,907
Tax recoverable		**52**	–
Pledged bank deposits		**110,704**	105,704
Bank balances and cash		**184,620**	187,551
		467,555	517,064

	Notes	**2023**	2022
		HK$'000	*HK$'000*
Current liabilities			
Trade and other payables	*9*	**80,207**	113,663
Contract liabilities		**5,531**	12,797
Lease liabilities		**4,257**	6,748
Amount due to an associate		**158**	–
Tax liabilities		**4,207**	171
Bank borrowings		**54,474**	85,598
		148,834	218,977
Net current assets		**318,721**	298,087
Total assets less current liabilities		**410,137**	402,055
Non-current liabilities			
Lease liabilities		**4,842**	7,247
Deferred tax liabilities		**528**	723
		5,370	7,970
		404,767	394,085
Capital and reserves			
Share capital	*10*	**254,112**	254,112
Reserves		**162,813**	151,213
Equity attributable to owners of the Company		**416,925**	405,325
Non-controlling interests		**(12,158)**	(11,240)
		404,767	394,085

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 2022 for the preparation of the 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 HKFRSs	Annual Improvements to HKFRSs 2018 – 2020
Accounting Guideline 5 (revised)	Merger Accounting for Common Control Combinations

The application of the amendments to HKFRSs in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and amendments to HKFRSs issued but not yet effective

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

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback[2]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[2]
Amendments to HKAS 1	Non-current Liabilities with Covenants[2]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to HKAS 8	Definition of Accounting Estimates[1]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1]

1 Effective for annual periods beginning on or after 1 January 2023
2 Effective for annual periods beginning on or after 1 January 2024
3 Effective for annual periods beginning on or after a date to be determined.

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

For the year ended 31 March 2023:

	North America	**Asia**	**Europe and others**	**Consolidated**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
REVENUE				
Sales of goods – external	**444,490**	**271,762**	**36,962**	**753,214**
SEGMENT PROFIT	**43,052**	**15,664**	**3,596**	**62,312**
Decrease in fair value of investment property				**(1,287)**
Finance costs				**(3,837)**
Unallocated income				**6,744**
Unallocated expenses				**(40,914)**
Share of loss of an associate				**(74)**
Profit before tax				**22,944**

For the year ended 31 March 2022:

	North America	Asia	Europe and others	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE				
Sales of goods – external	269,176	300,800	18,293	588,269
SEGMENT PROFIT (LOSS)	(1,654)	10,011	(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)

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

Geographical information

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

	2023	2022
	HK$'000	*HK$'000*
The USA	**260,815**	144,943
The PRC	**254,369**	291,421
Canada	**183,675**	124,233
Others	**54,355**	27,672
	753,214	588,269

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 location of the assets is detailed below:

	2023	2022
	HK$'000	*HK$'000*
Hong Kong	**38,305**	41,964
The PRC	**36,422**	43,798
Vietnam	**16,256**	17,687
	90,983	103,449

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

Information about major customers

For the year ended 31 March 2023, there are two external customers in North America (2022: one external customer in North America and one external customer in Asia) who contributed over 10% of the total sales of the Group. Their contributions were approximately HK$241 million (2022: HK$192 million).

4. PROFIT (LOSS) BEFORE TAX

	2023	2022
	HK$'000	*HK$'000*
Profit (loss) before tax has been arrived at after charging (crediting):		
Directors' remunerations:		
Fees	**1,237**	1,090
Other emoluments	**9,095**	7,855
Contributions to retirement benefit schemes	**108**	108
	10,440	9,053
Other employee benefits expenses:		
Salaries, allowances and bonus	**104,452**	98,123
Contributions to retirement benefit schemes	**11,999**	10,932
Total employee benefits expenses	**126,891**	118,108
Auditor's remuneration		
– Audit service	**860**	855
– Non-audit services	**275**	279
Cost of inventories recognised as an expense (including allowance for inventories of HK$6,524,000 (2022: reversal of allowance for inventories of HK$5,452,000))	**591,772**	476,223
Depreciation of property, plant and equipment	**7,082**	7,217
Depreciation of right-of-use assets	**6,042**	7,546
Gain on disposal/write-off of property, plant and equipment	**(5)**	(451)
Net exchange gain	**(82)**	(2,577)

5. INCOME TAX EXPENSES

	2023	2022
	HK$'000	*HK$'000*
Current tax:		
Hong Kong	**(4,200)**	–
The PRC	**(127)**	(212)
	(4,327)	(212)
Deferred taxation	**183**	49
	(4,144)	(163)

Hong Kong Profits Tax is calculated at the rate of 16.5% on the estimated assessable profits for the Year, 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 year ended 31 March 2023.

No provision for Hong Kong Profits Tax is made for the year ended 31 March 2022 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 2021 to 31 December 2021, the annual taxable income not more than RMB1,000,000 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 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 enterprise 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%. From 1 January 2023 to 31 December 2024, the annual taxable income not more than RMB3,000,000 of a micro and small enterprise is subject to the EIT calculated at 25% of its taxable income at a tax rate of 20%.

During the years ended 31 March 2023 and 2022, there are two subsidiaries 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 2023 of HK0.5 cent per share (2022: HK0.5 cent per share). Subject to shareholders' approval at the annual general meeting of the Company, the final dividend will be paid on 18 September 2023 to shareholders whose names appear on the register of members of the Company on 5 September 2023. The payment date of the final dividend for the year ended 31 March 2022 was Friday, 16 September 2022.

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:

	2023 ***HK$'000***	2022 *HK$'000*
Profit (loss) for the year attributable to owners of the Company	**19,718**	(26,064)

	2023	2022
Weighted average number of ordinary shares in issue during the year for the purposes 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 years ended 31 March 2023 and 2022.

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 2023, the carrying amount of trade and bills receivables was HK$89,401,000, net of allowance for credit losses: HK$1,046,000 (2022: HK$82,681,000, net of allowance for credit losses: 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:

	2023 ***HK$'000***	2022 *HK$'000*
Up to 30 days	**49,493**	61,122
31 – 60 days	**20,864**	10,738
61 – 90 days	**12,333**	6,830
More than 90 days	**6,711**	3,991
	89,401	82,681

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:

	2023	2022
	HK$'000	*HK$'000*
Up to 30 days	**31,892**	52,571
31 – 60 days	**5,232**	10,102
61 – 90 days	**2,137**	7,342
More than 90 days	**5,722**	7,973
	44,983	77,988

10. SHARE CAPITAL

	Number of shares	**Amount**
		HK$'000
Issued and fully paid:		
At 1 April 2021, 31 March 2022 and 31 March 2023		
Ordinary shares with no par value	**451,067,557**	**254,112**

FINAL DIVIDEND

The Board of Directors (the "Board") has recommended the payment of a final dividend for the year ended 31 March 2023 of HK0.5 cent per share (2022: HK0.5 cent per share). Subject to shareholders' approval at the annual general meeting of the Company, the final dividend will be paid on 18 September 2023 to shareholders whose names appear on the register of members of the Company on 5 September 2023. The payment date of the final dividend for the year ended 31 March 2022 was Friday, 16 September 2022.

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 Monday, 4 September 2023
Closure of register of members of the Company	Tuesday, 5 September 2023
Record date	Tuesday, 5 September 2023
Payment date	Monday, 18 September 2023

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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong before the relevant latest time to lodge transfers.

MANAGEMENT DISCUSSION AND ANALYSIS

SUMMARY OF OPERATING RESULTS

Riding on the continuation of the post-COVID-19 rebound in apparel demand from our North American market, the Group recorded an increase in revenue of 28.0% to HK$753.2 million for the year ended 31 March 2023 (the "Year") as compared to HK$588.3 million for the last corresponding year.

Gross profit amounted to HK$161.4 million translating into a gross margin of 21.4%, up from 19.0% in the last corresponding year, primarily attributed to higher sales leveraging, improved labour and operational efficiency, and the weakening of currencies of Asian countries where our factories operated.

As a result of the higher revenue, streamlined operating models, enhanced overall efficiency and focused cost control, the Group reported a profit before tax of HK$22.9 million for the Year (2022: loss before tax HK$26.5 million) and a profit for the year attributable to owners of the Company of HK$19.7 million (2022: loss HK$26.1 million).

The Group's core operating profit before tax, after excluding effects of non-operating items, amounted to HK$24.2 million for the Year as compared to an operating loss before tax of HK$29.6 million in the last corresponding year.

In view of the weak domestic consumption and the difficult retail environment in the PRC market during the Year, the Group continued to streamline and refine the retail operation, optimised our retail sales channels, and closed underperformed shops to maintain profitability. As a result, the Group's selling and distribution costs for the Year recorded a decrease of 12.9% year-on-year to HK$60.0 million (2022: HK$68.9 million), which was in line with the 10.6% decline in the Group's retail sales in the Year. Of which, advertising and promotion expenses decreased by HK$1.3 million, shop management fee decreased by HK$1.5 million, retail shop rental and running expenses decreased by HK$2.8 million and staff costs decreased by HK$3.0 million.

Administrative expenses increased slightly by 6.4% year-over-year to HK$79.1 million (2022: HK$74.3 million), mainly attributable to (i) the increase in factoring commission expenses by HK$0.5 million, the increase in credit insurance expenses by HK$1.0 million and the increase in postage & courier expenses by HK$0.9 million which were all in line with the substantial increase in export sales activities; and (ii) the decrease in exchange gain by HK$2.5 million during the Year as a result of the depreciation of Renminbi against Hong Kong dollar.

Finance costs increased by 31.9% year-on-year to HK$3.8 million (2022: HK$2.9 million) which was mainly attributable to the increase in bank interests for trade finance borrowings corresponding to the substantial increase in export sales activities and at the backdrop of interest rate hikes during the Year.

BUSINESS REVIEW

Faced with instabilities in geopolitical landscape and macroeconomic recovery alongside significant slowing in China's domestic consumption market under the pall of COVID-19 resurgence, the Group leveraged its core strengths and made the best use of our existing production and managerial resources to develop its export business in line with the resilient market and customer demand in the North American market.

The manufacturing segment is considered the cornerstone of the Group's business operations and lays the foundation for our retail business. With our comprehensive strength in customised apparel manufacturing and competence in supply chain management, we were able to strengthen partnership with our existing clientele while continuing to expand our customer portfolio despite widespread economic uncertainties facing most western countries.

To ensure effective utilisation of production capacity to accommodate the resilient demand from our overseas market, our seasoned management team in our Vietnam production base actively consolidated the resources, upgraded our manufacturing technology, rebalanced manufacturing facilities and re-engineered existing business processes to further optimise efficiency. As a result, we managed to more than double our export volume from Vietnam in the Year as compared to the last corresponding year with intermittent production disruptions caused by COVID-19-lockdowns.

Meanwhile, albeit gradual easing of pandemic restrictions, global supply chain stability remained threatened by heightened geopolitical conflicts and rising trade protectionism. By consolidating the advantages of our dual production platform and making the best use of our extensive and diverse network in the major textile and garment producing countries, the Group had effectively mitigated unexpected disruptions and consistently achieved on-time delivery. Furthermore, exceptional performance was also enabled by continual investment in digital technology and automation that reduced production costs and enhanced level of quality, agility and customer satisfaction to better fulfil the commitments to our customers.

On the other hand, as most markets had returned to normalcy and registered satisfactory performance, retail business in the PRC continued to operate under the daunting challenges of the pandemic as it progressed along an unpredictable trajectory. The operation of some of our retail stores and our production hub in Zhongshan remained persistently disrupted. Despite the earlier-than-anticipated reopening of the country, domestic consumption defied prior expectations of a swift recovery as the country was still grappling with large-scale infection during the peak sales season leading to the rapidly declining consumer sentiment which was further weakened by the slowing economy and global uncertainties.

The Group was making every best effort to strengthen management and cost control measures to counter the negative impact of reduced footfall in brick-and-mortar location, while at the same time better connecting with our customers in authentic ways through multichannel e-commerce and targeted social media platforms to effectively engage with our existing and target clientele.

On the same note, manufacturing industries in China were generally operating under the adversities posed by the ongoing pandemic leading to sudden production stoppage and disrupted supply of production inputs including shortage of workers due to the widespread infections. By conducting a series of improvement measures to our production model and supply chain operations that significantly improved labour efficiency, reduced production costs and enhanced capacity utilisation, our manufacturing operations navigated unpredictable market shocks while maintaining a focus on profitability. Nonetheless, business confidence continued to be dampened by sluggish consumption demand and economic uncertainties resulting in more conservative purchasing sentiment by our domestic retailers in placing future apparel orders which led to a drop in sales to domestic brand customers during the Year.

SALES TO NORTH AMERICAN MARKET

In the Year, sales to North American market maintained an impressive growth trajectory and reported increase of 65.1% to HK$444.5 million (2022: HK$269.2 million). Sales to the U.S. and Canada recorded revenue of HK$260.8 million and HK$183.7 million growing by 79.9% and 47.8% respectively year-over-year, and accounting for 34.6% and 24.4% of the Group's revenue respectively.

Despite starting off with two consecutive quarters of negative growth in the U.S. economy, Gross Domestic Product ("GDP") rose at a 3.2% and 2.6% in the third and fourth quarter respectively. A robust consumer and strong labour market helped growth turn positive in the final two quarters and the U.S. economy finished 2022 with an annualised GDP growth of 2.1%.

Building on our competitive operating model that integrated the strengths of our highly compatible production platforms, together with a fit-for-purpose logistics strategy, the Group continued to win successful engagement with our existing premium brand customers as the Group unfailingly fulfilled their unique manufacturing and sourcing needs at a short lead time that balances cost, speed, and quality.

Thanks to the strong post-pandemic demand recovery, export sales to the U.S. market continued a strong growth momentum until the last quarter of the Year when the Group started to experience more cautious order placement by customers due to rising inventory pressure and stalling end consumer demand in their home retail markets at their backdrop of slowing GDP growth and the economic uncertainty posed by growing worries of recession and mounting inflationary pressures. Sales to the U.S. market in the Year managed to deliver a striking year-on-year organic growth of 79.9%, thanks to the continuing support and recognition from our key brand customers with whom the Group had built a strong foundation of mutual understanding.

In Canada, the economy continued its recovery from the pandemic and its annualised GDP grew at an encouraging 3.4% in 2022.

While the high inflation and tightening monetary policy continued to weigh on economic growth, there were signs of slight easing of inflation after the peaking of Canada's consumer price index in mid of 2022. Spending momentum was further reinforced by the continuous strength in the labour market which underpinned the country's economic resilience over the past year with unemployment hovering around historic lows despite signs of weakening economic growth.

Following an extremely robust rebound in consumption recovery in the first quarter of the Year, demand for apparel became normalised and growth momentum softened under the weight of progressively higher cost of living which forced consumers to prioritise other necessities over fashion spending. Nevertheless, our sales to Canadian market remained solid and grew at 47.8% over the last corresponding year.

SALES TO ASIAN MARKET

As the Group's sales to Mainland China, which made up approximately 93.6% of sales to Asia in the Year remained impacted by COVID-19 pandemic, sales to Asian market recorded a decline of 9.7% year-on-year to HK$271.8 million (2022: HK$300.8 million). Total sales to China, comprising mainly retail sales and sales to domestic brand customers registered a year-on-year decrease of 12.7% to HK$254.4 million (2022: HK$291.4 million).

During the Year, lockdowns caused by the pandemic, plus a bevy of other challenges including the historic downturn in the property market continued to weaken China's economic growth. The GDP for the country's fourth-quarter and full year of 2022 rose by merely 2.9% and 3.0% respectively, representing one of the lowest growth rates in decades.

The lingering pandemic alongside domestic and global uncertainties had significantly undermined consumer confidence in Mainland China. According to the National Bureau of Statistics of China, retail sales for 2022 as a whole, including sales of apparel, inched down 0.2% on a year-on-year basis.

The fluid COVID-19 situations had caused significant volatility in the operations, sales performance and business plan of our physical retail stores throughout the Year. Notwithstanding the return of customer traffic since the relaxation of movement restrictions at the end of 2022, the market reopening was followed by widespread COVID-19 outbreaks which severely suppressed consumer sentiment during the peak selling season.

Leveraging on the strength of our omnichannel capabilities, the Group swiftly adjusted our retail sales strategy from offline to online channels to ensure a seamless shopping experience as well as continuous engagement with our customers. We accelerated our digital transformation efforts, expanding our e-commerce presence and enhancing our multiplatform marketing and promotional initiatives which led to steady performance of our online channel amid a highly competitive landscape. We also focused on cost optimisation measures to mitigate the financial impact of declining sales. However, suffering from the setback brought by the COVID-19 during most of the Year, retail sales performance remained negatively affected and decreased year-over-year by 10.6% or 5.4% excluding the effect of foreign exchange and amounted to HK$201.5 million (2022: HK$225.4 million).

Against the lingering effects of the pandemic, our factory operation and production schedules remained periodically disrupted by the frequent pandemic outbreaks which to a certain extent constrained our production capacity. In the meantime, the Group also experienced weaker demand from customers due to heavy inventory build-up under the adverse impact of the pandemic alongside sluggish domestic consumption demand throughout the Year. As a result, sales to domestic brand customers dropped by 20.9% year-on-year and amounted to HK$51.5 million (2022: HK$65.0 million).

RETAILING

During the Year, frequent COVID-19 outbreaks, coupled with strict containment measures and travel restrictions in China continued to pose unprecedented challenges to our "Betu" brand retail operations. The Group proactively responded to market conditions and thrived to maintain the stability of our retail operations, while complying with government pandemic and safety protocols to ensure the well-being of our employees, customers and the communities. However, prolonged disruptions together with severe pandemic outbreaks following the successive release of various anti-pandemic measures at the end of 2022 dramatically suppressed consumer sentiment and dampened recovery prospect in the second half of the Year.

Operating amidst significant uncertainty and an unfavourable market backdrop, the Group's retail sales for the Year recorded at HK$201.5 million, representing a moderate decline of 10.6%, or 5.4% after excluding impact of foreign exchange which was primarily driven by the drop in sales from offline physical stores and temporary store closures due to the adverse effect of the pandemic.

The Group took swift actions to minimise the negative impact of business disruptions through conducting prudent sales network management and improving efficiency of our operations. As demand weakened, we adjusted manufacturing orders and controlled cost, which enabled us to significantly reduced inventory levels and cost structure to withstand the current challenges. As a result, the retail division achieved an operating profit of HK$4.1 million despite the adverse business landscape, as compared to an operating profit of HK$3.1 million for the last corresponding year.

As part of our mitigating effort, the management had been proactively engaged in refining our product mix to deliver abundant value at affordable prices in order to reach a broader customer base while swiftly activating various digitalisation strategies and enhancing e-commerce marketing in numerous digital platforms to boost online sales and deepen connection with existing customers.

During the Year, the Group further strengthened our partnership with well-established major platforms like Tmall, VIP.com and JD.com to expedite our online business with broad multiple consumer bases and improved our digital shopping experience while deploying strong localised strategies that created social buzz on China's mainstream media platforms such as Douyin and Xiaohongshu to reach a larger segment of target customers. Online channel managed to maintain momentum with annual online sales reporting marginal decrease of less than 1%, or an increase of 5.2% when excluding the impact of foreign exchange caused by the decrease of Renminbi during the Year and accounted for 76.0% of total retail sales.

PROSPECTS

Looking ahead, we believe the ongoing macroeconomic and geopolitical uncertainties will continue to cast a shadow on global recovery of the consumer market and pose escalating headwinds to business performance of the broader industry. The higher living costs and economic drag of successive interest rates hikes has undermined consumer purchasing power and curtailed demand in the North American market, reflected by the slowdown in ordering activity from customers partly due to stringent inventory control, and coupled with declining consumer demand in their home retail markets. The management expects this trend to continue which will adversely affect the growth prospect of our export business to the North American countries in the coming months.

Notwithstanding the ending of all COVID-19 controls in China since early December 2022, the Group adopts a cautious tone on the near-term prospect for the retail industry in China as economic outlook for a full market recovery remains uncertain given the global weakness, a slowing economy, and high rate of unemployment which will continue to exert a negative impact on consumers' confidence level.

Mindful of the current uncertainties, the Group will stay attuned to the dynamic macroeconomic environment and manage the Group's business, operation, and financial risk robustly, while standing prepared to respond swiftly in the event of any global uncertainty and sudden changes in business landscape.

On the other hand, alongside the lifting of COVID-19 related mobility restrictions by many countries as local and global pandemic situation stabilised, global supply-chain situations are stabilising. Besides, China's reopening has become the most positive catalyst for world markets which has mitigated the risk of a global recession.

Anticipating an expected softening in our overseas market in the North American regions as a result of the stronger economic headwinds and looming recessionary threats ahead, the Group remains prudent and will prioritise cost management and operational efficiency throughout all stages of production in our China and Vietnam production facilities in order to stay competitive and flexible. Together with the implementation of comprehensive and strict quality procedures, our dual production platform will continue to sustain cost competitiveness to deliver our products at the quality, speed and compliance standard required by our premium brand customers in the North American markets.

With a strong international perspective and manufacturing capabilities to develop wide range of high-quality apparel, the Group is proactively tapping into long-term opportunities offered by the promising economic potential under China's Belt and Road Initiative to stay ahead of the market development and capture the growing customer base for quality apparel.

Meanwhile, the reopening of China has marked the beginning of a new post-pandemic era for its economy. Being particularly hard hit during the pandemic, domestic consumption will play a key role underpinning the country's economic rebound this year. Despite a seemingly slower-than-expected recovery, we believe the long-term positive fundamentals of consumption development have not changed and the retail industry is expected to benefit from more robust policies and directives, including consumption stimulation measures, which will gradually restore consumer confidence and revive the retail sector.

Moving forward, the Group continues to expand our penetration into influential e-commerce platforms and other digital avenues to better target and connect with the growing population of netizens countrywide. With the growing importance and contributions of our online channel, we will focus on margin improvement in the highly competitive digital landscape and expanding our market share in the world's largest e-commerce ecosystem. We reaffirm our commitment to enhance our overall competitiveness by continuous investments in technology and digital capabilities to further improve our efficiency, agility and customer experience.

Facing the uncertain business environment ahead, the Group will adopt a prudent approach towards management of retail store networks and continue to optimise operation capacity by concentrating resources to focus on growing our "Betu" brand at strategically located areas with good track record and steady foot traffic, for enhancing management efficiency and financial performance.

As our Zhongshan production base will continue acting as the backbone of the Group's domestic brand manufacturing business in the PRC region, the management will remain focused on ongoing upgrades to our production model by making balanced investment in infrastructures for digital, advanced manufacturing and green technologies that will not only reduce cost and enhance labour efficiency but also build up the capabilities for the speed and flexibility required to make the Group more agile and sustainable against challenges in a rapidly evolving and highly competitive environment. Together with our spirit of innovation and creativity, the Group targets to enhance our comprehensive product design and development capabilities to further expand our customer base which commands higher value and margin growth potential.

In the long term, our strong people culture, manufacturing and retailing business capabilities, financial and operational control, corporate governance as well as the shared values we place on environmental and social responsibility and sustainability will support and position us well for the sustainable recovery that will maximise values for our customer and shareholders and also contribute to the social and economic development of the communities we serve.

CAPITAL EXPENDITURE

During the Year, the Group incurred HK$1.8 million capital expenditure compared to HK$43.6 million of the last corresponding year. Such capital expenditure mainly represented 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 sustained a sound financial position throughout the Year. As at 31 March 2023, the Group's cash level was recorded at HK$295.3 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 31 March 2023, total bank borrowings of the Group were HK$54.5 million (which were all short-term bank borrowings and mainly denominated in HKD and USD), as compared to HK$85.6 million as at 31 March 2022. The Group had no borrowings at fixed interest rates during the Year. As at 31 March 2023, the gearing ratio (total bank borrowings to total equity) was 13.5%.

Throughout the Year, the Group performed effective deployment of cashflows and working capital management. Working capital cycles remained under stringent control. Trade receivable turnover was improved to 43 days from 51 days of the last corresponding year. Inventory turnover decreased to 32 days from 71 days of the last corresponding year. Such decrease was also attributable to the lower inventory level of the manufacturing segment as at the year-end date in relation to the relatively lower year-on-year order volume for delivery in the first quarter subsequent to the year-end date.

At 31 March 2023, certain buildings with an aggregate net book value of approximately HK$34.3 million (2022: Nil) were pledged to secure general banking facilities granted to the Group.

As at 31 March 2023, 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$130.1 million, as compared to HK$102.0 million as at 31 March 2022. Such increase of HK$28.1 million in net cash was mainly attributable to the operating profit and the stringent working capital management 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 decreased to 78.6% (2022: 81.0%). The comparison of percentage of consolidated cost of sales is as follows:

	2023	2022
	HK$'000	*HK$'000*
Revenue	**753,214**	588,269
Cost of sales	**(591,772)**	(476,223)
Percentage of consolidated cost of sales	**78.6%**	81.0%

The decrease of 2.4 percentage point in cost of sales was mainly attributable to (i) higher sales leveraging, (ii) improved labour and operational efficiency and (iii) the weakening of currencies of Asian countries where the Group's factories operated.

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:

	2023	2022	%
	HK$'000	*HK$'000*	*Changes*
Selling and distribution costs	**60,044**	68,947	(12.9%)
Administrative expenses	**79,104**	74,322	6.4%

Selling and distribution costs

	2023	2022	Changes	%
	HK$'000	*HK$'000*	*HK$'000*	*Changes*
Advertising & promotion expense	**14,407**	15,738	(1,331)	(8.5%)
Freight and handling charge	**5,622**	5,415	207	3.8%
Shop management fee	**10,087**	11,546	(1,459)	(12.6%)
Retail shop rental and running expenses	**10,078**	12,839	(2,761)	(21.5%)
Staff costs	**14,252**	17,253	(3,001)	(17.4%)
Other selling and distribution costs	**5,598**	6,156	(558)	(9.1%)
Total	**60,044**	68,947	(8,903)	(12.9%)

In view of the weak domestic consumption and the difficult retail environment in the PRC market during the Year, the Group continued to streamline and refine the retail operation, optimised our retail sales channels, and closed underperformed shops to maintain profitability. As a result, the Group's selling and distributing costs for the Year recorded a decrease of HK$8.9 million or 12.9% year-on-year to HK$60.0 million, which was in line with the 10.6% decline in the Group's retails sales in the Year. Of which, advertising & promotion expense decreased by HK$1.3 million, shop management fee decreased by HK$1.5 million, retail shop rental and running expenses decreased by HK$2.8 million and staff costs decreased by HK3.0 million.

Administrative expenses

	2023	2022	Changes	%
	HK$'000	*HK$'000*	*HK$'000*	*Changes*
Auditor's remuneration	**1,135**	1,134	1	0.1%
Depreciation and amortisation	**6,272**	6,824	(552)	(8.1%)
Entertainment and travelling	**2,318**	1,946	372	19.1%
Exchange gain	**(82)**	(2,577)	2,495	(96.8%)
Legal and professional fee	**2,823**	2,304	519	22.5%
Staff costs	**54,431**	54,268	163	0.3%
Office expenses	**5,023**	4,177	846	20.3%
Other administrative expenses	**7,184**	6,246	938	15.0%
Total	**79,104**	74,322	4,782	6.4%

Administrative expenses increased slightly by 6.4% year-on-year to HK$79.1 million.

The decrease in exchange gain by HK$2.5 million was attributable to depreciation of Renminbi against Hong Kong dollar in the Year.

The increase in office expenses was mainly attributable to the increase in postage and courier expense by HK$0.9 million. The increase in other administrative expenses was attributable to increase in factoring commission expense by HK$0.5 million and the increase in credit insurance expense by HK$1.0 million. All such increases were in line with the substantial increase in export sales activities during the Year.

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

The Group's EBITDA for the Year is HK$39.9 million (2022: negative EBITDA of HK$8.9 million). The comparison of EBITDA is as follows:

	2023 ***HK$'000***	2022 *HK$'000*
Profit (loss) for the year	**18,800**	(26,697)
Add:		
Finance costs	**3,837**	2,908
Income tax expenses	**4,144**	163
Depreciation	**13,124**	14,763
EBITDA	**39,905**	(8,863)

Operating profit (loss)

The Group earned an operating profit before tax of HK$24.2 million for the Year (2022: operating loss before tax of HK$29.6 million). The comparison of operating profit (loss) is as follows:

	2023 ***HK$'000***	2022 *HK$'000*
Profit (loss) before tax	**22,944**	(26,534)
Less:		
(Decrease) increase in fair value of investment property	**(1,287)**	3,051
Operating profit (loss) before tax	**24,231**	(29,585)

Profit (loss) before tax

The Group's profit before tax for the Year is HK$22.9 million (2022: loss before tax of HK$26.5 million).

Earnings (loss) per share

The Group's earnings per share for the Year is HK4.4 cents (2022: loss per share of HK5.8 cents).

Inventory turnover days

Inventory turnover days decreased by 39 days to 32 days for the Year (2022: 71 days). The comparison of inventory turnover days is as follows:

	2023	2022
	HK$'000	*HK$'000*
Revenue	**753,214**	588,269
Inventory as at 31 March	**65,265**	114,902
Inventory turnover days	**32 days**	71 days

The decrease of inventory turnover days was mainly attributable to the Group's stringent inventory control and the lower inventory level of the manufacturing segment as at the 31 March 2023 in relation to the relatively lower year-on-year order volume for delivery in the first quarter subsequent to 31 March 2023.

Trade receivable turnover days

Trade receivable turnover days decreased by 8 days to 43 days for the Year (2022: 51 days). The comparison of trade receivable turnover days is as follows:

	2023	2022
	HK$'000	*HK$'000*
Revenue	**753,214**	588,269
Trade and bills receivables as at 31 March	**89,401**	82,681
Trade receivable turnover days	**43 days**	51 days

Other receivables

	2023	2022	Changes	*%*
	HK$'000	*HK$'000*	*HK$'000*	*Changes*
Deposits paid to suppliers and vendors	**6,751**	17,417	(10,666)	(61.2%)
Other tax receivables	**5,322**	3,603	1,719	47.7%
Prepayment	**1,275**	1,420	(145)	(10.2%)
Rental and utilities deposits	**1,440**	1,840	(400)	(21.7%)
Others	**2,725**	1,946	779	40.0%
Total	**17,513**	26,226	(8,713)	(33.2%)

The substantial decrease in deposits paid to suppliers and vendors was mainly attributable to the lower volume of purchase orders placed with the suppliers and vendors of the manufacturing segment as at 31 March 2023 in line with the relatively lower order volume from the customers for delivery in the first quarter subsequent to 31 March 2023.

Other payables and contract liabilities

	2023	2022	Changes	%
	HK$'000	*HK$'000*	*HK$'000*	*Changes*
Accrued subcontracting and processing fees	**1,964**	5,233	(3,269)	(62.5%)
Franchise deposits received	**1,361**	1,744	(383)	(22.0%)
Other tax payables	**2,885**	2,682	203	7.6%
Other accruals and receipts in advance	**5,964**	3,858	2,106	54.6%
Wages payable	**10,671**	7,160	3,511	49.0%
Contract liabilities	**5,531**	12,797	(7,266)	(56.8%)
Others	**12,379**	14,998	(2,619)	(17.5%)
Total	**40,755**	48,472	(7,717)	(15.9%)

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. As HKD is pegged to USD, the Group considers the relevant foreign exchange risk to be minimal. Also, 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 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 31 March 2023, the Group has approximately 1,400 employees as compared to approximately 1,200 as at 31 March 2022. Such increase is mainly attributable to the increase in labour force in the Group's factories in Vietnam and the PRC 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$126.9 million for the Year (2022: HK$118.1 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 2023 and 2022 included in this preliminary announcement of annual results 2023 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 2022 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 2023 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 2023

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.