

INTERIM REPORT

2023

**HINGTEX
HOLDINGS LIMITED**

興紡控股有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code : 1968

Contents

- 2** Financial Highlights
- 3** Management Discussion and Analysis
- 5** Other Disclosures
- 12** Report on Review of Condensed Consolidated Financial Statements
- 13** Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income
- 14** Condensed Consolidated Statement of Financial Position
- 16** Condensed Consolidated Statement of Changes in Equity
- 17** Condensed Consolidated Statement of Cash Flows
- 19** Notes to the Condensed Consolidated Financial Statements
- 32** Corporate Information

Financial Highlights

	For the six months ended	
	30/06/2023	30/06/2022
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Revenue	92,551	142,842
Gross profit	12,357	12,222
Gross profit margin	13.4%	8.6%
Loss before tax	(22,880)	(28,099)
Loss and total comprehensive expense for the period attributable to owners of the Company	(19,459)	(24,749)
LOSS PER SHARE		
— Basic (HK cents)	(3.04)	(3.87)

Management Discussion and Analysis

The past six months can be characterised as a mixture of economic, financial and geopolitical developments, leading to complex conditions for many businesses. With respect to the Group, its performance was affected by rising interest rates during the review period. In addition, the weak exchange rate of the Renminbi against the Hong Kong Dollar had an even more serious effect on the Group. Amid this challenging business environment, every effort was made by the Group to reduce manufacturing costs and administrative expenses. Consequently, despite the lower-than-expected revenue generated during the review period, the Group was able to achieve a relatively higher gross profit margin and reduced its net loss compared with the last comparable period.

As at 30 June 2023, the Group recorded total revenue of approximately HK\$92.6 million (1H2022: HK\$142.8 million), contracting by approximately 35.2% against the same period of last year. Gross profit reached approximately HK\$12.4 million (1H2022: HK\$12.2 million) and gross profit margin was approximately 13.4% (1H2022: 8.6%). Loss attributable to owners of the Company amounted to approximately HK\$19.5 million (1H2022: HK\$24.7 million). Loss per share were approximately 3.04 HK cents (1H2022: 3.87 HK cent).

The Group remains in a healthy financial position and has stable operating cash flows. It also has sufficient cash on hand of approximately HK\$81.6 million as at 30 June 2023.

BUSINESS REVIEW

Hingtex continued to prioritise the United States (the “U.S.”) market during the review period, as orders from the country have been increasing steadily. In line with its status, the Group made periodic trips to the U.S. for face-to-face meetings with key individuals from various brand owner customers. As the Group anticipates a gradual recovery in its performance starting from the second half of 2023, the Group is thus laying the necessary groundwork for the future. Besides meeting with existing partners, the Group also participated in denim exhibitions with the aim of connecting with potentially new customers and expanding its client base. In addition to actively pursuing more orders and seizing business opportunities, it is worth noting that the Group has been implementing cost-saving measures. In particular, since the second half of 2022 the Group has employed various measures to reduce manufacturing costs and administrative expenses, with the main objective of strengthening its financial health.

As in previous years, the Group’s principal products are stretchable blended denim fabrics and which have remained the main products sold during the review period, accounting for 85.7% (1H2022: 85.5%) of its total sales. To expand its product portfolio with premium offerings, capture a greater share of the high-value market and enjoy higher profit margins in the future, the Group has installed two large pieces of equipment for finishing and dyeing. Imported from Germany and Italy respectively, and featuring advanced technologies, it is expected that the equipment will begin mass production in early 2024. The Group believes that the new equipment will enable it to fulfil orders for sophisticated denim fabrics — and in large quantities when required, as well as achieve greater production efficiency.

Management Discussion and Analysis

PROSPECTS

According to the World Bank, “the global economy is set to slow substantially in 2023, to 2.1 percent (2022: 3.1 percent), amid continued monetary policy tightening to rein in high inflation, before a tepid recovery in 2024, to 2.4 percent”. This projection aligns with the Group’s own cautious outlook towards the second half year and immediate future. In 2022, the Group had maintained minimum staff levels due to lower-than-usual operational volume. To boost such volume, the Group has been increasing their physical contact with customers, negotiating for the dispatch of more goods and the securing of more sales orders. In particular, it has reached out to customers in the U.S. as it is aware that the local denim market will continue to expand at a projected CAGR of 4.5% up to 2028. At the same time, the Group has held talks with a manufacturer in Vietnam so as to expand its sources of denim fabrics. This would also allow the Group to better deal with U.S. trade-related restrictions, given that the bulk of its end products are sold in the U.S.

In view of the highly volatile and uncertain nature of the current global market, the Group also recognises the importance of business diversification. Hence, alongside strengthening its core operations as aforementioned, the Group has engaged in activities for both expanding and diversifying its business portfolio. A case in point is its property investment in Tsuen Wan, Hong Kong. Announced in January 2022, the Group contributed its effort in renovation and enhancement of the subject property, therefore the project has attracted an encouraging number of tenants and customers alike, with the year-long rise in footfall attesting to its tremendous potential for generating profits and contributing to the Group’s overall performance. Spurred on by the success of this investment, the Group will look to seize on additional business opportunities and achieving new synergies that contributes to growth and advancement of the Group as a whole.

Going forward, the management will fully leverage its people and production might, including the new state-of-the-art dyeing and finishing equipment that were acquired through proceeds generated from its listing, to bolster the Group’s performance. It will also continue to focus on developing stretchable blended denim fabrics, given their ability to accommodate innovative designs and functionality while remaining comfortable and stylish for the wearer. The management firmly believes that by further pursuing innovation, bolstering key facets of operation, reinforcing ties with its loyal customers and capitalising on the brand equity of Hingtex, it will be able to deliver long-term value to all of the Group’s stakeholders.

Other Disclosures

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group finances its operations primarily with internally generated funds from operating activities and banking facilities currently available. It is anticipated that the Group has sufficient working capital to meet its present funding requirements.

As at 30 June 2023, net current assets were approximately HK\$143.1 million (31 December 2022: HK\$162.5 million). Bank balances and cash as at 30 June 2023 were approximately HK\$81.6 million (31 December 2022: HK\$84.7 million).

As at 30 June 2023, there were bank borrowings of approximately HK\$27.5 million (31 December 2022: HK\$31.4 million), and the Group had HK\$65.5 million in available banking facilities as at 30 June 2023 (31 December 2022: HK\$163.4 million).

GEARING RATIO

As at 30 June 2023, the gearing ratio of the Group, based on total borrowings (including bank borrowings and lease liabilities) to total equity (including all capital and reserves) of the Group, was 11.44% (31 December 2022: 12.88%).

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2023, the Group had 323 employees (31 December 2022: 353 employees). The Group recognises the importance of maintaining good relationship with its employees and retaining competent staff to ensure operational efficiency and effectiveness. Remuneration packages offered to the Group's employees are consistent with prevailing levels and are reviewed on a regular basis. Discretionary bonuses may be provided to selected employees taking into consideration the Group's performance and that of the individual employee. The Group provides training to employees. During the six months ended 30 June 2023, the Group had not encountered any significant problems with its employees, nor had there been any dispute between the Group and its employees that might have caused any disruption to the Group's business or operation. The Group has had no difficulty in recruiting and retaining experienced staff.

A share option scheme was adopted on 19 June 2018 by the Company. As at 30 June 2023 and up to the date of this announcement, no share options were granted.

Other Disclosures

CAPITAL EXPENDITURE

The Group's capital expenditure was approximately HK\$1.2 million during the current interim period (1H2022: HK\$9.7 million), which was mainly due to the capital investments in the Group's property, plant and equipment, interest in an associate and financial asset at fair value through profit or loss.

TREASURY POLICIES AND FOREIGN CURRENCY EXPOSURE

The Group is exposed to foreign currency risk primarily through sales, purchases, bank balances and cash and bank borrowings that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk is primarily Renminbi. As at 30 June 2023, the Group's bank borrowings carried variable rates from 6.4% to 6.6% per annum (31 December 2022: 5.4% to 5.9%). The Group has not experienced any material difficulty or liquidity problems resulting from foreign exchange fluctuations.

The Group is not engaged in the use of any financial instruments for hedging purposes. However, the management closely monitors foreign exchange exposure and will consider hedging significant foreign currency exposure when the need arises.

CONTINGENT LIABILITIES

As at 30 June 2023, the Group had no material contingent liability (31 December 2022: Nil).

PLEDGE OF ASSETS

As at 30 June 2023, the Group had no pledged assets (31 December 2022: Nil).

CAPITAL COMMITMENT

As at 30 June 2023, the Group had no capital commitment (31 December 2022: Nil).

ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENTS

The Group did not have any significant investment or material acquisition or disposal of subsidiaries and affiliated companies during the current interim period.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

There was no specific plan for material investments or capital assets as at 30 June 2023. In the event that the Group is engaged in any plan for material investments or capital assets, the Company will make announcement(s) and comply with relevant rules under the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Listing Rules") as and when appropriate.

Other Disclosures

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities from the Listing Date up to the date of this announcement.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the model code for securities transactions by Directors of listed issuers (the "Model Code") as the code of conduct regarding securities transactions by Directors. Following specific enquiry by the Company, all the Directors have confirmed that they have complied with the required standard as set out in the Model Code and its code of conduct regarding directors' securities transactions for the six months ended 30 June 2023 and up to the date of this announcement.

CORPORATE GOVERNANCE CODE

The Company has applied and complied with all code provisions of the Corporate Governance Code contained in Appendix 14 to the Listing Rules (the "CG Code") for the six months ended 30 June 2023 and up to the date of this announcement.

AUDIT COMMITTEE

Our Company has established the Audit Committee in accordance with the requirements of the CG Code for the purpose of reviewing and supervising the Group's financial reporting process. The Audit Committee currently has three independent non-executive Directors, namely Mr. Tsang Ling Biu Gilbert, Mr. Cheung Che Kit Richard and Mr. Wong Ming Bun David. Mr. Tsang Ling Biu Gilbert is the chairman of the Audit Committee. The latest meeting of the Audit Committee was held to review the results of the Group for the six months ended 30 June 2023.

REVIEW OF THE INTERIM RESULTS

The Audit Committee had reviewed the unaudited interim condensed consolidated results of the Group for the six months ended 30 June 2023 and discussed with the management of the Company the accounting principles and practices adopted by the Group as well as internal controls and other financial reporting matters.

Other Disclosures

INTERESTS OF DIRECTORS AND THE CHIEF EXECUTIVE

As at the date of this report, the interests and short positions of each Director and the chief executive of our Company in the Shares, underlying Shares and debentures of our Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to our Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to our Company and the Stock Exchange pursuant to the Model Code, are as follows:

(a) Interests and/or short positions in our Company

Director	Nature of interest	Number of Shares held ¹	Percentage of Interest in our Company
Mr. Tung Tsun Hong ("Mr. TH Tung")	Interest in controlled corporation ⁽²⁾	480,000,000 (L)	75%
Mr. Tung Wai Ting Stephen ("Mr. Stephen Tung")	Interest in controlled corporation ⁽²⁾	480,000,000 (L)	75%
Mr. Tung Cheuk Ming Stanley ("Mr. Stanley Tung")	Interest in controlled corporation ⁽²⁾	480,000,000 (L)	75%

Notes:

1. The letter "L" denotes a long position in the Shares.
2. Mr. TH Tung, Mr. Stephen Tung, Mr. Stanley Tung, Ms. Lau Chung Chau ("Mrs. Tung"), Ms. Tung Wei Ling Barbara ("Ms. Barbara Tung") and Ms. Tung Wai Lai Mabel ("Ms. Mabel Tung") entered into the Deed of Concert Parties, pursuant to which, the parties confirmed that they have been acting in concert with each other in exercising and implementing the management and operations of our subsidiaries and that it is their intention to continue to act in the above manner upon the listing of our Shares on the Main Board of the Stock Exchange (the "Listing"). Accordingly, Manford Investment Holdings Limited ("Manford Investment") is deemed to be accustomed and/or obliged to act in accordance with their directions and/or instructions and that, among others, each of Mr. TH Tung, Mr. Stanley Tung and Mr. Stephen Tung is deemed to be interested in all the Shares held by Manford Investment under the SFO.

Other Disclosures

(b) Interests and/or short positions in associated corporation(s)

Director	Company concerned	Nature of interests	Number of Shares held in the company concerned ¹	Percentage of interest in the company concerned
Mr. TH Tung	Manford Investment ²	Beneficial owner; a concert party to an agreement to buy shares described in s. 317(1)(a) of the SFO ³	100 (L)	100%
Mr. Stephen Tung	Manford Investment ²	Beneficial owner; a concert party to an agreement to buy shares described in s. 317(1)(a) of the SFO ³	100 (L)	100%
Mr. Stanley Tung	Manford Investment ²	Beneficial owner; a concert party to an agreement to buy shares described in s. 317(1)(a) of the SFO ³	100 (L)	100%

Notes:

1. The letter "L" denotes long position in the shares held.
2. At the date of this report, Manford Investment is interested in 75% of the issued Shares and, accordingly, is the holding company of our Company within the meaning of the SFO.
3. Manford Investment is owned as to 30% by Mr. TH Tung, 20% each by Mr. Stephen Tung and Mr. Stanley Tung and 10% each by Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung, all of whom have entered into the Deed of Concert Parties, pursuant to which, the parties confirmed that they have been acting in concert with each other in exercising and implementing the management and operations of our subsidiaries and that it is their intention to continue to act in the above manner upon the Listing. Accordingly, each of Mr. TH Tung, Mr. Stephen Tung and Mr. Stanley Tung is deemed to be interested in the shares of Manford Investment held by the other parties to the Deed of Concert Parties under the SFO.

Save as disclosed above, as at the date of this report, none of our Directors nor the chief executive of our Company had any interests or short positions in the Shares, underlying Shares or debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to our Company and the Stock Exchange pursuant to the Model Code.

Other Disclosures

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the date of this report, so far as our Directors are aware, the following persons had an interest or short position in the Shares or the underlying Shares which were required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Capacity/nature of interest	Number of Shares ⁽¹⁾	Percentage shareholding
Manford Investment ⁽²⁾	Beneficial owner	480,000,000 (L)	75%
Mr. TH Tung	Interest of controlled corporation ⁽³⁾	480,000,000 (L)	75%
Mr. Stephen Tung	Interest of controlled corporation ⁽³⁾	480,000,000 (L)	75%
Mr. Stanley Tung	Interest of controlled corporation ⁽³⁾	480,000,000 (L)	75%
Ms. Li Ka Mei	Interest of spouse ⁽⁴⁾	480,000,000 (L)	75%
Mrs. Tung	Interest of controlled corporation ⁽³⁾	480,000,000 (L)	75%
Ms. Barbara Tung	Interest of controlled corporation ⁽³⁾	480,000,000 (L)	75%
Mr. Li Chi Hiu Lawrence	Interest of spouse ⁽⁵⁾	480,000,000 (L)	75%
Ms. Mabel Tung	Interest of controlled corporation ⁽³⁾	480,000,000 (L)	75%
Mr. Fung Cheong Chi	Interest of spouse ⁽⁶⁾	480,000,000 (L)	75%

Other Disclosures

Notes:

1. The letter "L" denotes a long position in the Shares.
2. As at the date of this report, Manford Investment was owned as to 30% by Mr. TH Tung, 20% by Mr. Stephen Tung, 20% by Mr. Stanley Tung, 10% by Mrs. Tung, 10% by Ms. Barbara Tung and 10% by Ms. Mabel Tung.
3. Mr. TH Tung, Mr. Stanley Tung, Mr. Stephen Tung, Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung entered into the Deed of Concert Parties, pursuant to which, among others, the parties confirmed that they have been acting in concert with each other in exercising and implementing the management and operations of our subsidiaries and that it is their intention to continue to act in the above manner upon the Listing. Accordingly, Manford Investment is deemed to be accustomed and/or obliged to act in accordance with their directions and/or instructions and that each of Mr. TH Tung, Mr. Stephen Tung, Mr. Stanley Tung, Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung is deemed to be interested in all the Shares held by Manford Investment under the SFO.
4. Ms. Li Ka Mei is the spouse of Mr. Stanley Tung and is deemed, under the SFO, to be interested in all the Shares that Mr. Stanley Tung is interested.
5. Mr. Li Chi Hiu Lawrence is the spouse of Ms. Barbara Tung and is deemed, under the SFO, to be interested in all the Shares that Ms. Barbara Tung is interested.
6. Mr. Fung Cheong Chi is the spouse of Ms. Mabel Tung and is deemed, under the SFO, to be interested in all the Shares that Ms. Mabel Tung is interested.

Save as disclosed above, as at the date of this report, our Directors are not aware of any person who had an interest or short position in the Shares or the underlying Shares which were required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

IMPORTANT EVENTS AFTER THE INTERIM PERIOD UNDER REVIEW

There were no material events undertaken by the Group subsequent to 30 June 2023 and up to the date of this report.

Report on Review of Condensed Consolidated Financial Statements

TO THE BOARD OF DIRECTORS OF HINGTEX HOLDINGS LIMITED

興紡控股有限公司

(incorporated in the Cayman Islands as an exempted company with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Hingtex Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 13 to 31, which comprise the condensed consolidated statement of financial position as of 30 June 2023 and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

31 August 2023

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2023

	NOTES	Six months ended	
		30/06/2023 HK\$'000 (unaudited)	30/06/2022 HK\$'000 (unaudited)
Revenue	3	92,551	142,842
Cost of sales		(80,194)	(130,620)
Gross profit		12,357	12,222
Other income	4	1,344	1,586
Other gains and losses		(1,300)	(2,294)
Reversal of impairment losses under expected credit loss model, net		18	44
Selling and distribution expenses		(7,564)	(7,847)
Administrative expenses		(23,460)	(24,644)
Research and development expenses		(4,240)	(5,225)
Fair value gain on financial asset at fair value through profit or loss ("FVTPL")		1,051	–
Share of results of an associate		(6)	(1,387)
Share of results of a joint venture		–	(23)
Finance costs		(1,080)	(531)
Loss before tax	5	(22,880)	(28,099)
Income tax credit	6	3,421	3,350
Loss and total comprehensive expense for the period attributable to owners of the Company		(19,459)	(24,749)
LOSS PER SHARE			
— Basic (HK cents)	8	(3.04)	(3.87)

Condensed Consolidated Statement of Financial Position

At 30 June 2023

	NOTES	30/06/2023 HK\$'000 (unaudited)	31/12/2022 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	9	97,320	101,097
Right-of-use assets	9	22,256	25,484
Other intangible assets		3,154	3,337
Goodwill		1,184	1,184
Interest in an associate	10	428	434
Financial asset at FVTPL	11	22,145	21,094
Deferred tax assets		12,103	9,893
Other receivables	12	949	1,025
Total non-current assets		159,539	163,548
Current assets			
Inventories		82,630	97,300
Trade and other receivables	12	49,738	48,260
Amount due from an associate	16	616	616
Bank balances and cash		81,574	84,693
Total current assets		214,558	230,869
Current liabilities			
Trade and other payables	13	33,711	24,713
Tax liabilities		3,429	4,314
Bank borrowings	14	27,500	31,361
Lease liabilities		5,341	5,595
Contract liabilities		1,496	2,434
Total current liabilities		71,477	68,417
Net current assets		143,081	162,452
Total assets less current liabilities		302,620	326,000

Condensed Consolidated Statement of Financial Position

At 30 June 2023

	NOTES	30/06/2023 HK\$'000 (unaudited)	31/12/2022 HK\$'000 (audited)
Non-current liabilities			
Deferred tax liabilities		6,568	7,932
Lease liabilities		792	3,431
Other payables	13	1,247	1,165
Total non-current liabilities		8,607	12,528
Net assets			
Capital and reserves			
Share capital	15	6,400	6,400
Reserves		287,613	307,072
Total equity attributable to owners of the Company		294,013	313,472

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2023

	Share capital HK\$'000	Share premium HK\$'000	Other reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2022 (audited)	6,400	141,986	10,882	204,166	363,434
Loss and total comprehensive expense for the period	–	–	–	(24,749)	(24,749)
At 30 June 2022 (unaudited)	6,400	141,986	10,882	179,417	338,685
At 1 January 2023 (audited)	6,400	141,986	10,882	154,204	313,472
Loss and total comprehensive expense for the period	–	–	–	(19,459)	(19,459)
At 30 June 2023 (unaudited)	6,400	141,986	10,882	134,745	294,013

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2023

	Six months ended	
	30/06/2023 HK\$'000 (unaudited)	30/06/2022 HK\$'000 (unaudited)
OPERATING ACTIVITIES		
Loss before tax	(22,880)	(28,099)
Adjustments for:		
Finance costs	1,080	531
Interest income	(1,182)	(102)
Share of results of an associate	6	1,387
Share of results of a joint venture	–	23
Depreciation of property, plant and equipment	4,969	5,699
Depreciation of right-of-use assets	3,228	3,591
Amortisation of other intangible assets	183	183
Reversal of impairment losses recognised on trade receivables, net	(18)	(44)
Gain on disposals of property, plant and equipment	(8)	–
Fair value gain on financial assets at FVTPL	(1,051)	–
Net foreign exchange loss	255	190
Operating cash flows before movements in working capital	(15,418)	(16,641)
Decrease in inventories	14,670	15,291
(Increase) decrease in trade and other receivables	(1,384)	12,816
Increase (decrease) in trade and other payables	9,090	(17,104)
Decrease in contract liabilities	(938)	(903)
Decrease in amount due to a joint venture	–	(86)
Cash generated from (used in) operations	6,020	(6,627)
Income tax paid	(1,034)	(661)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	4,986	(7,288)
INVESTING ACTIVITIES		
Acquisition of financial asset at FVTPL	–	(4,000)
Acquisition of interest in an associate	–	(2,282)
Purchases of property, plant and equipment	(1,202)	(3,446)
Advance to an associate	–	(616)
Interest received	1,182	102
Proceeds from disposals of property, plant and equipment	8	–
NET CASH USED IN INVESTING ACTIVITIES	(12)	(10,242)

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2023

	Six months ended	
	30/06/2023	30/06/2022
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
FINANCING ACTIVITIES		
New bank borrowings raised	31,000	61,405
Repayment of bank borrowings	(34,861)	(60,741)
Repayment of lease liabilities	(3,070)	(3,289)
Interest paid	(906)	(469)
NET CASH USED IN FINANCING ACTIVITIES	(7,837)	(3,094)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,863)	(20,624)
Cash and cash equivalents at beginning of the period	84,693	119,867
Effect of foreign exchange rate changes	(256)	(292)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by bank balances and cash	81,574	98,951

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

1. GENERAL

The Company was incorporated in the Cayman Islands on 3 November 2017 as an exempted company with limited liability under the Companies Law of the Cayman Islands and its shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 16 July 2018 (the “Listing Date”).

The Company’s immediate and ultimate holding company is Manford Investment Holdings Limited (“Manford Investment”), a company incorporated on 24 October 2017 in the British Virgin Islands (“BVI”) under the laws of BVI with limited liability.

The principal activities of the Group are the manufacturing and sales of denim fabric.

The functional currency of the Company is United States Dollar (“US\$”), as the sales activities of the Group are mainly denominated in US\$, and the presentation currency of the Group is Hong Kong dollars (“HK\$”), as the directors of the Company consider HK\$ can provide more meaningful information to the Company’s investors.

1A. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (“HKAS 34”) *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2022 which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for the financial asset at FVTPL, which is measured at fair value, as appropriate.

Other than additional accounting policies resulting from application of new amendments to HKFRSs, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2023 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2022.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Application of amendments to HKFRSs

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on 1 January 2023 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction

Except as described below, the application of the amendments to HKFRSs in the current interim 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.

Impacts and changes in accounting policies on application of Amendments to HKAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the condensed consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit and at the time of the transaction does not give rise to equal taxable and deductible temporary differences. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 requirements to the lease liabilities, and the related assets separately. The Group recognises a deferred tax asset related to lease liabilities to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised and a deferred tax liability for all taxable temporary differences.

As disclosed in the Group's annual financial statements for the year ended 31 December 2022, the Group previously applied the HKAS 12 requirements to assets and liabilities arising from a single transaction as a whole and temporary differences relating to the relevant assets and liabilities were assessed on a net basis. Upon the application of the amendments, the Group assessed the relevant assets and liabilities separately. The application of the amendments has had no material impact on the Group's condensed consolidated financial statements, financial position and performance.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

3. REVENUE AND SEGMENT INFORMATION

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

Disaggregation of revenue

The following is an analysis of the Group's revenue from its major products recognised at a point in time:

	Six months ended	
	30/06/2023	30/06/2022
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Stretchable blended denim fabrics	79,332	122,235
Stretchable cotton denim fabrics	7,925	13,581
Non-stretchable denim fabrics	3,821	6,068
Others (note)	1,473	958
Total	92,551	142,842

Note: Others mainly include revenue from sales of yarns.

Geographical information

The Group mainly operates in Hong Kong and the People's Republic of China ("PRC") and the Group's non-current assets are mainly located in the PRC.

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

	Six months ended	
	30/06/2023	30/06/2022
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Hong Kong	24,373	21,818
Bangladesh	20,949	41,079
The PRC	14,639	25,180
Vietnam	11,773	26,012
Taiwan	3,926	6,651
India	2,676	9,879
Jordan	2,622	1,389
Pakistan	1,457	1,441
Macao	1,398	–
Other countries and regions	8,738	9,393
Total	92,551	142,842

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

4. OTHER INCOME

	Six months ended	
	30/06/2023	30/06/2022
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Interest income from bank deposits	1,182	102
Government grants (note)	102	1,016
Others	60	468
	1,344	1,586

Note: During the six months ended 30 June 2022, the Group recognised government grants of HK\$624,000 in respect of COVID-19-related subsidies which relates to Employment Support Scheme provided by the Hong Kong government. There is no such grant in the current interim period. Other government grants in both periods represent unconditional incentives from the PRC government during the current and prior interim periods.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

5. LOSS BEFORE TAX

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

	Six months ended	
	30/06/2023 HK\$'000 (unaudited)	30/06/2022 HK\$'000 (unaudited)
Total employee benefits expenses	19,764	26,637
Capitalised in cost of inventories manufactured	(6,191)	(8,170)
	13,573	18,467
Depreciation for property, plant and equipment	4,969	5,699
Depreciation of right-of-use assets	3,228	3,591
Amortisation of other intangible assets	183	183
	8,380	9,473
Capitalised in cost of inventories manufactured	(3,786)	(4,342)
	4,594	5,131
Cost of inventories recognised as expense	80,194	130,620
Net foreign exchange loss	970	1,471

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

6. INCOME TAX CREDIT

	Six months ended	
	30/06/2023	30/06/2022
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Current tax:		
— PRC Enterprise Income Tax	153	97
Deferred tax	(3,574)	(3,447)
Total	(3,421)	(3,350)

7. DIVIDENDS

No dividends were paid, declared or proposed during the current and prior interim period. The directors of the Company have determined that no dividend will be paid in respect of the current interim period (for the six months ended 30 June 2022: nil).

8. LOSS PER SHARE

The calculation of basic loss per share attributable to the owners of the Company is based on the following data:

	Six months ended	
	30/06/2023	30/06/2022
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Loss for the purpose of basic loss per share	(19,459)	(24,749)

	Six months ended	
	30/06/2023	30/06/2022
	'000	'000
	(unaudited)	(unaudited)
Number of ordinary shares for the purpose of basic loss per share	640,000	640,000

No diluted loss per share for the six months ended 30 June 2023 and 30 June 2022 were presented as the Company did not have any dilutive potential ordinary shares in issue for the current and prior interim periods.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

During the current interim period, the Group acquired manufacturing equipment of approximately HK\$1,202,000 (six months ended 30 June 2022: HK\$3,446,000) in order to upgrade its manufacturing capabilities.

During the six months ended 30 June 2022, the Group renewed one lease agreement with lease term of 24 months. On the date of lease modification, the Group recognised right-of-use assets of HK\$804,000 and lease liabilities of HK\$799,000. There are no renewal of lease agreements during the current interim period.

10. INTEREST IN AN ASSOCIATE

	At 30 June 2023 HK\$'000 (unaudited)	At 31 December 2022 HK\$'000 (audited)
Cost of investment in an associate	2,282	2,282
Share of post-acquisition losses and other comprehensive expenses	(1,854)	(1,848)
	428	434

11. FINANCIAL ASSETS AT FVTPL

	At 30 June 2023 HK\$'000 (unaudited)	At 31 December 2022 HK\$'000 (audited)
Unlisted: — Equity investment (note)	22,145	21,094

Fair value of the equity investment is valued by income capitalisation method with a fair value gain of HK\$1,051,000 (for the six months ended 30 June 2022: nil) recognised in the current period.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

12. TRADE AND OTHER RECEIVABLES

	At 30 June 2023 HK\$'000 (unaudited)	At 31 December 2022 HK\$'000 (audited)
Trade receivables	20,497	18,509
Less: allowance for credit losses	(168)	(186)
	20,329	18,323
Prepayments	8,242	8,950
Value-added tax recoverable	19,828	19,959
Utility and rental deposits	1,799	1,572
Others	489	481
	50,687	49,285
Analysed as		
Current	49,738	48,260
Non-current	949	1,025

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

12. TRADE AND OTHER RECEIVABLES (Continued)

As at 30 June 2023, the Group generally allows credit periods ranging from 30 days to 120 days regarding different customers. The following is an aged analysis of the gross carrying amount of trade receivables, presented based on the invoice date at the end of the reporting period:

	At 30 June 2023 HK\$'000 (unaudited)	At 31 December 2022 HK\$'000 (audited)
Within 30 days	14,548	9,188
31 to 60 days	4,099	5,277
61 to 120 days	1,796	3,833
121 to 180 days	12	154
181 to 365 days	5	24
More than 365 days	37	33
	20,497	18,509

As at 30 June 2023, total bills received amounting to HK\$14,302,000 (31 December 2022: HK\$9,737,000) are held by the Group for future settlement of trade receivables. The Group continues to recognise their full carrying amounts at the end of the reporting period. All bills received by the Group are with a maturity period of less than one year.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

13. TRADE AND OTHER PAYABLES

	At 30 June 2023 HK\$'000 (unaudited)	At 31 December 2022 HK\$'000 (audited)
Trade payables (note i)	21,380	13,530
Deposits received (note ii)	5,898	5,883
Payroll payables	3,498	3,704
Others	4,182	2,761
	34,958	25,878
Analysed as		
Current	33,711	24,713
Non-current	1,247	1,165

Notes:

- (i) As at 30 June 2023, included in the Group's trade payables balances, the amount of HK\$17,875,000 (31 December 2022: HK\$10,995,000) relates to trade payables in which the Group has issued bills to the relevant suppliers for future settlement. The Group continues to recognise these trade payables as the relevant banks are obliged to make payments only on due dates of the bills, under the same conditions as agreed with the suppliers and the Group makes corresponding settlements with the relevant banks on due date without further extension. Accordingly, the management of the Group considered these arrangements do not involve financing and presents cash outflows for such settlements as arising from operating activities.
- (ii) The balance mainly represents the deposits received from an apparel brand the Group serves to secure production of denim fabric based on procurement projections of the brand owner before confirmed purchase orders.

The aged analysis of the trade payables presented based on the goods receipt date at the end of each reporting period is as follows:

	At 30 June 2023 HK\$'000 (unaudited)	At 31 December 2022 HK\$'000 (audited)
Within 30 days	13,138	10,583
31 to 60 days	7,128	2,947
61 to 180 days	1,114	–
	21,380	13,530

The credit period on purchases of goods is ranging from 30 days to 180 days.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

14. BANK BORROWINGS

During the current interim period, the Group obtained new bank borrowings with amounts of approximately HK\$31,000,000 (six months ended 30 June 2022: HK\$61,405,000). The proceeds were used to meet the working capital requirement. Repayment of bank borrowings amounting to approximately HK\$34,861,000 (six months ended 30 June 2022: HK\$60,741,000) were made in line with the relevant repayment terms.

As at 30 June 2023, the Group's borrowings carried variable rates of 6.44% to 6.64% (31 December 2022: 5.35% to 5.85%) per annum.

15. SHARE CAPITAL

	Number of Shares	Share capital HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 January 2022, 30 June 2022, 1 January 2023 and 30 June 2023	1,000,000,000	10,000
Issued and fully paid:		
At 1 January 2022, 30 June 2022, 1 January 2023 and 30 June 2023	640,000,000	6,400

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

16. RELATED PARTY DISCLOSURES

(a) Related party transactions

The Group entered into the following transactions with its related parties during the six months ended 30 June 2023 and 2022:

Related Party	Nature of transaction	Six months ended	
		30/06/2023	30/06/2022
		HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Star Alliance Holdings Limited (note)	Interest expense on lease liabilities	94	21

Note: The Controlling Shareholders of the Company have control or beneficial interests in this entity.

(b) Compensation of directors and key management personnel

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Salaries and other allowances	5,085	6,756
Retirement benefit scheme contributions	36	36
Other benefits (note)	768	792
	5,889	7,584

Note: Other benefits represent the estimated money value of rentals for directors' quarters. During the current interim period, depreciation of right-of-use assets in relation to these non-monetary benefits amounted to HK\$739,000 (six months ended 30 June 2022: HK\$774,000).

The remuneration of directors and key management personnel are determined having regard to the performance of the individuals and contribution to the Group.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2023

16. RELATED PARTY DISCLOSURES (Continued)

(c) Related party balances

The Group had the following outstanding balances with its related parties at the end of the reporting period:

	At 30 June 2023 HK\$'000 (unaudited)	At 31 December 2022 HK\$'000 (audited)
Amount due from:		
Associate		
Ardo Living Limited (note)	616	616

Note: The amount due from Ardo is unsecured, interest-free and has no fixed repayment term.

Corporate Information

EXECUTIVE DIRECTORS

Mr. Tung Wai Ting Stephen
Mr. Tung Cheuk Ming Stanley

NON-EXECUTIVE DIRECTOR

Ms. Lau Chung Chau (*Chairlady*)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tsang Ling Biu Gilbert
Mr. Cheung Che Kit Richard
Mr. Wong Ming Bun David

COMPANY SECRETARY

Mr. Cheung Ka Chun

AUDIT COMMITTEE

Mr. Tsang Ling Biu Gilbert (*Chairman*)
Mr. Cheung Che Kit Richard
Mr. Wong Ming Bun David

REMUNERATION COMMITTEE

Mr. Wong Ming Bun David (*Chairman*)
Mr. Cheung Che Kit Richard
Mr. Tung Wai Ting Stephen

NOMINATION COMMITTEE

Mr. Wong Ming Bun David (*Chairman*)
Mr. Cheung Che Kit Richard
Mr. Tung Cheuk Ming Stanley

AUTHORISED REPRESENTATIVES

Mr. Tung Wai Ting Stephen
Mr. Cheung Ka Chun

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