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

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00518)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2023

RESULTS

The unaudited condensed consolidated interim results of Tungtex (Holdings) Company Limited (the "Company") and its subsidiaries (the "Group") for the six months ended 30 September 2023 (the "Period"), together with the comparative figures for the six months ended 30 September 2022 are as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2023

		Six months ended 30 September	
		2023	2022
	Notes	***HK$'000***	*HK$'000*
		(unaudited)	(unaudited)
Revenue	*3*	**237,529**	415,433
Cost of sales		**(192,722)**	(335,086)
Gross profit		**44,807**	80,347
Other income and other gain		**7,053**	3,538
Net reversal of impairment loss (impairment loss) recognised on financial assets		**1,007**	(15)
Increase (decrease) in fair value of investment property		**1,654**	(2,500)
Selling and distribution costs		**(26,207)**	(33,140)
Administrative expenses		**(38,237)**	(38,453)
Finance costs		**(1,526)**	(1,634)
Share of profit of an associate		**27**	19
(Loss) profit before tax	*4*	**(11,422)**	8,162
Income tax expenses	*5*	**(170)**	(2,376)
(Loss) profit for the period		**(11,592)**	5,786
(Loss) profit for the period attributable to:			
Owners of the Company		**(10,979)**	6,165
Non-controlling interests		**(613)**	(379)
		(11,592)	5,786
Basic and diluted (loss) earnings per share *(HK cents)*	*7*	**(2.4)**	1.4

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the six months ended 30 September 2023

	Six months ended 30 September	
	2023	2022
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
(Loss) profit for the period	**(11,592)**	5,786
Other comprehensive expense		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translating foreign operations	**(4,282)**	(8,974)
Other comprehensive expense for the period	**(4,282)**	(8,974)
Total comprehensive expense for the period	**(15,874)**	(3,188)
Total comprehensive expense for the period attributable to:		
Owners of the Company	**(15,261)**	(2,809)
Non-controlling interests	**(613)**	(379)
	(15,874)	(3,188)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2023

	Notes	30 September 2023 HK$'000 (unaudited)	31 March 2023 HK$'000 (audited)
Non-current assets			
Investment property	8	**27,384**	25,730
Property, plant and equipment	8	**48,617**	51,332
Right-of-use assets		**12,049**	13,921
Interests in an associate		**460**	433
		88,510	91,416
Current assets			
Inventories		**74,328**	65,265
Trade and other receivables	9	**89,567**	106,914
Tax recoverable		–	52
Pledged bank deposits		**100,792**	110,704
Bank balances and cash		**182,087**	184,620
		446,774	467,555
Current liabilities			
Trade and other payables	10	**85,927**	80,207
Contract liabilities		**4,348**	5,531
Lease liabilities		**4,475**	4,257
Amount due to an associate		**118**	158
Tax liabilities		**4,203**	4,207
Bank borrowings		**45,968**	54,474
		145,039	148,834
Net current assets		**301,735**	318,721
Total assets less current liabilities		**390,245**	410,137
Non-current liabilities			
Lease liabilities		**3,079**	4,842
Deferred tax liabilities		**528**	528
		3,607	5,370
		386,638	404,767
Capital and reserves			
Share capital	11	**254,112**	254,112
Reserves		**145,297**	162,813
Equity attributable to owners of the Company		**399,409**	416,925
Non-controlling interests		**(12,771)**	(12,158)
		386,638	404,767

Notes:

1. BASIS OF PREPARATION

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

The financial information relating to the year ended 31 March 2023 that is included in these condensed consolidated financial statements as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "Companies Ordinance") is as follows:

The Company has delivered the financial statements for the year ended 31 March 2023 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

The Company's auditor has reported on the financial statements of the Group for the year ended 31 March 2023. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for the investment property which is measured at fair value.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2023 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2023.

New and amendments to HKFRSs that are mandatorily effective for the current period

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1 April 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 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform – Pillar Two Model Rules

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

3. REVENUE AND SEGMENTAL INFORMATION

Information reported to the executive directors of the Company, being the chief operating decision makers for the purposes of resource allocation and assessment of performance focuses on the sales of operating segments based on the location of shipment. The Group is principally engaged in the manufacture and sale of garment products and retail of garment products. The Group currently has three operating segments – Asia, North America and Europe and others.

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

Segment revenue and results

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

Six months ended 30 September 2023:

	Asia *HK$'000*	**North America** *HK$'000*	**Europe and others** *HK$'000*	**Consolidated** *HK$'000*
REVENUE				
Sales of goods – external	**125,144**	**102,476**	**9,909**	**237,529**
SEGMENT PROFIT (LOSS)	**2,859**	**(1,103)**	**(35)**	**1,721**
Increase in fair value of investment property				**1,654**
Finance costs				**(1,526)**
Unallocated income				**7,053**
Unallocated expenses				**(20,351)**
Share of profit of an associate				**27**
Loss before tax				**(11,422)**

Six months ended 30 September 2022:

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

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

4. (LOSS) PROFIT BEFORE TAX

	Six months ended 30 September	
	2023	2022
	HK$'000	*HK$'000*
(Loss) profit before tax has been arrived at after charging (crediting):		
Directors' remunerations:		
Fees	**625**	612
Other emoluments	**4,548**	4,290
Contributions to retirement benefit schemes	**54**	54
	5,227	4,956
Other employee benefits expenses:		
Salaries, allowances and bonus	**51,301**	52,643
Contributions to retirement benefit schemes	**6,371**	6,135
Total employee benefits expenses	**62,899**	63,734
(Reversal of allowance) allowance for inventories (included in cost of sales), net	**(48)**	2,307
Depreciation of property, plant and equipment	**3,482**	3,582
Depreciation of right-of-use assets	**2,449**	3,463
Gain on disposal of property, plant and equipment	**(10)**	(6)
Bank interest income	**(3,987)**	(993)
Rental income, net of outgoings	**(450)**	(362)

5. INCOME TAX EXPENSES

	Six months ended 30 September	
	2023	2022
	HK$'000	*HK$'000*
Current tax:		
Hong Kong	–	2,193
The People's Republic of China (the "PRC")	**170**	175
	170	2,368
Deferred taxation	–	8
	170	2,376

No provision for Hong Kong Profits Tax is made for the Period 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.

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

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, most of the tax rate of the PRC subsidiaries remains 25%.

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

From 1 April 2022 to 30 September 2022, the annual taxable income not more than RMB1 million of a micro and small enterprise is subject to Enterprise Income Tax (the "EIT") calculated at 12.5% of its taxable income at a tax rate of 20% and the annual taxable income between RMB1 million and RMB3 million is calculated at 25% of its taxable income at a tax rate of 20%. From 1 April 2023 to 30 September 2023, the annual taxable income not more than RMB3 million 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 six months ended 30 September 2023 and 2022, two subsidiaries of the Company are qualified as micro and small enterprises and are subject to the relevant preferential tax treatments.

6. DIVIDENDS

A final dividend of HK0.5 cent per share for the year ended 31 March 2023, amounting to HK$2.3 million was paid by the Company on 18 September 2023. The Board of Directors (the "Board") does not recommend the payment of an interim dividend for the six months ended 30 September 2023 (six months ended 30 September 2022: Nil).

7. BASIC AND DILUTED (LOSS) EARNINGS PER SHARE

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

	Six months ended 30 September	
	2023	2022
	HK$'000	*HK$'000*
(Loss) profit for the period attributable to owners of the Company	**(10,979)**	6,165

	2023	2022
Weighted average number of ordinary shares in issue during the period for the purpose of basic and diluted (loss) earnings per share	**451,067,557**	451,067,557

No diluted (loss) earnings per share is presented as there was no potential dilutive ordinary share outstanding for the six months ended 30 September 2023 and 2022.

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

During the six months ended 30 September 2023, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of HK$92,000 for proceeds of HK$102,000, resulting in a gain on disposal of HK$10,000.

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

The Group spent HK$1,540,000 (six months ended 30 September 2022: HK$642,000) on acquisition of property, plant and equipment.

The fair values of the Group's investment property at 30 September 2023 and 31 March 2023 have been arrived at on the basis of a valuation carried out on that date by Graval Consulting Limited, independent qualified professional valuer not connected with the Group.

The fair value was determined by the income approach. The income approach operates by taking into account the rental income of the property derived from the existing tenancies with due allowance for the potential reversionary income of the tenanted and vacant portions, which are then capitalised at an appropriate capitalisation rate.

Under the income approach, one of the key inputs used in valuing the building and structures was the rental value per square meter which ranged from HK$13 to HK$26.

The resulting increase in fair value of investment property of HK$1,654,000 has been recognised directly in profit or loss for the six months ended 30 September 2023 (six months ended 30 September 2022: decrease in fair value of HK$2,500,000).

9. TRADE AND OTHER RECEIVABLES

The Group normally grants a credit period ranging from 14 days to 90 days to its trade customers. As at 30 September 2023, the carrying amount of trade and bills receivables was HK$70,779,000, net of allowance for credit losses of HK$36,000 (31 March 2023: HK$89,401,000, net of allowance for credit losses of HK$1,046,000). Included in trade and other receivables are trade and bills receivables, mainly denominated in USD and RMB, with the following aged analysis presented based on the invoice date which approximated revenue recognition date at the end of the reporting period:

	30 September 2023 *HK$'000*	31 March 2023 *HK$'000*
Up to 30 days	**37,383**	49,493
31 – 60 days	**27,930**	20,864
61 – 90 days	**1,664**	12,333
More than 90 days	**3,802**	6,711
	70,779	89,401

10. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade and bills payables with the following aged analysis presented based on the invoice date at the end of the reporting period:

	30 September 2023 *HK$'000*	31 March 2023 *HK$'000*
Up to 30 days	**31,518**	31,892
31 – 60 days	**10,993**	5,232
61 – 90 days	**4,319**	2,137
More than 90 days	**3,853**	5,722
	50,683	44,983

11. SHARE CAPITAL

	Number of shares	**Amount** *HK$'000*
Issued and fully paid:		
At 1 April 2022, 30 September 2022, 31 March 2023 and 30 September 2023		
Ordinary shares with no par value	**451,067,557**	**254,112**

INTERIM DIVIDEND

The Board of Directors (the "Board") does not recommend the payment of an interim dividend for the six months ended 30 September 2023 (six months ended 30 September 2022: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

During the interim period ended 30 September 2023 (the "Period"), retail and apparel industry around the world struggled to navigate a confluence of challenges, marked by among others, steep inflationary pressures in most western economies, tightening global financial conditions and further escalation of geopolitical tensions that resulted in subdued global economic growth and sapping consumption spending. The cost-of-living crisis under a sticky inflationary environment, coupled with progressively higher borrowing costs eroded purchasing power, weakened consumer confidence, and led to declining spending on non-essential categories such as fashion in key markets like North America and Europe. On the other hand, post-pandemic growth in China, though improving, still fell short of expectations. Retail growth prospects was plagued by the suppressed consumer sentiment amid a slower-than-anticipated pace of recovery and the more pessimistic economic outlook.

SUMMARY OF OPERATING RESULTS

Against the backdrop of sluggish overseas demand and a slowing Chinese economy, the Group posted revenue of HK$237.5 million for the Period, representing a significant decrease of 42.8% period-over-period from the last corresponding period of HK$415.4 million, which was primarily due to the drastic reduction in export orders from our brand customers in the North American markets. Gross profit declined to HK$44.8 million (2022: HK$80.3 million) which was in line with the reduced group revenue and the slight drop in gross profit margin of less than half a percentage point due to the deleverage from lower sales volume and pricing pressures during the Period.

Due to the decrease in sales revenue, selling and distribution costs for the Period decreased by 20.9% to HK$26.2 million, as compared to HK$33.1 million of the last corresponding period. Such decrease was mainly attributable to the decrease of HK$2.6 million in export freight and handling charges, decrease of HK$1.3 million in shop management fee, decrease of HK$1.3 million in staff costs and decrease of HK$1.4 million in other selling & distribution costs. Administrative expenses for the Period were HK$38.2 million, as compared to a similar level of HK$38.5 million of the last corresponding period. Of which, staff costs were HK$26.1 million, representing a decrease of 5.1% or HK$1.4 million, which was offset by the relative increase of exchange loss of HK$1.5 million in the Period, as compared to that of the last corresponding period.

As a result of the foregoing, the Group recorded an operating loss before tax of HK$13.1 million as compared to an operating profit before tax of HK$10.7 million in the last corresponding period. Taking into account the financial effects of the non-operating items, the Group recorded a loss before tax of HK$11.4 million, as compared to a profit before tax of HK$8.2 million in the last corresponding period.

BUSINESS REVIEW

After a spike of post-pandemic revenge spending, consumers in major western markets including North America were pulling back on retail spending and discretionary consumption. The elevated prices for everyday consumer goods and soaring borrowing costs had significantly limited households' spending capacity on discretionary purchases and adversely affected the sales performance of retailers and brands in those markets, including our major customers.

The Group's export business was further constricted by the industry-wide high inventory levels in overseas market as a result of aggressive customer buildups during periods of pandemic-related supply chain disruptions. Grappling with stalling end consumer spending, our customers progressively scaled back manufacturing orders while proactively concentrating on normalising their stock level in line with the lower sales base. As a result, the Group recorded substantial reduction in sales orders from our customers in the United States of America (the "U.S.A.") and Canada, the Group's largest export destinations.

The waning apparel demand since the end of 2022 from the North American and major European markets had posed detrimental effect to apparel manufacturers in Southeast Asia and resulted in underutilised production capacity, significant pricing pressures and reduced revenue.

The Group consciously streamlined management structure, and emphasised on cost control measures and restructuring initiatives that further reduced production cost to minimise the financial impact of reduced orders and squeezed margins.

Taking into account the unprecedented challenges and uncertainties surrounding the prevailing economic environment, the Group maintained prudent financial discipline with respect to our working capital and cashflow management across the organisation while consciously managing overall cost structures and optimising our internal operations to reflect the depressed market demand.

In China, despite the normalisation of economic activity, the three-year-long pandemic has wreaked havoc on the domestic economy. Moreover, turmoil in the property market, coupled with a complex external environment and ongoing political conflicts continued to linger, putting considerable pressure on the country's post-pandemic recovery. A more worrying economic outlook stifled consumer confidence and led to more frugal spending patterns and reduced appetite for discretionary consumptions.

Against the unfavourable economic backdrop, we closely monitored the market environment and flexibly formulated our retail sales and product strategies in accordance with the changing customer behaviours while continuing to drive brand awareness and sales conversion. However, China's retail landscape remained impacted by a slowing economy, the more cautious consumer sentiment, as well as hypercompetition in the digital realm which resulted in below-expectation retail sales performance in our largest market during the Period.

Operating under the weak market sentiment with sluggish customer demand, our domestic brand customers in China opted for a low-inventory strategy and adopted a more prudent and wait-and-see approach to inventory restocking leading to a challenging path to recovery in sales to domestic brand owners during the Period.

SALES TO ASIA

During the Period, the Group's sales to Asia registered a drop of 9.6% to HK$125.1 million (2022: HK$138.4 million) and accounted for 52.7% of the Group's total revenue. The majority of the Group's revenue continued to be realised from the China market which represented 94.0% of total sales to Asia and amounted to HK$117.6 million, representing a moderate decrease of 9.9% as compared to the last corresponding period.

Emerging from its zero-covid regime, China's economy remained under severe headwinds on several fronts including concern about the turmoil in property sector, alongside mounting external challenges from frail export demand and reduced foreign investment. The slower-than-expected post-pandemic recovery had eroded consumer confidence, dampened consumption sentiment, and led to increased price sensitivity that tapered off the pace of retail growth momentum, with the biggest hit to the more discretionary categories.

Operating under an unfavourable economic backdrop, retailers and brands in China were facing unparalleled market competition resulting in a heightened promotional environment with severe pricing pressure. We proactively recalibrated our product portfolio, marketing, and pricing strategies to adapt to the changing market dynamics, while staying committed to maintain customer satisfaction, brand competitiveness and growth momentum in the retail industry. Nonetheless, the wobbly consumer situation together with an intensely competitive e-commerce landscape had compromised the Group's business recovery efforts and total retail sales posted a decrease of 12.0% to HK$87.8 million from the last corresponding period.

The subdued domestic economy and an uncertain consumer demand had also created an atmosphere of caution among brands and retailers in China and adversely impacted their restocking decisions. As our manufacturing segment continued to demonstrate resilience in meeting the manufacturing needs of our domestic brand customers in a timely and cost-effective manner, sales to domestic brands were maintained at a stable level at HK$29.6 million, or a slight drop of 2.2% from HK$30.3 million in the last corresponding period.

SALES TO NORTH AMERICA

Inflicted by the all-time high inflationary environment, sales to North America were severely impacted and declined by a period-on-period 59.4% to HK$102.5 million (2022: HK$252.4 million), and constituted 43.1% of the Group's total revenue during the Period. Among which, sales to the U.S.A. suffered a steep slowdown and contracted by 60.4% to HK$59.5 million (2022: HK$150.0 million).

In the U.S.A., the phenomenal post-pandemic revenge spending had given way to more prudent purchasing behaviour in the wake of soaring energy costs, interest rate and cost of living. With the vanishing of covid-related government handouts and depletion of pandemic savings, households and consumers became more budget-conscious and notably reined in their discretionary spending.

In addition to the softer end consumer demand, the drag of record high channel inventory due to the intentional stock up by apparel retailers and brands to hedge against supply chain risks had resulted in an industry-wide overstocking situation which was further exacerbated by the slower inventory turnover during the Period.

Mindful of the uncertain market demand and taking into account the gradual normalisation of global supply chain, our customers consciously prioritised on offloading the accumulated stock on hand while adopting a more rational inventory replenishment strategy resulting in drastic reduction in the pace, volume and value of reorder.

In Canada, economic momentum had notably decelerated as the country was increasingly beset by persistent inflation, a tighter credit environment with rising borrowing costs as well as sluggish global economic growth. Amid the headwinds, Canada's economy contracted by 0.2% at an annualised rate in the second quarter of 2023. The elevated cost of living alongside an uncertain economic outlook negatively impacted households' consumption confidence and led to significantly reduced discretionary spending and apparel demand.

The combined effects of a high degree of economic unpredictability and weaker apparel demand had resulted in high customers' inventory and faltering business confidence which adversely impacted the purchasing decisions of our customers and led to a dramatic reduction in demand for the Group's apparel products. As a consequence, sales to Canada decreased by 58.0% to HK$43.0 million during the Period (2022: HK$102.4 million).

RETAILING

Following a strong consumption-led rebound in the first quarter of 2023, China's post-lockdown economic recovery began to lose steam in the face of multiplying domestic and external challenges. Market and consumer confidence was weakened due to a growing lack of confidence in the future, which continued to cast a shadow over the recovery of domestic consumption and the Group's retail sales performance during the Period. Under the combined impacts of stagnant physical retail growth and rising challenges facing China's e-commerce, the Group reported total retail sales of HK$87.8 million during the Period, representing a drop of 12.0% from the last corresponding period.

Against a backdrop of slowing economic growth, we constantly reviewed the performance of physical shops, enhanced customers' in-store experience and sharpened our focus on meeting the changing customer and market needs while executing sales and promotional campaigns in a timely and effective manner to drive store traffic, propel higher sales volume and foster brand loyalty. As a result, sales performance from physical retail remained relatively stable with minimal decrease of less than one percentage point during the Period despite the lacklustre consumer demand.

Concurrent with the return of foot traffic to brick-and-mortar stores in the post pandemic era, online channels encountered corresponding slowdown during the Period as consumers were eager for real-life shopping experience after almost three years of lockdown. In addition, the more cautious consumer sentiment and their shifting preferences including a prioritisation of service consumption over goods also put a dent in e-commerce growth. The stiffened competition across the entire industry environment resulted in stagnant growth and significant margin pressures. Our retail management worked tirelessly to monitor the market situation and stayed in tune with the evolving consumption patterns and spending habit while rolling out effective marketing campaigns and competitive promotions. Sales from the Group's digital channels decreased by 15.2% during the Period amid a fiercely contested e-commerce market alongside lower consumer demand and accounted for over 75% of the Group's total retail sales.

In response to the lower-than-anticipated pace of recovery, we conducted decisive cost streamlining measures and retail refinement strategy which, together with the cost optimisation initiatives implemented during these last few years, enabled the Group to consistently improve operating performance and control overall expenditure more effectively. Besides, we enhanced production efficiency and enforced strict inventory control to counteract the challenges under a highly competitive market environment. As a result, our retail segment was able to offset the impact of decreased sales and sustained an operating profit of HK$2.0 million.

PROSPECTS

Heading into the second half of the financial year, markets and businesses are expected to operate under the most challenging macroeconomic pressures amid the persistent inflation, high global interest rates and geopolitical instability whereas demand softness in leading economies such as North America and China will look set to continue.

While economic indicators in the U.S.A. remain surprisingly solid defying expectations of a recession, a combination of the potentially "higher for longer" interest rates and tight liquidity conditions continue to squeeze households and business which, coupled with the high inventory base and ongoing destocking adjustment taking place across the industry, is dimming the prospects of export growth to the North American markets in the near term.

Constrained by intertwined domestic issues and external uncertainties, China's post-pandemic economic recovery has encountered significant headwinds which is further compounded by stalling domestic demand and growing worries for potential deflationary risk that continue to paint a conservative outlook for the retail industry.

As we recognise the many challenges and difficulties that lie ahead, we will proactively monitor the impacts of the evolving macro-economic environment to our business and dynamically allocate our resources and manufacturing capacity under high level of flexibility and agility in accordance with changing market situation and status of our order book.

With respect to our manufacturing business, the North American markets will continue to be the Group's development focus despite limited near term visibility. Being key centre stage for global fashion companies, we expect consumer demand to gradually gain support from the moderating inflation and rising employment income, and will benefit the momentum of our customers in order placement for the second half of the current financial year, as compared to the reporting Period. We aim to expedite business expansion through development of new markets, broadening of customer base as well as further diversifying our product mix which will strengthen our revenue base and reduce the risk of over reliance in specific markets. Meanwhile, we strive to further enhance the production efficiency and manpower efficiency, and further tighten production cost control across the board of our factories.

As the slowing economic recovery in China continues to impact short-term retail outlook, the Group will closely observe development in the state of the economy. Yet, fuelled by the rollout of favourable national policies to restore and expand consumption, together with an impressive pace of innovation, China's growth prospects continue to possess immeasurable potential. The Group reaffirms our confidence in the resilience of China's economy over the long term, driven by an expanding middle class, rising incomes and technological advance.

As the post-pandemic era in China slowly unfolds, the Group will pay close attention to the evolving customer preferences and market dynamics like new technologies in the retail landscape. Building on our solid foundation and integrated manufacturing capability, the Group will continue to devote our best efforts to enhance the quality of our product offerings and our omnichannel operation. We will enhance resilience in e-commerce by ramping our presence on diversified online retail platforms and novel marketing channels to improve brand awareness, facilitate cost-effective consumer acquisition and above all connect with our customers in personalised ways through innovative multichannel marketing strategies.

To better withstand near-term challenges and endeavour to restore profitability, we set our focus on stringent and effective cost control measures and ongoing optimisation of operational and financial management. Over the long-term, we will further enhance our business fundamentals and core competencies and reset our path to recovery and sustainable growth.

CAPITAL EXPENDITURE

During the Period, the Group incurred HK$1.5 million capital expenditure as compared to HK$0.6 million of the corresponding period last year. Such capital expenditure mainly represented the regular replacement and upgrading of production facilities and the leasehold improvement of the Group.

LIQUIDITY AND FINANCIAL RESOURCES

The Group adopted a prudent financial management and sustained a sound financial position throughout the Period. As at 30 September 2023, the Group's cash level was recorded at HK$282.9 million (of which HK$100.8 million was pledged bank deposits) as compared to HK$295.3 million (of which HK$110.7 million was pledged bank deposits) as at 31 March 2023. Most of the bank balances were placed in USD, HKD and RMB short term deposits with major banks. As at 30 September 2023, total bank borrowings of the Group were HK$46.0 million (which were all short-term bank borrowings and mainly denominated in USD and HKD), as compared to HK$54.5 million as at 31 March 2023. The Group had no borrowings at fixed interest rates during the Period. As at 30 September 2023, the gearing ratio (total bank borrowings to total equity) was 11.9%. During the Period, working capital was under stringent management and remained at healthy level.

As at 30 September 2023, certain buildings with an aggregate net book value of approximately HK$33.5 million (31 March 2023: HK$34.3 million) were pledged to bank to secure general banking facilities granted to the Group.

As at 30 September 2023, excluding the pledged bank deposits of HK$100.8 million which were pledged to banks to secure the general banking facilities of the Group, net cash balance of the Group was HK$136.1 million, as compared to HK$130.1 million as at 31 March 2023.

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

TREASURY POLICY

The Group continues to adopt prudent policies consistently to hedge exchange rate and interest rate risks associated with our core business. The revenue and cost are denominated in RMB, USD, HKD, VND and EUR. The Group considers the foreign exchange risk is not high as the Group will consider the foreign exchange effect of the terms of purchase and sale contracts dealt with foreign enterprises and enter into forward contracts to hedge the risks as deemed appropriate.

FOREIGN EXCHANGE RISK

The Group has currency exposures as substantial portion of sales, purchases, assets and liabilities are denominated in USD, RMB and VND. As such, the Group is exposed to foreign exchange risk arising from such exposure to USD, RMB and VND. 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 30 September 2023 and 31 March 2023, the Group has approximately 1,400 employees. 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$62.9 million for the Period (six months ended 30 September 2022: HK$63.7 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. The Company also operates a share option scheme for the purpose of attracting, retaining, motivating and rewarding the employees.

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

During the Period, the Company has not redeemed, and neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee, which comprises four independent non-executive directors of the Company, has reviewed with management and the Group's external auditor, D & PARTNERS CPA LIMITED, the accounting principles and practices adopted by the Group and discussed risk management and internal control and financial reporting matters including the review of the unaudited interim results and interim report of the Group for the Period.

CORPORATE GOVERNANCE

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by directors of the Company. Having made specific enquiry of all directors, all directors confirmed that they have complied with the required standard set out in the Model Code throughout the Period.

PUBLICATION OF INTERIM RESULTS AND REPORT

This interim results announcement is published on the websites of the Company (www.tungtex.com) and the Stock Exchange (www.hkexnews.hk). The interim report containing all the information required by the Listing Rules will be despatched to shareholders of the Company and available on the same websites in due course.

For and on behalf of the Board
Tungtex (Holdings) Company Limited
Martin Tung Hau Man
Chairman

Hong Kong, 29 November 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.