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 SEPTEMBER 30, 2018

RESULTS

The interim results of Tungtex (Holdings) Company Limited (the "Company") and its subsidiaries (the "Group") for the six months ended September 30, 2018 (the "period"), together with the comparative figures for the six months ended September 30, 2017 are as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the six months ended September 30, 2018

	Notes	**Six months ended September 30, 2018** *HK$'000* **(unaudited)**	2017 *HK$'000* (unaudited)
Revenue	*3*	**496,400**	489,240
Cost of sales		**(410,535)**	(391,640)
Gross profit		**85,865**	97,600
Other income		**3,286**	2,971
Decrease in fair value of financial assets at fair value through profit or loss ("FVTPL")		**(15,761)**	–
Decrease in fair value of held for trading investments		**–**	(2,242)
Increase in fair value of investment property	*8*	**5,352**	241
Selling and distribution costs		**(60,399)**	(61,636)
Administrative expenses		**(68,769)**	(71,142)
Finance costs		**(3,133)**	(2,222)
Loss before tax	*4*	**(53,559)**	(36,430)
Income tax expenses	*5*	**(2,896)**	(2,049)
Loss for the period		**(56,455)**	(38,479)
Loss for the period attributable to:			
Owners of the Company		**(56,037)**	(38,108)
Non-controlling interests		**(418)**	(371)
		(56,455)	(38,479)
Loss per share *(HK cents)*	*7*	**(12.1)**	(8.2)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended September 30, 2018

	Six months ended September 30,	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Loss for the period	**(56,455)**	(38,479)
Other comprehensive (expense) income		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translating foreign operations	**(20,340)**	8,605
Other comprehensive (expense) income for the period	**(20,340)**	8,605
Total comprehensive expense for the period	**(76,795)**	(29,874)
Total comprehensive expense for the period attributable to:		
Owners of the Company	**(76,377)**	(29,503)
Non-controlling interests	**(418)**	(371)
	(76,795)	(29,874)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At September 30, 2018

	Notes	**September 30, 2018 *HK$'000* (unaudited)**	March 31, 2018 *HK$'000* (audited)
Non-current assets			
Investment property	*8*	**51,139**	50,405
Property, plant and equipment	*8*	**88,879**	99,014
Prepaid lease payments		**22,446**	23,879
Intangible asset		**–**	–
Deferred tax assets		**50**	50
		162,514	173,348
Current assets			
Inventories		**160,603**	182,246
Trade and other receivables	*9*	**161,780**	169,365
Prepaid lease payments		**802**	801
Financial assets at FVTPL		**23,779**	–
Held for trading investments		**–**	39,540
Tax recoverable		**566**	566
Pledged bank deposits		**116,912**	116,912
Bank balances and cash		**96,752**	109,454
		561,194	618,884
Asset classified as held for sale		**–**	7,965
		561,194	626,849

	Notes	September 30, 2018 HK$'000 (unaudited)	March 31, 2018 HK$'000 (audited)
Current liabilities			
Trade and other payables	*10*	**150,695**	179,135
Contract liabilities		**25,221**	–
Tax liabilities		**289**	326
Bank borrowings		**139,382**	135,532
		315,587	314,993
Net current assets		**245,607**	311,856
Total assets less current liabilities		**408,121**	485,204
Non-current liabilities			
Bank borrowings		**9,200**	10,400
Deferred tax liabilities		**8,075**	6,819
		17,275	17,219
		390,846	467,985
Capital and reserves			
Share capital	*11*	**254,112**	254,112
Reserves		**145,429**	222,150
Equity attributable to owners of the Company		**399,541**	476,262
Non-controlling interests		**(8,695)**	(8,277)
		390,846	467,985

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 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 financial information relating to the year ended March 31, 2018 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 March 31, 2018 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 March 31, 2018. 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 an investment property and certain financial instruments, which are measured at fair values, as appropriate.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs") and the new interpretation, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended September 30, 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended March 31, 2018.

New and amendments to HKFRSs and the new interpretation 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 and the new interpretation issued by the HKICPA which are mandatorily effective for the annual period beginning on or after April 1, 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK (IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

2.1 *Impacts and changes in accounting policies on application of HKFRS 15 Revenue from Contracts with Customers*

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKFRS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group recognises revenue from the following major sources:

- Revenue from manufacturing and sales of garment products
- Revenue from retail of garment products

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, April 1, 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply this standard retrospectively only to contracts that are not completed at April 1, 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and HKAS 11 *Construction Contracts* and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognising revenue:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customers.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

The Group recognises revenue from manufacturing and sales of garment products and retail of garment products at a point in time when the customer obtains control of the distinct goods upon delivery of goods to customers.

The Group has performed an assessment on the impact of the adoption of HKFRS 15 and concluded that no material financial impact on the timing and amounts of revenue recognised in prior and current periods.

2.1.2 *Summary of effects arising from initial application of HKFRS 15*

<u>Refund liabilities</u>

The Group recognises a refund liability if the Group expects to refund some or all of the consideration received from customers.

<u>Sale with a right of return</u>

For a sale of products with a right of return, the Group recognises all of the following:

- revenue for the transferred products in the amount of consideration to which the Group expects to be entitled (therefore, revenue would not be recognised for the products expected to be returned);
- a refund liability; and
- an asset (and corresponding adjustment to cost of sales) for its right to recover products from customers on settling the refund liability.

<u>Principal versus agent</u>

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group considers it is a principal for its revenue generating activities because it controls the specified good or service before that good or service is transferred to a customer.

The Group adopted HKFRS 15 using the modified retrospective approach which means that the cumulative impact of the adoption (if any) will be recognised in retained profits as of April 1, 2018 and that comparatives will not be restated.

By adopting HKFRS 15, there is no material impact on the statement of profit or loss and other comprehensive income recognised by the Group as at April 1, 2018 as compared to the accumulated amount recognised under HKAS 18.

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at April 1, 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at March 31, 2018	Reclassification	Carrying amounts under HKFRS 15 at April 1, 2018
	HK$'000	*HK$'000*	*HK$'000*
		(Note a)	
Trade and other payables	179,135	(31,117)	148,018
Contract liabilities	–	31,117	31,117

Note:

(a) As at April 1, 2018, deposits received from customers of HK$31,117,000 previously included in other payables and accruals was reclassified to contract liabilities since the underlying products are yet to be delivered.

As at September 30, 2018, deposits received from customers of HK$25,221,000 was recognised as contract liabilities.

2.2 *Impact and changes in accounting policies on application of HKFRS 9 Financial Instruments*

In the current period, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at April 1, 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at April 1, 2018. The difference between carrying amounts as at March 31, 2018 and the carrying amounts as at April 1, 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

2.2.1 *Key changes in accounting policies resulting from application of HKFRS 9*

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or fair value through other comprehensive income ("FVTOCI") or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "change in fair value of financial assets at FVTPL" line item.

The directors of the Company reviewed and assessed the Group's financial assets as at April 1, 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impact thereof are detailed in note 2.2.2.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade, bills and other receivables and bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables without significant financing component. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

<u>Measurement and recognition of ECL</u>

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

As at April 1, 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact thereof are detailed in note 2.2.2.

The Group has applied HKFRS 9 simplified approach to measure ECL using a lifetime ECL for trade receivables. To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics.

Loss allowance for other financial assets at amortised cost, mainly comprising other receivables, pledged bank deposit and bank balances, are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition.

2.2.2. Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application April 1, 2018.

	Notes	Trade receivables *HK$'000*	Financial assets at FVTPL *HK$'000*	Held for trading investments *HK$'000*	Reserves *HK$'000*
Closing balances at March 31, 2018		99,446	–	39,540	222,150
Reclassification					
From held for trading investments	*a*	–	39,540	(39,540)	–
Remeasurement					
Impairment	*b*	(344)	–	–	(344)
Opening balances at April 1, 2018		99,102	39,540	–	221,806

Notes:

(a) The Group has reassessed its investments in listed equity securities classified as held for trading under HKAS 39 as if the Group had purchased these investments at the date of initial application. Based on the facts and circumstances as at the date of initial application, HK$39,540,000 of the Group's investments were held for trading and continued to be measured at FVTPL.

(b) As at April 1, 2018, additional credit loss allowance of HK$344,000 has been recognised against retained profits.

The additional loss allowance is charged against the trade receivables.

	Allowance for doubtful debts, net *HK$'000*
Reconciliation:	
At March 31, 2018 (audited)	
– HKAS 39	–
Amounts remeasured through opening retained profits	(344)
At April 1, 2018 (unaudited)	(344)

Except as described above, the application of other amendments to HKFRSs and the new interpretation in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

2.3 *Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards*

As a result of the changes in the Group's accounting policies above, the opening condensed consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each individual affected line item.

	March 31, 2018 (Audited) *HK$'000*	HKFRS 15 *HK$'000*	HKFRS 9 *HK$'000*	April 1, 2018 (Restated) *HK$'000*
Trade receivables	99,446	–	(344)	99,102
Financial assets at FVTPL	–	–	39,540	39,540
Held for trading investments	39,540	–	(39,540)	–
Trade and other payables	179,135	(31,117)	–	148,018
Contract liabilities	–	31,117	–	31,117
Reserves	222,150	–	(344)	221,806

3. Segment information

The Group's operating segments, based on information reported to the chief operating decision makers, the Company's executive directors, for the purposes of resource allocation and assessment of performance which are analysed based on the location of customers, are as follows:

1. North America
2. Asia
3. Europe and others

Information regarding the above segments is reported below.

Six months ended September 30, 2018:

	North America *HK$'000*	**Asia** *HK$'000*	**Europe and others** *HK$'000*	**Consolidated** *HK$'000*
SEGMENT REVENUE				
Sales of goods – external	**250,624**	**226,830**	**18,946**	**496,400**
SEGMENT LOSS	**(7,851)**	**(10,343)**	**(641)**	**(18,835)**
Decrease in fair value of financial assets at FVTPL				**(15,761)**
Increase in fair value of investment property				**5,352**
Finance costs				**(3,133)**
Unallocated income				**3,286**
Unallocated expenses				**(24,468)**
Loss before tax				**(53,559)**

Six months ended September 30, 2017:

	North America *HK$'000*	Asia *HK$'000*	Europe and others *HK$'000*	Consolidated *HK$'000*
SEGMENT REVENUE				
Sales of goods – external	270,184	201,934	17,122	489,240
SEGMENT (LOSS) PROFIT	(7,486)	(3,860)	176	(11,170)
Decrease in fair value of held for trading investments				(2,242)
Increase in fair value of investment property				241
Finance costs				(2,222)
Unallocated income				2,971
Unallocated expenses				(24,008)
Loss before tax				(36,430)

Segment (loss) profit represents the (loss) profit (incurred) earned by each segment without allocation of central administration costs, directors' salaries, depreciation of property, plant and equipment, amortisation of prepaid lease payments, change in fair value of financial assets at FVTPL/held for trading investments, change in fair value of investment property, other income 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 before tax

	Six months ended September 30,	
	2018	2017
	HK$'000	*HK$'000*
Loss before tax has been arrived at after charging (crediting):		
Directors' remunerations:		
Fees	**273**	255
Other emoluments	**2,730**	3,765
Contributions to retirement benefit schemes	**48**	43
	3,051	4,063
Other employee benefits expenses:		
Salaries, allowances and bonus	**120,442**	126,503
Contributions to retirement benefit schemes	**12,978**	16,306
Total employee benefits expenses	**136,471**	146,872
Amortisation of prepaid lease payments	**401**	397
Depreciation of property, plant and equipment	**8,847**	9,678
Loss on disposal of asset classified as held for sale	**92**	–
Loss on disposal of property, plant and equipment	**276**	109
Bank interest income	**(644)**	(681)
Rental income, net of outgoings	**(2,642)**	(153)

5. Income tax expenses

	Six months ended September 30, **2018** *HK$'000*	2017 *HK$'000*
Current tax:		
Hong Kong	**–**	1,781
The People's Republic of China (the "PRC")	**491**	262
	491	2,043
Deferred taxation	**2,405**	6
	2,896	2,049

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit.

No provision for Hong Kong Profits Tax is made for the six months ended September 30, 2018 as the Group has no assessable profit arising in Hong Kong.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries remains 25%. Further, 5% withholding income tax is generally imposed on dividends relating to profits earned by PRC entities that are owned by non-PRC entities within the Group.

6. Dividends

No dividend was paid, declared or proposed during the interim period. The Board does not recommend the payment of an interim dividend for the six months ended September 30, 2018 (six months ended September 30, 2017: Nil).

7. Loss per share

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

	Six months ended September 30, **2018** *HK$'000*	2017 *HK$'000*
Loss for the period attributable to owners of the Company	**(56,037)**	(38,108)

	2018	2017
Number of ordinary shares in issue during the period for the purpose of loss per share	**464,077,557**	464,077,557

No diluted loss per share is presented as there was no potential dilutive ordinary share outstanding for the six months ended September 30, 2018 and 2017.

8. Movements in investment property and property, plant and equipment

During the six months ended September 30, 2018, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of HK$316,000 for proceeds of HK$40,000, resulting in a loss on disposal of HK$276,000.

During the six months ended September 30, 2017, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of HK$149,000 for proceeds of HK$40,000, resulting in a loss on disposal of HK$109,000.

The Group spent HK$5,311,000 (six months ended September 30, 2017: HK$5,871,000) on acquisition of property, plant and equipment.

The Group's investment property was fair valued by Grant Sherman Appraisal Limited and AP Appraisal Limited, independent qualified professional valuers not connected with the Group, as at September 30, 2018 and March 31, 2018, respectively.

In determining the fair value of investment property as at September 30, 2018, a combination of the direct comparison method and depreciated replacement cost approach are adopted in assessing the land portion of the property and the buildings and structures standing on the land respectively. The sum of the two results represents the fair value of the property as a whole. Direct comparison method was adopted in determining the fair value of investment property as at March 31, 2018.

Direct comparison method is based on comparing the assets to be valued directly with other comparable assets, which have recently transferred its legal ownership. Depreciated replacement cost approach provides an indication of value by calculating the current replacement or reproduction cost of an asset and making deductions for physical deterioration and all other relevant forms of obsolescence.

The resulting increase in fair value of investment property of HK$5,352,000 has been recognised directly in profit or loss for the six months ended September 30, 2018 (six months ended September 30, 2017: increase in fair value of HK$241,000).

9. Trade and other receivables

The Group normally grants a credit period ranging from 30 days to 90 days to its trade customers. As at September 30, 2018, the carrying amount of trade receivables was HK$105,041,000, net of allowance for doubtful debt: HK$344,000 (March 31, 2018: HK$99,446,000, net of allowance for doubtful debt: HK$ Nil). Included in trade and other receivables are trade and bills receivables, mainly denominated in United States Dollars, with the following aged analysis presented based on the invoice date which approximated revenue recognition date at the end of the reporting period:

	September 30, 2018	March 31, 2018
	HK$'000	*HK$'000*
Up to 30 days	**62,013**	72,976
31 – 60 days	**33,328**	39,137
61 – 90 days	**15,887**	5,566
More than 90 days	**6,975**	8,372
	118,203	126,051

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:

	September 30, 2018 *HK$'000*	March 31, 2018 *HK$'000*
Up to 30 days	**61,228**	57,557
31 – 60 days	**14,117**	12,065
61 – 90 days	**10,193**	7,377
More than 90 days	**8,119**	3,986
	93,657	80,985

11. Share capital

	Number of shares	**Amount** *HK$'000*
Issued and fully paid:		
At April 1, 2017, September 30, 2017, March 31, 2018 and September 30, 2018		
Ordinary shares with no par value	**464,077,557**	**254,112**

DIVIDEND

No dividend was paid, declared or proposed during the interim period. The Board does not recommend the payment of an interim dividend for the six months ended September 30, 2018 (six months ended September 30, 2017: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's revenue for the period under review increased by a modest 1.5% to approximately HK$496.4 million with a gross profit of HK$85.9 million representing a gross profit margin of 17.3%, which was 2.6 percentage point lower than that of the corresponding period of the previous year. The decrease in gross profit margin was mainly due to the rising staff costs in Mainland China. The proliferation of a large number of discount and off-price fashion platforms and channels further worsened price competition and eroded margins.

Despite the slight increase in revenue, the Group's loss before tax for the period under review increased by 47.0% to approximately HK$53.6 million. The increase in loss before tax as compared with that of the corresponding period in the previous year was mainly attributable to the decrease in fair value of financial assets at fair value through profit or loss ("FVTPL"). After registering sharp gain in 2017, the year 2018 marked a highly volatile year for the Hong Kong equity market which was adversely affected by global political and economic uncertainties brought about by the intensifying trade frictions between China and the US as well as geopolitical tensions in the Middle East. The downward momentum was further accelerated by worries over further interest rate hikes in the US, depreciation of Renminbi ("RMB") as well as the weakening of the HK dollars. Excluding this non-operating item which is not regarded as core activity of the Group, the loss before tax for the period would have been approximately HK$37.8 million representing an increase of 10.6%.

Business Review

In 2018, apparel industry players continue to face the challenges of operating in a fundamentally changing industry against the backdrop of geopolitical turbulence and macroeconomic uncertainties. We have witnessed the fast pace of the industry which enabled the flourishing and gaining ground of fast fashion sector in the past few years. A more far reaching and permanent phenomenon underpinning the ever changing nature of the apparel and fashion industry nowadays is the rapid technological change and digitalization. Rapid technological advance has resulted in affordable internet access leading to international connections through operating systems to marketplaces and social networks. This has profound impact on consumer behaviors and brought about exponential increase in volume of cross-border e-commerce. In apparel industry, digital adoption by the mainstream consumer has become a major and ongoing trend. This growing global connectivity has flourished countless numbers of online platforms which in turn drive up competition in the fashion industry on a global scale. Accordingly, existing industry players are brought into head-to-head competition from companies from all corners of the world. An array of economic and political uncertainties in 2018 simply added to the challenge and marks another tough year for the apparel industry.

However, with the foresight of the management and the rising labor costs in the existing manufacturing hubs in China, the Group's decision to rebase its manufacturing hub to Vietnam was a proven strategic move and the several years of investments and efforts started to pay off. Particularly when the trade tension between China and the US intensified in recent months, customers from the US have made solid requests to have their orders made elsewhere than China to mitigate the possible impacts to their sales orders and business should the trade war escalate in the near future.

In the period under review, while the migration plan of major manufacturing operations in Shenzhen to Dongguan went well on schedule, the Group remained focused to further consolidate and streamline production capabilities to enhance responsiveness, maintain healthy but not excessive inventory level, implement tight budgetary control and also monitor carefully the credit risks of customers. We continued to reduce overhead costs, by simplifying internal managerial structures, procedures and processes to enhance the agility of our organization through today's rapidly-changing retail environment. As a result of consistent efforts, we have achieved reductions of administration, selling and distribution expenses for the period under review despite ever rising costs and expenses of China operations.

Sales to US and Canada

Sales to the US and Canada accounted for approximately half of the Group's total revenue with the US remained as the Group's second largest market for the period under review.

According to the US Bureau of Economic Analysis, the real GDP growth of the US reached 4.2 % and 3.5% year-on-year in the second and third quarter of 2018. Despite strong economic fundamentals, the US economy slowed slightly in the third quarter amidst concerns over escalation of trade tensions, a strong US dollar and federal rate hikes. The Group's sales to the US experienced a slight decline of approximately 1.6% year-on-year during the period under review, with a sales amount of HK$173.5 million. The Group's sales to Canada during the six-month period flattened and amounted to HK$77.1 million, representing a drop of 17.9% year-on-year. According to data from Moody's Analytics, Canada recorded a GDP growth of 2.9% in the second quarter of 2018. However, rising interest rate and a slower job growth dampened household spending sentiment and consumption spending. The overall sales to the North American market contracted by 7.2% year-on-year for the period under review.

Sales to Asia

Sales to Asia accounted for 45.7% of the Group's total revenue, amounted to a total of HK$226.8 million for the period under review representing a 12.3% increase compared with that of last period. The increase in sales to Asia was mainly attributable to the 14.0% increase in sales to the China market, which alone contributed to a sales amount of HK$217.6 million and remained as the single largest market of the Group.

According to National Bureau of Statistics of China, national GDP continued to expand at 6.7% and 6.5% in annual term in the second and third quarter of the year respectively. Despite the seemingly uncertain economic climate, overall economic situation in China remained positive during the period under review. Consumption power was strengthened on the back of rising real income and a low employment rate whereas e-commerce sales continued to foster rapidly.

The Group's steadfast efforts in discontinuance of underperformed operations and migration to the Dongguan plant, diversification of production base and investments in automation and a skilled workforce started to bear fruit and has enabled the Group to respond to customers' demands at a faster pace and with better quality standards than in the past. This has enabled the Group to achieve a double digit growth in this highly competitive market segment.

<u>E-commerce operation park</u>

The Group's e-commerce operation park continued to generate stable revenue and steady cash flow for the period under review.

<u>Update on the Group's proposed sale of its factory premises located in Shenzhen and Thailand</u>

In regard to the proposed sale of the factory premises in Shenzhen and Thailand as stated in the business update announcement dated July 31, 2018 made by the Company ("Business Update"), the Company has appointed a few international property agents to identify and negotiate with potential buyers in the markets. The endeavor of the property agents has been carried out under the backdrop of subdued market sentiment prevailing in the recent months. As stated in the Business Update, there is no assurance that the proposed sale will materialize as there may not be any offer from any buyer or, even if there is, such offer may not be accepted by the Company or where required, the Company's shareholders.

Prospects

Looking forward, the many challenges that the fashion industry have been facing over the past few years will continue to persist. The trade friction between China and the US will continue and the impact is likely to materialize more concretely in the near future. An era of rising interest rate may stall business confidence and further dampen customers' spending momentum.

Albeit strong economic fundamentals in the US and solid economic growth, uncertainties loomed and posed potential disruptions to the supply chain. Tension between China and the US over trade posed potential implications on alternatives for sourcing countries. The Group's strategic decision to diversify its production base in Vietnam a few years ago insulates the Group from materially adverse impact should the current trade tensions keep festering and the Group is well positioned to serve its North American market. With almost three years of operation, the Vietnam plant has already achieved a high standard of production both in terms of quality and efficiency. The Group will continue to invest in technology and automation in the Vietnam plant to further enhance its operational effectiveness and cost efficiency. The Group's years of strategic presence in Vietnam has also enabled the Group to accumulate valuable networks, production knowhow, management experience and expertise to operate in Southeast Asia. This gives the Group competitive advantage not only to readily capture any upcoming opportunities should more and more companies consider re-routing their supply chains or manufacturing activities away from China, but also enables the Group to expand its own manufacturing capability at a quicker pace than other late comers through strategic partnership or alliance.

A loss in growth momentum is also expected in China as a result of trade war and its repercussions on export sectors. Despite a 6.5% GDP growth in the third quarter of 2018, the figure was the softest since the first quarter of 2009 suggesting a loss in economic momentum as 2018 draws to a close. In late July, the Chinese government has begun rolling out policies to proactively manage the risks of possible economic slowdown in China through a combination of expansionary fiscal policy and prudent monetary policy. We believe the Chinese government's approach to the economy may alleviate and mitigate the possible downturn should the trade war intensify in the near future. The Group thus remains cautiously optimistic on the overall potential of the China market. While economic growth is expected to moderate in the near future because of the slowdown in the export sector, the Chinese government continues to put greater emphasis on quality rather than the pace of growth and intends to encourage the economy to move into a new era of tertiary service and technology oriented model. This possible economic evolution will continue to grow its ever expanding middle class and a more sustainable consumption power, especially with the rapid rise of the young affluent middle class. The Group will respond by enhancing and broadening its brands and product mix in the young and light luxury fashion segment. The Group's Zhongshan and Dongguan plants will shift from focusing in export sales to becoming the strategic foothold to support the Group's domestic trade growth in China market.

In October 2018, the Group has discontinued the operation of the continuous loss-making manufacturing division in Shenzhen which is specialized in jacket production. Such move formed part of the Group's strategic migration plan of its major manufacturing operations and enhances the overall production cost effectiveness of the Group.

In China retail sector, the Group targets to strengthen our brand identity and reputation among the rising middle class through upgrading of digital investments to our existing online platforms and introducing new shopping excitements. E-commerce is assuming bigger share of total retail sales and the Group strives to tap this fastest growing online market with huge potential. With the weakening of the consumer market in recent months, the Group has strengthened sales promotion in order to maintain the competitiveness and sales of our "betu" brand in the market, and has achieved encouraging sales record in double 11 shopping festival in the current month.

The management will stay tuned to the latest global political and economic developments so as to be kept alert of the headwinds and challenges ahead. On the other hand, the Group will continue to strengthen our competitive advantage by staying focused on supply chain improvement and cost efficiency management in order to remain vigilant and nimble to adapt to the ever-changing fashion industry and the uncertain global economy.

CAPITAL EXPENDITURE

During the period under review, the Group incurred HK$5.3 million capital expenditure as compared to HK$5.9 million of the corresponding period last year. Such capital expenditure mainly represented regular replacement, upgrading and automation of production facilities, and leasehold improvement of the Group.

LIQUIDITY AND FINANCIAL RESOURCES

The Group continued to adopt a prudent financial management during the six months ended September 30, 2018 (the "Reporting Period"). As at September 30, 2018, the Group's cash level was recorded at HK$213.7 million (of which HK$116.9 million was pledged bank deposits) as compared to HK$226.4 million (of which HK$116.9 million was pledged bank deposits) as at March 31, 2018. Most of the bank balances were placed in USD, HKD and RMB short term deposits with major banks. Total bank borrowings of HK$148.6 million, which were mainly denominated in USD, HKD and RMB, consisted of HK$139.4 million short-term bank borrowings and HK$9.2 million long-term bank borrowings. The Group had no borrowings at fixed interest rates during the Reporting Period. The gearing ratio (total bank borrowings to total equity) was 38.0%. The Group is of the opinion that, after taking into consideration of the internal available financial resources and the current banking facilities, the Group has sufficient funds to finance its operations and to meet the financial obligations of its business when they fall due. During the Reporting Period, working capital cycles remained under stringent control, where inventory turnover and trade receivable turnover remained healthy.

As at September 30, 2018, certain land and buildings with an aggregate net book value of approximately HK$14.9 million (March 31, 2018: HK$15.6 million) were pledged to banks to secure general banking facilities granted to the Group.

SIGNIFICANT INVESTMENTS

As at September 30, 2018, the financial assets at FVTPL of the Group amounted to approximately HK$23,779,000 which consist of securities of four companies listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Set out below is a breakdown of the Group's financial assets at FVTPL as at September 30, 2018 and their performance during the six months ended September 30, 2018:

Description of investments	*Notes*	**Market/fair value as at September 30, 2018** *HK$'000*	**Unrealised fair value loss** *HK$'000*	**Percentage to the Group's unaudited total assets as at September 30, 2018**	**Percentage to the Group's total securities investments as at September 30, 2018**	**Carrying value as at March 31, 2018**
EPI (Holdings) Limited (stock code: 689)	*(a)*	21,345	(14,102)	2.95%	89.76%	35,447
Other listed securities	*(b)*	2,434	(1,659)	0.34%	10.24%	4,093
		23,779	(15,761)	3.29%	100%	39,540

Notes:

(a) This investment represented 38,115,000 shares ("EPI Shares") of EPI (Holdings) Limited ("EPI"), representing approximately 0.75% of the total issued shares of EPI as at September 30, 2018. There is no acquisition and disposal of EPI Shares during the period.

Based on the interim report ("EPI 2018 Interim Report") of EPI for the six months ended June 30, 2018, EPI together with its subsidiaries ("EPI Group") is engaged in the business of petroleum exploration and production, money lending and investment in securities. As disclosed in the EPI 2018 Interim Report, for the six months ended June 30, 2018, the EPI Group recorded a revenue of HK$33,131,000 (which is increased by 20.7% compared to the prior period), and a loss for the period of HK$39,314,000 (which is decreased by 35.5% compared to the prior period). As disclosed in the EPI 2018 Interim Report, the management of EPI will seize business and investment opportunities with good prospects aiming to enhance value to EPI's shareholders. The EPI Group has also entered into a limited partnership agreement with two independent parties to invest in a series of projects in the smart city big data industry in the PRC and a memorandum of understanding with a company listed on the Australian Securities Exchange to acquire a certain percentage of shareholdings in its wholly owned subsidiary, which in turn holds three wholly owned subsidiaries that had respectively entered into three production sharing contracts with several Indonesia entities including Indonesian state-owned entities in respect of exploration and exploitation activities of coalbed methane.

(b) These equity securities listed in Hong Kong represented the Group's investments in 3 companies whose shares are listed on the Main Board or the GEM of the Stock Exchange. Each of such investments has a market value or fair value that account for less than 0.5% of the Group's unaudited total assets as at September 30, 2018.

As expected by the Directors as at March 31, 2018, the stock market in Hong Kong remains to be volatile in the second half of 2018 which adversely affects the performance of the Group's securities investments. Looking forward, the Board believes that the performance of the securities investments of the Group will be dependent on the financial and operating performance of investee companies and market sentiment which are affected by factors such as interest rate movements and performance of the macro economy. In order to mitigate the associated risk, the Group will continuously remain cautious in the allocation of resources and the identification and capture of appropriate securities investment opportunities and will review its investment strategy regularly so as to take appropriate actions whenever necessary in response to changes in the market.

TREASURY POLICY

The Group continues to adopt prudent policies consistently to hedge exchange rate and interest rate risks associated with our core business. The majority of our export sales are denominated in USD, while incomes from our retail business in China are denominated in RMB and a tiny portion destined for the European export markets is denominated in EURO ("EUR"). As a substantial portion of the purchases and overheads are denominated in RMB and the EUR exchange rate fluctuation may be significant, the Group enters into forward contracts to hedge the risks as deemed appropriate.

HUMAN RESOURCES

As at September 30, 2018, the Group has approximately 3,200 employees as compared to 3,300 as at March 31, 2018. The Group regards employees as the most valuable asset and the core element of our long-term success. In spite of the harsh operating environment, we keep on retaining and inspiring competent staffs who dedicate to developing their careers in line with our core corporate values and strategic goals by offering career development opportunities, job satisfaction via empowerment, harmonious teamwork and competitive remuneration package with reference to the market practice and performance.

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

During the Reporting 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 three 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 Reporting Period.

CORPORATE GOVERNANCE

Throughout the Reporting Period, the Company has complied with all the code provisions set out in the Corporate Governance Code contained in Appendix 14 of 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 Reporting Period.

PUBLICATION OF INTERIM RESULTS AND REPORT

This interim results announcement is published on the Company's website (www.tungtex.com) and the Hong Kong Exchanges and Clearing Limited's website (www.hkexnews.hk). The Interim Report containing all the information required by the Listing Rules will be despatched to shareholders of the Company and available on the same websites in due course.

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

Hong Kong, November 28, 2018

As at the date of this announcement, the executive directors of the Company are Mr. Martin Tung Hau Man, Mr. Raymond Tung Wai Man and Mr. Billy Tung Chung Man; and the independent non-executive directors are Mr. Tony Chang Chung Kay, Mr. Robert Yau Ming Kim, Mr. Leslie Chang Shuk Chien and Mr. Kenneth Yuen Ki Lok.