TUNGTEX

Tungtex (Holdings) Company Limited Stock Code : 00518

Interim Report 2017-2018

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Contents

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REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

TO THE BOARD OF DIRECTORS OF TUNGTEX (HOLDINGS) COMPANY LIMITED
(incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of Tungtex (Holdings) Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 3 to 19, which comprises the condensed consolidated statement of financial position as of September 30, 2017 and the related condensed consolidated statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

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

Conclusion

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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
November 29, 2017

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended September 30, 2017

	Notes	**Six months ended September 30, 2017 HK$'000 (unaudited)**	2016 HK$'000 (unaudited)
Revenue	3	**489,240**	470,126
Cost of sales		**(391,640)**	(388,761)
Gross profit		**97,600**	81,365
Other income and other gain		**2,971**	2,401
Decrease in fair value of held for trading investments		**(2,242)**	–
Increase (decrease) in fair value of investment property	8	**241**	(62)
Fair value changes on derivative financial instruments		**–**	42
Selling and distribution costs		**(61,636)**	(61,145)
Administrative expenses		**(71,142)**	(81,287)
Finance costs		**(2,222)**	(1,302)
Loss before tax	4	**(36,430)**	(59,988)
Income tax (expenses) credit	5	**(2,049)**	161
Loss for the period		**(38,479)**	(59,827)
Loss for the period attributable to:			
Owners of the Company		**(38,108)**	(59,456)
Non-controlling interests		**(371)**	(371)
		(38,479)	(59,827)
Loss per share (HK cents)	7	**(8.2)**	(14.1)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended September 30, 2017

	Six months ended September 30,	
	2017	2016
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Loss for the period	**(38,479)**	(59,827)
Other comprehensive income (expense)		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translating foreign operations	**8,605**	(11,533)
Other comprehensive income (expense) for the period	**8,605**	(11,533)
Total comprehensive expenses for the period	**(29,874)**	(71,360)
Total comprehensive expenses for the period attributable to:		
Owners of the Company	**(29,503)**	(70,989)
Non-controlling interests	**(371)**	(371)
	(29,874)	(71,360)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At September 30, 2017

	Notes	**September 30, 2017 HK$'000 (unaudited)**	March 31, 2017 HK$'000 (audited)
Non-current assets			
Investment property	8	**7,309**	7,068
Property, plant and equipment	8	**114,296**	114,141
Prepaid lease payments		**23,714**	23,630
Intangible asset		**–**	–
Deferred tax assets		**69**	86
		145,388	144,925
Current assets			
Inventories		**150,202**	140,015
Trade and other receivables	9	**163,784**	151,069
Prepaid lease payments		**794**	796
Held for trading investments	10	**10,582**	–
Tax recoverable		**553**	554
Pledged bank deposits		**96,267**	96,000
Bank balances and cash		**160,144**	224,212
		582,326	612,646
Current liabilities			
Trade and other payables	11	**174,151**	161,952
Tax liabilities		**2,665**	626
Bank borrowings	12	**100,598**	113,610
		277,414	276,188
Net current assets		**304,912**	336,458
Total assets less current liabilities		**450,300**	481,383
Non-current liabilities			
Bank borrowings	12	**11,600**	12,800
Deferred tax liabilities		**1,566**	1,575
		13,166	14,375
		437,134	467,008

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

At September 30, 2017

	Note	**September 30, 2017 HK$'000 (unaudited)**	March 31, 2017 HK$'000 (audited)
Capital and reserves			
Share capital	13	**254,112**	254,112
Reserves		**189,496**	218,999
Equity attributable to owners of the Company		**443,608**	473,111
Non-controlling interests		**(6,474)**	(6,103)
		437,134	467,008

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended September 30, 2017

	Attributable to owners of the Company					
	Share capital HK$'000	**Translation reserve** HK$'000	**Retained profits** HK$'000	**Total** HK$'000	**Non-controlling interests** HK$'000	**Total** HK$'000
At April 1, 2016 (audited)	212,932	(14,733)	367,598	565,797	(5,284)	560,513
Loss for the period	–	–	(59,456)	(59,456)	(371)	(59,827)
Exchange differences arising on translation of foreign operations	–	(11,533)	–	(11,533)	–	(11,533)
Total comprehensive expenses for the period	–	(11,533)	(59,456)	(70,989)	(371)	(71,360)
At September 30, 2016 (unaudited)	212,932	(26,266)	308,142	494,808	(5,655)	489,153
At April 1, 2017 (audited)	**254,112**	**(28,961)**	**247,960**	**473,111**	**(6,103)**	**467,008**
Loss for the period	**–**	**–**	**(38,108)**	**(38,108)**	**(371)**	**(38,479)**
Exchange differences arising on translation of foreign operations	**–**	**8,605**	**–**	**8,605**	**–**	**8,605**
Total comprehensive income (expense) for the period	**–**	**8,605**	**(38,108)**	**(29,503)**	**(371)**	**(29,874)**
At September 30, 2017 (unaudited)	**254,112**	**(20,356)**	**209,852**	**443,608**	**(6,474)**	**437,134**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended September 30, 2017

	Six months ended September 30, 2017 HK$'000 (unaudited)	2016 HK$'000 (unaudited)
Net cash used in operating activities	**(41,104)**	(17,450)
Net cash used in investing activities:		
Purchase of property, plant and equipment	**(5,871)**	(7,015)
Proceeds on disposal of property, plant and equipment	**40**	234
Placement of pledged bank deposits	**(267)**	–
Other investing cash flows	**681**	554
	(5,417)	(6,227)
Net cash used in financing activities:		
Bank borrowings raised	**77,319**	80,516
Repayments of bank borrowings	**(93,878)**	(88,900)
Other financing cash flows	**(2,222)**	(1,309)
	(18,781)	(9,693)
Net decrease in cash and cash equivalents	**(65,302)**	(33,370)
Cash and cash equivalents at the beginning of the period	**224,212**	186,325
Effect of foreign exchange rate changes	**1,234**	(1,080)
Cash and cash equivalents at the end of the period, represented by bank balances and cash	**160,144**	151,875

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended September 30, 2017

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 "Listing Rules").

The financial information relating to the year ended March 31, 2017 that is included in these condensed consolidated financial statements as comparative information does not constitute the Company's statutory annual consolidated financial statements for the 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 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, 2017 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, 2017. 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.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended September 30, 2017 are the same as those followed in the preparation of the Group's annual financial statements for the year ended March 31, 2017.

(i) In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of Annual Improvements to HKFRSs 2014 – 2016 Cycle

2. Principal accounting policies *(continued)*

(i) *(continued)*

Amendments to HKAS 7 *Disclosure Initiative*

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specifically, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The application of the amendments will result in additional disclosures on the Group's financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

The amendments have no impact on these condensed consolidated financial statements but will result in relevant disclosures in the Group's annual consolidated financial statements for the year ended March 31, 2018.

The application of the other amendments to HKFRSs 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.

(ii) In relation to the purchase of held for trading investments during the interim period, the Group adopts the following new accounting policies:

Financial assets

Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial assets are (i) held for trading, (ii) designated as at fair value through profit or loss or (iii) contingent consideration that may be paid by an acquirer as part of a business combination to which HKFRS 3 applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

2. Principal accounting policies *(continued)*

(ii) *(continued)*

Financial assets *(continued)*

Financial assets at fair value through profit or loss (continued)

A financial asset other than a financial asset held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Assets in these categories are initially recognised at fair value, and transaction costs are expensed in the condensed consolidated statement of profit or loss, and are subsequently remeasured at their fair values. Gains and losses arising from changes in the fair values are included in the condensed consolidated statement of profit or loss in the period in which they arise.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets. Fair value is determined in the manner described in note 15.

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, 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)**

3. Segment information *(continued)*

Six months ended September 30, 2016:

	North America HK$'000	Asia HK$'000	Europe and others HK$'000	Consolidated HK$'000
SEGMENT REVENUE				
Sales of goods – external	250,483	186,144	33,499	470,126
SEGMENT LOSS	(11,985)	(21,815)	(713)	(34,513)
Decrease in fair value of investment property				(62)
Finance costs				(1,302)
Unallocated income				2,443
Unallocated expenses				(26,554)
Loss before tax				(59,988)

Segment (loss) profit represents the (loss expensed) profit 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 held for trading investments, change in fair value of investment property, change in fair value of derivative financial instruments, 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 before tax

	Six months ended September 30, 2017 HK$'000	2016 HK$'000
Loss before tax has been arrived at after charging (crediting):		
Directors' remunerations:		
Fees	**255**	361
Other emoluments	**3,765**	5,286
Contributions to retirement benefit schemes	**43**	33
	4,063	5,680
Other employee benefits expenses:		
Salaries, allowances and bonus	**126,503**	156,382
Contributions to retirement benefit schemes	**16,306**	14,962
Total employee benefits expenses	**146,872**	177,024
Amortisation of prepaid lease payments	**397**	401
Depreciation of property, plant and equipment	**9,678**	9,792
Loss on disposal of property, plant and equipment	**109**	199
Bank interest income	**(681)**	(554)
Rental income from investment property under operating lease, net of negligible outgoings	**(153)**	(28)

5. Income tax expenses (credit)

	Six months ended September 30, 2017 HK$'000	2016 HK$'000
Current tax:		
Hong Kong	**1,781**	765
The People's Republic of China (the "PRC")	**262**	–
	2,043	765
Deferred taxation	**6**	(926)
	2,049	(161)

5. Income tax expenses (credit) *(continued)*

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

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

No provision for PRC Enterprise Income Tax was made for the six months ended September 30, 2016 as the Group had no assessable profit arising in the PRC.

According to the EIT Law, the profits of the PRC subsidiaries of the Company derived since January 1, 2008 will be subject to withholding tax at a rate of 5% upon the distribution of such profits to foreign investors incorporated in Hong Kong, or at a rate of 10% for other foreign investors. The Group determined that no deferred tax on withholding tax liabilities shall be recognised as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not be reversed in the foreseeable future.

6. Dividends

No dividends were 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, 2017 (six months ended September 30, 2016: 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,	
	2017	2016
	HK$'000	HK$'000
Loss for the period attributable to owners of the Company	**(38,108)**	(59,456)
	2017	2016
Number of ordinary shares in issue during the period for the purpose of loss per share	**464,077,557**	422,077,557

No diluted loss per share is presented as there was no potential dilutive ordinary share outstanding for the six months ended September 30, 2017 and 2016.

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

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.

During the six months ended September 30, 2016, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of HK$433,000 for proceeds of HK$234,000, resulting in a loss on disposal of HK$199,000.

The Group spent HK$5,871,000 (six months ended September 30, 2016: HK$7,015,000) on acquisition of property, plant and equipment.

The Group's investment property was fair valued by Grant Sherman Appraisal Limited and Hung Association Appraisal and Professional Services Limited, independent qualified professional valuers not connected with the Group, as at September 30, 2017 and March 31, 2017, respectively. In determining the fair value of investment property, direct comparison method is adopted. Direct comparison method is based on comparing the properties to be valued directly with other comparable properties, which have recently transferred its legal ownership. There has been no change from the valuation technique used in prior year.

The resulting increase in fair value of investment property of HK$241,000 has been recognised directly in profit or loss for the six months ended September 30, 2017 (six months ended September 30, 2016: decrease in fair value of HK$62,000).

9. Trade and other receivables

The Group allows a credit period ranging from 30 days to 90 days to its trade customers. 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, 2017 HK$'000	March 31, 2017 HK$'000
Up to 30 days	**81,146**	78,085
31 – 60 days	**16,479**	25,745
61 – 90 days	**17,251**	13,523
More than 90 days	**8,483**	3,985
	123,359	121,338

10. Held for trading investments

	September 30, 2017 HK$'000	March 31, 2017 HK$'000
Listed equity securities in Hong Kong	**10,582**	–

The fair values of listed securities are determined based on the closing price quoted in active markets in Hong Kong.

11. Trade and other payables

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

	September 30, 2017 HK$'000	March 31, 2017 HK$'000
Up to 30 days	**70,475**	45,744
31 – 60 days	**9,146**	17,890
61 – 90 days	**10,278**	3,254
More than 90 days	**8,240**	7,899
	98,139	74,787

12. Bank borrowings

The Group repaid bank borrowings of HK$93,878,000 during the six months ended September 30, 2017 (six months ended September 30, 2016: HK$88,900,000).

During the six months ended September 30, 2017, the Group raised new bank borrowings of HK$77,319,000 (six months ended September 30, 2016: HK$80,516,000), which were used as general working capital. The new bank borrowings bear variable interest at market rates and are repayable within one year.

13. Share capital

	Number of shares	**Amount** HK$'000
Issued and fully paid:		
At April 1, 2016 and September 30, 2016 Ordinary shares with no par value	**422,077,557**	**212,932**
Issue of new ordinary shares by way of placing *(note)*	**42,000,000**	**42,000**
Transaction costs attributable to issue of new ordinary shares	**–**	**(820)**
At March 31, 2017 and September 30, 2017 Ordinary shares with no par value	**464,077,557**	**254,112**

Note: On March 24, 2017, the Company issued and allotted 42,000,000 ordinary shares by way of placing, at the placing price of HK$1.0 per placing share, raising gross and net proceeds of HK$42.0 million and approximately HK$41.2 million respectively.

14. Related parties transactions

During the period, the Group had the following transactions with related parties:

	Six months ended September 30, 2017 HK$'000	2016 HK$'000
Compensation of key management personnel	**4,848**	5,424

15. Fair value measurements of financial instruments

Fair value of financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets	**Fair value** **September 30, 2017 HK$'000**	March 31, 2017 HK$'000	**Fair value hierarchy**	**Valuation technique and key input(s)**
Held for trading investments				
Listed equity securities	**10,582**	–	Level 1	Quoted closing prices in an active market

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis

The directors of the Company consider that the carrying amounts of other financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

16. Other event

On September 4, 2017, the Company (as vendor) and Happy Splendid Limited (the "Purchaser") entered into a sale and purchase agreement, pursuant to which the Company conditionally agreed to dispose of and the Purchaser conditionally agreed to purchase (1) the entire issued share capital of Sing Yang (Overseas) Limited ("SYOL"), a direct subsidiary of the Company, (2) the entire outstanding shareholder's loan owing by SYOL and its subsidiary to the Company and (3) the entire issued share capital of Tungtex Trading Company Limited ("TTCL"), a direct subsidiary of the Company, (collectively referred to the "Disposal Group") at the aggregate consideration of HK$157,000,000 (the "Disposal").

The Disposal constitutes a connected transaction of the Company as the Purchaser is owned as to 50% by Mr. Benson Tung Wah Wing ("Mr. Tung") and 50% by Madam Wong Fung Lin ("Madam Wong"). Mr. Tung and Madam Wong together own the entire equity interests in equal shares in Corona Investments Limited, which is the 32.33% shareholder of the Company on September 4, 2017. As such, the Purchaser is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the Disposal also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

At the same time, the Company and TTCL entered into a Framework Purchase Agreement (the "Agreement"), under which the Group immediately after Disposal will purchase garment products from TTCL and its subsidiary based on the principles set out in the Agreement.

The Disposal is subject to the fulfilment or waiver of the conditions described in the announcement dated September 4, 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's performance for the six months ended September 30, 2017 ("Reporting Period") demonstrated improvement when compared with that of the corresponding period in the previous year. The Group's revenue for the period under review increased by 4.1 per cent to approximately HK$489.2 million. During the period, the Group registered a gross profit of HK$97.6 million, with a gross profit margin of 19.9 per cent, which was 2.6 percentage point higher than that of the corresponding period of the previous year, and 3.8 percentage point higher than that of full year ended March 31, 2017. Although there was only modest improvement in revenue, the Group's loss before tax was narrowed by 39.3 per cent to HK$36.4 million.

The amelioration in operating performance was mainly attributable to stronger sales in North America and Asia, and the effect of the Group's stringent cost control measure. In addition, the Group's shifting of its manufacturing orders to lower-cost Asian countries also served to enhance its cost-efficiency.

Business Review

International garment industry continued to face the challenge of rapid changes in fashion trend and softened consumption power in the US and European markets. The higher frequency in introducing new design of smaller order volume demanded garment manufacturers to shorten their production time and adapt their production lines to frequently revised design pattern. These requirements had inevitably added pressure on the Group's bottom line and had put its manufacturing facilities' agility to test.

During the period under review, the Group's seasoned management team diverted the bulk of its export orders to its Vietnam plant where it enjoyed significant cost advantage. Following several years of operation, the Group's Vietnam plant had trained up an experienced workforce and was equipped with automated machines capable of meeting international customers' demanding requirement under a tight work schedule. Continued investment in the Group's Vietnam facilities has turned the plant into a regional production base to serve the Group's North American and European export markets.

The US gross domestic product ("GDP") increased at annual rates of 3.1 per cent and 3.0 per cent in the second and third quarters of 2017 calendar year respectively. Due to reduced number of customers and shrunken order size, the Group's sales to the US, being the second largest market of the Group, declined by approximately 9.0 per cent year-on-year during the period under review, with a sales amount of HK$176.3 million. Consumer spending across the border in Canada had been encouraging. The northern neighbor of the US enjoyed cheap credit and a strong job market offering relatively better wages. The aforementioned factors contributed to a healthy household spending for Canada. The Group's sales to the country during the six-month period improved by 65.6 per cent year-on-year, and amounted to HK$93.9 million. Favorable performance in the Canadian market led to a 7.9 per cent year-on-year growth for the Group's sales to the North American market.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Business Review *(continued)*

Growth in China's GDP remained at 6.8 per cent for the first three quarters of 2017 calendar year. Steady economic development in China and a high proportion of disposable income spending on apparel by its younger generation continued to support a buoyant fashion market. As a result of strong domestic demand, the Group's Dongguan plant began to manufacture for local garment brands during the period under review. During the six-month period, the Group's sales to Asia remained healthy and reported a sales amount of HK$201.9 million, representing a year-on-year increase of 8.5 per cent. China, which was the Group's single largest market, contributed a sales amount of HK$190.9 million, which was 15.9 per cent higher than that of the corresponding period in the previous year. Growing popularity of its trendy products among the middle class enabled the Group to further enlarge its sales to this market.

Revenue generated from the Group's e-commence operation park continued to provide stable recurrent cashflow for the Group. The transformation of a non-performing industrial building into a popular e-commerce business center for small-medium sized e-commence businesses enable the Group to optimize the value of it assets.

The Group is seeking to broaden its income source through calculated investment in a basket of equities. Such investment displayed positive return after book close, despite temporary fluctuation in book value during the period under review.

Prospects

The robust 3.0 per cent annualized growth in the US's GDP during the third quarter, beat most forecast, and signified a relatively promising development in the US economy. However, the impact of the twin hurricanes which stroke Texas and Florida back-to-back in late August and early September has yet to be realised. According to the US Labour Department, the 33,000 jobs lost in September were mainly attributable to the massive damage caused by the hurricanes.

Following the conclusion of The 19th National Congress of the Communist Party of China, the Chinese government is determined to lead the State into a new era. There is little doubt about the State's ability to realise its GDP growth target in 2017. Nevertheless, China's economy is expected to continue its managed deceleration as policy makers trying to move from high-speed to high-quality growth. Besides, as for the apparel industry, uncertainty persists due to continuation of disruptive macro trends such as demographic shifts, rapid advancement in technologies, and the pressure of e-commerce and fast fashion.

Prospects *(continued)*

To deal with the challenge of rapidly changing operating environment, the Group is committing additional resources for intensified automation in its Dongguan and Vietnam plants. The significant reduction in labour force, due to a high level of automation, enables the Group to minimize its exposure to changing labour policies and rising labour costs. The Group's relatively new facility in Dongguan is equipped with the state-of-the-art equipment and a skilled workforce. The plant's extensive application of automated machinery serves to ensure a high degree of standardization and compliance of stringent quality requirement of prestigious fashion brands. A high level of automation at the Group's China factories will enable the Group to have better quality assurance with minimum reliance on manual labour.

The recent fluctuations in Renminbi and heightened labour cost have been adding uncertainty to manufacturing in China. The Group has begun contemplating its diversification of production bases two years ago, with a foothold established in Vietnam. The Vietnam plant has been developed into the Group's major regional operational hub. The Group is seeking to further expand its manufacturing capacity in the lower-cost Asian countries, either through setting up its own facilities or collaboration with local partners.

Responding to overseas customers' demand for diversification of manufacturing bases to territories with more flexible government policies and competitive costs, the Group has escalated its capital expenditure in upgrading its Vietnam plant, as well as pouring in more resources in staff training in the country. In addition, joint venture with local manufacturers is under consideration to expedite the Group's capacity expansion in the country. The strategic distribution of the Group's production facilities in Asia will offer it optimum agility in reacting to orders from overseas and China.

The positive effect of discontinuing underperformed operations in China and Thailand is going to be reflected in the current year. Without the one-off expense for closing down inefficient facilities in the previous year, the Group is likely to further improve its overall efficiency for the full year.

The Group will continue to enhance its operation efficiency and to adapt its operation to the changing consumer habit and overall market environment. The Group's continued investment in production automation and latest textile technology will serve to ensure its status in the forefront of the industry.

Capital Expenditure

During the period under review, the Group incurred HK$5.9 million capital expenditure as compared to HK$7.0 million of the corresponding period last year. Such capital expenditure mainly represented leasehold improvement for retail business and regular replacement and upgrading of production facilities of the Group.

Liquidity and Financial Resources

The Group continued to adopt a prudent financial management during the Reporting Period. As at September 30, 2017, the Group's cash level was recorded at HK$256.4 million (of which HK$96.3 million was pledged bank deposits) as compared to HK$320.2 million (of which HK$96.0 million was pledged bank deposits) as at March 31, 2017. Most of the bank balances were placed in USD, HKD and RMB short term deposits with major banks. Total bank borrowings of HK$112.2 million, which were mainly denominated in USD, HKD and RMB, consisted of HK$100.6 million short-term bank borrowings and HK$11.6 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 25.7%. 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, 2017, certain land and buildings with an aggregate net book value of approximately HK$16.8 million (March 31, 2017: HK$18.0 million) were pledged to banks to secure general banking facilities granted to the Group.

Treasury Policy

The Group continued 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 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 entered into forward contracts to hedge the risks as deemed appropriate.

Human Resources

As at September 30, 2017, the Group had approximately 3,700 employees globally, as compared to 4,100 as at March 31, 2017. 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.

OTHER INFORMATION

Dividend

No dividends were paid, declared or proposed during the interim period. The Board of Directors (the "Board") does not recommend the payment of an interim dividend for the six months ended September 30, 2017 ("Reporting Period") (six months ended September 30, 2016: Nil).

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at September 30, 2017, the interests and short positions of the directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which have been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such director or chief executive was taken or deemed to have under such provisions of the SFO) and have been recorded in the register maintained by the Company pursuant to section 352 of the SFO, or which have been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") were as follows:

Long Positions in Shares of the Company

Name of director	Capacity	Number of issued ordinary shares held/ interested	Percentage of the issued shares of the Company
Benson Tung Wah Wing	Interest of controlled corporation *(note)*	150,059,268	32.33%
Raymond Tung Wai Man	Beneficial owner	360,000	0.08%
Martin Tung Hau Man	Beneficial owner	1,604,000	0.35%
Billy Tung Chung Man	Beneficial owner	1,472,400	0.32%
Tony Chang Chung Kay	Beneficial owner	3,844,760	0.83%

OTHER INFORMATION *(continued)*

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures *(continued)*

Long Positions in Shares of the Company (continued)

Note: The 150,059,268 shares are owned by Corona Investments Limited ("Corona"). Mr. Benson Tung Wah Wing and his spouse, Madam Wong Fung Lin, together own the entire equity interests in equal shares in Corona. By virtue of the SFO, Mr. Benson Tung Wah Wing is deemed to be interested in the shares held by Corona.

Save as disclosed above, as at September 30, 2017, none of the directors nor chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which has been recorded in the register maintained by the Company pursuant to Section 352 of the SFO or which has been notified to the Company and the Stock Exchange pursuant to the Model Code.

Arrangements to Purchase Shares or Debentures

At no time during the Reporting Period was the Company, or any of its subsidiaries, a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' Interests in Transactions, Arrangements or Contracts

No transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company or entities connected with the director had a material interest, whether directly or indirectly, subsisted at the end of the Reporting Period or at any time during the Reporting Period.

OTHER INFORMATION *(continued)*

Substantial Shareholders

As at September 30, 2017, the following substantial shareholders, other than directors and chief executives of the Company, had the interests and short positions in the shares and underlying shares of the Company which have been disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, have been recorded in the register kept by the Company pursuant to Section 336 of the SFO:

Long Positions in Shares of the Company

Name of substantial shareholder	Capacity	Number of issued ordinary shares held/ interested	Percentage of the issued shares of the Company
Corona Investments Limited	Beneficial owner *(note a)*	150,059,268	32.33%
Wong Fung Lin	Interest of controlled corporation *(note b)*	150,059,268	32.33%
Wykeham Capital Asia Value Fund	Beneficial owner	23,390,000	5.04%
Wykeham Capital Limited	Investment manager *(note c)*	23,390,000	5.04%
Thomas Howel Gruffudd Rhys	Interest of controlled corporation *(note d)*	23,390,000	5.04%

Notes:

(a) These shares have been disclosed in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above.

(b) The 150,059,268 shares are held by Corona, the entire issued share capital of which is beneficially owned by Mr. Benson Tung Wah Wing and his spouse, Madam Wong Fung Lin, in equal shares. By virtue of the SFO, Madam Wong Fung Lin is deemed to be interested in the shares held by Corona.

(c) These shares are held by Wykeham Capital Asia Value Fund ("WCAVF"). Wykeham Capital Limited ("Wykeham") is the investment manager of WCAVF and by virtue of the SFO, is deemed to be interested in the shares held by WCAVF.

(d) These shares are held by WCAVF and Wykeham is the investment manager of WCAVF. The entire issued share capital of Wykeham is owned by Mr. Thomas Howel Gruffudd Rhys. By virtue of the SFO, Mr. Thomas Howel Gruffudd Rhys is deemed to be interested in the shares held by WCAVF.

Board of Directors

Executive directors:

Benson Tung Wah Wing *(Chairman and Managing Director)*
Raymond Tung Wai Man
Martin Tung Hau Man
Billy Tung Chung Man

Independent non-executive directors:

Tony Chang Chung Kay
Robert Yau Ming Kim
Leslie Chang Shuk Chien

Purchase, Sale or Redemption of the Company's Listed Securities

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, 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.

The Audit Committee of the Company comprises three independent non-executive directors, namely Mr. Leslie Chang Shuk Chien, Mr. Tony Chang Chung Kay and Mr. Robert Yau Ming Kim, with Mr. Leslie Chang Shuk Chien as the Chairman.

OTHER INFORMATION *(continued)*

Corporate Governance

Throughout the Reporting Period, the Company has complied with all the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Listing Rules, except for the deviation set out below:

Code Provision A.2.1 of the CG Code stipulates that the roles of the chairman and chief executive should be separate and should not be performed by the same individual. Mr. Benson Tung Wah Wing ("Mr. Tung") is the Chairman and Managing Director (equivalent to chief executive) of the Company. The Board considers that the function of the Chairman and the Managing Director in the Company's strategic planning and development process, as well as corporate goals setting process are overlapping. Given the current size, condition and the present stage of development of the Group, and for a more effective implementation and execution of strategies and business plans, the Board considers that it is in the interests of the Group that Mr. Tung holds both the offices of the Chairman and the Managing Director. The Board believes that the balance of power and authority is adequately ensured by the operations of the Board which comprises experienced and high calibre individuals, with at least one-third of them being independent non-executive directors.

Company Secretary

Mr. Liu Hoi Keung of JWMG Professional Services Limited, an external service provider, has been engaged by the Company as its company secretary following the resignation of Ms. Cheng Pik Yuk of Tricor Services Limited as the company secretary of the Company with effect from August 14, 2017. His primary contact person at the Company is Ms. Cheung Yiu Shan (Group Chief Financial Officer).

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.

Benson Tung Wah Wing
Chairman and Managing Director

Hong Kong

November 29, 2017

Website: www.tungtex.com