



TUNGTEX

2024
25

INTERIM
REPORT


Tungtex (Holdings) Company Limited

Stock Code: 00518



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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 30 September 2024 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.

D & PARTNERS CPA LIMITED
Certified Public Accountants

Hong Kong
28 November 2024

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2024

| | Notes | Six months ended 30 September | |
|---|-------|---------------------------------|---------------------------------|
| | | 2024 HK\$'000 (unaudited) | 2023 HK\$'000 (unaudited) |
| Revenue | 3, 4 | 323,320 | 237,529 |
| Cost of sales | | (271,431) | (192,722) |
| Gross profit | | 51,889 | 44,807 |
| Other income and other gain | | 5,143 | 7,053 |
| Net (impairment loss)/reversal of impairment loss recognised on financial assets | | (26) | 1,007 |
| Increase in fair value of investment property | | 611 | 1,654 |
| Selling and distribution costs | | (34,155) | (26,207) |
| Administrative expenses | | (36,834) | (38,237) |
| Finance costs | | (1,811) | (1,526) |
| Share of (loss)/profit of an associate | | (19) | 27 |
| Loss before tax | 5 | (15,202) | (11,422) |
| Income tax expenses | 6 | (165) | (170) |
| Loss for the period | | (15,367) | (11,592) |
| Loss for the period attributable to: | | | |
| Owners of the Company | | (14,785) | (10,979) |
| Non-controlling interests | | (582) | (613) |
| | | (15,367) | (11,592) |
| Basic and diluted loss per share (HK cents) | 8 | (3.3) | (2.4) |

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2024

| | Six months ended 30 September | |
|--|-------------------------------|-------------|
| | 2024 | 2023 |
| | HK\$'000 | HK\$'000 |
| | (unaudited) | (unaudited) |
| Loss for the period | (15,367) | (11,592) |
| Other comprehensive income/(expense) | | |
| Item that may be reclassified subsequently to profit or loss: | | |
| Exchange differences arising on translating foreign operations | 324 | (4,282) |
| Other comprehensive income/(expense) for the period | 324 | (4,282) |
| Total comprehensive expense for the period | (15,043) | (15,874) |
| Total comprehensive expense for the period attributable to: | | |
| Owners of the Company | (14,461) | (15,261) |
| Non-controlling interests | (582) | (613) |
| | (15,043) | (15,874) |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2024

| | Notes | 30 September 2024 HK\$'000 (unaudited) | 31 March 2024 HK\$'000 (audited) |
|--|-------|---|---|
| Non-current assets | | | |
| Investment property | 9 | 28,628 | 28,017 |
| Property, plant and equipment | 9 | 44,694 | 45,817 |
| Right-of-use assets | | 8,551 | 10,670 |
| Interests in an associate | | 432 | 451 |
| | | 82,305 | 84,955 |
| Current assets | | | |
| Inventories | | 103,953 | 99,643 |
| Trade and other receivables | 10 | 120,045 | 103,896 |
| Pledged bank deposits | | 106,224 | 101,114 |
| Bank balances and cash | | 157,907 | 168,162 |
| | | 488,129 | 472,815 |
| Current liabilities | | | |
| Trade and other payables | 11 | 114,276 | 107,785 |
| Contract liabilities | | 7,437 | 5,076 |
| Lease liabilities | | 3,291 | 4,661 |
| Amount due to an associate | | 45 | — |
| Tax liabilities | | 846 | 891 |
| Bank borrowings | 12 | 74,830 | 51,392 |
| | | 200,725 | 169,805 |
| Net current assets | | 287,404 | 303,010 |
| Total assets less current liabilities | | 369,709 | 387,965 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

At 30 September 2024

| | Notes | 30 September 2024 HK\$'000 (unaudited) | 31 March 2024 HK\$'000 (audited) |
|---|-------|---|---|
| Non-current liabilities | | | |
| Lease liabilities | | 565 | 1,523 |
| Deferred tax liabilities | | 365 | 365 |
| | | 930 | 1,888 |
| | | 368,779 | 386,077 |
| Capital and reserves | | | |
| Share capital | 13 | 254,112 | 254,112 |
| Reserves | | 128,600 | 145,316 |
| Equity attributable to owners of the Company | | 382,712 | 399,428 |
| Non-controlling interests | | (13,933) | (13,351) |
| | | 368,779 | 386,077 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2024

| | Attributable to owners of the Company | | | | | Non-controlling interests | | Total |
|--|---------------------------------------|--|--|---------------------------------|------------------------------|---------------------------|----------|----------|
| | Share capital HK\$'000 | Property revaluation reserve HK\$'000 (Note (i)) | Statutory reserve HK\$'000 (Note (ii)) | Translation reserve HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 April 2023 (audited) | 254,112 | 20,230 | 3,676 | (16,234) | 155,141 | 416,925 | (12,158) | 404,767 |
| Loss for the period | - | - | - | - | (10,979) | (10,979) | (613) | (11,592) |
| Exchange differences arising on translating foreign operations | - | - | - | (4,282) | - | (4,282) | - | (4,282) |
| Total comprehensive expense for the period | - | - | - | (4,282) | (10,979) | (15,261) | (613) | (15,874) |
| Dividends recognised as distribution | - | - | - | - | (2,255) | (2,255) | - | (2,255) |
| At 30 September 2023 (unaudited) | 254,112 | 20,230 | 3,676 | (20,516) | 141,907 | 399,409 | (12,771) | 386,638 |
| At 1 April 2024 (audited) | 254,112 | 20,230 | 3,966 | (18,680) | 139,800 | 399,428 | (13,351) | 386,077 |
| Loss for the period | - | - | - | - | (14,785) | (14,785) | (582) | (15,367) |
| Exchange differences arising on translating foreign operations | - | - | - | 324 | - | 324 | - | 324 |
| Total comprehensive (expense)/income for the period | - | - | - | 324 | (14,785) | (14,461) | (582) | (15,043) |
| Dividends recognised as distribution (Note 7) | - | - | - | - | (2,255) | (2,255) | - | (2,255) |
| At 30 September 2024 (unaudited) | 254,112 | 20,230 | 3,966 | (18,356) | 122,760 | 382,712 | (13,933) | 368,779 |

Notes:

- (i) The property revaluation reserve represents the differences between net book value and fair value, net of deferred tax, if applicable, of the properties upon transfer from property, plant and equipment to investment property.
- (ii) The statutory reserve represents the amount transferred from profit after taxation of the subsidiaries established in the Mainland of People's Republic of China (the "PRC") in accordance with the relevant PRC laws until the PRC statutory reserve reaches 50% of the registered capital of the respective subsidiaries. The statutory reserve can be applied either in setting off the accumulated losses or increasing capital.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2024

| | Six months ended 30 September | |
|--|-------------------------------|-------------|
| | 2024 | 2023 |
| | HK\$'000 | HK\$'000 |
| | (unaudited) | (unaudited) |
| Net cash (used in)/from operating activities | (24,106) | 2,116 |
| Net cash (used in)/from investing activities: | | |
| Other investing cash flows | 3,594 | 3,987 |
| Withdrawal of pledged bank deposits | 322 | 10,000 |
| Proceeds from disposal of property, plant and equipment | 101 | 102 |
| Refund of deposits for right-of-use assets | – | 23 |
| Deposits paid for right-of-use assets | – | (161) |
| Purchase of property, plant and equipment | (1,521) | (1,540) |
| Placement of pledged bank deposits | (5,432) | (88) |
| | (2,936) | 12,323 |
| Net cash from/(used in) financing activities: | | |
| Bank borrowings raised | 104,897 | 72,846 |
| Other financing cash flows | (1,695) | (1,344) |
| Dividend paid | (2,255) | (2,255) |
| Repayments of lease liabilities, including related interests | (2,608) | (2,395) |
| Repayments of bank borrowings | (81,592) | (81,352) |
| | 16,747 | (14,500) |
| Net decrease in cash and cash equivalents | (10,295) | (61) |
| Cash and cash equivalents at the beginning of the period | 168,162 | 184,620 |
| Effect of foreign exchange rate changes | 40 | (2,472) |
| Cash and cash equivalents at the end of the period, represented by bank balances and cash | 157,907 | 182,087 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2024

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 D2 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The financial information relating to the year ended 31 March 2024 that is included in these condensed consolidated financial statements as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the “Companies Ordinance”) is as follows:

The Company has delivered the financial statements for the year ended 31 March 2024 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

The Company’s auditor has reported on the financial statements of the Group for the year ended 31 March 2024. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2024 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2024.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 September 2024

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Amendments to HKFRSs that are mandatorily effective for the current period

In the current interim period, the Group has applied, for the first time, the following amendments to HKFRSs issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1 April 2024 for the preparation of the Group's condensed consolidated financial statements:

| | |
|----------------------------------|---|
| Amendments to HKAS 7 and HKFRS 7 | Supplier Finance Arrangements |
| Amendments to HKFRS 16 | Lease Liability in a Sale and Leaseback |
| Amendments to HKAS 1 | Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) |
| Amendments to HKAS 1 | Non-current Liabilities with Covenants |

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

3. REVENUE

Disaggregation of revenue from contracts with customers

Six months ended 30 September 2024:

| | Manufacturing and sales of garment products HK\$'000 | Retail of garment products HK\$'000 | Total HK\$'000 |
|---|--|--|-------------------|
| At point in time | 207,813 | 115,507 | 323,320 |
| Geographical market | | | |
| The PRC | 48,873 | 115,507 | 164,380 |
| The United States of America (the "USA") | 72,671 | — | 72,671 |
| Canada | 59,190 | — | 59,190 |
| Others | 27,079 | — | 27,079 |
| Total | 207,813 | 115,507 | 323,320 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 September 2024

3. REVENUE (Continued)

Disaggregation of revenue from contracts with customers (Continued)

Six months ended 30 September 2023:

| | Manufacturing and sales of garment products HK\$'000 | Retail of garment products HK\$'000 | Total HK\$'000 |
|----------------------------|--|--|-------------------|
| At point in time | 149,774 | 87,755 | 237,529 |
| Geographical market | | | |
| The PRC | 29,826 | 87,755 | 117,581 |
| The USA | 59,467 | – | 59,467 |
| Canada | 43,009 | – | 43,009 |
| Others | 17,472 | – | 17,472 |
| Total | 149,774 | 87,755 | 237,529 |

4. SEGMENTAL INFORMATION

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 September 2024

4. SEGMENTAL INFORMATION (Continued)

Segment revenue and results

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

Six months ended 30 September 2024:

| | Asia HK\$'000 | North America HK\$'000 | Europe and others HK\$'000 | Consolidated HK\$'000 |
|--|------------------|------------------------------|----------------------------------|--------------------------|
| REVENUE | | | | |
| Sales of goods | 177,784 | 131,861 | 13,675 | 323,320 |
| SEGMENT (LOSS)/PROFIT | 3,274 | (5,527) | (1,203) | (3,456) |
| Increase in fair value of investment property | | | | 611 |
| Finance costs | | | | (1,811) |
| Unallocated income | | | | 5,143 |
| Unallocated expenses | | | | (15,670) |
| Share of loss of an associate | | | | (19) |
| Loss before tax | | | | (15,202) |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 September 2024

4. SEGMENTAL INFORMATION (Continued)

Segment revenue and results (Continued)

Six months ended 30 September 2023:

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

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, depreciation of right-of-use assets, change in fair value of investment property, share of (loss)/profit of an associate, other income and other gain, and finance costs. This is the measure reported to the Company's executive directors for the purposes of resource allocation and assessment of performance.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 September 2024

5. LOSS BEFORE TAX

| | Six months ended 30 September | |
|--|-------------------------------|----------|
| | 2024 | 2023 |
| | HK\$'000 | HK\$'000 |
| Loss before tax has been arrived at after charging/(crediting): | | |
| Directors' remunerations: | | |
| Fees | 610 | 625 |
| Other emoluments | 3,654 | 4,548 |
| Contributions to retirement benefit schemes | 54 | 54 |
| | 4,318 | 5,227 |
| Other employee benefits expenses: | | |
| Salaries, allowances and bonus | 43,406 | 51,301 |
| Contributions to retirement benefit schemes | 5,907 | 6,371 |
| Total employee benefits expenses | 53,631 | 62,899 |
| Allowance/(reversal of allowance) for inventories (included in cost of sales), net | 1,868 | (48) |
| Depreciation of property, plant and equipment | 2,606 | 3,482 |
| Depreciation of right-of-use assets | 2,296 | 2,449 |
| Gain on disposal of property, plant and equipment | (9) | (10) |
| Bank interest income | (3,414) | (3,987) |
| Rental income, net of outgoings | (476) | (450) |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 September 2024

6. INCOME TAX EXPENSES

| | Six months ended 30 September | |
|-------------------|-------------------------------|------------------|
| | 2024 HK\$'000 | 2023 HK\$'000 |
| Current tax: | | |
| Hong Kong | – | – |
| The PRC | 165 | 170 |
| | 165 | 170 |
| Deferred taxation | – | – |
| | 165 | 170 |

No provision for Hong Kong Profits Tax is made for the six months ended 30 September 2024 and 2023 as the Group has no assessable profit arising in Hong Kong or the assessable profits are wholly absorbed by tax losses brought forward from prior years.

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

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

For the six months ended 30 September 2024 and 2023, the annual taxable income not more than RMB3 million of a micro and small enterprise is subject to the Enterprise Income Tax calculated at 25% of its taxable income at a tax rate of 20%.

During the six months ended 30 September 2024 and 2023, two subsidiaries of the Company are qualified as micro and small enterprises and are subject to the relevant preferential tax treatments.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 September 2024

7. DIVIDENDS

A final dividend of HK0.5 cent per share for the year ended 31 March 2024, amounting to HK\$2.3 million was paid by the Company on 20 September 2024. The Board of Directors (the “Board”) does not recommend the payment of an interim dividend for the six months ended 30 September 2024 (six months ended 30 September 2023: Nil).

8. BASIC AND DILUTED LOSS PER SHARE

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

| | Six months ended 30 September | |
|---|-------------------------------|------------------|
| | 2024 HK\$'000 | 2023 HK\$'000 |
| Loss for the period attributable to owners of the Company | (14,785) | (10,979) |
| Weighted average number of ordinary shares in issue during the period for the purpose of basic and diluted loss per share | 451,067,557 | 451,067,557 |

No diluted loss per share is presented as there was no potential dilutive ordinary share outstanding for the six months ended 30 September 2024 and 2023.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 September 2024

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

During the six months ended 30 September 2024, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of HK\$92,000 for proceeds of HK\$101,000, resulting in a gain on disposal of HK\$9,000.

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

The Group spent HK\$1,521,000 (six months ended 30 September 2023: HK\$1,540,000) on acquisition of property, plant and equipment.

The fair values of the Group's investment property at 30 September 2024 and 31 March 2024 have been arrived at on the basis of a valuation carried out on that date by Graval Consulting Limited, independent qualified professional valuer not connected with the Group.

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

Under the income approach, one of the key inputs used in valuing the building and structures was the rental value per square meter which ranged from RMB11 to RMB24, equivalent to HK\$12 to HK\$27.

The resulting increase in fair value of investment property of HK\$611,000 has been recognised directly in profit or loss for the six months ended 30 September 2024 (six months ended 30 September 2023: HK\$1,654,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 September 2024

10. TRADE AND OTHER RECEIVABLES

The credit terms granted by the Group to its trade customers mainly range from 14 days to 90 days. As at 30 September 2024, the carrying amount of trade and bills receivables was HK\$100,055,000, net of allowance for credit losses of HK\$49,000 (31 March 2024: HK\$86,379,000, net of allowance for credit losses of HK\$18,000). Included in trade and other receivables are trade and bills receivables, mainly denominated in USD and RMB, with the following aged analysis presented based on the invoice date which approximated revenue recognition date at the end of the reporting period:

| | 30 September 2024 HK\$'000 | 31 March 2024 HK\$'000 |
|-------------------|---|---------------------------------------|
| Up to 30 days | 41,995 | 56,249 |
| 31–60 days | 30,671 | 24,339 |
| 61–90 days | 12,782 | 2,861 |
| More than 90 days | 14,607 | 2,930 |
| | 100,055 | 86,379 |

11. TRADE AND OTHER PAYABLES

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

| | 30 September 2024 HK\$'000 | 31 March 2024 HK\$'000 |
|-------------------|---|---------------------------------------|
| Up to 30 days | 48,444 | 39,026 |
| 31–60 days | 12,094 | 8,491 |
| 61–90 days | 7,292 | 11,081 |
| More than 90 days | 14,860 | 7,842 |
| | 82,690 | 66,440 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 September 2024

12. BANK BORROWINGS

The Group repaid bank borrowings of HK\$81,592,000 during the six months ended 30 September 2024 (six months ended 30 September 2023: HK\$81,352,000).

During the six months ended 30 September 2024, the Group raised new bank borrowings of HK\$104,897,000 (six months ended 30 September 2023: HK\$72,846,000), 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 1 April 2023, 30 September 2023, 31 March 2024 and 30 September 2024 | | |
| Ordinary shares with no par value | 451,067,557 | 254,112 |

14. RELATED PARTY DISCLOSURES

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

| | Six months ended 30 September 2024 HK\$'000 | 2023 HK\$'000 |
|--|---|------------------|
| (i) Purchases from an associate | 270 | 187 |
| (ii) Compensation of key management personnel: | | |
| Short-term benefits | 5,754 | 7,445 |
| Post-employment benefits (Note) | 90 | 109 |
| | 5,844 | 7,554 |

Note: The amount represents contributions to retirement benefit schemes and has been included in the amount disclosed in note 5.

MANAGEMENT DISCUSSION AND ANALYSIS

SUMMARY OF OPERATING RESULTS

The six months ended 30 September 2024 (“Period”) witnessed a steady pace of recovery across the globe. However, heightened macroeconomic uncertainties, geopolitical conflicts and substantial cost inflation continued to present headwinds leading to unpredictable and complex market conditions and operation environment. Amidst ongoing challenges and opportunities, the Group adapted business and operational strategies to navigate market volatilities and difficulties. Attributable to the resilience of management and operations, the Group translated market opportunities into broad-based and notable sales growth. These efforts, however, were counteracted by persistent cost headwinds under the inflationary environment and heightened supply chain dynamics that weighed on the Group’s financial performance during the Period.

Due to the steady recovery in the mainland China market and export demand to North American market, the Group recorded total revenue of HK\$323.3 million, representing an increase of 36.1% period-over-period from the last corresponding period, despite a highly challenging backdrop. Gross profit increased to HK\$51.9 million (2023: HK\$44.8 million) while gross profit margin declined by 2.9 percentage point, mainly attributable to the pricing pressure in sales and the increase in production and procurement costs amidst inflationary environment.

Selling and distribution costs for the Period increased by 30.3% to HK\$34.2 million, as compared to HK\$26.2 million of the last corresponding period. Such increase was mainly attributable to the increase of HK\$1.5 million in advertising and promotion expense of China retail business, the increase of HK\$2.6 million in export freight and transportation costs and the increase of HK\$3.6 million in shop management fee (mainly for on-line shop) of China retail business. Administrative expenses for the Period were HK\$36.8 million, as compared to HK\$38.2 million of the last corresponding period. Such decrease was mainly attributable to the exchange difference of the two periods.

As a result of the foregoing, the Group recorded an operating loss before tax of HK\$15.8 million as compared to an operating loss before tax of HK\$13.1 million in the last corresponding period. Taking into account the financial effects of the non-operating items, the Group recorded a loss before tax of HK\$15.2 million, as compared to a loss before tax of HK\$11.4 million in the last corresponding period.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW

Amidst complicated economic and geopolitical challenges during the Period, the Group experienced a rebound in apparel demand from major customer markets, driven by improving consumer and market sentiment, appeal of our quality offerings and strategic resilience.

After moving past a period of market adjustment, the North American retail landscape underwent steady recovery. Certain of our major brand customers switched from their deliberate inventory reduction practices into more balanced stance in order placing resulting in upturn in export shipments. The booming E-commerce industry also brought new customer orders from an increasing number of smaller to medium-sized brand owners which further diversified our customer base. However, intense competition coupled with strategic consideration, kept product pricing under pressure.

In Vietnam, the Group adapted operational and logistics strategies to manage the growth in customer demands, mitigate the impacts of possible disruptions and speed up overall delivery lead time. Nevertheless, temporary constrain on production capacity and logistical inefficiencies caused order backlogs which impacted on our cost of production and transportation during the Period.

In mainland China, consumer confidence steadily restored during the Period. Rational and pragmatic consumer spending patterns persisted as wariness over the macro economy remained. Capitalising on the recovering consumer sentiment, particularly among younger consumers, the Group positioned its retail brand to foster more authentic customer connection through delivery of affordable, quality and on-trend fashion categories, while devising effective omni-channel strategy which resonated well with the lifestyles and consumption habits of our target customers. A strong digital focus significantly drove brand awareness, customer acquisition and strengthened brand loyalty which enabled the Group to maintain a good pace of growth in a dynamic and fiercely competitive environment. Our retail team remained squarely focus on margin enhancement, expense management and inventory optimisation to generate savings and deliver solid financial performance.

Building on the momentum of our retail business, the Group made significant strides in sales to domestic brand owners in mainland China. Despite unfavourable industry backdrop and rising cost conditions, the Group established closer ties with existing customers and new business relationship with well-recognised domestic brands and retailers leading to surge in production demands.

During the Period, the Group maintained our enduring commitments to sustainability and ongoing monitoring and compliance of environmental protection practices in our manufacturing plants. Through actively integrating commercial, environmental and social considerations into our strategic making process, the Group is also setting up for higher level of transparency and accountability to our stakeholders.

MANAGEMENT DISCUSSION AND ANALYSIS (*Continued*)

Sales to Asian Markets

Sales performance was strong in the Asian region, which delivered growth of 42.1% during the Period to HK\$177.8 million. China market alone contributed to over 92.5% of total sales to Asian market and recorded notable growth of 39.8% during the Period.

In the context of changing global dynamics and mounting domestic challenges, China's economy grew at a stabilised pace of 4.8% year-on-year for the first three quarters of 2024 while total domestic retail sales of consumer goods continued to expand by 3.3% year-on-year, according to data from the National Bureau of Statistics of China.

Always taking customer satisfaction at the core, the Group worked diligently to improve the strength of our product offerings across value, quality and service, digital capabilities and emerging channels to best serve customers and meet their evolving consumption expectations. Through actively optimising the effectiveness of our omni-channel business model, digital platform continued to drive growth in our retail business which recorded remarkable increase of 31.6% during the Period.

With our well-established presence and decades of deep cultivation in China's manufacturing landscape, the Group commanded locational advantage, technology-driven production capabilities and comprehensive supply chain networks which differentiated the Group from our competitors in the market. Benefited from the recovering retail landscape and further bolstered by our proven track record to meet domestic brand customers' intricate demands, production demands registered notable growth of 64.1% period-over-period.

Sales to North American Markets

During the Period, sales to North American markets amounted to HK\$131.9 million, registering an increase of 28.7% as compared to the last corresponding period. Of which, sales to United States of America (the "U.S.") and sales to Canada recorded sales of HK\$72.7 million and HK\$59.2 million, accounting for 55.1% and 44.9% of total sales to North American markets respectively.

As reported by the U.S. Bureau of Economic Analysis, U.S. experienced healthy real gross domestic product growth of 3.0% and 2.8% in the second quarter and third quarter of 2024 respectively.

Persistent strength in U.S. economic data defied fears of a sharp slowdown and displayed resilient consumer spending that supported retail sales growth. Improved household finance due to the easing cost-of-living pressures and a healthy labour market led to a steady rebound in consumers' apparel demand, which in turn fueled moderate recovery in customer orders.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Amidst resilient demand conditions, marketplace inventories were notably decreasing. Our brand customers had generally concluded their destocking cycles during the Period in favour of more balanced but tightly managed inventory replenishment activities to ensure adequate stocking levels during the holiday season, driving recovery in sales to the U.S. market, which posted an increase of 22.2% as compared to the last corresponding period.

Albeit at a slower rate, the Canadian economy continued to grow at a modest pace. Driven by recovery in consumer purchasing power due to receding inflation as well as gradual lowering of policy interest rates in 2024, spending on discretionary goods including demand for new outfits showed good sign of recovery which led to restocking initiatives in anticipation of an improving economic and consumer outlook. As a result, sales to Canadian market witnessed a rebound of 37.6% during the Period.

Retailing

Benefited from stabilised economic recovery and proactive government policies, consumption demand was back on a path of restorative growth. However, in the course of consumption recovery, trading down and value maximisation remained the common behaviors, reflecting ongoing concerns on the economy. Our retail team maintained a strong focus on identifying market opportunities and constantly refresh a wide assortment of product portfolio which were both value compelling and quality-assured that aligned with our target customers' diverse needs and changing consumption expectations.

During the Period, E-commerce remained as our key driving force and strategic growth driver. The Group optimised omni-channel strategy by consolidating the layout and efficiency of traditional channels while seizing the enormous growth opportunities presented by emerging online channels and formulating unified marketing strategies that were effective and appealed to the Group's target customers, especially the younger demographics with growing consumption power. The Group actively explored ways to increase visibility of our "Betu" brand through strategic partnering with key E-commerce and social media platforms including live-streaming, short video clips and other emerging media channels. These not only amplified brand reach and captured new customers, but also led to stronger customer connection and loyalty. As a result, total retail sales of the Group recorded a growth of 31.6% to HK\$115.5 million during the Period, of which sales from digital channels increased notably by 51.4% and accounted for 86.4% of the total retail sales. Operating profit of the retail segment increased to HK\$3.2 million as compared to HK\$2.0 million of the last corresponding year.



MANAGEMENT DISCUSSION AND ANALYSIS (*Continued*)

PROSPECTS

In the short term, global economic outlook is clouded with uncertainties stemming from political, economic and geopolitical challenges including intensification of conflicts in the Middle East as well as heightened risks and unpredictability with respect to global trade and U.S. – China bilateral relationship under the new U.S. presidency which would potentially cause widespread market volatility, supply chain disruptions and slow down the pace of growth.

In mainland China, it is expected that government will take a continual proactive stance to implement effective stimulative policies with an objective of countering the current difficulties, restoring market confidence and leading the country to progress while maintaining the stability and high-quality growth in the long run. Keeping abreast of the latest market trends and developments, the Group will carefully deploy suitable resources among retail sales network, inventory levels, and marketing initiatives in a highly efficient and cost-conscious manner to preserve the bottom line while trying to accelerate top line growth, enabling our retail business to consistently maintain growth and a healthy financial position in the fast-changing retail environment. In the meantime, the Group is also committed to our strategic priority to drive comprehensive and synergistic growth in sales to domestic brand segment in mainland China, the latter of which has become an important revenue-driver during the Period.

While the enduring impact of inflation, high household debts and elevated interest rates persistently weighed on consumers' discretionary demand in most western export markets, it is anticipated that market sentiment in the U.S. will continue to improve by the ongoing rate cutting cycle and the expectation of a soft landing in the economy whereas an expected trend of easing inflation and borrowing costs will continue to sustain the resurgence in retail sales growth. The Group will foster even stronger customer relationship, endeavour to widen the market and customer base and enrich the product base. As we enter the second half of the financial year, our order pipelines have remained positive, reflective of growing confidence of our brand customers in their home markets.

To alleviate the adverse financial impact of cost inflation, the Group continues to prioritise expense and efficiency improvement initiatives to further optimise our cost and business structure. While the underlying economic and operating fundamentals remain strong, the Group will continue to adhere to prudent cash and working capital management and maintain financial flexibility to invest in the long-term growth of our business.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

CAPITAL EXPENDITURE

During the Period, the Group incurred HK\$1.5 million capital expenditure (six months ended 30 September 2023: HK\$1.5 million). Such capital expenditure mainly represented the regular replacement and upgrading of production facilities and the leasehold improvement of the Group.

LIQUIDITY AND FINANCIAL RESOURCES

The Group adopted a prudent financial management and sustained a sound financial position throughout the Period. As at 30 September 2024, the Group's cash level was recorded at HK\$264.1 million (of which HK\$106.2 million was pledged bank deposits) as compared to HK\$269.3 million (of which HK\$101.1 million was pledged bank deposits) as at 31 March 2024. Most of the bank balances were placed in USD, HKD and RMB short term deposits with major banks. As at 30 September 2024, total bank borrowings of the Group were HK\$74.8 million (which were all short-term bank borrowings and mainly denominated in RMB, USD and HKD), as compared to HK\$51.4 million as at 31 March 2024. The Group had no borrowings at fixed interest rates during the Period. As at 30 September 2024, the gearing ratio (total bank borrowings to total equity) was 20.3%. During the Period, working capital was under stringent management and remained at healthy level.

As at 30 September 2024, certain buildings with an aggregate net book value of approximately HK\$32.1 million (31 March 2024: HK\$32.8 million) were pledged to bank to secure general banking facilities granted to the Group.

As at 30 September 2024, excluding the pledged bank deposits of HK\$106.2 million which were pledged to banks to secure the general banking facilities of the Group, net cash balance of the Group was HK\$83.1 million, as compared to HK\$116.8 million as at 31 March 2024.

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



MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

TREASURY POLICY

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

FOREIGN EXCHANGE RISK

The Group has currency exposures as substantial portion of sales, purchases, assets and liabilities are denominated in USD, RMB and VND. As such, the Group is exposed to foreign exchange risk arising from such exposure to USD, RMB and VND. As HKD is pegged to USD, the Group considers the relevant foreign exchange risk to be minimal. Also, the appreciation or devaluation of RMB and VND against USD and HKD may have an impact on the Group's results.

The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and mitigates the impact on exchange rate fluctuations by entering into currency hedge arrangement, if necessary. The Group will continue to evaluate the Group's foreign currency exposure and take actions as appropriate.

INTEREST RATE RISK

The Group is exposed to interest rate risk primarily through interest bearing borrowings. Borrowings at floating rates expose the Group to cash flow interest rate risk. The Group regularly monitors its interest rate risk to ensure there are no undue exposures to significant interest rate movements and will consider taking appropriate actions, including but not limited to hedging should the need arise.



MANAGEMENT DISCUSSION AND ANALYSIS (*Continued*)

HUMAN RESOURCES

As at 30 September 2024, the Group has approximately 1,600 employees as compared to approximately 1,500 as at 31 March 2024. Such increase is mainly attributable to the labour force in the Group's factories in Vietnam during the Period. The Group hires, inspires, retains and rewards competent staff with dedication to develop their careers in line with its core corporate values and strategic goals. The Group offers career development opportunities, job satisfaction via empowerment, harmonious teamwork and competitive remuneration package.

Total employee benefits expenses, including directors' remunerations, of the Group amounted to HK\$53.6 million for the Period (six months ended 30 September 2023: HK\$62.9 million). Remuneration of the employees is determined with reference to market terms and the performance, qualification and experience of individual employees. In addition to a basic salary, year-end discretionary bonuses are offered to those staff with outstanding performance to attract and retain eligible employees to contribute to the Group. The Company also operates a share option scheme for the purpose of attracting, retaining, motivating and rewarding the employees.

OTHER INFORMATION

INTERIM DIVIDEND

The Board of Directors (the “Board”) does not recommend the payment of an interim dividend for the six months ended 30 September 2024 (the “Period”) (six months ended 30 September 2023: Nil).

DIRECTORS’ AND CHIEF EXECUTIVES’ INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2024, 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) or 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 |
|----------------------|------------------|--|--|
| Martin Tung Hau Man | Beneficial owner | 1,604,000 | 0.36% |
| Billy Tung Chung Man | Beneficial owner | 3,052,400 | 0.68% |
| Raymond Tung Wai Man | Beneficial owner | 360,000 | 0.08% |
| Tony Chang Chung Kay | Beneficial owner | 3,844,760 | 0.85% |

Save as disclosed above, as at 30 September 2024, 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.



OTHER INFORMATION (*Continued*)

SHARE OPTION SCHEME

The Company operates a share option scheme (the “Share Option Scheme”) adopted on 31 August 2018 which will remain in force until 30 August 2028, being 10 years after the date of its adoption.

During the Period, no share option was granted, vested, exercised, cancelled or lapsed under the Share Option Scheme. There was no outstanding share option under the Share Option Scheme as at 1 April 2024 and 30 September 2024.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed under the heading “SHARE OPTION SCHEME” above, at no time during the 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 Period or at any time during the Period.

OTHER INFORMATION (Continued)

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2024, 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 shareholder | Capacity | Number of issued ordinary shares held/ interested | Percentage of the issued shares of the Company (note (c)) |
|---|--|--|--|
| Corona Investments Limited ("Corona") | Beneficial owner (note (a)) | 150,059,268 | 33.27% |
| Benson Tung Wah Wing | Interest of controlled corporation (note (a)) | 150,059,268 | 33.27% |
| Madam Wong Fung Lin | Interest of controlled corporation (note (a)) | 150,059,268 | 33.27% |
| Preferable Situation Assets Limited ("Preferable") | Beneficial owner (note (b)) | 34,348,200 | 7.61% |
| Webb David Michael | Beneficial owner (note (b)) | 24,399,800 | 5.41% |
| | Interest of controlled corporation (note (b)) | 34,348,200 | 7.61% |

Notes:

- (a) 150,059,268 shares are owned by Corona. Mr. Benson Tung Wah Wing and his spouse, Madam Wong Fung Lin, together own the entire equity interests in equal shares in Corona. Accordingly, by virtue of the SFO, they are deemed to be interested in the 150,059,268 shares held by Corona.
- (b) Based on the notice of disclosure of interests of Webb David Michael filed on 18 December 2023, he is beneficial owner of 24,399,800 shares. In addition, Webb David Michael was deemed to be interested in 34,348,200 shares which are held under Preferable, by virtue of his 100% shareholding interest in Preferable. In total, Webb David Michael is interested in 58,748,000 shares, representing 13.02% of the issued shares of the Company as at 30 September 2024.
- (c) The percentage of shareholding is calculated based on the total number of issued shares of the Company in issue as at 30 September 2024. As at 30 September 2024, the total number of issued shares of the Company was 451,067,557.

OTHER INFORMATION (*Continued*)

BOARD OF DIRECTORS

Executive directors:

Mr. Martin Tung Hau Man (*Chairman*)

Mr. Billy Tung Chung Man (*Vice Chairman*)

Mr. Raymond Tung Wai Man (*Managing Director*)

Independent non-executive directors:

Mr. Tony Chang Chung Kay

Mr. Kenneth Yuen Ki Lok

Mr. Wilson Yu Wing Sang

Ms. Lee Siu Mei

CHANGE IN DIRECTOR'S INFORMATION

There was change in information of a director, which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, since the date of 2024 Annual Report of the Company as follows:

- Pursuant to Article 106(B) of the Articles of Association of the Company, Mr. Robert Yau Ming Kim (“Mr. Yau”) attained the age of 85 and retired as an independent non-executive director from the Board with effect from the conclusion of the 2024 annual general meeting of the Company held on 26 August 2024 (the “AGM”).
- Following Mr. Yau’s retirement, Mr. Yau also ceased to be the chairman of remuneration committee and a member of each of the nomination committee and audit committee of the Company at the conclusion of the AGM.
- Mr. Tony Chang Chung Kay, an independent non-executive director and member of each of the remuneration committee, audit committee and nomination committee, was appointed as the chairman of remuneration committee with effect from the conclusion of the AGM.

COMPANY SECRETARY

Mr. Dickson Chu Pui Ki (“Mr. Chu”) of APEC Corporate Services Limited, an external service provider, had resigned as the company secretary of the Company with effect from 1 October 2024. Following his resignation, Ms. Guan Shuqi, the group financial controller of the Company, has been appointed as the company secretary in replacement of Mr. Chu with effect from 1 October 2024.



OTHER INFORMATION (*Continued*)

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

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

AUDIT COMMITTEE

The Audit Committee, which comprises 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 Period.

The Audit Committee of the Company comprises three independent non-executive directors, namely Mr. Kenneth Yuen Ki Lok, Mr. Tony Chang Chung Kay and Ms. Lee Siu Mei, with Mr. Kenneth Yuen Ki Lok as the Chairman.

CORPORATE GOVERNANCE

Throughout the Period, the Company has complied with all the code provisions set out in the Corporate Governance Code contained in Appendix C1 of the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix C3 of the Listing Rules as its own code of conduct regarding securities transactions by directors of the Company. Having made specific enquiry of all directors, all directors confirmed that they have complied with the required standard set out in the Model Code throughout the Period.

Martin Tung Hau Man
Chairman

Hong Kong
28 November 2024
Website: www.tungtex.com