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Interim Report 2007-2008



TUNGTEX (HOLDINGS) COMPANY LIMITED

同得仕（集團）有限公司

Stock Code 股份代號：00518

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

TO THE BOARD OF DIRECTORS OF TUNGTEX (HOLDINGS) COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 3 to 13 which comprises the condensed consolidated balance sheet of Tungtex (Holdings) Company Limited as of September 30, 2007 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended and certain explanatory notes. The Main Board Listing 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 (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information 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 interim financial information consists of making enquiries, 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 interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong, December 18, 2007

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended September 30, 2007

	Notes	Six months ended September 30,	
		2007 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited)
Revenue	3	1,087,831	1,123,873
Cost of sales		(834,849)	(865,787)
Gross profit		252,982	258,086
Increase in fair value of an investment property		3,591	–
Other income		5,215	4,328
Selling and distribution costs		(51,008)	(49,433)
Administrative expenses		(139,683)	(143,714)
Finance costs		(2,890)	(2,700)
Share of results of associates		(1,407)	(139)
Profit before tax	4	66,800	66,428
Income tax expense	5	(15,339)	(13,367)
Profit for the period		51,461	53,061
Attributable to:			
Equity holders of the Company		46,806	41,273
Minority interests		4,655	11,788
		51,461	53,061
Dividends	6		
Final dividend of HK12.5 cents per share (2006: HK11.5 cents per share)		44,017	40,496
		HK cents	HK cents
Earnings per share	7		
– Basic		13.3	11.7
– Diluted		13.2	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

At September 30, 2007

	Notes	September 30, 2007 HK\$'000 (unaudited)	March 31, 2007 HK\$'000 (audited)
Non-current assets			
Investment properties	8	45,984	68,284
Property, plant and equipment	8	130,901	132,382
Prepaid lease payments		26,388	27,230
Intangible asset		364	398
Interests in associates		3,695	7,919
Deferred tax assets		717	1,031
		208,049	237,244
Current assets			
Inventories		178,034	231,799
Trade and other receivables	9	344,673	374,818
Prepaid lease payments		731	731
Amounts due from associates		12,176	5,231
Tax recoverable		2,314	2,123
Pledged bank deposits		–	262
Bank balances and cash		204,180	179,637
		742,108	794,601
Asset classified as held for sale	8	25,891	–
		767,999	794,601
Current liabilities			
Trade and other payables	10	314,362	329,334
Tax liabilities		41,299	35,467
Obligations under finance leases – due within one year		336	305
Bank borrowings	11	37,746	86,186
		393,743	451,292
Net current assets		374,256	343,309
Total assets less current liabilities		582,305	580,553
Non-current liabilities			
Obligations under finance leases – due after one year		248	344
Deferred tax liabilities		10,552	14,281
		10,800	14,625
		571,505	565,928
Capital and reserves			
Share capital		70,428	70,428
Reserves		440,352	436,773
Equity attributable to equity holders of the Company		510,780	507,201
Minority interests		60,725	58,727
		571,505	565,928

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended September 30, 2007

	Attributable to equity holders of the Company								
	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Translation reserve HK\$'000	Share option reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total HK\$'000
At April 1, 2006 (audited)	70,428	84,880	3,848	(6,026)	-	323,929	477,059	56,042	533,101
Exchange differences arising on translation of financial statements of operations outside Hong Kong	-	-	-	1,096	-	-	1,096	138	1,234
Profit for the period	-	-	-	-	-	41,273	41,273	11,788	53,061
Total recognised income and expenses for the period	-	-	-	1,096	-	41,273	42,369	11,926	54,295
Dividends paid	-	-	-	-	-	(40,496)	(40,496)	-	(40,496)
Dividends paid to minority shareholders	-	-	-	-	-	-	-	(3,156)	(3,156)
At September 30, 2006 (unaudited)	70,428	84,880	3,848	(4,930)	-	324,706	478,932	64,812	543,744
Exchange differences arising on translation of financial statements of operations outside Hong Kong	-	-	-	323	-	-	323	105	428
Share of reserves of associates	-	-	-	327	-	-	327	61	388
Net income recognised directly in equity	-	-	-	650	-	-	650	166	816
Profit for the period	-	-	-	-	-	48,640	48,640	4,411	53,051
Total recognised income and expenses for the period	-	-	-	650	-	48,640	49,290	4,577	53,867
Share-based payments	-	-	-	-	107	-	107	-	107
Dividends paid	-	-	-	-	-	(21,128)	(21,128)	-	(21,128)
Dividends paid to minority shareholders	-	-	-	-	-	-	-	(10,662)	(10,662)
At March 31, 2007 (audited)	70,428	84,880	3,848	(4,280)	107	352,218	507,201	58,727	565,928
Exchange differences arising on translation of financial statements of operations outside Hong Kong	-	-	-	634	-	-	634	195	829
Profit for the period	-	-	-	-	-	46,806	46,806	4,655	51,461
Total recognised income and expenses for the period	-	-	-	634	-	46,806	47,440	4,850	52,290
Share-based payments (Note 12)	-	-	-	-	156	-	156	-	156
Acquisition of additional interest in a subsidiary	-	-	-	-	-	-	-	(571)	(571)
Dividends paid	-	-	-	-	-	(44,017)	(44,017)	-	(44,017)
Dividends paid to minority shareholders	-	-	-	-	-	-	-	(2,281)	(2,281)
At September 30, 2007 (unaudited)	70,428	84,880	3,848	(3,646)	263	355,007	510,780	60,725	571,505

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended September 30, 2007

	Six months ended	
	September 30,	2006
	2007	2006
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net cash from operating activities	125,398	96,935
Net cash used in investing activities:		
Purchase of property, plant and equipment	(9,259)	(10,605)
Proceeds from disposal of investment properties	–	6,148
Decrease in pledged bank deposits	262	–
Other investing cash flows	7,455	1,703
	(1,542)	(2,754)
Net cash used in financing activities:		
Repayments of borrowings	(78,884)	(25,000)
New bank loans raised	30,444	10,000
Dividends paid	(44,017)	(40,496)
Dividends paid to minority shareholders	(2,281)	(3,156)
Other financing cash flows	(3,632)	5,906
	(98,370)	(52,746)
Net increase in cash and cash equivalents	25,486	41,435
Cash and cash equivalents at the beginning of the period	179,637	142,987
Effect of foreign exchange rate changes	(943)	8
Cash and cash equivalents at the end of the period	204,180	184,430
Analysis of the balances of cash and cash equivalents, represented by bank balances and cash	204,180	184,430

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended September 30, 2007

1. Basis of preparation

The condensed consolidated financial statements have been prepared in accordance 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”) and with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

2. Principal accounting policies

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the annual financial statements of the Company and its subsidiaries (the “Group”) for the year ended March 31, 2007.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendment and interpretations (“new HKFRSs”) issued by the HKICPA, which are effective for the Group’s financial period beginning April 1, 2007. The adoption of these new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the new standards or interpretations that have been issued but are not yet effective. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented. The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on its results and financial position are prepared and presented.

3. Segment information

The Group is principally engaged in the manufacture and sale of garments. Accordingly, no business segment analysis of financial information is provided. The Group's manufacture and sale of garments business is principally located in the United States of America ("USA"), Canada, Asia and Europe and others. The Group reports its primary segment information on geographical location of its customers and the segment information about these geographical markets is presented below:

Six months ended September 30, 2007

	USA HK\$'000	Canada HK\$'000	Asia HK\$'000	Europe and others HK\$'000	Consolidated HK\$'000
REVENUE					
Sales of goods – external	923,705	18,669	74,008	71,449	1,087,831
SEGMENT RESULT	83,358	1,477	4,571	9,038	98,444
Unallocated corporate income					8,806
Unallocated corporate expense					(39,043)
Share of results of associates	(1,323)	(30)	(40)	(14)	(1,407)
Profit before tax					66,800
Income tax expense					(15,339)
Profit for the period					51,461

Six months ended September 30, 2006

	USA HK\$'000	Canada HK\$'000	Asia HK\$'000	Europe and others HK\$'000	Consolidated HK\$'000
REVENUE					
Sales of goods – external	986,556	12,979	65,125	59,213	1,123,873
SEGMENT RESULT	89,322	1,033	3,460	6,431	100,246
Unallocated corporate income					4,328
Unallocated corporate expense					(38,007)
Share of results of associates	(109)	(4)	(23)	(3)	(139)
Profit before tax					66,428
Income tax expense					(13,367)
Profit for the period					53,061

4. Profit before tax

	Six months ended September 30,	
	2007 HK\$'000	2006 HK\$'000
Profit before tax has been arrived at after charging:		
Amortisation of intangible asset	34	35
Amortisation of prepaid lease payments	365	365
Depreciation of property, plant and equipment	12,710	13,549
Share of tax of associates (included in share of results of associates)	–	80
and after crediting:		
Bank interest income	2,941	1,267
Rental income from properties under operating leases	1,284	1,887
Gain on disposal of available-for-sale investments	–	171
Gain on disposal of interest in an associate	657	–
Gain on disposal of investment property	–	948
Gain on disposal of property, plant and equipment	333	–

5. Income tax expense

	Six months ended September 30,	
	2007 HK\$'000	2006 HK\$'000
Current tax:		
Hong Kong	9,923	5,555
The People's Republic of China, other than Hong Kong (the "PRC")	–	1,403
Other jurisdictions	8,877	6,924
	18,800	13,882
Deferred tax credit	(3,461)	(515)
	15,339	13,367

Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) of the estimated assessable profit for the period.

5. Income tax expense (continued)

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Two subsidiaries of the Company received protective/additional profits tax assessment from Inland Revenue Department (the "IRD") of approximately HK\$5.4 million and HK\$23.1 million, respectively, relating to the year of assessment 1998/99 to 2005/06, that is, for the financial years ended March 31, 1999 to 2006. The protective/additional profits tax assessment relates mainly to the subsidiaries' income derived from their manufacturing operations in the PRC. The subsidiaries lodged objections with the IRD and the IRD agreed to holdover the tax claimed subject to tax reserve certificates in the amount of HK\$28.5 million being purchased by the subsidiaries.

In the opinion of the directors and the advice from the Group's tax advisors, the subsidiaries' income derived from their manufacturing activities in the PRC is not arising in or derived from Hong Kong, and that sufficient tax provision has been made in the consolidated financial statements in this regard.

6. Dividends

On September 7, 2007, a dividend of HK12.5 cents per share (year ended March 31, 2006: HK11.5 cents per share) amounting to HK\$44,017,000 (year ended March 31, 2006: HK\$40,496,000) was paid to shareholders as final dividend for the year ended March 31, 2007.

The directors have determined that an interim dividend of HK6.25 cents per share (six months ended September 30, 2006: HK6.0 cents per share) will be paid to the shareholders of the Company whose names appear in the Register of Members on January 7, 2008.

7. Earnings per share

The calculation of the basic and diluted earnings per share attributable to equity holders of the Company is based on the following data:

	Six months ended September 30,	
	2007	2006
	HK\$'000	HK\$'000
Profit for the period attributable to equity holders of the Company	46,806	41,273
	2007	2006
Weighted average number of ordinary shares for the purpose of basic earnings per share	352,137,298	352,137,298
Effect of dilutive potential ordinary shares in respect of share options	2,585,455	
Weighted average number of ordinary shares for the purpose of diluted earnings per share	354,722,753	

For the period ended September 30, 2006, no diluted earning per share was presented because there were no dilutive potential ordinary shares in issue for that period.

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

During the period, the Group entered into a conditional agreement to dispose of an investment property at a consideration of HK\$25,891,000. The respective investment property was reclassified as asset held for sale at September 30, 2007 and increase in fair value of HK\$3,591,000 was recognised directly in the condensed consolidated income statement. The disposal was completed subsequent to September 30, 2007.

Save as mentioned above, at September 30, 2007, the directors considered the carrying amount of the Group's investment properties carried at their fair values and estimated that the carrying amounts do not differ significantly from that which would be determined using fair values at the balance sheet date. Consequently, no fair value adjustment has been recognised in the current period.

In addition, the Group spent HK\$9,259,000 on acquisition of property, plant and equipment for the purposes of regular replacement and business expansion.

9. Trade and other receivables

The Group allows an average credit period ranging from 30 days to 90 days to its trade customers, with a significant portion of 30 days. Included in trade and other receivables are trade receivables, mainly denominated in United States Dollars, with the following aged analysis:

	September 30, 2007	March 31, 2007
	HK\$'000	HK\$'000
Up to 30 days	194,006	208,437
31 – 60 days	41,898	55,189
61 – 90 days	7,894	21,211
More than 90 days	–	1,083
	243,798	285,920

10. Trade and other payables

Included in trade and other payables are trade payables with the following aged analysis:

	September 30, 2007 HK\$'000	March 31, 2007 HK\$'000
Up to 30 days	135,014	113,985
31 – 60 days	25,959	87,962
61 – 90 days	19,512	14,015
More than 90 days	14,508	13,541
	194,993	229,503

11. Bank borrowings

During the period, the Group raised new bank borrowings in the amount of approximately HK\$30,444,000, which were used as general working capital. The borrowings bear interest at market rates and are repayable within one year.

In addition, the Group repaid bank borrowings amounting to approximately HK\$78,884,000 during the period.

12. Share-based payments

The Company has a share option scheme for eligible personnel of the Group. Details of the share options outstanding during the current period are as follows:

	Number of share options
Outstanding at the beginning of the period	15,800,000
Granted during the period	200,000
Forfeited during the period	–
Exercised during the period	–
Expired during the period	–
	<u>16,000,000</u>

In the current period, share options were granted on June 8, 2007. The fair value of the options determined at the date of grant using the Black-Scholes option pricing model was HK\$37,000.

12. Share-based payments (continued)

The following assumptions were used to calculate the fair value of the share options:

Grant date	June 8, 2007
Closing share price at grant date	HK\$2.04
Exercise price	HK\$2.08
Expected volatility	25.79%
Expected life	8 years
Risk-free rate	4.83%
Expected dividend yield	8.58%

The Black-Scholes option pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

13. Capital commitments

	September 30, 2007 HK\$'000	March 31, 2007 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment	59	144
Capital expenditure authorised but not contracted for in respect of the acquisition of property, plant and equipment	160	–

14. Contingent liabilities

The Group did not have any significant contingent liabilities as at September 30, 2007.

15. Related parties transactions

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

	Six months ended September 30, 2007 HK\$'000	2006 HK\$'000
Purchase of raw materials and finished goods from the Group's associates	17,844	12,295
Sales of finished goods to the Group's associates	1,677	–
Compensation of key management personnel	8,524	9,298

MANAGEMENT DISCUSSION AND ANALYSIS

Summary of operating results

The first half results demonstrated our solid business performance and dedication to cost containment, through the challenges of growing pressure on costs and the uncertainties of the U.S. economy.

During the period under review, turnover slipped moderately by 3.2% to HK\$1,088 million. The reduced turnover was attributable to the volatile economic environment in the U.S. and the lower average unit price due to different order mix. In terms of volume, however, our turnover actually recorded a marginal growth. Meanwhile, we have successfully managed our direct costs and achieved a slightly improved gross profit margin at 23.3%, as compared to 23.0% of the same period last year. Spending of overheads was also under good discipline. Administrative expenses were cut down by HK\$4.0 million to HK\$139.7 million. For selling & distribution expenses, we spent HK\$1.6 million more for greater marketing effort that created business value. As a result, profit attributable to equity holders of the Company increased by 13.4% to HK\$46.8 million. Earning per share went up by the same percentage and recorded at HK13.3 cents per share. The board of directors has resolved to declare an interim dividend of HK6.25 cents per share.

Business Review

Manufacture and export business

The increased volatility of the U.S. economy has set a softer tone in its local consumption sentiment in the first half year. Having said that, our well-established client base and broad product range helped minimize the impact. As a result, sales to North America came down moderately by 5.7% to HK\$942.4 million. Europe and other markets were however growing satisfactorily, with sales grew by 20.7% to HK\$71.4 million. Volume of exports to Asia remained relatively low and insignificant.

Our industry was facing a number of challenges that were common to most of the manufacturing sectors in the region. They included appreciation of RMB and other Asian currencies, lowering of export tax rebate rate in China, growing costs in general with labour cost in particular, and the persistently high oil prices. We managed the impact by stringent cost control measures, and by streamlining production flow and operating procedures. In consideration of cost effectiveness, we also rationalized the scale of production capacity in China and certain Asian countries, including the disposal of interest in a PRC associate during the period. On the other hand, we strove to create better value to our buyers throughout their whole buying process in a bid to dilute the impact of price pressure and further cement the partnering relationships. These initiatives all worked together to sustain our business performance.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)***Business Review** *(continued)**Mainland China retail business*

Benefiting from the high growth rate of the economy, the local consumption of Mainland China was growing swiftly. To tap the opportunities amid keen competition, we have been deepening the execution of a series of strategic measures which included process revamp, enhancement of product design and development, and expansion of distribution network. The progress of adopting franchisee program for the expansion into second and third-tier cities was encouraging, where we could leverage on franchisees' competitive advantage locally in those cities. These action programs were proven to be effective as evidenced by various favourable performance indicators.

Total sales during the period were steady and accounted for about 4% of the group's total turnover. At the end of the period, there were 95 directly managed "Betu" stores and 20 franchisee's stores opened across Mainland China.

USA wholesale label business

The U.S. wholesale label business continued to see good momentum and improvement in business performance. We carefully refined the product line of "Zelda" which helped broaden the client base and achieve better margins. The management also stepped up marketing effort by joining more leading trade shows in order to further expand its sales network.

Prospects

It is a common consensus in the market that, only building on low costs is no longer a viable way out for manufacturers in the region. Instead, management efficiency, creativity, and moving towards higher value-add are the essentials of staying ahead of competition and market changes. These are the committed directions of Tungtex as well. We have been getting lean in all aspects, not only for eliminating wastage and redundancy but also for facilitating speedier response to our customers' needs. We are also making bold but carefully implemented moves in adopting innovative ideas, both for internal process and for customer fulfillment.

Operating environment in the second half year will continue to be under the threats of persistent growth in costs and the negative developments of sub-prime mortgage lending in the U.S. Nevertheless, we also see opportunities on the other side of the coin. Demanding operating environment will naturally eliminate those less-qualified competitors and bring the well-prepared manufacturers closer with the quality buyers. On the strength of our solid foundation and dedication to striving for excellence and continuous improvement, we are confident in sailing through the challenges and growing from strength to strength.

Regarding our Mainland China retail business, we are setting and implementing our strategy right in terms of branding and design, internal system, and expansion plan. Given that these key areas are being orchestrated well towards our goals, we will be in an advantageous position to seize the business opportunities in the blooming economy. As at the report date, the Group is running 99 directly managed "Betu" stores and 27 franchisee's stores in Mainland China.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Prospects *(continued)*

Our USA wholesale label business is building its strength again after a few years' effort. Both its products and distribution channels are being well developed, and we are optimistic towards its development and sustainability of the improving results.

In conclusion, the management team are steering the whole group to a healthier state for long-term growth. We shall continue to do our utmost for the rest of the year. We believe there is great potential to unlock further value from Tungtex down the road.

Capital expenditure

During the period under review, the Group's capital expenditure amounted to HK\$9 million as compared to HK\$11 million of the last corresponding period. The capital expenditure mainly represented regular replacement and small scale expansion in production capacity.

Liquidity and financial resources

The Group's financial position remained solid and benign. Working capital cycle was closely monitored and both inventory turnover and trade receivables turnover have quickened. Capital structure was sound with low financial leverage. As at September 30, 2007, the Group had a cash balance of HK\$204 million compared to HK\$180 million as at March 31, 2007. Most of the cash balance was placed in USD and HKD short term deposits with major banks in Hong Kong. Total bank borrowings, mainly denominated in USD and HKD, were HK\$38 million as compared to HK\$86 million as at March 31, 2007. Total bank borrowings as a percentage of shareholders' funds was 7.4% at the period end date.

As at September 30, 2007, certain land and buildings with an aggregate net book value of approximately HK\$15 million and certain investment properties with an aggregate carrying value of approximately HK\$15 million were pledged to banks to secure general banking facilities granted to the Group. No additional tangible security was given to banks during the period.

Treasury policies

The Group continued to adopt prudent policies to hedge exchange rate and interest rate risks associated with our core business. It is our Group's policy not to engage in speculative activities. The majority of our export sales are denominated in USD while a tiny portion destined for the European markets is denominated in EURO. The Group entered into a limited number of forward contracts to hedge the risks as deemed appropriate.

Human Resources

As at September 30, 2007, the Group had approximately 8,500 employees globally, as compared to 9,800 as at March 31, 2007. The decrease was mainly due to rationalization of the production capacity in China and certain Asian countries.

The Group puts high emphasis on human resource management. We strive to attract and retain the best people in the industry by offering career development opportunities and competitive remuneration package with reference to the market practice.

OTHER INFORMATION

Interim Dividend

The Board of Directors has declared with delight an interim dividend of HK6.25 cents per share (six months ended September 30, 2006: HK6.0 cents per share) payable on January 15, 2008 to shareholders whose names appear in the Register of Members on January 7, 2008.

Closure of Register of Members

The Register of Members will be closed from January 3, 2008 to January 7, 2008, both days inclusive, during which no share transfer will be effected. To qualify for the interim dividend, transfers must be lodged with the Company's Registrar, Tricor Secretaries Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong, not later than 4:30 p.m. on January 2, 2008.

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

At September 30, 2007, the interests and short positions of the directors, the chief executives and their associates 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, or which were recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange were as follows:

Long positions (Ordinary shares of HK\$0.20 each of the Company)

Name of director	Capacity	Number of issued ordinary shares held	Number of share options held	Total interests	Percentage of the issued share capital of the Company
Benson Tung Wah Wing	Interest of controlled corporation (<i>note a</i>)/ Beneficial owner	125,049,390	1,500,000	126,549,390	35.93%
Alan Lam Yiu On	Beneficial owner	350,000	1,500,000	1,850,000	0.52%
Raymond Tung Wai Man	Beneficial owner	400,000	1,000,000	1,400,000	0.39%
Kevin Lee Kwok Bun	Beneficial owner	9,000,000	–	9,000,000	2.55%
Johnny Chang Tak Cheung	Beneficial owner/ Beneficiary of a trust (<i>note b</i>)	1,941,680	–	1,941,680	0.55%
Tony Chang Chung Kay	Beneficial owner	3,494,760	–	3,494,760	0.99%
Joseph Wong King Lam	Beneficial owner	1,390	–	1,390	0.000395%

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

- (a) Mr. Benson Tung Wah Wing has an equity interest of 100% in Corona Investments Limited, which owned 125,049,390 ordinary shares in the Company as at September 30, 2007, representing 35.51% of the issued share capital of the Company.
- (b) Mr. Johnny Chang Tak Cheung is the beneficiary owner who owned 231,680 ordinary shares in the Company as at September 30, 2007. He is also a beneficiary of a trust, Chaco International Limited, which owned 1,710,000 ordinary shares in the Company as at September 30, 2007.

Save as disclosed above, as at September 30, 2007, none of the directors or the chief executives or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept, pursuant to section 352 of the SFO, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Share Options

Particulars of the share option scheme and the movements in share options of the Company are set out in note 12 to the condensed consolidated financial statements.

During the period, the movements in the share options to subscribe for the Company's shares were as follows:

Date of grant	Vesting period	Exercisable period	Exercisable price per share HK\$	Number of share options			
				At April 1, 2007	Granted during the period	Outstanding at September 30, 2007	
Category 1: Directors							
Benson Tung Wah Wing	November 9, 2006	3 years	November 9, 2009 – November 8, 2014	1.80	1,500,000	–	1,500,000
Alan Lam Yiu On	November 9, 2006	3 years	November 9, 2009 – November 8, 2014	1.80	1,500,000	–	1,500,000
Raymond Tung Wai Man	November 9, 2006	3 years	November 9, 2009 – November 8, 2014	1.80	1,000,000	–	1,000,000
Total for directors					4,000,000	–	4,000,000
Category 2: Employees							
	November 9, 2006	3 years	November 9, 2009 – November 8, 2014	1.80	11,800,000	–	11,800,000
	June 8, 2007	3 years	June 8, 2010 – June 7, 2015	2.08	–	200,000	200,000
Total for employees					11,800,000	200,000	12,000,000
Total for all categories					15,800,000	200,000	16,000,000

OTHER INFORMATION *(continued)***Share Options** *(continued)*

No options were forfeited, exercised or expired during the six months ended September 30, 2007 (2006: Nil).

The closing price of the Company's shares on the trading day immediately before June 8, 2007, being the date of grant of the 2007 options was HK\$2.05.

Arrangements to Purchase Shares or Debentures

Save as disclosed under the heading "Share Options" above and in note 12 "Share-based payments" to the condensed consolidated financial statements, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Directors' Interests in Contracts of Significance

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period.

Substantial Shareholders

At September 30, 2007, shareholders who had interests and short positions in the shares and underlying shares of the Company, other than those mentioned in directors' interest, which have been disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Long positions (Ordinary shares of HK\$0.20 each of the Company)

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Corona Investments Limited <i>(note a)</i>	Beneficial owner	125,049,390	35.51%
Veer Palthe Voûte NV <i>(note b)</i>	Investment manager	35,319,000	10.03%
Dresdner Bank Aktiengesellschaft <i>(note b)</i>	Interest of controlled corporation	35,319,000	10.03%
Allianz Aktiengesellschaft <i>(note b)</i>	Interest of controlled corporation	35,319,000	10.03%

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) Veer Palthe Voûte NV is 100% indirectly owned by Dresdner Bank Aktiengesellschaft, which is in turn 81.1% indirectly owned by Allianz Aktiengesellschaft.

Other than as disclosed above, the Company has not been notified of any other interests representing 5% or more of the Company's issued share capital as at September 30, 2007.

OTHER INFORMATION *(continued)*

Board of Directors

Executive Directors

Mr. Benson Tung Wah Wing, *Chairman*
Mr. Alan Lam Yiu On, *Managing Director*
Mr. Raymond Tung Wai Man

Non-executive Directors

Mr. Tung Siu Wing
Mr. Kevin Lee Kwok Bun

Independent Non-executive Directors

Mr. Johnny Chang Tak Cheung
Mr. Tony Chang Chung Kay
Mr. Joseph Wong King Lam
Mr. Robert Yau Ming Kim

Purchase, Sale or Redemption of Shares

During the period, there was no purchase, sale or redemption of the Company's shares by the Company or any of its subsidiaries.

Audit Committee

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the unaudited interim financial statements. In addition, the Group's external auditors have carried out a review of the unaudited interim results.

Corporate Governance

The Company complied with all requirements set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange throughout the review period.

Model Code

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all directors, all directors confirmed they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by directors adopted by the Company.

Benson Tung Wah Wing
Chairman

Hong Kong, December 18, 2007

Website: <http://www.tungtex.com>
<http://www.irasia.com/listco/hk/tungtex>