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

Stock Code 股份代號 : 00518

Interim Report 2011-2012

CONTENTS

Deloitte.
德勤

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 14, which comprises the condensed consolidated statement of financial position of Tungtex (Holdings) Company Limited (the "Company") and its subsidiaries as of September 30, 2011 and the related condensed consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows 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 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 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 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 interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, November 29, 2011

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended September 30, 2011

	Notes	Six months ended September 30, 2011 HK$'000 (unaudited)	2010 HK$'000 (unaudited)
Revenue	3	**783,390**	884,483
Cost of sales		**(627,855)**	(701,941)
Gross profit		**155,535**	182,542
Other income		**1,592**	978
Fair value loss on derivative financial instruments		**(72)**	–
Selling and distribution costs		**(49,042)**	(50,707)
Administrative expenses		**(122,976)**	(114,630)
Finance costs		**(1,194)**	(665)
Share of results of associates		**148**	250
(Loss) profit before tax	4	**(16,009)**	17,768
Income tax expense	5	**(981)**	(2,952)
(Loss) profit for the period		**(16,990)**	14,816
(Loss) profit for the period attributable to:			
Owners of the Company		**(16,712)**	15,249
Non-controlling interests		**(278)**	(433)
		(16,990)	14,816
(Loss) earnings per share	7		
– Basic and diluted (HK cents)		**(4.8)**	4.3

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended September 30, 2011

	Six months ended September 30, 2011 HK$'000 (unaudited)	2010 HK$'000 (unaudited)
(Loss) profit for the period	**(16,990)**	14,816
Other comprehensive income (expense)		
Exchange differences arising on translation of foreign operations	**3,259**	(2,286)
Total comprehensive (expense) income for the period	**(13,731)**	12,530
Total comprehensive (expense) income attributable to:		
Owners of the Company	**(13,409)**	12,978
Non-controlling interests	**(322)**	(448)
	(13,731)	12,530

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At September 30, 2011

	Notes	September 30, 2011 HK$'000 (unaudited)	March 31, 2011 HK$'000 (audited)
Non-current assets			
Investment properties	8	**76,739**	76,739
Property, plant and equipment	8	**102,459**	103,598
Prepaid lease payments		**11,488**	11,680
Intangible assets		**72**	106
Interests in associates		**2,567**	2,419
Deferred tax assets		**502**	328
		193,827	194,870
Current assets			
Inventories		**165,690**	175,438
Trade and other receivables	9	**240,255**	240,758
Prepaid lease payments		**384**	384
Amount due from an associate		**3,340**	2,942
Tax recoverable		**4,321**	4,373
Bank balances and cash		**207,502**	224,767
		621,492	648,662
Current liabilities			
Trade and other payables	10	**202,809**	213,828
Amount due to a non-controlling shareholder of a subsidiary		**4,500**	1,300
Tax liabilities		**30,962**	32,214
Obligations under finance leases – due within one year		**127**	130
Derivative financial instruments		**72**	756
Bank borrowings	11	**55,982**	42,573
		294,452	290,801
Net current assets		**327,040**	357,861
Total assets less current liabilities		**520,867**	552,731
Non-current liabilities			
Obligations under finance leases – due after one year		**81**	31
Deferred tax liabilities		**13,275**	13,309
		13,356	13,340
		507,511	539,391
Capital and reserves			
Share capital		**70,346**	70,346
Reserves		**395,939**	424,297
Equity attributable to owners of the Company		**466,285**	494,643
Non-controlling interests		**41,226**	44,748
		507,511	539,391

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended September 30, 2011

	Attributable to owners of the Company									
	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Translation reserve HK$'000	Share option reserve HK$'000	Asset revaluation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At April 1, 2010 (audited)	70,346	84,880	3,930	(1,472)	682	6,128	341,391	505,885	47,555	553,440
Profit for the period	–	–	–	–	–	–	15,249	15,249	(433)	14,816
Exchange differences arising on translation of foreign operations	–	–	–	(2,271)	–	–	–	(2,271)	(15)	(2,286)
Total comprehensive income (expense) for the period	–	–	–	(2,271)	–	–	15,249	12,978	(448)	12,530
Dividends recognised as distribution	–	–	–	–	–	–	(26,380)	(26,380)	–	(26,380)
At September 30, 2010 (unaudited)	70,346	84,880	3,930	(3,743)	682	6,128	330,260	492,483	47,107	539,590
Profit for the period	–	–	–	–	–	–	14,870	14,870	(2,364)	12,506
Exchange differences arising on translation of foreign operations	–	–	–	2,184	–	–	–	2,184	(25)	2,159
Share of reserves of associates	–	–	–	54	–	–	–	54	30	84
Total comprehensive income (expense) for the period	–	–	–	2,238	–	–	14,870	17,108	(2,359)	14,749
Dividends recognised as distribution	–	–	–	–	–	–	(14,948)	(14,948)	–	(14,948)
At March 31, 2011 (audited)	70,346	84,880	3,930	(1,505)	682	6,128	330,182	494,643	44,748	539,391
Loss for the period	–	–	–	–	–	–	(16,712)	(16,712)	(278)	(16,990)
Exchange differences arising on translation of foreign operations	–	–	–	3,303	–	–	–	3,303	(44)	3,259
Total comprehensive income (expense) for the period	–	–	–	3,303	–	–	(16,712)	(13,409)	(322)	(13,731)
Dividends recognised as distribution	–	–	–	–	–	–	(14,949)	(14,949)	–	(14,949)
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	(3,200)	(3,200)
At September 30, 2011 (unaudited)	70,346	84,880	3,930	1,798	682	6,128	298,521	466,285	41,226	507,511

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended September 30, 2011

	Six months ended September 30, 2011 HK$'000 (unaudited)	2010 HK$'000 (unaudited)
Net cash (used in) from operating activities	**(5,798)**	24,165
Net cash used in investing activities:		
Purchase of property, plant and equipment	**(8,240)**	(6,880)
Other investing cash flows	**(525)**	283
	(8,765)	(6,597)
Net cash used in financing activities:		
New bank loans raised	**27,775**	–
Repayments of bank borrowings	**(15,266)**	(17,371)
Dividend paid	**(14,949)**	(26,380)
Dividend paid to non-controlling shareholders of a subsidiary	**(3,200)**	–
Other financing cash flows	**1,918**	(790)
	(3,722)	(44,541)
Net decrease in cash and cash equivalents	**(18,285)**	(26,973)
Cash and cash equivalents at the beginning of the period	**224,767**	278,057
Effect of foreign exchange rate changes	**1,020**	940
Cash and cash equivalents at the end of the period, represented by bank balances and cash	**207,502**	252,024

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended September 30, 2011

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".

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 and methods of computation used in the condensed consolidated financial statements for the six months ended September 30, 2011 are the same as those followed in the preparation of the annual financial statements of the Company and its subsidiaries (the "Group") for the year ended March 31, 2011.

In the current interim period, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations ("new or revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants.

The application of these new and revised HKFRSs had no material effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

The Group has not early applied new and revised HKFRSs that have been issued but are not yet effective.

The amendments to HKAS 12 titled *Deferred Tax: Recovery of Underlying Assets* mainly deal with the measurement of deferred tax for investment properties that are measured using the fair value model in accordance with HKAS 40 *Investment Property*. Based on the amendments, for the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties measured using the fair value model, the carrying amounts of the investment properties are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances. The Directors anticipate that the application of the amendments to HKAS 12 may have a significant impact on deferred tax recognised for investment properties that are measured using the fair value model.

The directors of the Company anticipate that the application of other new and revised HKFRSs will have no material impact on the results and the financial position of the Group.

3. Segment information

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

1. The United States of America (the "USA")
2. Canada
3. Asia
4. Europe and others

Information regarding the above segments is reported below.

Six months ended September 30, 2011

	USA HK$'000	**Canada HK$'000**	**Asia HK$'000**	**Europe and others HK$'000**	**Consolidated HK$'000**
SEGMENT REVENUE					
Sales of goods – external	**612,701**	**9,626**	**93,946**	**67,117**	**783,390**
SEGMENT PROFIT	**8,895**	**591**	**1,586**	**5,245**	**16,317**
Unallocated income					**1,592**
Unallocated expenses					**(32,872)**
Finance costs					**(1,194)**
Share of results of associates					**148**
Loss before tax					**(16,009)**

Six months ended September 30, 2010

	USA HK$'000	Canada HK$'000	Asia HK$'000	Europe and others HK$'000	Consolidated HK$'000
SEGMENT REVENUE					
Sales of goods – external	716,457	14,915	87,689	65,422	884,483
SEGMENT PROFIT	40,029	469	2,908	6,102	49,508
Unallocated income					978
Unallocated expenses					(32,303)
Finance costs					(665)
Share of results of associates					250
Profit before tax					17,768

Segment profit represents the profit earned by each segment without allocation of central administration costs, directors' salaries, depreciation of property, plant and equipment, amortisation of prepaid lease payments, fair value changes on derivative financial instruments, share of results of associates, other income and finance costs. This is the measure reported to the Company's executive directors for the purposes of resource allocation and performance assessment.

4. (Loss) profit before tax

	Six months ended September 30, 2011 HK$'000	2010 HK$'000
(Loss) profit before tax has been arrived at after charging:		
Amortisation of intangible assets	**34**	34
Amortisation of prepaid lease payments	**192**	192
Depreciation of property, plant and equipment	**10,630**	10,638
Loss on disposal of property, plant and equipment	**74**	457
and after crediting:		
Bank interest income	**89**	102
Rental income from properties under operating leases	**1,503**	876

5. Income tax expense

	Six months ended September 30, 2011 HK$'000	2010 HK$'000
Current tax:		
Hong Kong	**686**	4,635
People's Republic of China (the "PRC")	**652**	–
Other jurisdictions	**54**	1,335
	1,392	5,970
Overprovision	**(203)**	(2,084)
	1,189	3,886
Deferred taxation	**(208)**	(934)
	981	2,952

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

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

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of certain PRC subsidiaries of the Company increases progressively from 15% to 25% before January 1, 2013. The tax rate of the other PRC subsidiaries was 25% for both years.

5. Income tax expense *(continued)*

According to the EIT Law, the profits of the PRC subsidiaries of the Company and associates of the Group derived since January 1, 2008 will be subject to withholding tax at a rate of 5% upon the distribution of such profits to foreign investors incorporated in Hong Kong, or at a rate of 10% for other foreign investors. The Group determined that no deferred tax on withholding tax liabilities shall be recognised since no significant distributable profit was derived by the PRC subsidiaries and associates from January 1, 2008.

Two subsidiaries of the Company, which were incorporated in Hong Kong, received protective/additional profits tax assessment from the Inland Revenue Department (the "IRD") of approximately HK$6.4 million and HK$29.2 million, respectively, relating to the years of assessment 1998/99 to 2009/10, that is, for the financial years ended March 31, 1999 to 2010. 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$5.8 million and HK$27.0 million being purchased by the relevant subsidiaries and included in other receivables as at September 30, 2011 and March 31, 2011, and the remaining amount of HK$2.8 million represents the overpayment of provisional tax to the IRD. As at September 30, 2011, in respect of the protective/additional profits tax assessment for the years of assessment 1998/99 to 2009/10, a provision of HK$35.6 million (as at March 31, 2011: HK$35.6 million) was provided.

In the opinion of the directors and the advice from the Group's tax advisors, substantial manufacturing operations of these subsidiaries were undertaken in the PRC. However, such view did not gain the IRD's acceptance. After considering the recent court cases on similar subject matter and the advice from the Group's legal advisor, the directors considered that any protracted argument in this area may not be of the best interest from the commercial perspective to the Group. In order to avoid any further protracted debate and to save the costs in pursuing further, the Group had proposed, on a without prejudice basis, settlement of the matters for these two subsidiaries. The settlement proposals were submitted to the IRD in October 2011 and November 2011, respectively.

For one subsidiary, an amount of HK$552,000, representing the tax reserve certificates previously purchased and after deducting the compromised settlement, was refunded in November 2011. As for the other subsidiary, the Group is awaiting formal response from the IRD on the compromised settlement, which proposed an additional amount of HK$219,000 being payable after deducting the tax reserve certificates and tax previously purchased/charged. The directors consider that sufficient tax provision has been made in the condensed consolidated financial statements.

6. Dividends

On September 9, 2011, a final dividend of HK4.25 cents per share for the year ended March 31, 2011, amounting to a total of HK$14,949,000 was paid to shareholders (six months ended September 30, 2010: HK2.5 cents per share and a special dividend of HK5.0 cents per share paid as final dividend, both for the year ended March 31, 2010, amounting to HK$26,380,000).

Subsequent to September 30, 2011, the directors do not recommend the payment of an interim dividend but have determined that a special dividend of HK2.0 cents per share (six months ended September 30, 2010: an interim dividend of HK4.25 cents per share) will be paid to the shareholders of the Company whose names appear in the Register of Members on December 22, 2011.

7. (Loss) earnings per share

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

	Six months ended September 30, 2011	2010
	HK$'000	HK$'000
(Loss) profit for the period attributable to owners of the Company	**(16,712)**	15,249

	2011	2010
Number of ordinary shares in issue during the period	**351,731,298**	351,731,298

The computation of diluted (loss) earnings per share for the six months ended September 30, 2011 and 2010 does not assume the exercise of the Company's outstanding share options as the exercise prices of those options are higher than the average market price.

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

At September 30, 2011, 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 reporting date. Consequently, no fair value adjustment has been recognised in the current period (six months ended September 30, 2010: Nil).

In addition, the Group spent HK$8,375,000 (six months ended September 30, 2010: HK$6,880,000) on acquisition of property, plant and equipment for the purposes of regular replacement during the period.

9. Trade and other receivables

The Group allows a credit period ranging from 30 days to 90 days to its trade and bills customers, with a significant portion being 30 days. Included in trade and other receivables are trade and bills receivables, mainly denominated in United States dollars, with the following aged analysis presented based on the invoice date at the end of the reporting period:

	September 30, 2011 HK$'000	March 31, 2011 HK$'000
Up to 30 days	**127,192**	110,129
31 – 60 days	**15,097**	30,681
61 – 90 days	**15,791**	23,640
More than 90 days	**661**	1,659
	158,741	166,109

10. Trade and other payables

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

	September 30, 2011 HK$'000	March 31, 2011 HK$'000
Up to 30 days	**77,965**	81,822
31 – 60 days	**23,613**	36,448
61 – 90 days	**8,385**	13,446
More than 90 days	**2,812**	1,783
	112,775	133,499

11. Bank borrowings

The Group repaid bank borrowings in the amount of HK$15,266,000 during the period (six months ended September 30, 2010: HK$17,371,000).

During the six months ended September 30, 2011, the Group raised new bank borrowings in the amount of HK$27,775,000 (six months ended September 30, 2010: Nil), which were used as general working capital. The borrowings bear variable interest at market rates and are repayable within one year.

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 April 1, 2011	12,800,000
Lapsed during the period	(200,000)
Outstanding at September 30, 2011	12,600,000

13. Related parties transactions

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

	Six months ended September 30,	
	2011	2010
	HK$'000	HK$'000
Purchase of raw materials and finished goods from the Group's associate	**16,528**	23,518
Compensation of key management personnel	**7,450**	7,416

MANAGEMENT DISCUSSION AND ANALYSIS

Summary of Operating Results

Following a barrage of unfavorable shocks in the first half of 2011, global economic activities weakened drastically. The US economic growth decelerated sharply. In Europe, the recovery gradually lost steam while financial strains in euro zone area and sovereign debt crisis deepened. Against this background of severe challenge to the export business, the Group recorded an operating loss for the first half year ended September 2011, as indicated in the last annual report. Such drastic setback in results was in reality a continuum of the second half of last year.

In the six months ended September 2011, loss attributable to owners of the Company was HK$16.7 million and loss per share was HK4.8 cents per share. The board of directors does not recommend the payment of an interim dividend, but has resolved to declare a special dividend of HK2.0 cents per share to maintain a cash return to shareholders based on our healthy liquidity and balance sheet through this period of adversities.

Business Review

During the period under review, the slower than expected economic growth in the US with unacceptably high jobless rate kept the consumer market under pressure and retarded purchase confidence of our customers. The turmoil in Europe and worsening of the euro zone sovereign debt crisis continued to threaten market stability and credit conditions. Compared to the same period last year, the Group's turnover decreased 11.4% to HK$783 million. In terms of geographical segment, sales to North America, the Group's major export market, dropped 14.9% to HK$622 million, representing 79.4% of the Group's turnover. Total sales to European and other markets increased 2.6% to HK$67 million, accounted for 8.6% of the Group's turnover. Total sales to Asia increased 7.1% to HK$94 million.

In China, with the fiscal austerity measures to curb overheating and fight inflation, the economic growth was in line with plan and under control. The domestic consumption continued to expand, yet became more value driven. During the period, the Group's retail sales in mainland China recorded an increase of 13.4% and accounted for 8.7% of the Group's turnover. As at the period end date, there were 125 directly managed stores and 96 franchised stores in operation.

Despite the negative volume leverage impact caused by decline in sales, persistent pressure of increasing costs and Renminbi appreciation, we managed to contain the consolidated costs of sales at 80.1% of total sales, slightly higher than 79.4% of the same period last year, yet lower than that recorded in the second half of last year, attributable to productivity improvement and the relative increase in retail sales volume. Taking the cost inflation impact into account, selling and distribution costs as a percentage of sales increased from 5.7% to 6.3% and administrative expenses as a percentage of sales increased from 13.0% to 15.7%. Finance costs increased from HK$0.7 million to HK$1.2 million, due to the increased utilization of short-term working capital financing.

Prospects

Looking ahead, it is the consensus in the market that global slowdown of economy will deepen. In the US, the belt tightening impact of government debts reduction coupled with high jobless rate will result in weaker US economic growth in the near term. Consumer confidence index released last month seems back to levels last seen during the 2008-2009 recession. In Europe, the sovereign debt crisis is triggering tougher austerity measures across the region and undermining consumer demand. Under such volatile market conditions, while we cannot be optimistic in the short term to grow our apparel export volume, we will endeavor to invest in innovation and broaden value-added solution and product offerings to our partnering customers. Meanwhile, we are positive to develop sales to domestic brands in mainland China market.

In the costing side, despite the gradual stabilization of certain raw materials prices recently, the industry is still facing the headwind of continuous appreciation of Renminbi, rising wages and inflating overheads. The Group will persist in lifting productivity in terms of volume and quality, deepen our lean management and undergo restructuring to reduce costs and enhance operational effectiveness.

It is worth to note that our factory located at the southern province of Thailand outside Bangkok was not affected by the recent widespread flooding crisis in Thailand. The Group will strategically strengthen the production capacity in Thailand and explore to add production facilities in Asia in future.

It is expected that the economic growth in China will sustain fairly stable in the medium term, yet an appropriate easing will occur in the second half of the year. We will grow our China retail business at controlled pace and execute stringent management on promotion discounts, costs and inventory level. As at the report date, the Group is running 126 directly managed "Betu" stores and 104 franchised stores in mainland China.

Barring any unforeseen circumstances, based on the most prevailing market conditions and industry situation, the Group expects that the second half of the year will be a more adverse period compared to the first half period under review. Nevertheless, with our strong balance sheet and business fundamentals, the Group is confident in embracing the challenges and opportunities in the year ahead.

Capital Expenditure

During the period under review, the Group incurred HK$8.4 million capital expenditure as compared to HK$6.9 million of the last corresponding period. It mainly represented regular replacement, upgrading of production facilities and leasehold improvement.

Liquidity and Financial Resources

The Group's liquidity and financial position remained solid. Working capital cycle was closely monitored where inventory turnover and trade receivable turnover were staying at healthy level. Capital structure was sound and maintained with low financial leverage. As at September 30, 2011, the Group had a cash balance of HK$208 million compared to HK$225 million as at March 31, 2011. Most of the cash balance was placed in USD, HKD and RMB short-term deposits with major banks. Total bank borrowings of HK$56 million included HK$31 million short-term RMB loans, and the remaining balance comprised trust receipt loans and discounted export bills, as compared to HK$43 million as at March 31, 2011. Total bank borrowings as a percentage of equity attributable to owners of the Company was at 12.0% at the end of the reporting period. The Group will continue to maintain effective liquidity and working capital management. With the net cash balance of HK$152 million and abundant banking facilities available, the Group has well sufficient liquidity and financial resources to meet the operating and investment needs.

As at September 30, 2011, certain land and buildings with an aggregate net book value of approximately HK$11 million and certain investment properties with an aggregate carrying value of approximately HK$52 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 Policy

The Group maintained a stable financial position and adhered prudent policies consistently 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 EUR. As a substantial portion of the purchases and overheads are denominated in RMB and the EUR exchange rate fluctuation may be significant, the Group entered into forward contracts to hedge the risks as deemed appropriate.

Human Resources

While streamlining the Group's organization to reduce costs and enhance competitiveness, we retain competent employees and attract new talented people by offering career development opportunities, competitive remuneration package with reference to market practice. Building a strong and coherent team has always been our management priority. We are also dedicated to establishing a strong corporate culture so as to guide our people to work together to achieve our core values and strategic goals. As at September 30, 2011, the Group, excluding the associates, had approximately 6,000 employees globally, as compared to 6,200 as at March 31, 2011.

OTHER INFORMATION

Interim Dividend

The Board of Directors does not recommend the payment of an interim dividend but has declared a special dividend of HK2.0 cents per share (six months ended September 30, 2010: an interim dividend of HK4.25 cents per share) payable on January 5, 2012 to shareholders whose names appear in the Register of Members on December 22, 2011.

Closure of Register of Members

The Register of Members will be closed on Thursday, December 22, 2011, on which day no transfers of shares will be effected. In order to qualify for the entitlement to the special dividend, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's share registrar, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Wednesday, December 21, 2011.

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

At September 30, 2011, the interests and short positions of the directors, the chief executives of the Company 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, as recorded in the register required to be kept by the Company 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") contained in the Listing Rules were as follows:

Long Positions in Shares and Underlying Shares 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 *(note a)*/ Beneficial owner	125,049,390	1,500,000	126,549,390	35.97%
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%
Martin Tung Hau Man	Beneficial owner	270,000	1,000,000	1,270,000	0.36%
Billy Tung Chung Man	Beneficial owner	298,000	1,000,000	1,298,000	0.36%
Kevin Lee Kwok Bun	Beneficial owner	9,000,000	–	9,000,000	2.55%
Johnny Chang Tak Cheung	Beneficial owner/ Beneficiary of a trust *(note b)*	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%

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

Notes:

(a) Mr. Benson Tung Wah Wing and his spouse, Madam Wong Fung Lin, together own 100% equity interests in equal share in Corona Investments Limited. Corona Investments Limited owned 125,049,390 ordinary shares in the Company as at September 30, 2011, representing 35.55% 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, 2011. 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, 2011.

Save as disclosed above, as at September 30, 2011, none of the directors, the chief executives of the Company nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which have been to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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:

					Number of share options				
	Date of grant	Vesting period	Exercisable period	Exercisable price per share HK$	Outstanding at April 1, 2011	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding at September 30, 2011
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
Martin Tung Hau Man	November 9, 2006	3 years	November 9, 2009 – November 8, 2014	1.80	1,000,000	–	–	–	1,000,000
Billy Tung Chung Man	November 9, 2006	3 years	November 9, 2009 – November 8, 2014	1.80	1,000,000	–	–	–	1,000,000
Total for directors					6,000,000	–	–	–	6,000,000
Category 2: Employees	November 9, 2006	3 years	November 9, 2009 – November 8, 2014	1.80	6,800,000	–	–	(200,000)	6,600,000
Total for employees					6,800,000	–	–	(200,000)	6,600,000
Total for all categories					12,800,000	–	–	(200,000)	12,600,000

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 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 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, 2011, shareholders who had interests or short positions in the shares and underlying shares of the Company, other than directors or chief executives of the Company, 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 in the Company's Ordinary Shares

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Corona Investments Limited *(note a)*	Beneficial owner	125,049,390	35.55%
FMR LLC *(note b)*	Investment manager	25,000,000	7.11%

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) FMR LLC was deemed to be interested as investment manager in 25,000,000 shares through its controlled corporations, Fidelity Management & Research Company, which was interested in 22,000,000 shares, and Fidelity Management Trust Company, Pyramis Global Advisors Trust Company and Pyramis Global Advisors LLC, which were interested in 3,000,000 shares in total.

Other than as disclosed above, as at September 30, 2011, the Company has not been notified of any interests or short positions in the shares and underlying shares of the Company, other than directors or chief executives of the Company, 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 .

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
Mr. Martin Tung Hau Man
Mr. Billy Tung Chung 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

Changes in Directors' Biographical Details

Changes in directors' biographical details since the date of 2010/2011 Annual Report of the Company, which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, are set out below.

Mr. Joseph Wong King Lam, independent non-executive director of the Company, has resigned as an executive director of Grand Field Group Holdings Limited, with effect from August 15, 2011.

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

During the period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Audit Committee

The Audit Committee has reviewed with management and the Group's external auditors, 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 of the Group for the six months ended September 30, 2011.

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

Corporate Governance

The Company complied with all the code provisions 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.

OTHER INFORMATION *(continued)*

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 during the period.

Benson Tung Wah Wing
Chairman

Hong Kong, November 29, 2011

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