



TUNGTEX (HOLDINGS) COMPANY LIMITED

同得仕(集團)有限公司

Stock Code 股份代號: 00518



# 2015-2016 Interim Report

# Contents

- 2** REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
- 3** CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
- 4** CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
- 5** CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
- 7** CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
- 8** CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
- 9** NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
- 18** MANAGEMENT DISCUSSION AND ANALYSIS
- 22** OTHER INFORMATION



**Deloitte.****德勤****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 17, which comprises the condensed consolidated statement of financial position as of September 30, 2015 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 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 these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

**Scope of review**

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

**Conclusion**

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

**Deloitte Touche Tohmatsu***Certified Public Accountants*

Hong Kong, November 27, 2015

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended September 30, 2015

	Notes	Six months ended September 30, 2015 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)
Revenue	3	501,404	666,286
Cost of sales		(383,888)	(529,181)
Gross profit		117,516	137,105
Other income and other gain		3,692	16,435
Decrease in fair value of investment property	8	(457)	(1,762)
Increase in fair value of assets classified as held for sale		–	9,512
Fair value changes on derivative financial instruments		2	161
Selling and distribution costs		(64,861)	(62,549)
Administrative expenses		(86,111)	(96,121)
Finance costs		(1,174)	(5,650)
Gain on disposal of an associate	12	1,756	–
Share of loss of associates		–	(456)
Loss before tax	4	(29,637)	(3,325)
Income tax expense	5	(119)	(751)
Loss for the period		(29,756)	(4,076)
Loss for the period attributable to:			
Owners of the Company		(29,126)	(1,010)
Non-controlling interests		(630)	(3,066)
		(29,756)	(4,076)
Loss per share	7		
– Basic and diluted (HK cents)		(6.9)	(0.2)

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended September 30, 2015

	Six months ended September 30,	
	2015 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)
Loss for the period	(29,756)	(4,076)
<b>Other comprehensive (expenses) income</b>		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations		
– exchange differences arising during the period	(12,820)	20
– reclassification adjustments relating to a foreign operation disposed of during the period	(345)	–
Other comprehensive (expenses) income for the period	(13,165)	20
Total comprehensive expenses for the period	(42,921)	(4,056)
Total comprehensive expenses for the period attributable to:		
Owners of the Company	(42,291)	(989)
Non-controlling interests	(630)	(3,067)
	(42,921)	(4,056)

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At September 30, 2015

	Notes	September 30, 2015 HK\$'000 (unaudited)	March 31, 2015 HK\$'000 (audited)
<b>Non-current assets</b>			
Investment property	8	7,371	7,828
Property, plant and equipment	8	167,121	170,905
Prepaid lease payments	8	25,660	26,687
Intangible asset		–	–
Interests in an associate	12	–	202
Deferred tax assets		272	435
		<b>200,424</b>	<b>206,057</b>
<b>Current assets</b>			
Inventories		190,402	188,340
Trade and other receivables	9	163,087	181,569
Prepaid lease payments	8	822	828
Tax recoverable		574	866
Derivative financial instruments		2	106
Pledged bank deposits		113,454	116,000
Bank balances and cash		190,552	232,138
		<b>658,893</b>	<b>719,847</b>
<b>Current liabilities</b>			
Trade and other payables	10	195,497	200,146
Tax liabilities		758	1,701
Obligations under finance leases – due within one year		27	41
Bank borrowings	11	40,164	56,973
		<b>236,446</b>	<b>258,861</b>
<b>Net current assets</b>		<b>422,447</b>	<b>460,986</b>
<b>Total assets less current liabilities</b>		<b>622,871</b>	<b>667,043</b>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION** (continued)

At September 30, 2015

	Notes	September 30, 2015 HK\$'000 (unaudited)	March 31, 2015 HK\$'000 (audited)
<b>Non-current liabilities</b>			
Bank borrowings	11	16,400	17,600
Deferred tax liabilities		1,549	1,593
Obligations under finance leases – due after one year		–	7
		<b>17,949</b>	19,200
		<b>604,922</b>	647,843
<b>Capital and reserves</b>			
Share capital	13	212,932	212,932
Reserves		396,874	439,165
<b>Equity attributable to owners of the Company</b>		<b>609,806</b>	652,097
<b>Non-controlling interests</b>		<b>(4,884)</b>	(4,254)
		<b>604,922</b>	647,843

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended September 30, 2015

	Attributable to owners of the Company						Non-controlling interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Translation reserve HK\$'000	Share option reserve HK\$'000	Asset revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000		
At April 1, 2014 (audited)	212,932	2,749	595	72,652	217,094	506,022	15,302	521,324
Loss for the period	-	-	-	-	(1,010)	(1,010)	(3,066)	(4,076)
Other comprehensive income (expenses)								
Exchange differences arising on translation of foreign operations	-	21	-	-	-	21	(1)	20
Total comprehensive income (expenses) for the period	-	21	-	-	(1,010)	(989)	(3,067)	(4,056)
Dividend paid to non-controlling shareholder	-	-	-	-	-	-	(8,000)	(8,000)
At September 30, 2014 (unaudited)	212,932	2,770	595	72,652	216,084	505,033	4,235	509,268
Profit (loss) for the period	-	-	-	-	198,588	198,588	(3,982)	194,606
Other comprehensive income (expenses)								
Reclassification adjustments relating to foreign operations disposed of during the period	-	304	-	-	-	304	251	555
Disposal of assets classified as held for sale – revaluation surplus	-	-	-	(72,652)	72,652	-	-	-
Exchange differences arising on translation of foreign operations	-	(1,179)	-	-	-	(1,179)	-	(1,179)
Total comprehensive (expenses) income for the period	-	(875)	-	(72,652)	271,240	197,713	(3,731)	193,982
Disposal of non-controlling interest relating to subsidiaries disposed of during the period	-	-	-	-	-	-	(4,758)	(4,758)
Cash dividend paid	-	-	-	-	(50,649)	(50,649)	-	(50,649)
Lapse of share options	-	-	(595)	-	595	-	-	-
At March 31, 2015 (audited)	212,932	1,895	-	-	437,270	652,097	(4,254)	647,843
Loss for the period	-	-	-	-	(29,126)	(29,126)	(630)	(29,756)
Other comprehensive expenses								
Exchange differences arising on translation of foreign operations	-	(12,820)	-	-	-	(12,820)	-	(12,820)
Reclassification adjustments relating to a foreign operation disposed of during the period (note 12)	-	(345)	-	-	-	(345)	-	(345)
Total comprehensive expenses for the period	-	(13,165)	-	-	(29,126)	(42,291)	(630)	(42,921)
At September 30, 2015 (unaudited)	212,932	(11,270)	-	-	408,144	609,806	(4,884)	604,922



## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended September 30, 2015

	Six months ended September 30,	
	2015 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)
Net cash (used in) from operating activities	(13,039)	1,672
Net cash (used in) from investing activities:		
Purchase of property, plant and equipment	(13,464)	(5,871)
Proceeds on disposal of property, plant and equipment	1,594	13,528
Proceeds on disposal of an associate	1,613	–
Other investing cash flows	1,998	132
	(8,259)	7,789
Net cash used in financing activities:		
Bank borrowings raised	50,974	328,933
Repayments of bank borrowings	(68,301)	(322,955)
Dividend paid to non-controlling shareholder of a subsidiary	–	(8,000)
Other financing cash flows	(1,196)	(5,685)
	(18,523)	(7,707)
Net (decrease) increase in cash and cash equivalents	(39,821)	1,754
Cash and cash equivalents at the beginning of the period	232,138	151,837
Effect of foreign exchange rate changes	(1,765)	(22)
Cash and cash equivalents at the end of the period, represented by bank balances and cash	190,552	153,569

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended September 30, 2015

### 1. Basis of preparation

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The financial information relating to the years ended March 31, 2015 that is included in the half-year interim report 2016 as comparative information does not constitute the Company’s statutory annual consolidated financial statements for the year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the “Companies Ordinance”) is as follows:

The Company has delivered the financial statements for the year ended March 31, 2015 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. The auditor’s reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; 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 certain properties and financial instruments, which are measured at fair values, as appropriate.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended September 30, 2015 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended March 31, 2015.

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

Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010 – 2012 Cycle
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011 – 2013 Cycle

The application of the amendments to HKFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

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

Information regarding the above segments is reported below.

*Six months ended September 30, 2015:*

	North America HK\$'000	Asia HK\$'000	Europe and others HK\$'000	Consolidated HK\$'000
<b>SEGMENT REVENUE</b>				
Sales of goods – external	284,455	180,799	36,150	501,404
<b>SEGMENT PROFIT (LOSS)</b>	5,496	(2,610)	1,199	4,085
Decrease in fair value of investment property				(457)
Unallocated income				3,694
Unallocated expenses				(37,541)
Finance costs				(1,174)
Gain on disposal of an associate				1,756
Loss before tax				(29,637)

**3. Segment information** *(continued)*

Six months ended September 30, 2014 (restated) (note):

	North America HK\$'000	Asia HK\$'000	Europe and others HK\$'000	Consolidated HK\$'000
<b>SEGMENT REVENUE</b>				
Sales of goods – external	482,754	126,108	57,424	666,286
<b>SEGMENT PROFIT (LOSS)</b>				
	9,126	(4,672)	2,890	7,344
Decrease in fair value of investment property				(1,762)
Increase in fair value of assets classified as held for sale				9,512
Unallocated income				16,596
Unallocated expenses				(28,909)
Finance costs				(5,650)
Share of loss of associates				(456)
Loss before tax				(3,325)

*Note:* Subsequent to the disclosure of the results for the period ended September 30, 2014, the Group reviewed the revenue analysis of North America as a whole for the purposes of resource allocation and assessment of performance. As a result, the comparative information for the period ended September 30, 2014 has been restated by combining the United States of America (the “USA”) and Canada in North America to conform with current period’s presentation.

Segment profit (loss) represents the profit (loss) earned (expensed) by each segment without allocation of central administration costs, directors’ salaries, depreciation of property, plant and equipment, amortisation of prepaid lease payments, change in fair value of investment property, increase in fair value of assets classified as held for sale, fair value changes on derivative financial instruments, share of loss of associates, gain on disposal 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 performance assessment.

**4. Loss before tax**

	<b>Six months ended September 30,</b>	
	<b>2015</b>	<b>2014</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Loss before tax has been arrived at after charging (crediting):		
Amortisation of prepaid lease payments	<b>411</b>	341
Depreciation of property, plant and equipment	<b>9,444</b>	11,000
Gain on disposal of property, plant and equipment	<b>(278)</b>	(12,470)
Bank interest income	<b>(1,998)</b>	(132)
Rental income from investment properties under operating leases, net of outgoings of HK\$Nil (2014: HK\$235,000)	<b>(181)</b>	(3,833)

**5. Income tax expense**

	<b>Six months ended September 30,</b>	
	<b>2015</b>	<b>2014</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Current tax:		
Hong Kong	–	62
People's Republic of China (the "PRC")	–	760
	–	822
Deferred taxation	<b>119</b>	(71)
	<b>119</b>	751

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

No provision for Hong Kong Profits Tax is made for the six months ended September 30, 2015 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 period.

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

No provision for PRC Enterprise Income Tax is made for the six months ended September 30, 2015 as the Group has no assessable profit arising in PRC.

According to the EIT Law, the profits of the PRC subsidiaries of the Company and PRC 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.

**6. Dividends**

The Board of Directors did not recommend the payment of a final dividend for the year ended March 31, 2015. (six months ended September 30, 2014: Nil).

Subsequent to September 30, 2015, the directors do not recommend the payment of an interim dividend but have determined that a special dividend of HK1.0 cent per share (six months ended September 30, 2014: Nil) will be paid to the shareholders of the Company whose names appear in the Register of Members on December 21, 2015.

**7. 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:

	<b>Six months ended</b>	
	<b>September 30,</b>	<b>2014</b>
	<b>2015</b>	<b>2014</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Loss for the period attributable to owners of the Company	<b>(29,126)</b>	(1,010)
	<b>2015</b>	<b>2014</b>
Weighted average number of ordinary shares in issue during the period	<b>422,077,557</b>	422,077,557

The computation of diluted loss per share for the six months ended September 30, 2014 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, and all outstanding options were lapsed as at March 31, 2015.

**8. Movements in investment property, property, plant and equipment and prepaid lease payments**

During the six months ended September 30, 2015, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of HK\$1,316,000 for proceeds of HK\$1,594,000, resulting in a gain on disposal of HK\$278,000.

During the six months ended September 30, 2014, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of HK\$1,058,000 for proceeds of HK\$13,528,000, resulting in a gain on disposal of HK\$12,470,000.

The Group spent HK\$13,464,000 (six months ended September 30, 2014: HK\$5,871,000) on acquisition of property, plant and equipment.

## 8. **Movements in investment property, property, plant and equipment and prepaid lease payments** *(continued)*

The Group's investment property was fair valued by DTZ Debenham Tie Leung Limited, an independent qualified professional valuers not connected with the Group, as at September 30, 2015 and March 31, 2015. In determining the fair value of investment property, direct comparison method and income capitalisation method are adopted. Direct comparison method is based on comparing the properties to be valued directly with other comparable properties, which have recently transferred its legal ownership. Income capitalisation method is based on the capitalisation of the net income potential by adopting appropriate capitalisation rate, which is derived from analysis of sale transactions and the interpretation of prevailing investor requirements or expectations. There has been no change from the valuation technique used in prior year.

The resulting decrease in fair value of investment property of HK\$457,000 has been recognised directly in profit or loss for the six months ended September 30, 2015 (six months ended September 30, 2014: HK\$1,762,000).

## 9. **Trade and other receivables**

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

	<b>September 30, 2015 HK\$'000</b>	March 31, 2015 HK\$'000
Up to 30 days	<b>92,327</b>	86,974
31 – 60 days	<b>18,593</b>	46,062
61 – 90 days	<b>4,840</b>	9,195
More than 90 days	<b>4,587</b>	4,317
	<b>120,347</b>	146,548

## 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, 2015 HK\$'000	March 31, 2015 HK\$'000
Up to 30 days	68,624	62,998
31 – 60 days	3,525	31,130
61 – 90 days	4,954	5,040
More than 90 days	8,584	8,242
	<b>85,687</b>	107,410

## 11. Bank borrowings

The Group repaid bank borrowings in the amount of HK\$68,301,000 during the six months ended September 30, 2015 (six months ended September 30, 2014: HK\$322,955,000).

During the six months ended September 30, 2015, the Group raised new bank borrowings in the amount of HK\$50,974,000 (six months ended September 30, 2014: HK\$328,933,000), which were used as general working capital. The new bank borrowings bear variable interest at market rates and are repayable within one year.

## 12. Disposal of an associate

In the current interim period, the Group completed the disposal of 30% interest in 嵊州同泰絲服飾有限公司 to an independent third party at cash proceeds of HK\$1,613,000. Before the disposal, the Group owned 30% interest in 嵊州同泰絲服飾有限公司 and the investment was previously accounted for as an investment in an associate using the equity method of accounting. The disposal was completed during this period, the Group does not retain any interest in 嵊州同泰絲服飾有限公司 and 嵊州同泰絲服飾有限公司 ceased to be an associate of the Group. This transaction has resulted in the Group recognising a gain of HK\$1,756,000 in profit or loss, calculated as follows:

	HK\$'000
Cash proceeds	1,613
Plus: Reclassification adjustments relating to a foreign operation disposed of during the period	345
Less: Carrying amount of the 30% investment on the date of loss of significant influence of 嵊州同泰絲服飾有限公司	(202)
Gain recognised in profit or loss	<b>1,756</b>



**13. Share capital**

	Number of shares	Amount HK\$'000
Issued and fully paid:		
At March 31, 2014, September 30, 2014, March 31, 2015 and September 30, 2015		
Ordinary shares with no par value	<b>422,077,557</b>	<b>212,932</b>

**14. Related parties transactions**

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

	Six months ended September 30,	
	2015	2014
	HK\$'000	HK\$'000
Purchase of raw materials and finished goods from the Group's associate	–	613
Deposit related to disposal of 60% interest in a subsidiary received from a non-controlling shareholder of the subsidiary	–	6,000
Compensation of key management personnel	<b>6,646</b>	6,397

## 15. Fair value measurements of financial instruments

### *Fair value of financial assets/liabilities of the Group that are measured at fair value on a recurring basis*

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

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

Financial assets/ financial liabilities	Fair value		Fair value hierarchy	Valuation technique and key input(s)
	September 30, 2015	March 31, 2015		
Foreign exchange forward contracts	<b>Assets</b> <b>HK\$2,000</b>	Assets HK\$106,000	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchanges rates (from observable forward exchanges rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### Summary of Operating Results

The first half of the year remained a period of very difficult transition and challenge for the Group. For the six months ended September 30, 2015, the Group recorded an operating loss before tax of HK\$30.9 million, as compared to an operating loss before tax of HK\$23.1 million for the corresponding period last year. The Group recorded a loss attributable to owners of the Company and loss per share of HK\$29.1 million and HK6.9 cents respectively, as compared to a loss attributable to owners of the Company and loss per share of HK\$1.0 million and HK0.2 cents respectively for the corresponding period last year. The board of directors does not recommend the payment of an interim dividend, but has resolved to declare a special dividend of HK1.0 cent per share.

	<b>Six months ended</b>	
	<b>September 30,</b>	
	<b>2015</b>	2014
	<b>HK\$'000</b>	HK\$'000
Loss before tax	<b>(29,637)</b>	(3,325)
Less:		
Decrease in fair value of investment property	<b>(457)</b>	(1,762)
Increase in fair value of assets classified as held for sale	–	9,512
Fair value changes on derivative financial instruments	<b>2</b>	161
Gain on disposal of a property	–	12,320
Share of loss of associates	–	(456)
Gain on disposal of an associate	<b>1,756</b>	–
Operating loss before tax	<b>(30,938)</b>	(23,100)

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Business Review

During the six-month period under review, the economic performance and monetary policies of the United States, Euro zone and China were becoming divergent in directions. Overall global business condition and consumption sentiment were gloomy, and consumer spending behavior was shifting. In the United States, our major export market, the economy only expanded at a soft rate in the three months to September of 2015, which was much lower than that of the last quarter and the same third quarter of the previous two years. In the Euro zone, economic growth remained very slow with double-digit unemployment rate, declining consumer confidence and depreciated Euro currency. Against such backdrop, the overseas demand for fashion apparel remained very soft. Coupled with the strategy of forgoing low-margin export orders and reallocating more production capacity for domestic sales in China, total turnover of the Group in the six months ended September 30, 2015 was HK\$501.4 million, a decrease of 24.7% as compared to same period last year. In terms of geographical segment, sales to North America, the Group's principal export market, declined 41.1% to HK\$284.4 million, accounted for 56.7% of the Group's turnover. Sales to Europe and other markets recorded a fall of 37.0% to HK\$36.2 million, representing 7.2% of the Group's turnover. As for Asia, total sales were HK\$180.8 million, increased by 43.4% from the corresponding period last year.

To offset the persistent uptrend in wages and operating costs prevailed in China, Vietnam and Thailand where the Group's manufacturing facilities are located, the Group continued its structural streamlining, reorganization of internal business units, stringent cost control and efficiency enhancement. During the period under review, gross profit margin was improved to 23.4% from 20.6% of the corresponding period last year, attributable to above-mentioned measures and the increase of total sales to China market of higher gross margin. Accordingly, selling and distribution costs increased by 3.7% as compared to the corresponding period last year, for supporting the growth of retail sales to China market with increased operating costs and strengthened promotion especially for e-commerce sales channel. Due to the sustained streamlining and reshuffle of business units, and the stern discipline in costs control, administrative expenses decreased by 10.4% as compared to the corresponding period last year. Thanks to the tremendous decrease of bank borrowings, finance costs decreased by 79.2% as compared to the corresponding period last year.

The economy of China continued to slow down and entered into the new normal reform stage with increasing downward pressure. With the proactive quantitative easing measures, interest rate cut and reduction of reserve requirement ratio for banks, the deceleration in economic growth was being stabilized. Retail market in mainland China weakened and remained soft. Nevertheless, the Group continued its growth in retail sales in mainland China and its progress in replacing under-performed self-managed stores and franchised stores and enlarging the e-commerce sales channels. During the period under review, the Group's retail sales in China recorded a growth of 22.9% and accounted for 27.0% of the Group's turnover. At the end of the period, there were 136 self-managed stores and 116 franchised and associated stores in operation.

## **MANAGEMENT DISCUSSION AND ANALYSIS** *(continued)*

### **Prospects**

Looking ahead in the short term, the overall global economy and market conditions will remain difficult and uncertain. While the US economy continues to show signs of increasing probability for interest rate increment, the economic data are still mixed. Euro currency is expected to keep its depreciated and weak shape relative to the existing adverse economic and political conditions in the Euro zone. The fashion apparel manufacturing and export business environment in China will continue to face the challenge of the increasing competition from manufacturers in other Asian countries and the prevailed high level of wage and operating costs. To overcome such adversities and improve competitiveness, the Group will persist in structural reform and operational streamlining, and will strengthen the production efficiency and cost effectiveness of the new garment factories set up in Vietnam and Dongguan of China. The Group will refine strategies on sales and products, and will broaden our product group for existing and new quality customers to meet the market demand. The Group will also stay aware of any business opportunities in this new normal era.

In China, the slowing economy will continue to weaken the retail market condition and hinder the improvement of consumer sentiment in mainland China in the short term. The Group will continue its efforts on brand promotion of our retail brand in China, rationalization and replacement of under-performed self-managed stores and franchised stores, and enlargement of e-commerce sales network. As at the reporting date, the Group is operating 135 self-managed stores and 122 franchised and associated stores in mainland China.

### **Capital Expenditure**

During the period under review, the Group incurred HK\$13.5 million capital expenditure as compared to HK\$5.9 million of the corresponding period last year. Such capital expenditure mainly represented leasehold improvement for retail business, investment of production facilities in the factory in Dongguan of mainland China and regular replacement and upgrading of production facilities of the Group.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Liquidity and Financial Resources

The Group's financial position continued to be prudently monitored and precisely managed throughout the period under review. As at September 30, 2015, the Group's cash level was recorded at HK\$304.0 million (of which HK\$113.5 million was pledged bank deposits) as compared to HK\$348.1 million (of which HK\$116.0 million was pledged bank deposits) as at March 31, 2015. Most of the bank balance was placed in USD, HKD and RMB short-term bank deposits. Total bank borrowings of HK\$56.6 million, which were denominated in USD, HKD and RMB, consisted of short-term bank borrowings of HK\$40.2 million and long-term bank borrowings of HK\$16.4 million. The gearing ratio (total bank borrowings to total equity) was 9.4%. The Group is of the opinion that, after taking into consideration of the internal available financial resources and the current banking facilities, the Group has sufficient funds to finance its operation and to meet the financial obligations of its business when they fall due. During the period under review, working capital cycles remained under stringent control where inventory turnover and trade receivable turnover remained healthy.

As at September 30, 2015, certain land and buildings with an aggregate net book value of approximately HK\$22.3 million (March 31, 2015: HK\$23.4 million) were pledged to banks to secure general banking facilities granted to the Group.

### Treasury Policy

The Group continued to adopt prudent policies consistently to hedge exchange rate and interest rate risks associated with our core business. It is our Group's policy not to engage in speculative activities. The majority of our export sales are denominated in USD, while incomes from our retail business in China are denominated in RMB and a tiny portion destined for the European export markets is denominated in EUR. As a substantial portion of the purchases and overheads are denominated in RMB and the EUR exchange rate fluctuation may be significant, the Group entered into forward contracts to hedge the risks as deemed appropriate.

### Human Resources

As at September 30, 2015, the Group has approximately 4,600 employees globally, as compared to 4,700 as at March 31, 2015. The Group regards employees as the most valuable asset and the core element of our long-term success. In spite of the harsh operating environment, we keep on retaining and inspiring competent staffs who dedicate to develop their careers in line with our core corporate values and strategic goals by offering career development opportunities, job satisfaction via empowerment, harmonious teamwork and competitive remuneration package with reference to the market practice and performance.

## OTHER INFORMATION

### Interim Dividend

The Board of Directors does not recommend the payment of an interim dividend but has resolved to declare a special dividend of HK1.0 cent per share (six months ended September 30, 2014: Nil) payable on January 5, 2016 to shareholders whose names appear in the Register of Members on December 21, 2015.

### Closure of Register of Members

The Register of Members will be closed on Monday, December 21, 2015, 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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Friday, December 18, 2015.

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

At September 30, 2015, 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 (including interests and short positions which any such director or chief executive was taken or deemed to have under such provisions of the SFO) and have been recorded in the register maintained by the Company pursuant to section 352 of the SFO, or which have been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange were as follows:

#### *Long Positions in Shares and Underlying Shares of the Company*

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Benson Tung Wah Wing	Interest of controlled corporation ( <i>note a</i> )	150,059,268	35.55%
Alan Lam Yiu On	Beneficial owner	620,000	0.15%
Raymond Tung Wai Man	Beneficial owner	360,000	0.09%
Martin Tung Hau Man	Beneficial owner	1,604,000	0.38%
Billy Tung Chung Man	Beneficial owner	1,472,400	0.35%
Kevin Lee Kwok Bun	Beneficial owner	9,000,000	2.13%
Johnny Chang Tak Cheung	Beneficial owner/ Beneficiary of a trust ( <i>note b</i> )	2,829,752	0.67%
Tony Chang Chung Kay	Beneficial owner	3,844,760	0.91%

## **OTHER INFORMATION** *(continued)*

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

#### *Long Positions in Shares and Underlying Shares of the Company (continued)*

*Notes:*

- (a) Mr. Benson Tung Wah Wing and his spouse, Madam Wong Fung Lin, together own entire equity interests in equal shares in Corona Investments Limited ("Corona"). Corona owned 150,059,268 shares in the Company as at September 30, 2015, representing 35.55% of the issued share capital of the Company. By virtue of the SFO, Mr. Benson Tung Wah Wing is deemed to be interested in the shares held by Corona.
- (b) Mr. Johnny Chang Tak Cheung is the beneficiary owner who owned 777,752 shares in the Company as at September 30, 2015. He is also a beneficiary of a trust, Chaco International Limited, which owned 2,052,000 shares in the Company as at September 30, 2015.

Save as disclosed above, as at September 30, 2015, none of the directors, chief executives of the Company nor their associates had or was deemed to have any interest or short position 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 of the Listing Rules.

### **Share Options**

At the annual general meeting of the Company held on September 5, 2006, a share option scheme ("Share Option Scheme") of the Company was adopted by the shareholders of the Company.

Under the Share Option Scheme, there was no outstanding options at the beginning and at the end of the six months period ended September 30, 2015. During the period, no share option were granted, exercised, cancelled or lapsed.

### **Arrangements to Purchase Shares or Debentures**

Save as disclosed under the heading "Share Options" 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.



## OTHER INFORMATION *(continued)*

### Directors' Interests in Contracts

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

As at September 30, 2015, 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 the provision of 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 SFO:

#### *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	Beneficial owner <i>(note a)</i>	150,059,268	35.55%
Madam Wong Fung Lin	Interest of controlled corporation <i>(note b)</i>	150,059,268	35.55%

#### *Notes:*

- (a) These shares have been disclosed in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above.
- (b) The 150,059,268 shares are shares in issue held by Corona, the entire issued share capital of which is beneficially owned by Mr. Benson Tung Wah Wing and his spouse, Madam Wong Fung Lin, in equal shares. By virtue of the SFO, Madam Wong Fung Lin is deemed to be interested in the shares held by Corona.

Save as disclosed above, as at September 30, 2015, no person, other than the directors or chief executives of the Company, whose interests are set out in the section "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had registered an interest or short position in the shares, underlying shares and debentures of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## **OTHER INFORMATION** *(continued)*

### **Board of Directors**

#### ***Executive directors:***

Benson Tung Wah Wing (*Chairman*)  
Alan Lam Yiu On (*Managing Director*)  
Raymond Tung Wai Man  
Martin Tung Hau Man  
Billy Tung Chung Man

#### ***Non-executive directors:***

Tung Siu Wing  
Kevin Lee Kwok Bun

#### ***Independent non-executive directors:***

Johnny Chang Tak Cheung  
Tony Chang Chung Kay  
Robert Yau Ming Kim  
Edwin Siu Pui Lap  
Leslie Chang Shuk Chien

### **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 auditor, 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, 2015.

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

### **Corporate Governance**

Throughout the period ended September 30, 2015, the Company complied with all the code provisions set out in the Corporate Governance Code (the "Code") contained in Appendix 14 of the Listing Rules on the Stock Exchange.

**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 27, 2015

*Website: <http://www.tungtex.com>*