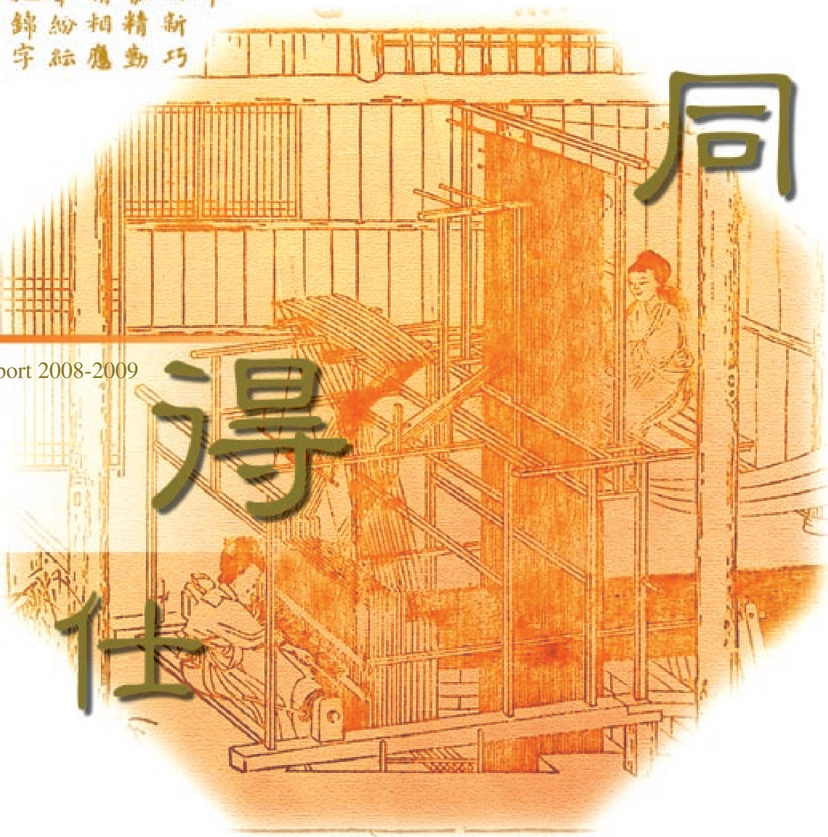
Interim Report 2008-2009

同得仕



二零零八／零九年度中期報告

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, 2008 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 11, 2008

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended September 30, 2008

	Notes	Six months ended September 30, 2008 HK$'000 (unaudited)	2007 HK$'000 (unaudited)
Revenue	3	**1,085,805**	1,087,831
Cost of sales		**(842,779)**	(834,849)
Gross profit		**243,026**	252,982
Other income		**2,277**	5,215
Increase in fair value of an investment property		**–**	3,591
Selling and distribution costs		**(56,823)**	(51,008)
Administrative expenses		**(138,565)**	(139,683)
Finance costs		**(1,337)**	(2,890)
Share of results of associates		**(1,232)**	(1,407)
Profit before tax	4	**47,346**	66,800
Income tax expense	5	**(11,089)**	(15,339)
Profit for the period		**36,257**	51,461
Attributable to:			
Equity holders of the Company		**30,173**	46,806
Minority interests		**6,084**	4,655
		36,257	51,461
Dividends	6		
Final dividend of HK10.0 cents per share (2007: HK12.5 cents per share)		**35,214**	44,017
		HK cents	HK cents
Earnings per share	7		
– Basic		**8.6**	13.3
– Diluted		**N/A**	13.2

CONDENSED CONSOLIDATED BALANCE SHEET

At September 30, 2008

	Notes	September 30, 2008 HK$'000 (unaudited)	March 31, 2008 HK$'000 (audited)
Non-current assets			
Investment properties	8	**68,491**	68,491
Property, plant and equipment	8	**127,565**	132,240
Prepaid lease payments		**24,431**	24,828
Intangible asset		**291**	325
Interests in associates		**1,992**	3,224
Deferred tax assets		**183**	68
		222,953	229,176
Current assets			
Inventories		**171,294**	190,698
Trade and other receivables	9	**350,416**	379,788
Prepaid lease payments		**687**	687
Amount due from an associate		**3,325**	4,644
Tax recoverable		**5,630**	1,445
Derivative financial instruments		**103**	3,167
Bank balances and cash		**269,426**	259,761
		800,881	840,190
Current liabilities			
Trade and other payables	10	**332,347**	373,750
Amount due to a minority shareholder of a subsidiary		**2,000**	4,000
Amount due to an associate		**523**	–
Tax liabilities		**37,768**	38,344
Obligations under finance leases – due within one year		**369**	437
Derivative financial instruments		**1,455**	–
Bank overdrafts		**199**	238
Bank borrowings	11	**40,440**	45,246
		415,101	462,015
Net current assets		**385,780**	378,175
Total assets less current liabilities		**608,733**	607,351
Non-current liabilities			
Obligations under finance leases – due after one year		**280**	88
Deferred tax liabilities		**12,581**	13,837
		12,861	13,925
		595,872	593,426
Capital and reserves			
Share capital		**70,428**	70,428
Reserves		**460,900**	460,620
Equity attributable to equity holders of the Company		**531,328**	531,048
Minority interests		**64,544**	62,378
		595,872	593,426

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended September 30, 2008

	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$'000	Asset revaluation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At April 1, 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 foreign operations	–	–	–	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
Equity-settled share based payments	–	–	–	–	156	–	–	156	–	156
Dividends recognised as distribution	–	–	–	–	–	–	(44,017)	(44,017)	–	(44,017)
Dividends paid to minority shareholders	–	–	–	–	–	–	–	–	(2,852)	(2,852)
At September 30, 2007 (unaudited)	70,428	84,880	3,848	(3,646)	263	–	355,007	510,780	60,725	571,505
Exchange differences arising on translation of foreign operations	–	–	–	1,596	–	–	–	1,596	54	1,650
Revaluation surplus arising on transfer of properties to investment properties	–	–	–	–	–	7,339	–	7,339	–	7,339
Deferred tax liability arising on revaluation of properties	–	–	–	–	–	(1,284)	–	(1,284)	–	(1,284)
Share of reserves of associates	–	–	–	281	–	–	–	281	85	366
Net income recognised directly in equity	–	–	–	1,877	–	6,055	–	7,932	139	8,071
Realised on disposal of an associate	–	–	–	(196)	–	–	–	(196)	–	(196)
Profit for the period	–	–	–	–	–	–	34,427	34,427	11,316	45,743
Total recognised income and expenses for the period	–	–	–	1,681	–	6,055	34,427	42,163	11,455	53,618
Equity-settled share based payments	–	–	–	–	114	–	–	114	–	114
Dividends recognised as distribution	–	–	–	–	–	–	(22,009)	(22,009)	–	(22,009)
Dividends paid to minority shareholders	–	–	–	–	–	–	–	–	(9,802)	(9,802)
At March 31, 2008 (audited)	70,428	84,880	3,848	(1,965)	377	6,055	367,425	531,048	62,378	593,426
Exchange differences arising on translation of foreign operations	–	–	–	5,133	–	–	–	5,133	(116)	5,017
Effect of change in tax rate	–	–	–	–	–	73	–	73	–	73
Net income recognised directly in equity	–	–	–	5,133	–	73	–	5,206	(116)	5,090
Profit for the period	–	–	–	–	–	–	30,173	30,173	6,084	36,257
Total recognised income and expenses for the period	–	–	–	5,133	–	73	30,173	35,379	5,968	41,347
Equity-settled share based payments	–	–	–	–	115	–	–	115	–	115
Dividends recognised as distribution	–	–	–	–	–	–	(35,214)	(35,214)	–	(35,214)
Dividends paid to minority shareholders	–	–	–	–	–	–	–	–	(3,802)	(3,802)
At September 30, 2008 (unaudited)	70,428	84,880	3,848	3,168	492	6,128	362,384	531,328	64,544	595,872

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended September 30, 2008

	Six months ended September 30, 2008 HK$'000 (unaudited)	2007 HK$'000 (unaudited)
Net cash from operating activities	**64,339**	125,398
Net cash used in investing activities:		
Purchase of property, plant and equipment	**(9,175)**	(9,259)
Decrease in pledge bank deposits	**–**	262
Other investing cash flows	**1,143**	7,455
	(8,032)	(1,542)
Net cash used in financing activities:		
Repayments of borrowings	**(19,586)**	(78,884)
New bank loans raised	**14,780**	30,444
Dividend paid	**(35,214)**	(44,017)
Dividend paid to minority shareholders	**(3,802)**	(2,852)
Other financing cash flows	**(3,547)**	(3,061)
	(47,369)	(98,370)
Net increase in cash and cash equivalents	**8,938**	25,486
Cash and cash equivalents at the beginning of the period	**259,523**	179,637
Effect of foreign exchange rate changes	**766**	(943)
Cash and cash equivalents at the end of the period	**269,227**	204,180
Analysis of cash and cash equivalents:		
Bank balances and cash	**269,426**	204,180
Bank overdrafts	**(199)**	–
	269,227	204,180

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended September 30, 2008

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, 2008.

In the current interim period, the Group has applied, for the first time, the following amendments and new interpretations ("new HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning April 1, 2008.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Int 12	Service Concession Arrangement
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the new HKFRSs had no material effect on how the results and financial position of the Group for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustments have been required.

2. Principal accounting policies *(continued)*

The Group has not early applied the following new, revised or amended standards and interpretations that have been issued but are not yet effective.

HKFRSs (Amendment)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible Hedged Items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[4]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[5]

1 Effective for annual periods beginning on or after January 1, 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after July 1, 2009

2 Effective for annual periods beginning on or after January 1, 2009

3 Effective for annual periods beginning on or after July 1, 2009

4 Effective for annual periods beginning on or after July 1, 2008

5 Effective for annual periods beginning on or after October 1, 2008

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after July 1, 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

The directors of the Company anticipate that the application of the other new, revised or amended standards and interpretations will have no material impact on the results and the financial position of the Group.

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 (the "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, 2008

	USA HK$'000	Canada HK$'000	Asia HK$'000	Europe and others HK$'000	Consolidated HK$'000
REVENUE					
Sales of goods – external	**933,610**	**19,051**	**81,105**	**52,039**	**1,085,805**
SEGMENT RESULT	**78,572**	**1,555**	**4,723**	**5,653**	**90,503**
Unallocated corporate income					**2,277**
Unallocated corporate expense					**(42,865)**
Finance costs					**(1,337)**
Share of results of associates					**(1,232)**
Profit before tax					**47,346**
Income tax expense					**(11,089)**
Profit for the period					**36,257**

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					(36,153)
Finance costs					(2,890)
Share of results of associates					(1,407)
Profit before tax					66,800
Income tax expense					(15,339)
Profit for the period					51,461

4. Profit before tax

	Six months ended September 30, 2008 HK$'000	2007 HK$'000
Profit before tax has been arrived at after charging:		
Amortisation of intangible asset	**34**	34
Amortisation of prepaid lease payments	**352**	365
Depreciation of property, plant and equipment	**13,980**	12,710
and after crediting:		
Bank interest income	**979**	2,941
Rental income from properties under operating leases	**1,258**	1,284
Gain on disposal of interest in an associate	**–**	657
Gain on disposal of property, plant and equipment	**40**	333

5. Income tax expense

	Six months ended September 30, 2008 HK$'000	2007 HK$'000
Current tax:		
Hong Kong	**9,514**	9,923
The People's Republic of China, other than Hong Kong (the "PRC")	**154**	–
Other jurisdictions	**2,718**	8,877
	12,386	18,800
Deferred tax credit	**(1,297)**	(3,461)
	11,089	15,339

5. Income tax expense *(continued)*

On June 26, 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which includes the reduction in corporate profit tax rate by 1% to 16.5% effective from the year of assessment 2008/09. The effect of such decrease has been reflected in measuring the current and deferred tax for six months ended September 30, 2008. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the period.

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

On March 16, 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "Tax Law") by Order No. 63 of the President of the PRC. On December 6, 2007, the State Council of the PRC issued Implementation Regulations of the Tax Law. The Tax Law and Implementation Regulations changed the tax rates of the Group's PRC subsidiaries progressively, from 15% and 33%, to 25% before January 1, 2013.

Two subsidiaries of the Company received protective/additional profits tax assessment from Inland Revenue Department (the "IRD") of approximately HK$5.8 million and HK$25.5 million, respectively, relating to the year of assessment 1998/99 to 2006/07, that is, for the financial years ended March 31, 1999 to 2007. 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$5.4 million and HK$24.5 million being purchased by the subsidiaries, respectively. Those tax reserve certificates were purchased by the relevant subsidiaries. In respect of the protective/additional profits tax assessment for the years of assessment 1998/99 to 2006/07, a provision of HK$31.3 million has been provided.

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 9, 2008, a dividend of HK10.0 cents per share (year ended March 31, 2007: HK12.5 cents per share) amounting to HK$35,214,000 (year ended March 31, 2007: HK$44,017,000) was paid to shareholders as final dividend for the year ended March 31, 2008.

The directors have determined that an interim dividend of HK4.25 cents per share (six months ended September 30, 2007: HK6.25 cents per share) will be paid to the shareholders of the Company whose names appear in the Register of Members on January 7, 2009.

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, 2008 HK$'000	2007 HK$'000
Profit for the period attributable to equity holders of the Company	**30,173**	46,806

	2008	2007
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	**352,137,298**	354,722,753

The computation of diluted earnings per share for the six months ended September 30, 2008 does not assume the exercise of the Group'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, 2008, 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$9,175,000 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, 2008 HK$'000	March 31, 2008 HK$'000
Up to 30 days	**202,838**	220,541
31 – 60 days	**40,778**	58,482
61 – 90 days	**1,964**	15,880
	245,580	294,903

10. Trade and other payables

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

	September 30, 2008 HK$'000	March 31, 2008 HK$'000
Up to 30 days	**145,104**	118,936
31 – 60 days	**26,068**	88,010
61 – 90 days	**25,087**	18,527
More than 90 days	**7,504**	25,393
	203,763	250,866

11. Bank borrowings

During the period, the Group raised new bank borrowings in the amount of HK$14,780,000, 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 HK$19,586,000 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	15,400,000
Granted during the period	–
Exercised during the period	–
Cancelled/lapsed during the period	(900,000)
Outstanding at the end of the period	14,500,000

13. Related parties transactions

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

	Six months ended September 30,	
	2008 HK$'000	2007 HK$'000
Purchase of raw materials and finished goods from the Group's associates	**20,178**	17,844
Sales of finished goods to the Group's associate	**265**	1,677
Compensation of key management personnel	**8,080**	8,524

MANAGEMENT DISCUSSION AND ANALYSIS

Summary of Operating Results

The setback in our performance for the first half 08/09 was a continuum of the second half last year, when the market was fraught with challenges of general costs elevation, RMB appreciation, and deterioration in export markets.

In the six-month period ended September 30, 2008, we sustained our turnover at HK$1,086 million which was marginally lower than HK$1,088 million last year. The drop in gross profit margin from 23.3% to 22.4% was relatively moderate thanks to stringent cost control and great effort in lifting productivity. Administrative expenses and selling expenses were stringently controlled at 12.8% and 5.2% respectively as a percentage of sales. Taking into account the impact of HK$3.6 million non-recurring increase in fair value of investment property recorded in the comparable period last year, profit attributable to equity holders of the Company recorded a drop of 35.5% to HK$30.2 million during the period under review. Earnings per share dropped by the same percentage and recorded at HK8.6 cents per share. The board of directors has resolved to declare an interim dividend of HK4.25 cents per share.

Business Review

Manufacture and export business

As forecasted in the prospects section of our last annual report, operating environment has become tougher in the period under review. More conservative buying budget has hampered the business momentum in different markets. Sales to North America grew by 1.1% to HK$952.7 million, but sales to Europe and other markets dropped remarkably by 27.2% to HK$52.0 million. Volume of exports to Asia remained relatively low and insignificant.

Under the backdrop of volatile and deteriorating economic condition, garment industry was undergoing a structural change where orders were consolidating toward manufacturers with strong financial strength, economy of scale and with broader role to play along the value chain. Tungtex was among the key players to benefit in the process, and hence business volume was less vulnerable to the unfavorable market condition. However, the pressure on cost side was extensive which hit all manufacturers. The surge in oil and commodity prices, persistent appreciation of RMB, and higher costs associated with new labour law in China were all affecting profitability. We minimized the negative impact by stringent cost control, streamlining production flow and operating procedures, and enhancing productivity. Strategically we rationalized the scale of production capacity in certain Asian countries.

Mainland China retail business

During the period under review, the Mainland China economy was cooling down gradually when the Chinese government was imposing measures to prevent overheating and to fight inflation. Coupled with the impact of Sichuan earthquake happened in May this year, consumption sentiment in China was negatively affected. Nevertheless, we still managed to achieve some growth in sales thanks to our network expansion and better product developments. To ensure resources are generating maximum return in a less buoyant operating environment, we vigorously rationalized our distribution network. Those under-performed shops were closed and substituted by locations with better profile and customer traffic. Meanwhile, cost control in every aspect was implemented to help improve our competitiveness.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Business Review *(continued)*

Mainland China retail business (continued)

Total sales during the period were steady and accounted for about 5% of the group's total turnover. At the end of the period, there were 100 directly managed "Betu" stores and 27 franchisee's stores opened across Mainland China.

USA wholesale label business

The negative developments of the U.S. economy had a more direct impact on the wholesale business of "Zelda" brand products. Accordingly we prudently managed this line of business by exercising stringent control over costs and extra caution in business development.

Prospects

The world economy is experiencing an unprecedented crisis triggered by the U.S. sub-prime mortgage issues and the related financial derivatives. The impact is extensive and the resultant economic downturn is emerging worldwide. The changed economic landscape is no doubt adding tremendous pressure to many different sectors, with no exception to ours. While the costly correction of the badly-aligned economic activities is still in progress across economies, there will be a general comeback to fundamentals, such as superb quality, reliable and timely delivery, customer-centric services, and uncompromising business ethics. These are all cornerstones and core values of Tungtex since its inception.

The economic downturn will inevitably hit the demand side, but at the same time the long-stretched cost side will see some alleviation. Recently, the exchange rate of RMB has become stable, crude oil price has come down remarkably from the historical peak, and most other commodity prices have normalized in response to the anticipation of slowing economic activities. Such correction will leave some room for quality manufacturers to sail through the difficulties.

We are fully committed in our Mainland China retail business, and are well aware of the impact slowing economy will have on the consumer spending and market competition. We will continue to invest prudently in brand building and distribution network, and put extra effort in improving our store efficiency and competitiveness. As at the report date, the Group is running 95 directly managed "Betu" stores and 30 franchisee's stores in Mainland China.

USA wholesale label business will continue to be prudently operated, and we will closely monitor the market changes and adjust our market strategy as needed.

The current economic crisis is severe, and it is a market consensus that the impact is going to last for a considerable length of time. Our performance in the next few months will likely reflect the impact and see further slowdown. However, with our strong foundation and conviction, we are confident in surviving the challenges in good shape. We shall stay strong financially, be stringent in risk management, and last but not the least, work seamlessly with our business partners in order to overcome the adversity collectively.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Capital Expenditure

During the period under review, the Group's capital expenditure was HK$9.5 million as compared to HK$9.4 million of the last corresponding period. The capital expenditure mainly represented regular replacement in production capacity.

Liquidity and Financial Resources

The Group's financial position remained solid and benign, with stronger cash and liquidity position. Working capital cycle was closely monitored where inventory turnover and trade receivables turnover were stable. As at September 30, 2008, the Group had a cash balance of HK$269 million compared to HK$260 million as at March 31, 2008. 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$41 million as compared to HK$45 million as at March 31, 2008. Total bank borrowings as a percentage of shareholders' funds was low at 7.6% at the period end date. Capital structure continued to be conservative.

As at September 30, 2008, certain land and buildings with an aggregate net book value of approximately HK$13 million and certain investment properties with an aggregate carrying value of approximately HK$29 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

We are highly disciplined in managing our treasury exposures, such as 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, the Group entered into forward contracts to hedge the risks as deemed appropriate.

Human Resources

As at September 30, 2008, the Group had approximately 7,900 employees globally, as compared to 8,900 as at March 31, 2008. The decrease mainly represents the strategic reduction in workers in South East Asian countries.

It is our belief that excellent human resources is one of the critical success factors of our business. We will continue to attract talented people in the industry to join us, and to invest in our employees of all levels by providing continuous learning and growth opportunities.

OTHER INFORMATION

Interim Dividend

The Board of Directors has declared with delight an interim dividend of HK4.25 cents per share (six months ended September 30, 2007: HK6.25 cents per share) payable on January 15, 2009 to shareholders whose names appear in the Register of Members on January 7, 2009.

Closure of Register of Members

The Register of Members will be closed from January 5, 2009 to January 7, 2009, 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, 2009.

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

At September 30, 2008, 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, as 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 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	35.93%
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 *(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%

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, 2008, 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, 2008. 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, 2008.

Save as disclosed above, as at September 30, 2008, 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 associate 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, as 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:

					Number of share options				
	Date of grant	Vesting period	Exercisable period	Exercisable price per share HK$	Outstanding at April 1, 2008	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	Outstanding at September 30, 2008
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	11,000,000	–	–	(900,000)	10,100,000
	June 8, 2007	3 years	June 8, 2010 – June 7, 2015	2.08	200,000	–	–	–	200,000
	December 19, 2007	3 years	December 19, 2010 – December 18, 2015	2.08	200,000	–	–	–	200,000
Total for employees					11,400,000	–	–	(900,000)	10,500,000
Total for all categories					15,400,000	–	–	(900,000)	14,500,000

OTHER INFORMATION *(continued)*

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, 2008, 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 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	35.51%
Veer Palthe Voûte NV *(note b)*	Investment manager	38,675,000	10.98%
Dresdner Bank Aktiengesellschaft *(note b)*	Interest of controlled corporation	38,675,000	10.98%
Allianz SE *(note b)*	Interest of controlled corporation	38,675,000	10.98%

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 SE.

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, 2008.

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 11, 2008

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