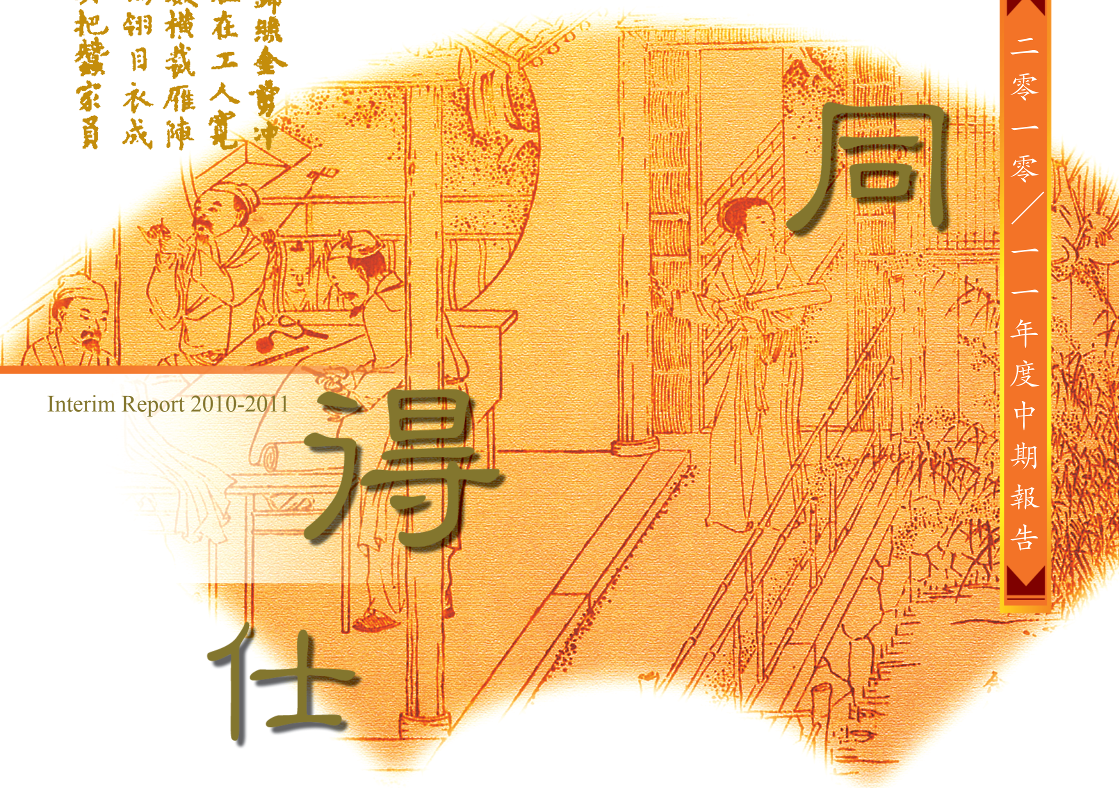
二零一零／一一年度中期報告

同得仕

Interim Report 2010-2011



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 16, which comprises the condensed consolidated statement of financial position of Tungtex (Holdings) Company Limited (the "Company") and its subsidiaries as of September 30, 2010 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 ("HKAS") 34 "Interim Financial Reporting" 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, 2010

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended September 30, 2010

	Notes	Six months ended September 30, 2010 HK$'000 (unaudited)	2009 HK$'000 (unaudited)
Revenue	3	**884,483**	754,203
Cost of sales		**(701,941)**	(588,475)
Gross profit		**182,542**	165,728
Other income		**978**	1,052
Increase in fair value of an investment property		**–**	250
Selling and distribution costs		**(50,707)**	(43,832)
Administrative expenses		**(114,630)**	(113,376)
Finance costs		**(665)**	(837)
Share of results of associates		**250**	(137)
Profit before tax	4	**17,768**	8,848
Income tax (expense) credit	5	**(2,952)**	532
Profit for the period		**14,816**	9,380
Attributable to:			
Owners of the Company		**15,249**	12,138
Non-controlling interests		**(433)**	(2,758)
		14,816	9,380
Earnings per share	7		
– Basic and diluted (HK cents)		**4.3**	3.5

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended September 30, 2010

	Six months ended September 30, 2010 HK$'000 (unaudited)	2009 HK$'000 (unaudited)
Profit for the period	**14,816**	9,380
Other comprehensive expense		
Exchange differences arising on translation of foreign operations	**(2,286)**	(3,483)
Total comprehensive income for the period	**12,530**	5,897
Total comprehensive income (expense) attributable to:		
Owners of the Company	**12,978**	8,820
Non-controlling interests	**(448)**	(2,923)
	12,530	5,897

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At September 30, 2010

	Notes	September 30, 2010 HK$'000 (unaudited)	March 31, 2010 HK$'000 (audited and restated)
Non-current assets			
Investment properties	8	**50,908**	50,908
Property, plant and equipment	8	**108,602**	111,225
Prepaid lease payments		**11,072**	11,264
Intangible assets		**145**	179
Interests in associates		**1,645**	1,395
Deferred tax assets		**2,008**	1,184
		174,380	176,155
Current assets			
Inventories		**159,838**	154,036
Trade and other receivables	9	**228,240**	245,858
Prepaid lease payments		**384**	384
Amount due from an associate		**3,070**	1,298
Tax recoverable		**3,921**	2,226
Bank balances and cash		**252,024**	278,057
		647,477	681,859
Current liabilities			
Trade and other payables	10	**222,398**	230,213
Amount due to a non-controlling shareholder of a subsidiary		**4,300**	4,300
Tax liabilities		**33,397**	30,823
Obligations under finance leases – due within one year		**163**	236
Bank borrowings	11	**12,739**	29,572
		272,997	295,144
Net current assets		**374,480**	386,715
Total assets less current liabilities		**548,860**	562,870
Non-current liabilities			
Obligations under finance leases – due after one year		**109**	160
Deferred tax liabilities		**9,161**	9,270
		9,270	9,430
		539,590	553,440
Capital and reserves			
Share capital		**70,346**	70,346
Reserves		**422,137**	435,539
Equity attributable to owners of the Company		**492,483**	505,885
Non-controlling interests		**47,107**	47,555
		539,590	553,440

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended September 30, 2010

	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, 2009 (audited)	70,346	84,880	3,930	3,725	588	6,128	359,002	528,599	57,909	586,508
Profit for the period	–	–	–	–	–	–	12,138	12,138	(2,758)	9,380
Exchange differences arising on translation of foreign operations	–	–	–	(3,318)	–	–	–	(3,318)	(165)	(3,483)
Total comprehensive income for the period	–	–	–	(3,318)	–	–	12,138	8,820	(2,923)	5,897
Equity-settled share based payments	–	–	–	–	100	–	–	100	–	100
Dividends recognised as distribution	–	–	–	–	–	–	(27,259)	(27,259)	–	(27,259)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	(1,600)	(1,600)
At September 30, 2009 (unaudited)	70,346	84,880	3,930	407	688	6,128	343,881	510,260	53,386	563,646
Profit for the period	–	–	–	–	–	–	9,821	9,821	(4,152)	5,669
Exchange differences arising on translation of foreign operations	–	–	–	(1,881)	–	–	–	(1,881)	20	(1,861)
Share of reserves of associates	–	–	–	2	–	–	–	2	1	3
Total comprehensive income for the period	–	–	–	(1,879)	–	–	9,821	7,942	(4,131)	3,811
Equity-settled share based payments	–	–	–	–	(6)	–	–	(6)	–	(6)
Dividends recognised as distribution	–	–	–	–	–	–	(12,311)	(12,311)	–	(12,311)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	(1,700)	(1,700)
At March 31, 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 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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended September 30, 2010

	Six months ended September 30,	
	2010	2009
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Net cash from operating activities	**24,165**	49,184
Net cash used in investing activities:		
Purchase of property, plant and equipment	**(6,880)**	(4,806)
Proceeds on disposal of assets classified as held for sale	**–**	1,906
Other investing cash flows	**283**	182
	(6,597)	(2,718)
Net cash used in financing activities:		
New bank loans raised	**–**	10,214
Repayments of bank borrowings	**(17,371)**	–
Dividend paid	**(26,380)**	(27,259)
Dividend paid to non-controlling interests	**–**	(1,600)
Other financing cash flows	**(790)**	(3,420)
	(44,541)	(22,065)
Net (decrease) increase in cash and cash equivalents	**(26,973)**	24,401
Cash and cash equivalents at the beginning of the period	**278,057**	269,404
Effect of foreign exchange rate changes	**940**	270
Cash and cash equivalents at the end of the period, represented by bank balances and cash	**252,024**	294,075

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended September 30, 2010

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 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, 2010 except as described below.

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.

HKFRS 3 (Revised 2008) Business Combinations and HKAS 27 (Revised 2008) Consolidated and Separate Financial Statements

The Group applies HKFRS 3 (Revised) *Business Combinations* prospectively to business combinations for which the acquisition date is on or after April 1, 2010. The requirements in HKAS 27 (Revised) *Consolidated and Separate Financial Statements* in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after April 1, 2010.

As there was no transaction during the current interim period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

Amendment to HKAS 17 Leases

As part of *Improvements to HKFRSs* issued in 2009, HKAS 17 *Leases* has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the condensed consolidated statement of financial position. The amendment to HKAS 17 has removed such a requirement. The amendment requires that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

2. Principal accounting policies *(continued)*

Amendment to HKAS 17 Leases *(continued)*

In accordance with the transitional provisions set out in the amendment to HKAS 17, the Group reassessed the classification of unexpired leasehold land as at April 1, 2010 based on information that existed at the inception of the leases. Certain leasehold land that qualifies for finance lease classification has been reclassified from prepaid lease payment to property, plant and equipment retrospectively. This resulted in a reclassification of prepaid lease payments with a previous carrying amount of HK$12,217,000 at April 1, 2009 to property, plant and equipment that are measured at cost model.

Summary of the effect of the above changes in accounting policies

The effect of changes in accounting policies described above on the results for the current and prior period by line items presented in the condensed consolidated income statement is as follows:

	Six months ended September 30,	
	2010	2009
	HK$'000	HK$'000
Increase in depreciation of property, plant and equipment	**144**	144
Decrease in amortisation of prepaid lease payment	**(144)**	(144)
Effect on profit for the period	**–**	–

Both depreciation of property, plant and equipment and amortisation of prepaid lease payment were included in the administrative expenses.

The effect of changes in accounting policies described above on the financial position of the Group as at March 31, 2010 is as follows:

	As at March 31, 2010 (originally stated)	Adjustments	As at March 31, 2010 (restated)
	HK$'000	HK$'000	HK$'000
Property, plant and equipment	99,297	11,928	111,225
Prepaid lease payments	23,576	(11,928)	11,648
Total effects on net assets	122,873	–	122,873
Total effects on equity	341,391	–	341,391

2. Principal accounting policies *(continued)*

Summary of the effect of the above changes in accounting policies *(continued)*

The effect of changes in accounting policies described above on the financial position of the Group as at April 1, 2009 is as follows:

	As at April 1, 2009 (originally stated) HK$'000	Adjustments HK$'000	As at April 1, 2009 (restated) HK$'000
Property, plant and equipment	115,136	12,217	127,353
Prepaid lease payments	24,249	(12,217)	12,032
Total effects on net assets	139,385	–	139,385
Total effects on equity	359,002	–	359,002

Except as described above, the application of the other 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 standards, amendments or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations 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 are as follows:

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

3. Segment information *(continued)*

Information regarding the above segments is reported below.

Six months ended September 30, 2010

	USA HK$'000	Canada HK$'000	Asia HK$'000	Europe and others HK$'000	Consolidated HK$'000
REVENUE					
Sales of goods – external	**716,457**	**14,915**	**87,689**	**65,422**	**884,483**
SEGMENT PROFITS	**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**

Six months ended September 30, 2009

	USA HK$'000	Canada HK$'000	Asia HK$'000	Europe and others HK$'000	Consolidated HK$'000
REVENUE					
Sales of goods – external	613,797	18,193	67,316	54,897	754,203
SEGMENT PROFITS	33,732	968	2,584	6,635	43,919
Unallocated income					1,302
Unallocated expenses					(35,399)
Finance costs					(837)
Share of results of associates					(137)
Profit before tax					8,848

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, increase in fair value of an investment property, 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. Profit before tax

	Six months ended September 30, 2010 HK$'000	2009 HK$'000 (restated)
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	**10,638**	**13,335**
Loss on disposal of property, plant and equipment	**457**	**42**
and after crediting:		
Bank interest income	**102**	**172**
Rental income from properties under operating leases	**876**	**880**

5. Income tax expense (credit)

	Six months ended September 30, 2010 HK$'000	2009 HK$'000
Current tax:		
Hong Kong	**4,635**	6,103
Other jurisdictions	**1,335**	618
	5,970	6,721
(Over)underprovision	**(2,084)**	1,480
	3,886	8,201
Deferred tax relating to the origination and reversal of temporary difference	**(934)**	(5,103)
Deferred tax relating to the reversal of temporary difference arising on reclassification of investment properties as assets held for sale	**–**	(3,630)
	2,952	(532)

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

5. Income tax expense (credit) *(continued)*

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

Under the Law of the People's Republic of China ("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 increased progressively from 15% to 25% before January 1, 2013. The tax rate of the other PRC subsidiaries was 25% for both years.

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 incorporated in Hong Kong, received protective/additional profits tax assessment from Inland Revenue Department (the "IRD") of approximately HK$6.4 million and HK$28.2 million, respectively, relating to the years of assessment 1998/99 to 2008/09, that is, for the financial years ended March 31, 1999 to 2009. 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 subsidiaries, respectively. Those tax reserve certificates were purchased by the relevant subsidiaries and included in other receivables, and the remaining amount of HK$1.8 million represents the overpayment of provisional tax to the IRD. As at September 30, 2010, in respect of the protective/additional profits tax assessment for the years of assessment 1998/99 to 2008/09, a provision of HK$34.6 million (as at March 31, 2010: HK$34.6 million) has been provided.

In the opinion of the directors and the advice from the Group's tax advisors, these 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 condensed consolidated financial statements in this regard.

6. Dividends

On August 31, 2010, a final dividend of HK2.5 cents per share and a special dividend of HK5.0 cents per share, both for the year ended March 31, 2010, amounting to a total of HK$26,380,000 was paid to shareholders (six months ended September 30, 2009: HK7.75 cents per share paid as final dividend for the year ended March 31, 2009, amounting to HK$27,259,000).

The directors have determined that an interim dividend of HK4.25 cents per share (six months ended September 30, 2009: HK3.5 cents per share) will be paid to the shareholders of the Company whose names appear in the Register of Members on December 23, 2010.

7. Earnings per share

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

	Six months ended September 30,	
	2010	2009
	HK$'000	HK$'000
Profit for the period attributable to owners of the Company	**15,249**	12,138

	2010	2009
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**351,731,298**	351,731,298

The computation of diluted earnings per share for the six months ended September 30, 2010 and 2009 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

As at September 30, 2009, the Group entered into an agreement to dispose of an investment property at a consideration of HK$22,250,000. The respective investment property was reclassified as assets held for sale at September 30, 2009 and increase in fair value of HK$250,000 was recognised directly in the condensed consolidated income statement. The disposal was completed subsequent to September 30, 2009.

Save as mentioned above, at September 30, 2010 and 2009, 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.

In addition, the Group spent HK$6,880,000 (six months ended September 30, 2009: HK$4,806,000) on acquisition of property, plant and equipment for the purposes of regular replacement during the period.

9. Trade and other receivables

The Group allows 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 presented based on the invoice date at the end of the reporting period:

	September 30, 2010 HK$'000	March 31, 2010 HK$'000
Up to 30 days	**100,342**	108,132
31 – 60 days	**29,639**	50,112
61 – 90 days	**15,872**	17,686
More than 90 days	**794**	449
	146,647	176,379

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, 2010 HK$'000	March 31, 2010 HK$'000
Up to 30 days	**85,214**	80,829
31 – 60 days	**31,461**	40,213
61 – 90 days	**9,095**	16,738
More than 90 days	**3,667**	4,938
	129,437	142,718

11. Bank borrowings

The Group repaid bank borrowings in the amount of HK$17,371,000 during the period (six months ended September 30, 2009: Nil).

During the six months ended September 30, 2009, the Group raised new bank borrowings in the amount of HK$10,214,000, which were used as general working capital. The borrowings bore variable interest at market rates and were 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, 2010 and September 30, 2010	13,100,000

13. Related parties transactions

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

	Six months ended September 30,	
	2010	2009
	HK$'000	HK$'000
Purchase of raw materials and finished goods from the Group's associate	**23,518**	22,467
Compensation of key management personnel	**7,416**	6,890

MANAGEMENT DISCUSSION AND ANALYSIS

Summary of Operating Results

In the first half of financial year 2010/11, the Group resumed growth in turnover and profitability since the outbreak of global financial tsunami, following the gradual stabilization of global economy, yet at a lackluster economic recovery rate and a substantially high unemployment rate in our major export market.

In the six months ended September 30, 2010, the Group achieved a turnover of HK$884 million, representing an increase of 17.3% compared to the same period last year. Despite the positive volume-leverage effect brought by increased sales and our strenuous control on costs and overheads, continuous increase in raw material costs and wages in China inevitably exerted pressure on gross profit margin, which decreased from 22.0% to 20.6%. Nevertheless, selling and administrative expenses were stringently controlled and reduced to 5.7% and 13.0% respectively as a percentage of sales. Compared to the same period last year, profit before taxation was double to HK$17.7 million. Profit attributable to owners of the Company increased 25.6% to HK$15.2 million, and earnings per share increased to HK4.3 cents per share accordingly. The board of directors has resolved to declare an interim dividend of HK4.25 cents per share.

Business Review

In the period under review, the drastic impacts of the worst export market conditions resulted from global financial tsunami subsided gradually. However, given the depth and severity of the recession in 2008 and the first half of 2009, the economy of the United States was still fragile and the recovery pace was losing strength and slower than expected. Compared to the same period last year, volume demand from market increased, yet price pressure prevailed. The Group continued to devote efforts to the enhancement of dimensions of product offerings and put in additional resources to strengthen our product design and development functions in order to offer our overseas buyers with more responsive and innovative product solutions. In the period under review, sales to North America, our principal export market, rose 15.7% to HK$731.4 million when compared to HK$632.0 million of the same period last year. Despite the significant depreciation of Euro in the first half of 2010, orders from Europe continued to increase due to our persistent effort in strategic market diversification. As a result, sales to Europe and other markets recorded a growth of 19.2% to HK$65.4 million. In the period under review, our “Zelda” brand business in the United States achieved satisfactory improvement in both sales and profitability, yet still running at a controlled and lean operational scale.

Anticipating the resumption of demand from export markets, the Group continued to re-expand strategically the labor forces and factory capacities during the period under review. While increasing the number of new labor, we placed high emphasis on recruitment management and training to cope with our strategic continuous improvement in factory productivity and operating efficiency.

The rollout of a series of economic stimulus measures by the PRC government continued to boost domestic consumption and spur economic growth in China. Through effective brand building initiatives, our “Betu” retail brand in Mainland China introduced new brand image which was well-received by customers and market consumers. At the meantime, we continued to revamp “Betu” brand’s product and store design and exerted stringent inventory and costs control to meet the challenge of price pressure caused by intense market competition. In the period under review, total retail sales in Mainland China grew 25% and accounted for 6.8% of the Group’s turnover. At the end September 2010, there were 109 directly managed stores and 83 franchised stores in operation.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Prospects

Notwithstanding the massive fiscal stimulus, the economic growth in the United States has still slowed down in the last two consecutive quarters. Despite the implementation of new round of quantitative easing in November 2010, economic outlook in the United States remains uncertain and the pace of such jobless recovery still lacks momentum. As a result, consumers are expected to keep a frugal mindset with a focus on value in the short term. Meanwhile, the negative impacts of the possible sovereign debt crisis in certain European countries will also retard the economic recovery in Europe. In view of such difficult market conditions, the Group will persist in strategic diversification of export markets and product offerings, as well as the continuous enhancement of core competence in product price, quality and delivery. We are cautiously optimistic towards the sustainable development of "Zelda" brand business in the United States and are paving an appropriate growing track for "Zelda" for the coming year.

Facing the challenge of continuous increase of labor costs, we will keep on increasing productivity, streamlining of operational and production processes and being lean in all aspects to eliminate value destroyers. To relieve the impact of rising raw materials costs and the gradual appreciation of Renminbi on operating margin, we are committed to enhance the procurement efficiency and persist in the provision of more value-added, responsive and innovative product solutions to customers. Nevertheless, an industry-wide apparel product price increase seems inevitable.

Although the export market conditions still remain tough in the short term, it is believed that global governments will do all they can to sustain the economic recovery. To cope with the long-term growth of business volume, the Group will continue to expand production capacities strategically in the coming years.

In China, it is anticipated that the PRC government will further bolster domestic consumption and urbanization strategically as a main drive of economic growth. The retail market in Mainland China will remain intensely competitive, yet fuelled with high growth potential for the Group. We will continue to optimize product design and quality, marketing strategy and brand position. We will further penetrate into the China retail market by opening more directly managed stores while expanding and refining our existing franchise network. As at the report date, the Group is running 111 directly managed "Betu" stores and 92 franchised stores in Mainland China.

Capital Expenditure

During the period under review, the Group incurred HK$6.9 million capital expenditure as compared to HK$5.2 million of the last corresponding period. It mainly represented regular replacement, upgrading of production facilities, expansion of production capacity and leasehold improvement.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Liquidity and Financial Resources

The Group's liquidity and financial position remained solid. We always upheld our discipline in keeping the key financial aspects healthy and consistent. Working capital cycle was closely monitored where inventory turnover and trade receivable turnover were staying at healthy level. Capital structure was sound with low financial leverage. As at September 30, 2010, the Group had a cash balance of HK$252 million compared to HK$278 million as at March 31, 2010. Most of the cash balance was placed in USD, HKD and RMB short-term deposits with major banks. Total bank borrowings, being short-term RMB loans, were HK$13 million as compared to HK$30 million as at March 31, 2010. Total bank borrowings as a percentage of equity attributable to owners of the Company was low at 2.6% at the end of the reporting period. The Group will continue to maintain strong and effective working capital management and cash generating business model.

As at September 30, 2010, certain land and buildings with an aggregate net book value of approximately HK$12 million and certain investment properties with an aggregate carrying value of approximately HK$34 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, the Group entered into forward contracts to hedge the risks as deemed appropriate.

Human Resources

As at September 30, 2010, the Group, excluding the associates, had approximately 6,000 employees globally, as compared to 5,700 as at March 31, 2010. Such increase mainly reflected the increase of production workers of the factories in China.

The Group always regards employees as our most valuable assets and the important element of our long-term success. Building a strong and coherent team has always been our management priority. The Group adopts competitive remuneration package to our employees, by reference to market practice, individual merits and performance evaluation. We attract and retain talented people by providing continuous learning, upgrading and growth opportunities. Through offering job satisfaction and empowerment, we aim to instill in all our employees a sense of ownership of the corporate goals.

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, 2009: HK3.5 cents per share) payable on January 5, 2011 to shareholders whose names appear in the Register of Members on December 23, 2010.

Closure of Register of Members

The Register of Members will be closed from December 22, 2010 to December 23, 2010, 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 December 21, 2010.

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

At September 30, 2010, 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") 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	35.97%
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	100,000	1,000,000	1,100,000	0.31%
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%

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 and his spouse, Madam Wong Fung Lin, together own 100% equity interests in equal share in Corona. Corona owned 125,049,390 ordinary shares in the Company as at September 30, 2010, 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, 2010. 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, 2010.

Save as disclosed above, as at September 30, 2010, 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, 2010	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding at September 30, 2010
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					6,000,0000	–	–	–	6,000,000
Category 2: Employees	November 9, 2006	3 years	November 9, 2009 – November 8, 2014	1.80	7,100,000	–	–	–	7,100,000
Total for employees					7,100,000	–	–	–	7,100,000
Total for all categories					13,100,000	–	–	–	13,100,000

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, 2010, shareholders who had interests and short positions in the shares and underlying shares of the Company, other than those mentioned in directors' interest and chief executives' interests, 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, 2010, the Company has not been notified of any interests and short positions in the shares and underlying shares of the Company, other than those mentioned in directors' and chief executives' interests, 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

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, which comprises three independent non-executive directors of the Company, 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 period ended September 30, 2010.

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, 2010

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