同得仕

Interim Report 2005-2006

二零零五／零六年度中期報告

TUNGTEX (HOLDINGS) COMPANY LIMITED

同得仕（集團）有限公司

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INDEPENDENT REVIEW REPORT

TO THE BOARD OF DIRECTORS OF TUNGTEX (HOLDINGS) COMPANY LIMITED
(Incorporated in Hong Kong with limited liability)

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 3 to 18.

Directors' responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report, 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.

Review work performed

We conducted our review in accordance with the Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended September 30, 2005.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, December 16, 2005

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended September 30, 2005

	Notes	Six months ended September 30, 2005 HK$'000 (unaudited)	2004 HK$'000 (unaudited and restated)
Turnover	4	**934,320**	924,803
Cost of sales		**(716,017)**	(714,586)
Gross profit		**218,303**	210,217
Other operating income		**2,972**	2,353
Selling and distribution expenses		**(50,683)**	(48,439)
Administrative expenses		**(127,083)**	(121,492)
Profit from operations		**43,509**	42,639
Finance costs		**(1,267)**	(443)
Share of results of associates		**173**	631
Profit before taxation	5	**42,415**	42,827
Income tax expense	6	**(8,776)**	(7,485)
Net profit for the period		**33,639**	35,342
Attributable to:			
Equity holders of the Company		**28,378**	32,521
Minority interests		**5,261**	2,821
		33,639	35,342
Dividends	7		
Proposed interim dividend of HK5.5 cents per share (2004: HK6.0 cents per share)		**19,368**	21,128
Earnings per share – Basic	8	**8.1 cents**	9.2 cents

CONDENSED CONSOLIDATED BALANCE SHEET

At September 30, 2005

	Notes	September 30, 2005 HK$'000 (unaudited)	March 31, 2005 HK$'000 (audited and restated)
Non-current assets			
Investment properties	9	**35,664**	35,664
Property, plant and equipment	9	**165,125**	164,276
Prepaid lease payments – non-current portion		**6,078**	6,151
Intangible assets		**508**	545
Interests in associates		**6,331**	6,159
Investments in securities		**–**	2,278
Available for sale investments		**2,278**	–
Deferred tax assets		**1,027**	1,093
		217,011	216,166
Current assets			
Inventories		**186,140**	167,094
Trade and other receivables	10	**278,818**	266,396
Prepaid lease payments – current portion		**145**	145
Amount due from an associate		**735**	735
Tax recoverable		**2,167**	1,601
Pledged bank deposits		**222**	232
Bank balances and cash		**160,193**	205,452
		628,420	641,655
Current liabilities			
Trade and other payables	11	**280,655**	282,559
Amount due to an associate		**7,234**	11,699
Tax payable		**7,558**	2,953
Obligations under finance leases – due within one year		**180**	186
Bank borrowings	12	**24,589**	12,899
		320,216	310,296
Net current assets		**308,204**	331,359
		525,215	547,525
Capital and reserves			
Share capital		**70,428**	70,428
Reserves		**383,656**	403,278
Equity attributable to equity holders of the Company		**454,084**	473,706
Minority interests		**62,037**	64,834
Total equity		**516,121**	538,540
Non-current liabilities			
Obligations under finance leases – due after one year		**188**	172
Deferred tax liabilities		**8,906**	8,813
		9,094	8,985
		525,215	547,525

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended September 30, 2005

	Attributable to equity holders of the Company										
	Share capital HK$'000	Share premium HK$'000	Investment property revaluation reserve HK$'000	Capital redemption reserve HK$'000	Goodwill HK$'000	Negative goodwill HK$'000	Exchange reserve HK$'000	Accumulated profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At April 1, 2004											
– as originally stated	70,428	84,880	1,951	3,848	(12,378)	19,636	(8,377)	420,077	580,065	64,081	644,146
– effect of changes in accounting policies (note 3)	–	–	(341)	–	–	–	–	(3,118)	(3,459)	–	(3,459)
– as restated	70,428	84,880	1,610	3,848	(12,378)	19,636	(8,377)	416,959	576,606	64,081	640,687
Exchange differences arising on consolidation recognised directly in equity	–	–	–	–	–	–	797	–	797	–	797
Net profit for the period (restated)	–	–	–	–	–	–	–	32,521	32,521	2,821	35,342
Total recognised income and expense for the period	–	–	–	–	–	–	797	32,521	33,318	2,821	36,139
Dividends paid	–	–	–	–	–	–	–	(47,539)	(47,539)	–	(47,539)
Dividend paid to minority shareholders	–	–	–	–	–	–	–	–	–	(7,138)	(7,138)
At September 30, 2004 (unaudited)	70,428	84,880	1,610	3,848	(12,378)	19,636	(7,580)	401,941	562,385	59,764	622,149
Exchange differences arising on consolidation recognised directly in equity	–	–	–	–	–	–	(966)	–	(966)	10	(956)
Revaluation increase for the period	–	–	13,366	–	–	–	–	–	13,366	–	13,366
Deferred tax liability arising on revaluation of investment properties	–	–	(2,339)	–	–	–	–	–	(2,339)	–	(2,339)
Net income (expense) recognised directly in equity	–	–	11,027	–	–	–	(966)	–	10,061	10	10,071
Net profit for the period (restated)	–	–	–	–	–	–	–	38,593	38,593	6,198	44,791
Total recognised income and expense for the period	–	–	11,027	–	–	–	(966)	38,593	48,654	6,208	54,862
Dividends paid	–	–	–	–	–	–	–	(137,333)	(137,333)	–	(137,333)
Dividend paid to minority shareholders	–	–	–	–	–	–	–	–	–	(1,138)	(1,138)
At March 31, 2005											
– as audited and restated	70,428	84,880	12,637	3,848	(12,378)	19,636	(8,546)	303,201	473,706	64,834	538,540
– effect of changes in accounting policies (note 3)	–	–	(12,637)	–	12,378	(19,636)	–	19,895	–	–	–
– as restated	70,428	84,880	–	3,848	–	–	(8,546)	323,096	473,706	64,834	538,540
Exchange differences arising on consolidation recognised directly in equity	–	–	–	–	–	–	1,299	–	1,299	–	1,299
Net profit for the period	–	–	–	–	–	–	–	28,378	28,378	5,261	33,639
Total recognised income and expense for the period	–	–	–	–	–	–	1,299	28,378	29,677	5,261	34,938
Dividends paid	–	–	–	–	–	–	–	(49,299)	(49,299)	–	(49,299)
Dividend paid to minority shareholders	–	–	–	–	–	–	–	–	–	(8,058)	(8,058)
At September 30, 2005 (unaudited)	70,428	84,880	–	3,848	–	–	(7,247)	302,175	454,084	62,037	516,121

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended September 30, 2005

	Six months ended September 30, 2005 HK$'000 (unaudited)	2004 HK$'000 (unaudited)
Net cash from operating activities	**16,085**	68,027
Net cash used in investing activities	**(15,540)**	(3,765)
Net cash used in financing activities	**(45,252)**	(55,758)
Net (decrease) increase in cash and cash equivalents	**(44,707)**	8,504
Cash and cash equivalents at the beginning of the period	**200,018**	322,472
Effect of foreign exchange rate changes	**(25)**	6
Cash and cash equivalents at the end of the period	**155,286**	330,982
Analysis of the balances of cash and cash equivalents		
– Bank balances and cash	**160,193**	336,358
– Bank overdrafts	**(4,907)**	(5,376)
	155,286	330,982

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended September 30, 2005

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 and with the 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 investment 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, 2005 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations ("Int") (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after January 1, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates has been changed. The changes in presentation have been applied retrospectively.

The adoption of the new HKFRSs has also resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented:

(i) Business combinations

HKFRS 3 "Business Combination" is effective for business combinations for which the agreement date is on or after January 1, 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous periods, goodwill arising on acquisitions prior to April 1, 2001 was held in reserves, and goodwill arising on acquisitions after April 1, 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3 such that goodwill previously recognised in reserves of approximately HK$12,378,000 has been transferred to the Group's accumulated profits on April 1, 2005.

2. Principal accounting policies *(continued)*

(i) Business combinations *(continued)*

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions prior to April 1, 2001 was held in reserves, and negative goodwill arising on acquisitions after April 1, 2001 was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognised all negative goodwill of approximately HK$19,636,000 previously recorded in reserves, with a corresponding increase in accumulated profits at April 1, 2005.

(ii) Owner-occupied leasehold interest in land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current period, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term. This change in accounting policy has been applied retrospectively (see note 3 for the financial impact). Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

(iii) Investment properties

In the current period, the Group has, for the first time, applied HKAS 40 "Investment Property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise. In previous periods, investment properties under the predecessor standard were measured at open market values, with revaluation surplus or deficit credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has also applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from April 1, 2005 onwards. The amount held in investment property revaluation reserve of approximately HK$12,637,000 has been transferred to the Group's accumulated profits at April 1, 2005.

2. **Principal accounting policies** *(continued)*

(iv) Deferred taxes related to investment properties

In previous periods, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor Interpretation. In the current period, the Group has applied HK (SIC) – Int 21 "Income Taxes – Recovery of Revalued Non-Depreciable Assets" which removes the presumption that the carrying amount of investment properties are to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HK (SIC) – Int 21, this change in accounting policy has been applied retrospectively. Comparative figures have been restated (see note 3 for the financial impact).

(v) Financial instruments

In the current period, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application and the adoption of the standard has had no material effect on the presentation of financial instruments in the financial statements of the Group. HKAS 39, which is effective for annual periods beginning on or after January 1, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

On or before March 31, 2005, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 "Accounting for Investments in Securities" issued by the HKICPA ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities" or "other investments", as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. From April 1, 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity, respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

2. Principal accounting policies *(continued)*

(v) Financial instruments *(continued)*

Classification and measurement of financial assets (continued)

From April 1, 2005 onwards, the Group has reclassified its investment securities with carrying amount of HK$2,278,000 to available for sale investments of which HK$1,978,000 investment securities were classified as "other investments" and HK$300,000 investment securities were classified as "investment securities" under SSAP 24. The adoption of HKAS 39 has had no material effect on the Group's financial position as at April 1, 2005 and the result for the current period.

Classification and measurement of financial liabilities

Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method. The adoption of HKAS 39 has had no material effect on the Group's accumulated profits.

Derecognition

HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous periods. Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively for transfers of financial assets on or after April 1, 2005. As a result, the Group's bills receivables discounted with full recourse which were derecognised prior to April 1, 2005 have not been restated. As at September 30, 2005, the Group's bills receivables discounted with full recourse with carrying amount of HK$5,260,000 have not been derecognised. Instead, the related borrowings of HK$5,260,000 have been recognised on the balance sheet date. This change has had no material effect on the results for the current period.

2. Principal accounting policies *(continued)*

The Group has not early applied the following new standards or interpretations that have been issued but are not yet effective. The directors of the Company has commenced considering the potential impact of these standards or interpretations but is not yet in a position to determine whether these new standards and interpretations would have a significant impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosures
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendments)	Financial Guarantee Contracts
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK (IFRIC) - Int 4	Determining whether an Arrangement contains a Lease
HK (IFRIC) - Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK (IFRIC) - Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

3. **Summary of the effects of the changes in accounting policies**

The effects of the changes in the accounting policies described in note 2 has had no material effect on the results for the six months ended September 30, 2004 and 2005.

As a result of implementation of HK (SIC) – Int 21, the Group's investment property revaluation reserve and accumulated profits at April 1, 2004 have been decreased by approximately HK$341,000 and HK$3,118,000 respectively with a corresponding increase in the Group's deferred tax liabilities.

The cumulative effects on the balance sheet of the changes in the accounting policies described in note 2 are as follows:

		Adjustments			Adjustments			
	At March 31, 2005 (as originally stated)	HK (SIC) – Int 21	HKAS 17	At March 31, 2005 (as restated)	HKFRS 3	HKAS 39	HKAS 40	At April 1, 2005 (as restated)
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Property, plant and equipment	170,572	–	(6,296)	164,276	–	–	–	164,276
Prepaid lease payments – non-current portion	–	–	6,151	6,151	–	–	–	6,151
Prepaid lease payments – current portion	–	–	145	145	–	–	–	145
Investment in securities	2,278	–	–	2,278	–	(2,278)	–	–
Available for sale investments	–	–	–	–	–	2,278	–	2,278
Deferred tax liabilities	(3,431)	(5,382)	–	(8,813)	–	–	–	(8,813)
Total effects on assets and liabilities	169,419	(5,382)	–	164,037	–	–	–	164,037
Investment property revaluation reserve	15,317	(2,680)	–	12,637	–	–	(12,637)	–
Goodwill	(12,378)	–	–	(12,378)	12,378	–	–	–
Negative goodwill	19,636	–	–	19,636	(19,636)	–	–	–
Accumulated profits	305,903	(2,702)	–	303,201	7,258	–	12,637	323,096
Total effects on equity	328,478	(5,382)	–	323,096	–	–	–	323,096

4. Segment information

The Group's manufacture and sale of garments business accounted for more than 90% of the Group's turnover and operating profit for the period. Accordingly, no business segment analysis of financial information is provided. The Group's manufacture and sale of garments business is principally located in the United States of America ("USA"), Canada, Asia and Europe and others. The Group reports its primary segment information on geographical location of its customers and the segment information about these geographical markets is presented below:

Six months ended September 30, 2005

	USA HK$'000	Canada HK$'000	Asia HK$'000	Europe and others HK$'000	Consolidated HK$'000
TURNOVER					
Sales of goods – external	**816,070**	**12,884**	**59,882**	**45,484**	**934,320**
SEGMENT RESULT	**37,194**	**395**	**(1,365)**	**4,313**	**40,537**
Other operating income					**2,972**
Profit from operations					**43,509**
Finance costs					**(1,267)**
Share of results of associates	**69**	**11**	**87**	**6**	**173**
Profit before taxation					**42,415**
Income tax expense					**(8,776)**
Net profit for the period					**33,639**

4. Segment information *(continued)*

Six months ended September 30, 2004

	USA HK$'000	Canada HK$'000	Asia HK$'000	Europe and others HK$'000	Consolidated HK$'000 (restated)
TURNOVER					
Sales of goods - external	818,560	9,650	61,732	34,861	924,803
SEGMENT RESULT	36,190	384	871	2,841	40,286
Other operating income					2,353
Profit from operations					42,639
Finance costs					(443)
Share of results of associates	572	5	36	18	631
Profit before taxation					42,827
Income tax expense					(7,485)
Net profit for the period					35,342

5. Profit before taxation

	Six months ended September 30, 2005 HK$'000	2004 HK$'000
Profit before taxation has been arrived at after charging:		
Amortisation of intangible assets	**37**	88
Amortisation of prepaid lease payments	**73**	46
Depreciation and amortisation of property, plant and equipment	**13,896**	13,125
and after crediting:		
Bank interest income	**1,250**	667
Rental income from properties under operating leases	**1,722**	1,686

6. Income tax expense

	Six months ended September 30, 2005 HK$'000	2004 HK$'000 (restated)
Current tax:		
Hong Kong	**8,506**	7,044
The People's Republic of China, other than Hong Kong (the "PRC")	**11**	709
Other jurisdictions	**22**	253
	8,539	8,006
Underprovision in prior years	**78**	–
	8,617	8,006
Deferred tax charge (credit)	**159**	(521)
	8,776	7,485

6. Income tax expense *(continued)*

Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) on the estimated assessable profit for the period.

Taxation arising in jurisdictions outside Hong Kong is calculated at the rates prevailing in the relevant jurisdictions.

Pursuant to the relevant laws and regulations in the PRC, certain of the Group's PRC subsidiaries are exempted from PRC enterprise income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years ("Tax Holidays"). Two (2004: two) of the subsidiaries of the Company is subject to enterprise income tax in the PRC at a reduction rate of 50% during the year ended March 31, 2005.

During the year ended March 31, 2005 and subsequent to the balance sheet date, a subsidiary of the Company received protective profits tax assessments from Inland Revenue Department (the "IRD") of approximately HK$2.6 million and HK$16.8 million, respectively, relating to the year of assessment 1998/99 to 2003/04, that is, for the financial years ended March 31, 1999 to 2004. The protective profits tax assessments relate mainly to the subsidiary's income derived from its manufacturing operations in the PRC. The subsidiary lodged objections with the IRD and the IRD agreed to holdover the tax claimed subject to tax reserve certificate in the amount of HK$19.4 million being purchased by the subsidiary. The subsidiary had purchased the tax reserve certificate in the amount of HK$8.7 million up to the date of report.

In the opinion of the directors, the subsidiary's income derived from its manufacturing activities in the PRC is not arising in or derived from Hong Kong and accordingly not subject to Hong Kong Profits Tax. No tax provision in respect of the protective assessments is considered necessary.

7. Dividends

On September 13, 2005, a dividend of HK14.0 cents per share (2004: HK13.5 cents per share) was paid to shareholders as final dividend for the year ended March 31, 2005.

The directors have determined that an interim dividend of HK5.5 cents per share (2004: HK6.0 cents per share) will be paid to the shareholders of the Company whose names appear in the Register of Members on January 11, 2006.

8. Earnings per share

The calculation of the basic earnings per share attributable to equity holders of the Company is based on the net profit for the period attributable to equity holders of the Company of approximately HK$28,378,000 (2004: approximately HK$32,521,000 (restated)) and on the number of 352,137,298 shares (2004: 352,137,298 shares) in issue during the period.

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

At September 30, 2005, 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.

During the period, the Group spent approximately HK$15,800,000 (six months ended September 30, 2004: approximately HK$7,500,000) on acquisition of property, plant and equipment for the purpose of expanding the Group's business.

10. Trade and other receivables

The Group allows an average credit period of 30 days to its trade customers. Included in trade and other receivables are trade receivables with the following aged analysis:

	September 30, 2005 HK$'000	March 31, 2005 HK$'000
Up to 30 days	**165,068**	180,806
31 – 60 days	**46,271**	32,345
61 – 90 days	**9,241**	7,470
	220,580	220,621

11. Trade and other payables

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

	September 30, 2005 HK$'000	March 31, 2005 HK$'000
Up to 30 days	**130,979**	80,649
31 – 60 days	**16,860**	58,167
61 – 90 days	**33,770**	22,675
More than 90 days	**9,869**	7,604
	191,478	169,095

12. Bank borrowings

During the period, the Group raised new trust receipt loans in the amount of approximately HK$20,182,000 which were used as general working capital. The loans bear interest at market rates and are repayable within one year.

In addition, the Group repaid trust receipt loans amounting to approximately HK$9,506,000 during the period.

13. Capital commitments

At September 30, 2005, the Group had capital expenditure amounting to approximately HK$125,000 (March 31, 2005: HK$1,155,000) in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements.

14. Contingent liabilities

At March 31, 2005, the Group has discounted bills with full recourses in the amount of approximately HK$67,315,000.

15. Related parties transactions

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

	Six months ended September 30,	
	2005	2004
	HK$'000	HK$'000
Purchase of raw materials and finished goods from the Group's associates *(Note)*	**10,762**	7,858

Note: The above transactions were carried out at cost plus a percentage of profit mark up.

MANAGEMENT DISCUSSION AND ANALYSIS

Summary of operating results

The first half of financial year 2005/06 continued to be a period of challenge for the textile and garment industry. After the elimination of export quota system since January 2005, the markets had been filled with uncertainties about what kind of safeguard measure was likely to come out. The speculative sentiment held back buying decisions of overseas buyers and added price pressure to the markets. These negative factors caused a slow start for the period under review.

Nevertheless, our deep-rooted foundation in the industry and effort to enhance our competitiveness helped reduce the impact on us. We managed to pick up the momentum in the recent months and grew the turnover by 1% to HK$934 million for the six months ended September 30, 2005. Our effort in enhancing product development and lifting production efficiency had contributed to a slight rebound of gross profit margin from 22.7% to 23.4%. More proactive marketing and management activities gave rise to a controlled increase in selling and distribution expenses and administrative expenses, which were recorded at HK$51 million and HK$127 million respectively. As a result, profit attributable to equity holders of the Company dropped by 13% to HK$28.4 million, representing a net profit margin of 3.0% as compared to 3.5% of the same period last year. Accordingly, earnings per share was recorded at HK8.1 cents per share, 13% less than the same period of last year. The board of directors has resolved to declare an interim dividend of HK5.5 cents per share.

Business review

Manufacture and export business

This line of business continued to be our core activity and income driver during the period under review. While the U.S. and European markets were clouded with uncertainties in relation to the safeguard issues, our well diversified production facilities in China and Asian countries provided flexibility in taking orders and hence reduced the impact on us. Meanwhile, our long established partnering relationship with core buyers also helped attract stable orders.

As a result, we managed to sustain our export to North America at HK$829 million, which was similar to the same period of last year. Moreover, our continuous effort in developing the European and other markets was also proven effective as reflected in the 31% growth in sales to HK$45 million. Export sales to the Asian markets remained insignificant.

To enhance our competitiveness as a professional fashion manufacturer, we continuously put in effort to upgrade our facilities. We stepped up the production capacity of the new factory acquired in Hangzhou last year, and expanded the production lines in Asian countries. The enhanced geographical network of production facilities kept us flexible and reliable in meeting our delivery commitments. Meanwhile, in order to offer our overseas buyers with more responsive and innovative solutions, we had put in additional resources to strengthen our merchandising and production functions.

The above measures were important for further solidifying the partnering relationship with our buyers, but at the same time they inevitably caused higher operating costs in the short term. Coupled with the higher energy expenses and increasing labor and production costs, profit margins were persistently under pressure.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Business review *(continued)*

USA wholesale label business

Owing to keen competition and lacking product development breakthrough, both the U.S. wholesale labels "Zelda" and "FAL" performed unsatisfactorily during the period. Operating loss of both labels further enlarged. To get hold of the deteriorating trend, we reshuffled certain key management positions and strengthened the design function during the period.

Mainland China retail business

The growing consumer spending in Mainland China not only enlarged the market potential but also attracted stiff competition on the retailer side. Price-driven promotions had become a market practice and the product life cycle was getting shorter. In response, we continued to rationalize the unprofitable shops and strategically realigned the key outlets. At the same time, we were revamping the process management in order to quicken the product float and maximize retail margins. Total sales during the period were behind plan and accounted for about 5% of the group's total turnover. At the end of the period, we were operating 80 "Betu" label stores, 11 "Zariah" label stores and 10 "T+T" label stores.

Prospects

Manufacturing and export business

While hiking interest rates and high oil price might continue, the operating environment of garment and textile industry in 2006 will see improvement following the recent agreements reached between China and the United States, particularly on the ending of further consideration of safeguard action on some 20 categories of textile and garment imports from China. While similar trade negotiation might happen from time to time in future, the market rules are likely to become clearer and embrace more room for the export growth of China made apparel. Such positive development is vital for the confidence and forward planning of both the buyers and suppliers in the industry.

Nonetheless, we will continue to strengthen our geographically diversified production facilities in order to stay flexible in coping with buyers' global sourcing requirements. At present, we maintain about 75% of our overall production capacity in Mainland China, which can be further increased with our new factory in Hangzhou. Our other factories dotted across Thailand, the Philippines, Malaysia, Vietnam and Hong Kong are all established operations which provide high level of flexibility for scheduling production outside Mainland China. This balanced mix of production capacity allows us to accommodate any unforeseeable market and export policy changes in future.

The latest order position is similar to the same period of last year. With our solid client base and established production facilities across the region, we are confident in our manufacture and export business and are well positioned for long term future growth.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Prospects *(continued)*

USA wholesale label business

Despite the fact that a major reshuffle of the management of "FAL" was done during the period, the latest performance of the brand remained unsatisfactory. After a thorough management consideration, a decision was made lately to drop the brand. With such move, we expect the loss of the overall USA wholesale label business to reduce remarkably in the next fiscal year ending March 2007. Management resources will be focused on another brand "Zelda" which is assessed to be a commercially viable brand with established brand awareness.

Mainland China retail business

The Mainland China economy is expected to upkeep the strong growth as reflected in the continuous increase in foreign direct investments and the persistent growth in GDP. The consumer market for apparel is therefore likely to stay promising. However, competition is growing even faster and therefore it is a challenge to secure and improve the market share.

With an aim to allow our retail management team to be more focused amid the highly competitive operating environment, we are undergoing a realignment of the label mix, including repositioning and integration initiatives. Such strategic move is expected to bring higher synergy of our retail business resources and clearer marketing objectives. As at the report date, the Group is operating 81 "Betu" stores, 12 "Zariah" stores and 5 "T+T" stores.

Furthermore, we will continue to strengthen our design and brand management functions in a bid to better position our products.

Capital expenditure

During the period under review, the Group's capital expenditure amounted to HK$16 million as compared to HK$8 million of the last corresponding period. The increase was mainly attributable to the expansion of the production facilities in both China and the Asian countries.

Liquidity and financial resources

The Group's financial position remained solid. As in the past, we always upheld our discipline in keeping the key financial aspects healthy and consistent. Working capital cycle was closely monitored to ensure the business was cash generating. Capital structure was sound with low financial leverage. As at September 30, 2005, the Group had a cash balance of HK$160 million compared to HK$206 million as at March 31, 2005. Most of the cash balance was placed in USD and HKD short term deposits with major banks in Hong Kong. Total bank borrowings, denominated in both USD and HKD, were HK$25 million within which HK$5 million was discounted export bills. Total bank borrowings as a percentage of shareholders' funds was 5% at the period end date.

As at September 30, 2005, certain land and buildings with an aggregate net book value of approximately HK$19 million and certain investment properties with an aggregate carrying value of approximately HK$8 million as well as bank deposits of HK$0.2 million were pledged to banks to secure general banking facilities granted to the Group.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Treasury policies

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

Human resources

As at September 30, 2005, the Group had approximately 9,200 employees globally, as compared to 8,800 as at March 31, 2005. The increase was mainly production workers for the new factory in Hangzhou and for the expansion of the factories in the Asian countries.

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

OTHER INFORMATION

Interim Dividend

The Board of Directors has declared with delight an interim dividend of HK5.5 cents per share (2004: HK6.0 cents per share) payable on January 18, 2006 to shareholders whose names appear in the Register of Members on January 11, 2006.

Closure of Register of Members

The Register of Members will be closed from January 6, 2006 to January 11, 2006, 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, Secretaries Limited at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong (please be informed that, with effect from January 3, 2006, the location of the Company's Registrar will be changed to 26/F Tesbury Centre, 28 Queen's Road East, Hong Kong), not later than 4:00 p.m. on January 5, 2006.

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

At September 30, 2005, the interests and short positions of the directors, the chief executives and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which have been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange were as follows:

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

Name of director	Capacity	Number of ordinary shares held	Percentage of the issued share capital of the Company
Benson Tung Wah Wing	Interest of controlled corporation *(note a)*	125,049,390	35.51%
Alan Lam Yiu On	Beneficial owner	250,000	0.07%
Raymond Tung Wai Man	Beneficial owner	300,000	0.09%
Kevin Lee Kwok Bun	Beneficial owner	9,000,000	2.56%
Johnny Chang Tak Cheung	Beneficial owner/ Beneficiary of a trust *(note b)*	2,941,680	0.84%
Tony Chang Chung Kay	Beneficial owner	3,494,760	0.99%
Joseph Wong King Lam	Beneficial owner	1,390	0.000395%

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

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

Notes:

(a) Mr. Benson Tung Wah Wing has an equity interests of 100% in Corona Investments Limited, which owned 125,049,390 ordinary shares in the Company as at September 30, 2005, representing 35.51% of the issued share capital of the Company.

(b) Mr. Johnny Chang Tak Cheung is the beneficiary owner, who owned 351,680 ordinary shares in the Company as at September 30, 2005. He is also a beneficiary of a trust, Chaco International Limited, which owned 2,590,000 ordinary shares in the Company as at September 30, 2005.

Save as disclosed above, as at September 30, 2005, none of the directors or the chief executives or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept, pursuant to section 352 of the SFO, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Arrangements to Purchase Shares or Debentures

At no time during the period was the Company or any of its subsidiaries a party to any arrangements 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.

Substantial Shareholders

At September 30, 2005, shareholders who had interests and short positions in the shares and underlying shares of the Company which have been disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Corona Investments Limited	Beneficial owner	125,049,390 *(note)*	35.51%

Note: These shares have been disclosed in the section headed **"Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures"** above.

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, 2005.

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. Woo Kwong Hon
Mr. Joseph Wong King Lam

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 and the external auditors, Deloitte Touche Tohmatsu, the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the unaudited interim financial statements.

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, with deviations from certain Code provisions as explained below.

Under the Code provision A.4.2, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. Relevant amendment to the Articles of Association of the Company to comply with Code provision A.4.2 had been proposed at the earliest opportunity after the announcement of the Code, and such amendment was approved by shareholders at the annual general meeting of the Company held on September 6, 2005.

Corporate Governance *(continued)*

Under the Code provision B.1.1, a listed issuer should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties. The Company has already set up its remuneration committee on July 12, 2005. The members of the remuneration committee comprises Mr. Benson Tung Wah Wing, Mr. Joseph Wong King Lam and Mr. Tony Chang Chung Kay. A majority of the members of the remuneration committee are independent non-executive directors.

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 16, 2005

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