



2005 Interim Report

RONTEX

RONTEX INTERNATIONAL HOLDINGS LIMITED

朗迪國際控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

* For identification only

CORPORATE INFORMATION

Directors

Executive Directors

Cheung Keng Ching (*Chairman*)

Chou Mei

Lau Ka Man, Kevin

(*resigned on 2 November 2005*)

Independent Non-executive Directors

Hung Muk Ming

Wong Lai Fong

Wong Kin Tak

Company Secretary

Lau Ka Man, Kevin

(*resigned on 2 November 2005*)

Cheung Yiu Fai

(*appointed on 5 December 2005*)

Authorised Representatives

Cheung Keng Ching

Lau Ka Man, Kevin

(*resigned on 2 November 2005*)

Cheung Yiu Fai

(*appointed on 5 December 2005*)

Audit Committee

Hung Muk Ming

Wong Lai Fong

Wong Kin Tak

Auditors

HLB Hodgson Impey Cheng

Chartered Accountants

Certified Public Accountants

Legal Adviser

RobertSons

Stevenson, Wong & Co

Principal Bankers

The Hong Kong and Shanghai Banking
Corporation Limited

Citibank, N.A.

Wing Hang Bank, Limited

Registered Office

Century Yard

Cricket Square

Hutchins Drive

P.O. Box 2681 GT

George Town

Grand Cayman

British West Indies

Head Office and Principal Place of Business

23rd Floor

Chun Wo Commercial Centre

23, 25, 27 and 29 Wing Wo Street

Central

Hong Kong

Principal Share Registrar and Transfer Office

Bank of Bermuda (Cayman) Limited

P.O. Box 513 G.T.

Strathvale House

North Church Street

George Town

Grand Cayman

Cayman Islands

British West Indies

Hong Kong Branch Share Registrar and Transfer Office

Tengis Limited

G/F., Bank of East Asia Harbour

View Centre

56 Gloucester Road

Wanchai

Hong Kong

HKEX Stock Code

1142

The board of directors (the "Board") of Rontex International Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 September 2005 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2005

		Six months ended 30 September	
	<i>Notes</i>	2005 (Unaudited) HK\$'000	2004 (Unaudited and restated) HK\$'000
Turnover	3	101,740	90,421
Cost of sales		(87,295)	(64,161)
Gross profit		14,445	26,260
Other revenue		196	1,428
Selling and distribution costs		(4,323)	(3,949)
Administrative expenses		(12,121)	(4,861)
(Loss)/profit from operations	4	(1,803)	18,878
Finance costs	5	(2,102)	(996)
Diminution in value on available-for-sale investment		(23,221)	—
Share of results of an associate		461	597
(Loss)/profit before taxation		(26,665)	18,479
Taxation	6	(320)	(1,209)
(Loss)/profit for the period		(26,985)	17,270
Attributable to:			
Equity holders of the Company		(26,796)	16,948
Minority interests		(189)	322
		(26,985)	17,270
Dividend		—	—
(Loss)/earnings per share			
Basic, HK cents	7	(1.64)	1.05
Diluted		N/A	N/A

The accompanying notes form an integral part of these financial statements.

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	As at 30 September 2005 (Unaudited) HK\$'000	As at 31 March 2005 (Audited and restated) HK\$'000
Non-current assets			
Property, plant and equipment	2	33,206	32,445
Interest in leasehold land for own use	2	12,460	12,519
Interests in an associate		10,378	9,973
Investment securities	2	—	9,346
Available-for-sale investments	2	1,605	—
Options to acquire an equity interest of a company		—	15,000
Investment deposits		27,721	27,721
		85,370	107,004
Current assets			
Inventories		3,913	6,901
Trade receivables	9	10,571	11,393
Deposits, other receivables and prepayments		5,528	9,935
Tax refundable		1,003	643
Cash and bank balances		8,356	5,107
		29,371	33,979

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

<i>Notes</i>	As at 30 September 2005 (Unaudited) HK\$'000	As at 31 March 2005 (Audited and restated) HK\$'000
Current liabilities		
Short term bank loans	10,601	8,735
Bank overdraft	778	2,713
Trade payables	18,692	16,895
Other payables and accrued expenses	1,748	1,171
Trade deposits received	1,483	2,722
Finance leases obligation — within 1 year	4	79
Provision for taxation	244	—
	33,550	32,315
Net current (liabilities)/assets	(4,179)	1,664
Total assets less current liabilities	81,191	108,668
Equity		
Share capital	16,295	16,294
Reserves	54,114	81,207
Shareholders' fund	70,409	97,501
Minority interest	8,774	8,963
	79,183	106,464
Non-current liabilities		
Bank loans	1,250	1,512
Deferred tax liabilities	758	692
	2,008	2,204
	81,191	108,668

The accompanying notes form an integral part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2005

	Shareholders' fund (Unaudited) HK\$'000	Minority interest (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
As at 1 April 2005	96,733	10,382	107,115
Prior year adjustments arising from changes in accounting policies	5,435	(907)	4,528
As restated before opening adjustments	102,168	9,475	111,643
Effect on changes in accounting policies			
Leasehold land and building held for own use	(4,742)	(512)	(5,254)
Deferred tax on leasehold land and building held for own use	75	—	75
As at 1 April 2005 (restated)	97,501	8,963	106,464
Loss for the period	(26,796)	(189)	(26,985)
Issue of shares on exercise of bonus warrants	1	—	1
Premium on issue of new shares on exercise of bonus warrants	12	—	12
Exchange difference on translation of financial statements of PRC operations	(309)	—	(309)
As at 30 September 2005	70,409	8,774	79,183

For the six months ended 30 September 2004

	Shareholders' fund (Unaudited) HK\$'000	Minority interest (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
As at 1 April 2004	97,402	11,194	108,596
Effect on changes in accounting policies			
Leasehold land and building held for own use	6,202	(907)	5,295
Deferred tax on leasehold land and building held for own use	(767)	—	(767)
As at 1 April 2004 (restated)	102,837	10,287	113,124
Profit for the period	16,948	322	17,270
Issue of shares on exercise of bonus warrants	2	—	2
Premium on issue of new shares on exercise of bonus warrants	14	—	14
Exchange difference on translation of financial statements of PRC operations	(10)	—	(10)
As at 30 September 2004	119,791	10,609	130,400

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 September	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Net cash inflow from operating activities	5,861	10,794
Net cash outflow from investing activities	(1,910)	(8,101)
Net cash inflow/(outflow) from financing activities	1,542	(3,076)
Effect on foreign exchange rate changes	(309)	(10)
Net increase/(decrease) in cash and cash equivalents	5,184	(393)
Cash and cash equivalents at beginning of the period	2,394	19,999
Cash and cash equivalents at end of the period	7,578	19,606
Analysis of the balance of cash and cash equivalents		
Cash and bank balances	8,356	19,606
Bank overdraft	(778)	—
	7,578	19,606

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. Basis of presentation and accounting policies

The unaudited condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "SEHK") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" and other relevant HKASs and Interpretations, the Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual audited financial statements for the year ended 31 March 2005 except that the Group has changed certain of its accounting policies following its adoption of new/revised HKFRSs and HKASs which are effective for accounting period beginning on or after 1 January 2005. The relevant changes in the Group's accounting policies resulting from the adoption of these new and revised HKFRSs and HKASs are set out in note 2 below.

2. Changes in accounting policies

The HKICPA has issued a number of new and revised HKFRSs, HKASs and interpretations which are effective for accounting periods beginning on or after 1 January 2005. The Group has adopted the HKFRSs and HKASs below, which are applicable to its operations. The comparative figures have been restated as required.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation

2. Changes in accounting policies (Continued)

HKAS 33	Earnings Per Share
HKAS 34	Interim Financial Reporting
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payments

The adoption of new/revised HKASs 1,2,7,8,10,12,14,16,18,19,21,23,24,27,28, 33,34,36 and 37 did not result in substantial changes to the Group's accounting policy. In summary,

HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures.

HKASs 2,7,8,10,12,14,16,18,19,21,23,27,28,33,34,36 and 37 had no material effect on the Group's policies.

HKAS 24 has affected the identification of related parties and some other related-party disclosures.

Financial instruments (HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement)

In prior years, the Group classified investment in securities as long-term investment which was stated at cost less any provision for diminution in value which is expected to be other than temporary.

With effect from 1 April 2005 and in accordance with HKAS 39, all investment in securities were classified as available-for-sale financial assets and carried at fair value. Changes in fair value are recognized equity, unless there is objective evidence that an individual investment has been impaired. If there is objective evidence that an individual investment has been impaired, any amount held in the fair value reserve in respect of the investment is transferred to the income statement for period in which the impairment is identified. Any subsequent increase in the fair value of available-for-sale equity securities is recognized directly in equity.

Investment in securities held for trading purposes was classified as trading securities which were stated at fair value with changes in fair value recognised in the income statement.

The change was adopted by way of an adjustment to the opening balance of retained profits as at 1 April 2005.

2. Changes in accounting policies *(Continued)*

Financial instruments (HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement) (Continued)

Comparative amounts have not been restated nor has the opening balance of the fair value reserve been restated as this is prohibited by the transitional arrangements in HKAS 39. As a result of this new policy, the Group's loss before taxation for the six months ended 30 September 2005 has increased by HK\$23,221,000.

Employee share option scheme (HKFRS 2 Share-based Payments)

In prior years, no amounts were recognized when employees and directors were granted share options over shares in the Company. If the employee chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercised price receivable.

With effect from 1 April 2005, in order to comply with HKFRS 2, the Group recognized the fair value of such share options as an expense in the income statement or as an asset, if the cost qualified for recognition as an asset under the Group's accounting policies. A corresponding increase is recognized in a capital reserve within equity.

Where the employees are required to meet vesting conditions before they become entitled to the options, the Group recognises the fair value to the options granted over the vesting period. Otherwise the Group recognises the fair value in the period in which the options are granted.

If an employee chooses to exercise options, the related capital reserve is transferred to share capital and share premium, together with the exercise price. If the options lapse unexercised the related capital reserve is transferred directly to retained earnings.

The new accounting policy has been applied retrospectively with comparatives restated in accordance with HKFRS 2 except that the Group has taken advantage of the transitional provisions set out in paragraph 53 of HKFRS 2 under which the new recognition and measurement policies have not been applied to the following grants of options:

- a) all options granted to employee on or before 7 November 2002; and
- b) all options granted to employee after 7 November 2002 but which had vested before 1 January 2005.

No adjustment to the opening balances as at 1 April 2004 are required as no options existed at that time were unvested at 1 January 2005.

2. **Changes in accounting policies** *(Continued)*

Leasehold land and building held for own use (HKAS 17 Leases)

In prior years, leasehold land and buildings held for own use were stated at revalued amounts less accumulated depreciation and accumulated impairment losses. Movements of revaluation surpluses or deficits were normally taken to the land and buildings revaluation reserve.

With the adoptions of HKAS 17 as from 1 April 2005, the leasehold interest in the land held for own use is accounted for as being held under an operating lease where the fair value of the interest in any buildings situated on the leasehold land could be separately identified from the fair value of the leasehold interest in the land at the time the lease was first entered into by the Group or taken over from the previous lessee, of at the date of construction of those buildings, if later.

Such leasehold land will no longer be revalued. Instead, any pre-paid land premiums for acquiring the land leases, or other lease payments, are amortised on a straight line basis over the lease term. If the property is in the course of development or re-development, or the property is otherwise being used in the production of inventory, the amortisation charge is included as part of the costs of the property under development. In all other cases the amortisation charge for the period is recognized in the income statement immediately.

Any buildings held for own use which are situated on such land leases continue to be presented as part of property, plant and equipment. However, as from 1 April 2005 the buildings are also stated at cost less accumulated depreciation, rather than at fair value, to be consistent with the new policy required to be adopted for the land element.

The new accounting policies have been adopted retrospectively, with the opening balance of retained profits and the land and buildings revaluation reserve and the comparative information adjusted for the amounts relating to prior periods and the consolidated statement of changes in equity. In respect of the six months ended 30 September 2005 it is not practicable to estimate the extent to which the profits for that period, or the income or expenses taken directly to equity, are higher or lower than they would have been had the previous policy still been applied in the interim period.

2. Changes in accounting policies (Continued)

The following is a summary of the effect of changes in accounting policies:

(i) effect on opening of total equity at 1 April 2005

	Revaluation reserve HK\$'000	Retained profit HK\$'000	Total HK\$'000	Minority interest HK\$'000	Total HK\$'000
HKAS 17 Leasehold land and building held for own use purpose	(4,742)	—	(4,742)	(512)	(5,254)
Deferred tax on leasehold land and building held for own use	—	75	75	—	75
	(4,742)	75	(4,667)	(512)	(5,179)

(ii) effect on opening of total equity at 1 April 2004

	Revaluation reserve HK\$'000	Retained profit HK\$'000	Total HK\$'000	Minority interest HK\$'000	Total HK\$'000
HKAS 17 Leasehold land and building held for own use purpose	(924)	7,126	6,202	(907)	5,295
Deferred tax on leasehold land and building held for own use	—	(767)	(767)	—	(767)
	(924)	6,359	5,435	(907)	4,528

3. Segment information

The Group is principally engaged in the sourcing, manufacture and sale of garments and trading of variety of premium products.

Turnover represents the net invoiced value of goods, after allowance for returns and trade discounts. All significant intra-group transactions have been eliminated on combination.

3. Segment information *(Continued)*

An analysis of the Group's turnover and operating results by business segments and geographical segments is as follows:

(a) *Business segments*

	Six months ended 30 September 2005				Total (Unaudited) HK\$'000
	Woven (Unaudited) HK\$'000	Knitting (Unaudited) HK\$'000	Sweater (Unaudited) HK\$'000	Premium (Unaudited) HK\$'000	
	Segment revenue	37,270	42,076	16,386	
Segment results	(1,629)	(706)	(897)	1,429	(1,803)
Finance costs					(2,102)
Share of results of an associate					461
Diminution in value on available-for-sales investment					(23,221)
Loss before taxation					(26,665)
Taxation					(320)
Loss for the period					(26,985)

	Six months ended 30 September 2004				Total (Unaudited) HK\$'000
	Woven (Unaudited) HK\$'000	Knitting (Unaudited) HK\$'000	Sweater (Unaudited) HK\$'000	Premium (Unaudited) HK\$'000	
	Segment revenue	35,579	42,264	7,921	
Segment results	8,041	7,608	2,297	932	18,878
Finance costs					(996)
Share of results of an associate					597
Profit before taxation					18,479
Taxation					(1,209)
Profit for the period					17,270

3. Segment information (Continued)

(b) Geographical segments

	Six months ended 30 September 2005						
	Chile	USA	Canada	UK	PRC	Others	Total
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Segment revenue	39,003	13,300	7,692	7,660	10,641	23,444	101,740
Segment results	(2,846)	(215)	1,322	284	(648)	300	(1,803)

	Six months ended 30 September 2004				
	Chile	Australia	Canada	Others	Total
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Segment revenue	61,417	9,945	5,859	13,200	90,421
Segment results	12,898	1,919	1,289	2,772	18,878

4. (Loss)/profit from operations

The Group's (loss)/profit from operations is arrived at after charging and (crediting) the following:

	Six months ended 30 September	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Depreciation of		
— owned fixed assets	903	726
— assets held under finance leases	75	37
Interest income	(101)	(2)
Gain from disposal of investment security	—	(1,280)
Exchange loss, net	62	16

5. Finance costs

	Six months ended 30 September	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Interest expenses on		
Bank loans and overdrafts wholly repayable within five years	490	103
Import and export loans wholly repayable within five years	388	226
Obligations under finance leases	17	16
Bank charges	895	345
	1,207	651
	2,102	996

6. Taxation

	Six months ended 30 September	
	2005 (Unaudited) HK\$'000	2004 (Unaudited and restated) HK\$'000
Tax for the period		
Hong Kong Profits Tax	200	1,100
Share of taxation of associates in PRC	55	34
Deferred tax	255	1,134
	65	75
	320	1,209

The provision for Hong Kong Profits Tax is calculated at the rate of 17.5% (six months ended 30 September 2004:17.5%) on the estimated assessable profits for the period. Taxation for PRC associate is charged at the appropriate current rates of taxation ruling in the PRC.

7. (Loss)/Earnings per share

The calculation of basic (loss)/earnings per share is based on the net loss from ordinary activities attributable to shareholders for the period of HK\$26,796,000 (2004: net profit from ordinary activities attributable to shareholders of HK\$16,948,000, as adjusted) and the weighted average of 1,629,403,000 (2004: 1,602,208,000) ordinary shares in issue during the period.

Diluted (loss)/earnings per share for the period ended 30 September 2005 and 2004 has not been presented as the conversion of potential ordinary shares would have anti-dilutive effect to the basic earnings per share.

8. Dividend

The directors do not recommend the payment of any interim dividend for the six months ended 30 September 2005 (2004: NIL).

9. Trade receivables

The ageing analysis of trade receivables is as follows:

	As at 30 September 2005 (Unaudited) HK\$'000	As at 31 March 2005 (Audited) HK\$'000
0 - 30 days	4,178	5,735
31 - 60 days	4,128	179
61 - 90 days	345	4,258
Over 91 days	1,920	1,221
	10,571	11,393

10. Trade payables

The ageing analysis of trade payables is as follows:

	As at 30 September 2005 (Unaudited) HK\$'000	As at 31 March 2005 (Audited) HK\$'000
0 - 30 days	8,243	10,985
31 - 60 days	8,295	433
61 - 90 days	1,347	5,080
Over 91 days	807	397
	18,692	16,895

11. Share capital

	As at 30 September 2005 (Unaudited) HK\$'000	As at 31 March 2005 (Audited) HK\$'000
Authorised: 10,000,000,000 shares of HK\$0.01 each	100,000	100,000
Issued and fully paid 1,629,497,200 (2004: 1,629,364,000) ordinary shares of HK\$0.01 each	16,295	16,294

During the period ended 30 September, 2005, 133,200 new ordinary shares of par value HK\$0.01 each were issued at subscription price of HK\$0.102 each on exercise of 133,200 bonus warrants.

A summary of the above movement in the issued share capital of the Company is as follows:

	Number of share capital	Issued share capital HK\$'000	Share Premium HK\$'000	Total HK\$'000
Ordinary shares of HK\$0.01 each				
At 1 April 2004	1,602,208,000	16,022	12,783	28,805
Exercise of bonus warrants	27,156,000	272	2,499	2,771
At 31 March 2005	1,629,364,000	16,294	15,282	31,576
Exercise of bonus warrants	133,200	1	12	13
At 30 September 2005	1,629,497,200	16,295	15,294	31,589

12. Reserves

	Share Premium HK\$'000	Contributed surplus HK\$'000	Exchange reserve HK\$'000	Revaluation reserve HK\$'000	Retained profit HK\$'000	Total HK\$'000
As at 1 April 2004	12,783	918	(49)	7,115	60,613	81,380
Effect on changes in accounting policies						
HKAS 17 Leasehold land and building held for own use	—	—	—	(924)	7,126	6,202
Deferred tax on leasehold land and building held for own use	—	—	—	—	(767)	(767)
As at 1 April 2004 (restated)	12,783	918	(49)	6,191	66,972	86,815
Premium on issue of new shares on exercise of bonus warrants	2,499	—	—	—	—	2,499
Loss for the year	—	—	—	—	(6,459)	(6,459)
Surplus on revaluation of properties owned by the Group	—	—	—	4,742	—	4,742
Deficits on revaluation of properties of an associate attributable to the Group	—	—	—	(1,765)	—	(1,765)
Exchange differences on translation of financial statements of PRC operations	—	—	42	—	—	42
As at 31 March 2005	15,282	918	(7)	9,168	60,513	85,874
Effect on changes in accounting policies						
Deferred tax on leasehold land and building held for own use	—	—	—	—	75	75
HKAS 17 Leasehold land and building held for own use	—	—	—	(4,742)	—	(4,742)
As at 1 April 2005 (restated)	15,282	918	(7)	4,426	60,588	81,207
Premium on issue of new shares on exercise of bonus warrants	12	—	—	—	—	12
Loss for the period	—	—	—	—	(26,796)	(26,796)
Exchange differences on translation of financial statements of PRC operations	—	—	(309)	—	—	(309)
As at 30 September 2005	15,294	918	(316)	4,426	33,792	54,114

13. Operating lease arrangements

As at 30 September 2005 and 31 March 2005, the Group did not have any significant operating lease commitments.

14. Pledge of assets

As at 30 September 2005, the Group had obtained aggregate banking facilities which were secured/guaranteed by the followings:

- (1) legal charges on the Group's certain land and buildings located in Hong Kong and in the PRC with an aggregate net book value of approximately HK\$30,109,000 (31 March 2005: HK\$26,710,000);
- (2) cross guarantees among the subsidiaries of the Group;
- (3) assignment of documentary credit issued in favour of a subsidiary;
- (4) an corporate guarantee provided by the Company.

15. Contingent liabilities

	As at 30 September 2005 (Unaudited) HK\$'000	As at 31 March 2005 (Audited) HK\$'000
Contingent liabilities arising from bills of exchange discounted with recourse	883	8,587
Long service payment	153	139
	1,036	8,726

The Group is liable to make long service payment upon the termination of employment of certain employees who have completed the required number of years of services and met the required circumstances under the Employment Ordinance. No provision has been made for this account in the financial statements as it is expected that the amounts will not crystallize in the foreseeable future.

16. Capital commitments

As at 30 September 2005 and 31 March 2005, the Group did not have any significant capital commitments.

17. Bonus Issue of Warrant

Bonus issue of warrant issued on 28 June 2004 was expired on 27 June 2005. The exercise of bonus issue of warrant is reflected in the reserve note 12 of the financial statements.

18. Subsequent events

Subsequent to the balance sheet date, the Company entered into a deed of variation to amend the Sales and Purchase Agreement (the "S&P Agreement") on 18 October 2005. The S&P Agreement was entered into by Falcon Vision Limited, a wholly owned subsidiary of the Company with an independent third party in respect of acquisition of the entire share capital of Wisefull International Limited which owns 30% equity interest in 北京朗坤服装有限公司 (the "JV Co") for a total consideration of HK\$27,720,000 on 31 August 2005. Under the deed of variation, JV Co cannot obtain the relevant land use rights in PRC with respect to the property upon which JV Co's production is currently situated by the date falling 24 months from the date of completion, the vendors shall, within 14 days thereafter, repurchase the Sale Shares from the Purchaser at a consideration of HK\$27,720,000.

INTERIM DIVIDEND

The directors of the Company have resolved not to recommend the payment of interim dividend for the six months ended 30 September 2005 (six months ended 30 September 2004: Nil)

FINANCIAL REVIEW

For the six months ended 30 September 2005, the Group recorded a turnover of approximately HK\$101,740,000 (2004: HK\$90,421,000), increased 12.5% compared to the corresponding period in previous year. Loss from operations was recorded approximately HK\$1,803,000 (2004: profit from operations HK\$18,878,000). This is mainly due to: Firstly, the PRC joint ventures at Ningbo and Huzhou are operating at low profit margin. Both production plants are facing higher cost of production in term of raw materials, fuel and labour cost. Secondly, the operating and administration expenses increased resulting from set up office in Shanghai and expansion of plant in Ningbo. Finally, the Group is facing a general trend of falling in selling prices of garment products resulting from keen competition.

During the period under review, the Group recorded a net loss attributable to shareholders of HK\$26,796,000. This was due to keen competition and higher cost of operation to erode our gross profit margin and the diminution in value of available-for-sale investments with the amount of approximately HK\$23,221,000 by adoption of new accounting standards.

OPERATION REVIEW

Garment products

For the six months ended 30 September 2005, garment products accounted for approximately 94% (2004: 95%) of the Group's turnover, decreased 1% as compared to the corresponding period in the previous year. Revenue from operations derived from garment product business increased by 11.6% to HK\$95,732,000 resulting from increase in turnover from joint ventures in Ningbo and Huzhou. However, loss attributable to garment products was recorded approximately HK\$3,232,000 due to low profit margin in joint ventures. In addition to keen competition with competitors, the Group faces to the great pressure on the falling in selling price of garment products.

Premium products

For the six months ended 30 September 2005, premium products accounted for approximately 6% (2004: 5%) of the Group's turnover which sustain a stable contribution to the turnover of the Group. Revenue and profit from operations derived from premium product business increased by 29.0% to HK\$6,008,000 and 53.3% to HK\$1,429,000 respectively as compared to the corresponding period in the previous year.

OUTLOOK

In view of the sustaining growth of the PRC market and recovery of world wide economy, the board of the Company has to reap the emerging opportunities to expand new markets. In addition, the directors also noticed that high operating cost in both Hong Kong and PRC will erode our profit margin. The Group will carry out a stringent control measures to improve our efficiency in operation and to minimize the operating cost.

With diversification of market together with stringent cost control measures, the Group expects that the results of the second half of financial year could be improved.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2005, the Group had net current liabilities of HK\$4,179,000 (31 March 2005: net current assets of HK\$1,664,000). The Group's current ratio, as a ratio of current assets to current liabilities, was recorded approximately 88% (31 March 2005: 105%) and the Group's gearing ratio, as a ratio of total interest-bearing borrowings to total assets, was maintained at the lowest level of 11.0% (31 March 2005: 9.2%).

The Group generally finances its operations with internally generated cash flow and facilities provided by its principal bankers in Hong Kong and the PRC. During the period under review, the Group recorded a net cash inflow of HK\$5,184,000, which increased the total cash and cash equivalents to HK\$7,578,000 as at the balance sheet date.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGES

The bank borrowing of the Group as at 30 September 2005 were HK\$11,851,000 (31 March 2005: HK\$10,247,000), which were denominated in Hong Kong dollars, Renminbi and United States dollars. All of the Renminbi bank borrowings are at fixed interest rate of 5.46% per annum whilst the Hong Kong dollars borrowings are at variable interest rate ranging (i) from 0.5% to 0.75% above the best lending rates or (ii) HIBOR plus 2%. As the Group's transactions are mostly settled by Hong Kong dollars, Renminbi and United States dollars and the existing currency peg of Hong Kong dollars with United States dollars will remain unchanged in the foreseeable future; the exposure to foreign exchange fluctuation is minimal, therefore the use of financial instruments for hedging purpose is considered not necessary.

SIGNIFICANT INVESTMENT

During the period under review, Falcon Vision Limited, a wholly owned subsidiary of the Company entered into a Sales and Purchase Agreement (the "S&P Agreement") with an independent third party in respect of acquisition of the entire share capital of Wisefull International Limited which owns 30% equity interest in 北京朗坤服装有限公司 (the "JV Co") for a total consideration of HK\$27,720,000 on 31 August 2005. The JV Co is engaged in the sale and manufacture of woven garment products.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES

During the period under review, there was no material acquisition and disposal of subsidiaries.

SUBSEQUENT EVENTS

In addition to the above-mentioned significant investment, the Company entered into a deed of variation to amend the S&P Agreement on 18 October 2005. The JV Co cannot obtain the relevant land use rights in PRC with respect to the property upon which JV Co's production is currently situated by the date falling 24 months from the date of completion, the vendors shall, within 14 days thereafter, repurchase the Sale Shares from the Purchaser at a consideration of HK\$27,720,000.

CONTINGENT LIABILITIES

As at 30 September 2005, the Group had contingent liabilities arising from bills of exchange discounted with recourse and long service payment of approximately HK\$883,000 and HK\$153,000 respectively.

CAPITAL COMMITMENT

The Group had no material commitment as at 30 September 2005.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2005, the Group had approximately 520 staff and workers working in Hong Kong and PRC. The Group remunerates its employees largely based on industry practice. Remuneration packages comprised salary, commissions and bonuses based on individual performance.

PLEDGE OF ASSETS

The Group's banking facilities were secured against the Group's land and buildings located in Hong Kong and the PRC and motor vehicles in the PRC of carrying value of approximately HK\$30,109,000 and HK\$370,000 respectively.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 September 2005, the interests and short positions of the directors and chief executives of the Company in the shares and underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance (the "SFO")) which are notified to the Company and the SEHK pursuant to Division 7 and Division 8 of Part XV of SFO (including interests or short positions which they are taken or deemed to have pursuant to SFO) or which are entered in the register kept by the Company pursuant to Section 352 of SFO or as otherwise notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY *(Continued)*

(i) Shares of HK\$0.01 each in the Company

Name of director	Capacity	Number of issued ordinary shares held	Percentage over the issued shares
Executive directors:			
Mr. Cheung Keng Ching ("Mr. Cheung") (Note)	Corporate	993,800,000 Long position	60.99%
Madam Chou Mei ("Mrs. Cheung") (Note)	Corporate	993,800,000 Long position	60.99%
Independent non-executive directors:			
Mr. Hung Muk Ming	Beneficial owner	430,000 Long position	0.03%

Note: These shares held by Mr. Cheung and Mrs. Cheung respectively refer to the same parcel of shares, which are registered in the name of Star Master International Limited ("Star Master"). The entire issued share capital of Star Master is legally and beneficially owned by Mr. Cheung and Mrs. Cheung as to 50% and 50% respectively. As spouse, Mr. Cheung and Mrs. Cheung are respectively deemed to be interested in the shares held by each other in the Company.

(ii) Shares of US\$1.00 each in Star Master, the associated corporation of the Company

Name of director	Capacity	Number of shares held	Percentage of shareholding
Executive directors:			
Mr. Cheung	Corporate (Note)	986,400,000 Long position	60.53%
Mrs. Cheung	Corporate (Note)	986,400,000 Long position	60.53%

Note: These shares held by Mr. Cheung and Mrs. Cheung respectively refer to the same parcel of shares. Each of Mr. Cheung and Mrs. Cheung legally and beneficially owns 500 shares each of Star Master. As spouse, Mr. Cheung and Mrs. Cheung are respectively deemed to have interest in the shares held by each other in Star Master.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY *(Continued)*

Save as disclosed above, none of the directors and chief executives of the Company or their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of SFO), as recorded in register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the SEHK pursuant to the Model Code.

SHARE OPTION SCHEME

Pursuant to the share option scheme (the "Scheme") approved and adopted by the Company on 19 October 2002, share options was granted to subscribe for shares in the Company in accordance with the terms of the Scheme. There were no changes in any terms of the Scheme during the six months ended 30 September 2005. The detailed terms of the Scheme were disclosed in the 2005 annual report of the Company.

The following shows movements in the Company's share options during the period under review:

Name or category of participant	Outstanding as at 1 April 2005	Granted during period	Exercised during period	Lapsed during period	Outstanding as at 30 September 2005	Date of grant of share option (dd/mm/yyyy)	Exercise period of share options (dd/mm/yyyy)	Adjusted Exercise price of share options HK\$
Directors								
Mr. Cheung	7,400,000	—	—	—	7,400,000	04/11/2003	4/11/2003 to 03/11/2008	0.3325
Mrs. Cheung	7,400,000	—	—	—	7,400,000	04/11/2003	4/11/2003 to 03/11/2008	0.3325
Mr. Lau Ka Man Kevin	12,000,000	—	—	—	12,000,000	04/11/2003	4/11/2003 to 03/11/2008	0.3325
Employees other than directors								
In aggregate	19,224,000	—	—	—	19,224,000	04/11/2003	4/11/2003 to 03/11/2008	0.3325
	46,024,000	—	—	—	46,024,000			

SHARE OPTION SCHEME *(Continued)*

- * Those share options lapsed during the period refer to share options held by employees resigned during the period.
- ** The vesting period of the share options is from the date of grant until the commencement of the exercise period.
- *** The number of issuable shares and the exercise price of the share options are subject to adjustment in the case of capitalization issue, rights issue, sub-division or consolidation of the Company's shares or reduction of capital of the Company. On 20 February 2004, an ordinary resolution was passed in extraordinary general meeting in connection with the bonus issue of shares on the basis of three bonus share for every one existing share. Before adjustment the old exercise price was HK\$1.33 each share.
- **** As spouse, Mr. Cheung and Mrs. Cheung are respectively deemed to have interest in the share option held by each other.

Each option gives the holder the right to subscribe for one share. During the period under review, there was no share option granted, exercised, cancelled or lapsed.

Other than as disclosed as above, at no time during the period under review were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or chief executive or their respective spouse or children under 18 years of age, or were any such rights exercised by them, or was the Company, its holding company or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors or chief executives to acquire such rights in the Company or any other body corporate.

Following the adoption of the HKFRS 2, the fair value of share options granted will be recognized as an employee expense with a corresponding increase in equity by the amount of the proceeds received within the options are exercised. The fair value is measured at the date of grant and spread over the period during which the employees become unconditionally entitled to the options. The amount recognised as an expense will be adjusted to reflect the actual number of share options that vest.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2005 and so far as is known to the directors and according to the register of interests in shares and short positions of substantial shareholders maintained by the Company under Section 336 of the SFO, the following persons (other than the directors disclosed under the heading "Directors' interests and short positions in shares and underlying shares of the Company" above) has interest of 5% or more of the nominal value of the issued ordinary shares that carry a right to vote in all circumstances at general meetings of the Company:

Name of shareholders	Capacity	Number of share held	Percentage of the Company's share capital
Star Master (Note)	Beneficial owner	986,400,000 Long position	60.53%
Lu Ming Hui	Beneficial owner	131,200,000 Long position	8.05%

Note: The entire issued share capital of Star Master is legally and beneficially owned by Mr. Cheung and Mrs. Cheung as to 50% and 50% respectively.

Save as disclosed above, no other party was recorded in the register of interests in shares and short positions of substantial shareholders kept pursuant to section 336 of SFO as having an interest in 5% or more of the nominal value of the issued ordinary shares that carry a right to vote in all circumstances at general meetings of the Company.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

AUDIT COMMITTEE

The Audit Committee of the Company consists of three independent non-executive directors, Mr. Hung Muk Ming, Mr. Wong Kin Tak and Madam Wong Lai Fong with written terms of reference in compliance with the Code of Corporate Governance Practice (the "Code") as set out in the Listing Rules. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group, and discussed auditing, internal control and financial reporting matters including the review of the unaudited condensed interim financial statements for the six months ended 30 September 2005.

COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE PRACTICE AND MODEL CODE

During the period under review, the Company has complied with the Code as set out in Appendix 14 to the Listing Rules, except the deviations from the Code as described below:

- (1) Under code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Cheung Keng Ching has combined role of chairman and chief executive officer. The Board believes that Mr. Cheung Keng Ching was a founder of the Group. This appointment of Mr. Cheung Keng Ching to the posts of chairman and chief executive officer is beneficial to the Group as he has considerable industry experience;
- (2) Under code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term and subject to re-election. The independent non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation in accordance with the Company's Articles of Association; and

COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE PRACTICE AND MODEL CODE *(Continued)*

- (3) Under code provision B.1.1, the Remuneration Committee was formed by majority of independent non-executive directors with specific written terms of reference which deal clearly with its authority and duties. On 15 December 2005, the Board approved that the establishment of Remuneration Committee and the adoption of its specific written terms of reference which deal clearly with its authority and duties. The Remuneration Committee comprises one executive director, being the chairman and the two independent non-executive directors.

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiry to all directors regarding any non-compliance with the Model Code during the period under review and they all confirmed that they have fully complied with the required standard set out in the Model Code.

By order of the Board of
Rontex International Holdings Limited
Cheung Keng Ching
Chairman

Hong Kong, 21 December 2005