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二零零六／零七年度中期報告

Interim Report 2006-2007

TUNGTEX (HOLDINGS) COMPANY LIMITED

同得仕（集團）有限公司

Stock Code 股份代號 : 0518

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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 Tungtex (Holdings) Company Limited to review the interim financial report set out on pages 3 to 12.

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, 2006.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, December 18, 2006

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended September 30, 2006

	Notes	Six months ended September 30, 2006 HK$'000 (unaudited)	2005 HK$'000 (unaudited)
Turnover	3	**1,123,873**	934,320
Cost of sales		**(865,787)**	(716,017)
Gross profit		**258,086**	218,303
Other income		**4,328**	2,972
Selling and distribution expenses		**(49,433)**	(50,683)
Administrative expenses		**(143,714)**	(127,083)
Finance costs		**(2,700)**	(1,267)
Share of results of associates		**(139)**	173
Profit before taxation	4	**66,428**	42,415
Income tax expense	5	**(13,367)**	(8,776)
Profit for the period		**53,061**	33,639
Attributable to:			
Equity holders of the Company		**41,273**	28,378
Minority interests		**11,788**	5,261
		53,061	33,639
Dividends	6	**40,496**	49,299
Earnings per share – Basic	7	**11.7 cents**	8.1 cents

CONDENSED CONSOLIDATED BALANCE SHEET

At September 30, 2006

	Notes	September 30, 2006 HK$'000 (unaudited)	March 31, 2006 HK$'000 (audited)
Non-current assets			
Investment properties	8	**50,352**	55,552
Property, plant and equipment	8	**134,172**	134,857
Prepaid lease payments		**27,565**	27,928
Intangible asset		**436**	471
Interests in associates		**7,208**	7,347
Available-for-sale investments		**–**	1,430
Deferred tax assets		**747**	861
		220,480	228,446
Current assets			
Inventories		**171,035**	237,958
Trade and other receivables	9	**339,274**	308,978
Prepaid lease payments		**730**	730
Amounts due from associates		**3,957**	735
Tax recoverable		**1,281**	2,252
Pledged bank deposits		**235**	235
Bank balances and cash		**184,430**	148,019
		700,942	698,907
Current liabilities			
Trade and other payables	10	**303,420**	308,201
Amount due to an associate		**–**	3,332
Tax liabilities		**21,898**	16,286
Obligations under finance leases			
– due within one year		**302**	147
Bank borrowings	11	**40,209**	54,167
		365,829	382,133
Net current assets		**335,113**	316,774
		555,593	545,220
Capital and reserves			
Share capital		**70,428**	70,428
Reserves		**408,504**	406,631
Equity attributable to equity holders of the Company		**478,932**	477,059
Minority interests		**64,812**	56,042
Total equity		**543,744**	533,101
Non-current liabilities			
Obligations under finance leases			
– due after one year		**483**	119
Deferred tax liabilities		**11,366**	12,000
		11,849	12,119
		555,593	545,220

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended September 30, 2006

	Attributable to equity holders of the Company							
	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Translation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At April 1, 2005	70,428	84,880	3,848	(8,546)	320,203	470,813	64,834	535,647
Exchange differences arising on translation foreign operations recognised directly in equity	–	–	–	1,299	–	1,299	–	1,299
Profit for the period	–	–	–	–	28,378	28,378	5,261	33,639
Total recognised income 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	70,428	84,880	3,848	(7,247)	299,282	451,191	62,037	513,228
Exchange differences arising on translation foreign operations	–	–	–	1,043	–	1,043	161	1,204
Share of reserves of associates	–	–	–	178	–	178	35	213
Income recognised directly in equity	–	–	–	1,221	–	1,221	196	1,417
Profit for the period	–	–	–	–	44,015	44,015	7,764	51,779
Total recognised income for the period	–	–	–	1,221	44,015	45,236	7,960	53,196
Dividends paid	–	–	–	–	(19,368)	(19,368)	–	(19,368)
Dividend paid to minority shareholders	–	–	–	–	–	–	(13,955)	(13,955)
At March 31, 2006	70,428	84,880	3,848	(6,026)	323,929	477,059	56,042	533,101
Exchange differences arising on translation foreign operations recognised directly in equity	–	–	–	1,096	–	1,096	138	1,234
Profit for the period	–	–	–	–	41,273	41,273	11,788	53,061
Total recognised income for the period	–	–	–	1,096	41,273	42,369	11,926	54,295
Dividends paid	–	–	–	–	(40,496)	(40,496)	–	(40,496)
Dividend paid to minority shareholders	–	–	–	–	–	–	(3,156)	(3,156)
At September 30, 2006	70,428	84,880	3,848	(4,930)	324,706	478,932	64,812	543,744

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended September 30, 2006

	Six months ended September 30, 2006 HK$'000 (unaudited)	2005 HK$'000 (unaudited)
Net cash from operating activities	**96,935**	16,085
Net cash used in investing activities:		
Purchase of property, plant and equipment	**(10,605)**	(15,669)
Proceeds from disposal of investment properties	**6,148**	–
Other investing cash flows	**1,703**	129
	(2,754)	(15,540)
Net cash used in financing activities:		
Dividend paid	**(40,496)**	(49,299)
Dividend paid to minority shareholders	**(3,156)**	(8,058)
Other financing cash flows	**(9,094)**	12,105
	(52,746)	(45,252)
Net increase (decrease) in cash and cash equivalents	**41,435**	(44,707)
Cash and cash equivalents at the beginning of the period	**142,987**	200,018
Effect of foreign exchange rate changes	**8**	(25)
Cash and cash equivalents at the end of the period	**184,430**	155,286
Analysis of the balances of cash and cash equivalents		
– Bank balances and cash	**184,430**	160,193
– Bank overdrafts	**–**	(4,907)
	184,430	155,286

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended September 30, 2006

1. Basis of preparation

The condensed 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 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 financial statements have been prepared on the historical cost basis except for investment properties which are measured at fair values.

The accounting policies used in the condensed 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, 2006 except as described below.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA, which are either effective for accounting periods beginning on or after December 1, 2005, January 1, 2006, or March 1, 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared or presented. Accordingly, no prior periods adjustments has been required.

The Group has not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – INT 8	Scope of HKFRS 2[2]
HK(IFRIC) – INT 9	Reassessment of embedded derivatives[3]
HK(IFRIC) – INT 10	Interim financial reporting and impairment[4]

[1] Effective for annual periods beginning on or after January 1, 2007.

[2] Effective for annual periods beginning on or after May 1, 2006.

[3] Effective for annual periods beginning on or after June 1, 2006.

[4] Effective for annual periods beginning on or after November 1, 2006.

3. Segment information

Geographical segments

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, 2006

	USA HK$'000	**Canada HK$'000**	**Asia HK$'000**	**Europe and others HK$'000**	**Consolidated HK$'000**
TURNOVER					
Sales of goods – external	**986,556**	**12,979**	**65,125**	**59,213**	**1,123,873**
SEGMENT RESULT	**58,814**	**587**	**1,297**	**4,241**	**64,939**
Other income					**4,328**
Finance costs					**(2,700)**
Share of results of associates	**(109)**	**(4)**	**(23)**	**(3)**	**(139)**
Profit before taxation					**66,428**
Income tax expense					**(13,367)**
Profit for the period					**53,061**

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 income					2,972
Finance costs					(1,267)
Share of results of associates	69	11	87	6	173
Profit before taxation					42,415
Income tax expense					(8,776)
Profit for the period					33,639

4. Profit before taxation

	Six months ended September 30, 2006 HK$'000	2005 HK$'000
Profit before taxation has been arrived at after charging:		
Amortisation of intangible asset	**35**	37
Release of prepaid lease payments	**365**	73
Depreciation of property, plant and equipment	**13,549**	13,896
Share of tax of associates (included in share of results of associates)	**80**	47
and after crediting:		
Bank interest income	**1,267**	1,250
Rental income from properties under operating leases	**1,887**	1,722
Profit on disposal of available-for-sale investments	**171**	–
Profit on disposal of investment property	**948**	–

5. Income tax expense

	Six months ended September 30, 2006 HK$'000	2005 HK$'000
Current tax:		
Hong Kong	**5,555**	8,506
The People's Republic of China, other than Hong Kong (the "PRC")	**1,403**	11
Other jurisdictions	**6,924**	22
	13,882	8,539
Underprovision in prior years	**–**	78
	13,882	8,617
Deferred tax (credit) charge	**(515)**	159
	13,367	8,776

5. Income tax expense *(continued)*

Hong Kong Profits Tax is calculated at 17.5% (2005: 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. None (2005: two) of the subsidiaries of the Company are subject to enterprise income tax in the PRC at a reduction rate of 50% during the period ended September 30, 2006.

During the years ended March 31, 2005 and 2006, two subsidiaries of the Company received protective profits tax assessment from Inland Revenue Department (the "IRD") of approximately HK$0.8 million and HK$20.7 million, respectively, relating to the year of assessment 1998/99 to 2004/05, that is, for the financial years ended March 31, 1999 to 2005. The protective profits tax assessment relates mainly to the subsidiaries' income derived from their manufacturing operations in the PRC. The subsidiaries lodged objections with the IRD and the IRD agreed to holdover the tax claimed subject to tax reserve certificates in the amount of HK$21.5 million being purchased by the subsidiaries.

In the opinion of the directors and the advice from the Group's tax advisors, the subsidiaries' income derived from their manufacturing activities in the PRC is not arising in nor derived from Hong Kong, and that sufficient tax provision has been made in the accounts in this regard.

6. Dividends

On September 13, 2006, a dividend of HK11.5 cents per share (2005: HK14.0 cents per share) amounting to HK$40,496,000 (2005: HK$49,299,000) was paid to shareholders as final dividend for the period ended March 31, 2006.

The directors have determined that an interim dividend of HK6.0 cents per share (2005: HK5.5 cents per share) will be paid to the shareholders of the Company whose names appear in the Register of Members on January 11, 2007.

7. Earnings per share

The calculation of the basic earnings per share attributable to equity holders of Company is based on the profit for the period attributable to equity holders of the Company of HK$41,273,000 (2005: HK$28,378,000) and on the number of 352,137,298 shares (2005: 352,137,298 shares) in issue during the period.

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

At September 30, 2006, 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 disposed of certain investment properties with carrying values of HK$5,200,000 at a consideration of HK$6,148,000, resulting in a profit on disposal of HK$948,000.

In addition, the Group spent HK$11,292,000 on acquisition of property, plant and equipment for the purpose of expanding the Group's business.

9. 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, 2006 HK$'000	March 31, 2006 HK$'000
Up to 30 days	**208,073**	191,863
31 – 60 days	**35,507**	43,201
61 – 90 days	**11,578**	6,853
	255,158	241,917

10. Trade and other payables

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

	September 30, 2006 HK$'000	March 31, 2006 HK$'000
Up to 30 days	**115,024**	125,950
31 – 60 days	**48,443**	65,218
61 – 90 days	**28,001**	25,081
More than 90 days	**13,618**	9,536
	205,086	225,785

11. Bank borrowings

During the period, the Group raised new bank loans in the amount of approximately HK$25,000,000, 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 bank loans amounting to approximately HK$10,000,000 during the period.

12. Capital commitments

At September 30, 2006, the Group had capital expenditure amounting to HK$307,000 (March 31, 2006: HK$221,000) in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements.

13. Contingent liabilities

The Group did not have any significant contingent liabilities as at September 30, 2006.

14. Related parties transactions

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

	Six months ended September 30,	
	2006	2005
	HK$'000	HK$'000
Purchase of raw materials and finished goods from the Group's associates	**12,295**	10,762

15. Post balance sheet event

The Company has granted options on November 9, 2006 under the share option scheme adopted by the Company on September 5, 2006. Details of which are as follows:

Category	**Date of share options granted**	**Number of options granted**	**Exercise price**	**Exercise period**
Directors	November 9, 2006	4,000,000	HK$1.80	November 9, 2009 to November 8, 2014
Employees (other than directors)	November 9, 2006	11,800,000	HK$1.80	November 9, 2009 to November 8, 2014
		15,800,000		

MANAGEMENT DISCUSSION AND ANALYSIS

Summary of operating results

In the first half of the year, Tungtex achieved respectable growth in turnover and profitability as compared to the corresponding period of last year.

During the period under review, turnover grew by 20.3% to HK$1,124 million. The remarkable growth was attributable to the improved market condition, and the collective dedication of our entire team. While pressure on costs prevailed with the PRC region in particular, we managed to minimize the impact and sustained gross profit margin at 23.0%, slightly below 23.4% of the same period last year. Control of overheads was also on track. As a percentage of sales, selling and distribution expenses came down from 5.4% to 4.4%, and administrative expenses came down from 13.6% to 12.8%. The lowered costs were evidence of our commitment in value management. As a result, profit attributable to equity holders of the Company surged by 45.4% to HK$41.3 million. Earning per share went up by the same percentage and recorded at HK11.7 cents per share. The board of directors has resolved to declare an interim dividend of HK6.0 cents per share.

Business review

Manufacture and export business

The clearance of the trade dispute between China and the U.S. in late 2005 has set the keynote for the garment industry in 2006. During the period under review, there was a healthy resumption of buying confidence of overseas buyers. Such improvement in operating environment not only fostered business growth but also helped manufacturers lift operating efficiency by allowing more forward production planning. Riding on these favourable developments and our strong foothold in the industry, our core business performed well in the first half year.

Sales to the U.S., our principal market, went up by 21% to HK$987 million. Europe and other markets continued to record encouraging growth with sales grew by 30% to HK$59 million. Volume of exports to Asia remained relatively low and insignificant.

Although business momentum was picking up, the pressure on costs side was as prominent. Energy costs stood high, and costs incurred in China were creeping up with the appreciation of RMB. We managed the impact by stringent costs control measures and protected our bottom line by ensuring value-add in our operations. We strove to increase the width and depth of our sourcing network in order to neutralize the price pressure of raw materials; we worked in close collaboration with buyers to ensure their needs are well fulfilled; and we streamlined our procedures in order to eliminate value destroyers. All these were important initiatives we had done behind the improved results of our core business.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Business review *(continued)*

USA wholesale label business

The overhaul of the USA wholesale label business was proven to be right and effective. The business had turned into contributing while the absolute amount was insignificant. The reshuffled management team had geared up for further regaining the business momentum of "Zelda" brand.

Mainland China retail business

The Mainland retail market remained highly competitive, and featured by fast-growing local competitors and price-driven promotion as a general practice. To tackle these challenges, we have been pursuing a series of measures we mentioned in previous reports, including process revamp for quicker response to market; strengthening product design and development in order to distinguish our products; and increasing the presence in the second-tier cities where competition was less intensive.

During the period under review, we have also reformulated our branding strategy. Two newer brands, namely "Zariah" and "T+T" were ceased in consideration of their persistently weak performance. With this move, the management team would be able to fully focus on the development of "Betu" brand which has been well received by the market.

Total sales during the period were steady and accounted for about 4% of the group's total turnover. At the end of the period, 78 stores were dotted across Mainland China.

Prospects

After all the rows over quotas and safeguard issues in last year, the market has now returned to a more stable pattern. Market competition has got down to basics i.e., superb quality, competitive price, timely delivery, and excellent customer service. Being a manufacturer of choice, we have been putting paramount emphasis on these basic qualities that our buyers would value upon. We also set our sight on effective management system, which is vital for staying ahead of competition.

In the remaining months of this financial year, the industry's performance will largely be determined by a number of macro economic factors. They include the performance of the U.S. economy, the trend of energy costs, the extent of RMB appreciation, and the growing costs in the Mainland.

On sales side, while it is hinged on the performance of economy to a certain extent, we shall secure our market share by deepening our partnering relationship with key buyers, and devoting greater resources to develop new buyers. Key areas we work on are innovative product research and development, seamless client servicing, and providing solution instead of mere products to better suit buyers' needs. On costs side, we will be mindful of wastage and inefficiency, and ensure that we are deploying our resources for maximum return. Further streamlining of process and being lean in all aspects will continue to be the direction of ours.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Prospects *(continued)*

With reference to our latest order position, we continue to see signs of growth while it is worth to note the recently announced mixed economic indicators of the U.S. might have certain impact on consumer demand.

Regarding Mainland China retail business, our commitment is as strong as for our core export business. On the strength of our extensive experience in garment industry and operating retail in the Mainland, we are confident to build this line of business into one of the core parts of our business in the long run. Our strategic move to focus on "Betu" brand will facilitate more effective branding development and network expansion. One of our key action programs planned is to launch franchisee program in the coming months in order to quicken the spread of our presence in the second and third-tier cities. As at the report date, the Group is operating 80 "Betu" stores.

As for our USA wholesale label business, its hard time has largely passed after a series of revitalizing measures. Although it will not become a key income driver in the near term, continuous improvement in performance is envisioned under the management of the enhanced team and judging from the latest figures.

To conclude, we are steering the whole group into a better shape as compared to the recent periods. We are fully confident in our business and are well-positioned for future growth.

Capital expenditure

During the period under review, the Group's capital expenditure amounted to HK$11 million as compared to HK$16 million of the last corresponding period. The capital expenditure mainly represented regular replacement and small scale expansion in production capacity.

Liquidity and financial resources

The Group's financial position remained solid and benign. Working capital cycle was closely monitored and both inventory turnover and trade receivables turnover have quickened. Capital structure was sound with low financial leverage. As at 30 September, 2006, the Group had a cash balance of HK$185 million compared to HK$148 million as at March 31, 2006. 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$40 million as compared to HK$54 million as at March 31, 2006. Total bank borrowings as a percentage of shareholders' funds was 8% at the period end date.

As at September 30, 2006, certain prepaid lease payments and buildings with an aggregate net book value of approximately HK$12 million and HK$4 million and certain investment properties with an aggregate carrying value of approximately HK$11 million as well as bank deposits of HK$0.2 million were pledged to banks to secure general banking facilities granted to the Group. No additional tangible security was given to banks during the period.

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 RMB expense to a certain extent.

Human resources

As at September 30, 2006, the Group had approximately 9,700 employees globally, as compared to 9,400 as at March 31, 2006. The increase was mainly production workers of the factories in China and the Asian countries.

The Group puts 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 HK6.0 cents per share (2005: HK5.5 cents per share) payable on January 18, 2007 to shareholders whose names appear in the Register of Members on January 11, 2007.

Closure of Register of Members

The Register of Members will be closed from January 5, 2007 to January 11, 2007, 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 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong, not later than 4:30 p.m. on January 4, 2007.

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

At September 30, 2006, 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	350,000	0.10%
Raymond Tung Wai Man	Beneficial owner	400,000	0.11%
Kevin Lee Kwok Bun	Beneficial owner	9,000,000	2.56%
Johnny Chang Tak Cheung	Beneficial owner/ Beneficiary of a trust *(note b)*	2,591,680	0.74%
Tony Chang Chung Kay	Beneficial owner	3,494,760	0.99%
Joseph Wong King Lam	Beneficial owner	1,390	0.000395%

Notes:

(a) Mr. Benson Tung Wah Wing has an equity interest of 100% in Corona Investments Limited, which owned 125,049,390 ordinary shares in the Company as at September 30, 2006, representing 35.51% of the issued share capital of the Company.

(b) Mr. Johnny Chang Tak Cheung is the beneficiary owner who owned 151,680 ordinary shares in the Company as at September 30, 2006. He is also a beneficiary of a trust, Chaco International Limited, which owned 2,440,000 ordinary shares in the Company as at September 30, 2006.

Save as disclosed above, as at September 30, 2006, 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 year 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.

Directors' Interests in Contracts of Significance

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Substantial Shareholders

At September 30, 2006, shareholders who had interests and short positions in the shares and underlying shares of the Company, other than those mentioned in directors' interest, which have been disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

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

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Corona Investments Limited *(note a)*	Beneficial owner	125,049,390	35.51%
Veer Palthe Voûte NV *(note b)*	Investment manager	35,319,000	10.03%
Dresdner Bank Aktiengesellschaft *(note b)*	Interest of controlled corporation	35,319,000	10.03%
Allianz Aktiengesellschaft *(note b)*	Interest of controlled corporation	35,319,000	10.03%

Notes:

(a) The shares have been disclosed in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above.

(b) Veer Palthe Voûte NV is 100% indirectly owned by Dresdner Bank Aktiengesellschaft, which is in turn 81.1% indirectly owned by Allianz Aktiengesellschaft.

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, 2006.

Share Options

The Company's Share Option Scheme adopted on November 26, 1988 has expired on November 25, 1992 and no other share option scheme has been adopted since then. There are no outstanding options granted under the said share option scheme.

Pursuant to the resolution passed on the annual general meeting held on September 5, 2006, the Company has adopted a new share option scheme (the "New Share Option Scheme"). According to the New Share Option Scheme, the Company may grant to its full time employees (including executive director of the Company, its subsidiaries or any invested entity) share options to subscribe shares of the Company.

As at September 30, 2006, no options were granted under the New Share Option Scheme during the period.

Board of Directors

Executive Directors

Mr. Benson Tung Wah Wing, *Chairman*
Mr. Alan Lam Yiu On, *Managing Director*
Mr. Raymond Tung Wai Man

Non-executive Directors

Mr. Tung Siu Wing
Mr. Kevin Lee Kwok Bun

Independent Non-executive Directors

Mr. Johnny Chang Tak Cheung
Mr. Tony Chang Chung Kay
Mr. Joseph Wong King Lam
Mr. Robert Yau Ming Kim

Purchase, Sale or Redemption of Shares

During the period, there was no purchase, sale or redemption of the Company's shares by the Company or any of its subsidiaries.

Audit Committee

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the unaudited interim financial statements. In addition, the Group's external auditors have carried out a review of the unaudited interim results in accordance with the Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the HKICPA.

Corporate Governance

The Company complied with all requirements set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange throughout the review period.

Model Code

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all directors, all directors confirmed they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by directors adopted by the Company.

Benson Tung Wah Wing
Chairman

Hong Kong, December 18, 2006

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