



TUNGTEX (HOLDINGS) COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00518)

INTERIM RESULTS ANNOUNCEMENT SIX MONTHS ENDED SEPTEMBER 30, 2008

FINANCIAL HIGHLIGHTS

1. Group turnover decreased by 0.2% to HK\$1,086 million
2. Profit attributable to equity holders of the Company dropped by 35.5% to HK\$30 million
3. Profit attributable to equity holders of the Company as a percentage of turnover decreased by 1.5% point to 2.8%
4. Net cash went up from HK\$214 million to HK\$229 million in the six-month period
5. The Board of Directors has declared an interim dividend of HK4.25 cents per share

RESULTS

The Board of Directors is pleased to announce that the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (the “Group”) for the six months ended September 30, 2008 (the “period”) are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended September 30, 2008

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

CONDENSED CONSOLIDATED BALANCE SHEET

At September 30, 2008

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

Notes:

1. Basis of preparation

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

2. Principal accounting policies

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the annual financial statements of the Group for the year ended March 31, 2008.

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

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

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

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

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

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

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

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

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

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

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

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

3. Segment information

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

Six months ended September 30, 2008

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

Six months ended September 30, 2007

	USA HK\$'000	Canada HK\$'000	Asia HK\$'000	Europe and others HK\$'000	Consolidated HK\$'000
REVENUE					
Sales of goods – external	<u>923,705</u>	<u>18,669</u>	<u>74,008</u>	<u>71,449</u>	<u>1,087,831</u>
SEGMENT RESULT	<u>83,358</u>	<u>1,477</u>	<u>4,571</u>	<u>9,038</u>	98,444
Unallocated corporate income					8,806
Unallocated corporate expense					(36,153)
Finance costs					(2,890)
Share of results of associates					<u>(1,407)</u>
Profit before tax					66,800
Income tax expense					<u>(15,339)</u>
Profit for the period					<u>51,461</u>

4. Profit before tax

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

5. Income tax expense

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

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

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

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

Two subsidiaries of the Company received protective/additional profits tax assessment from Inland Revenue Department (the "IRD") of approximately HK\$5.8 million and HK\$25.5 million, respectively, relating to the year of assessment 1998/99 to 2006/07, that is, for the financial years ended March 31, 1999 to 2007. The protective/additional profits tax assessment relates mainly to the subsidiaries' income derived from their manufacturing operations in the PRC. The subsidiaries lodged objections with the IRD and the IRD agreed to holdover the tax claimed subject to tax reserve certificates in the amount of HK\$5.4 million and HK\$24.5 million being purchased by the subsidiaries, respectively. Those tax reserve certificates were purchased by the relevant subsidiaries. In respect of the protective/additional profits tax assessment for the years of assessment 1998/99 to 2006/07, a provision of HK\$31.3 million has been provided.

In the opinion of the directors and the advice from the Group's tax advisors, the subsidiaries' income derived from their manufacturing activities in the PRC is not arising in or derived from Hong Kong, and that sufficient tax provision has been made in the consolidated financial statements in this regard.

6. Dividends

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

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

7. Earnings per share

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

	Six months ended September 30,	
	2008	2007
	HK\$'000	HK\$'000
Profit for the period attributable to equity holders of the Company	30,173	46,806
	2008	2007
Weighted average number of ordinary shares for the purpose of basic earnings per share	352,137,298	352,137,298
Effect of dilutive potential ordinary shares in respect of share options	—	2,585,455
Weighted average number of ordinary shares for the purpose of diluted earnings per share	352,137,298	354,722,753

The computation of diluted earnings per share for the six months ended September 30, 2008 does not assume the exercise of the Group's outstanding share options as the exercise prices of those options are higher than the average market price.

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

At September 30, 2008, the directors considered the carrying amount of the Group's investment properties carried at their fair values and estimated that the carrying amounts do not differ significantly from that which would be determined using fair values at the balance sheet date. Consequently, no fair value adjustment has been recognised in the current period.

In addition, the Group spent HK\$9,175,000 on acquisition of property, plant and equipment for the purposes of regular replacement and business expansion.

9. Trade and other receivables

The Group allows an average credit period ranging from 30 days to 90 days to its trade customers, with a significant portion of 30 days. Included in trade and other receivables are trade receivables, mainly denominated in United States Dollars, with the following aged analysis:

	September 30, 2008	March 31, 2008
	HK\$'000	HK\$'000
Up to 30 days	202,838	220,541
31 – 60 days	40,778	58,482
61 – 90 days	1,964	15,880
	245,580	294,903

10. Trade and other payables

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

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

INTERIM DIVIDEND

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

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from January 5, 2009 to January 7, 2009, both days inclusive, during which no share transfer will be effected. To qualify for the interim dividend, transfers must be lodged with the Company's Registrar, Tricor Secretaries Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong, not later than 4:30 p.m. on January 2, 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

Summary of operating results

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

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

Business Review

Manufacture and export business

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

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

Mainland China retail business

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

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

USA wholesale label business

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

Prospects

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

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

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

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

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

Capital Expenditure

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

Liquidity and financial resources

The Group’s financial position remained solid and benign, with stronger cash and liquidity position. Working capital cycle was closely monitored where inventory turnover and trade receivables turnover were stable. As at September 30, 2008, the Group had a cash balance of HK\$269 million compared to HK\$260 million as at March 31, 2008. Most of the cash balance was placed in USD and HKD short term deposits with major banks in Hong Kong. Total bank borrowings, mainly denominated in USD and HKD, were HK\$41 million as compared to HK\$45 million as at March 31, 2008. Total bank borrowings as a percentage of shareholders’ funds was low at 7.6% at the period end date. Capital structure continued to be conservative.

As at September 30, 2008, certain land and buildings with an aggregate net book value of approximately HK\$13 million and certain investment properties with an aggregate carrying value of approximately HK\$29 million were pledged to banks to secure general banking facilities granted to the Group. No additional tangible security was given to banks during the period.

Treasury policies

We are highly disciplined in managing our treasury exposures, such as exchange rate and interest rate risks associated with our core business. It is our Group's policy not to engage in speculative activities. The majority of our export sales are denominated in USD while a tiny portion destined for the European markets is denominated in EUR. As a substantial portion of the purchases and overheads are denominated in RMB, the Group entered into forward contracts to hedge the risks as deemed appropriate.

Human Resources

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

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

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.

PUBLICATION OF INTERIM RESULTS AND REPORT

This results announcement is published on the Company's websites (<http://www.tungtex.com>) and the Stock Exchange's website (<http://www.hkexnews.hk>). The interim report containing all the information required by the Listing Rules will be dispatched to the shareholders and available on the same websites in due course.

Benson Tung Wah Wing
Chairman

Hong Kong, December 11, 2008

The directors of the Company as at the date of this announcement are Mr. Benson Tung Wah Wing (Chairman), Mr. Alan Lam Yiu On (Managing Director) and Mr. Raymond Tung Wai Man as Executive Directors; Mr. Tung Siu Wing and Mr. Kevin Lee Kwok Bun as Non-Executive Directors; and Mr. Johnny Chang Tak Cheung, Mr. Tony Chang Chung Kay, Mr. Joseph Wong King Lam and Mr. Robert Yau Ming Kim as Independent Non-Executive Directors.