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TUNGTEX (HOLDINGS) COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00518)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2012

FINANCIAL HIGHLIGHTS

1. Group revenue decreased by 6.5% to HK\$732 million
2. Loss for the period attributable to owners of the Company was HK\$26 million
3. Net cash balance was HK\$107 million
4. The Board of Directors has declared a special dividend of HK1.0 cent per share

RESULTS

The Board of Directors is pleased to announce that the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended September 30, 2012 (the “period”), together with the comparative figures for the six months ended September 30, 2011 are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended September 30, 2012

		Six months ended September 30,	
		2012	2011
	Notes	HK\$'000 (unaudited)	HK\$'000 (unaudited)
Revenue	3	732,380	783,390
Cost of sales		(589,471)	(627,855)
Gross profit		142,909	155,535
Other income		1,735	1,592
Fair value loss on derivative financial instruments		(523)	(72)
Selling and distribution costs		(50,684)	(49,042)
Administrative expenses		(121,370)	(122,976)
Finance costs		(1,416)	(1,194)
Share of results of associates		370	148
Loss before tax	4	(28,979)	(16,009)
Income tax expense	5	(897)	(981)
Loss for the period		(29,876)	(16,990)
Loss for the period attributable to:			
Owners of the Company		(26,023)	(16,712)
Non-controlling interests		(3,853)	(278)
		(29,876)	(16,990)
Loss per share	7		
– Basic and diluted (HK cents)		(7.4)	(4.8)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended September 30, 2012

	Six months ended	
	September 30,	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Loss for the period	<u>(29,876)</u>	<u>(16,990)</u>
Other comprehensive income		
Exchange differences arising on translation of foreign operations	<u>170</u>	<u>3,259</u>
Total comprehensive expense for the period	<u>(29,706)</u>	<u>(13,731)</u>
Total comprehensive expense attributable to:		
Owners of the Company	<u>(25,846)</u>	<u>(13,409)</u>
Non-controlling interests	<u>(3,860)</u>	<u>(322)</u>
	<u>(29,706)</u>	<u>(13,731)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At September 30, 2012

	Notes	September 30, 2012 HK\$'000 (unaudited)	March 31, 2012 HK\$'000 (audited)
Non-current assets			
Investment properties	8	97,416	97,416
Property, plant and equipment	8	99,973	100,077
Prepaid lease payments		11,104	11,296
Intangible assets		–	33
Interests in associates		3,221	2,851
Deferred tax assets		104	74
		211,818	211,747
Current assets			
Inventories		158,423	180,709
Trade and other receivables	9	199,270	206,087
Prepaid lease payments		384	384
Amount due from an associate		926	3,030
Tax recoverable		3,827	4,330
Derivative financial instruments		–	56
Bank balances and cash		188,348	178,667
		551,178	573,263
Current liabilities			
Trade and other payables	10	207,231	228,739
Amount due to a non-controlling shareholder of a subsidiary		–	900
Tax liabilities		372	816
Obligations under finance leases – due within one year		142	76
Derivative financial instruments		523	–
Bank borrowings		81,138	44,292
		289,406	274,823
Net current assets		261,772	298,440
Total assets less current liabilities		473,590	510,187
Non-current liabilities			
Deferred tax liabilities		16,984	17,076
Obligations under finance leases – due after one year		296	60
		17,280	17,136
		456,310	493,051
Capital and reserves			
Share capital		70,346	70,346
Reserves		351,583	384,464
Equity attributable to owners of the Company		421,929	454,810
Non-controlling interests		34,381	38,241
		456,310	493,051

NOTES:

1. BASIS OF PREPARATION

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

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.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended September 30, 2012 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended March 31, 2012.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA:

- amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*; and
- amendments to HKAS 12 *Deferred Tax: Recovery of Underlying Assets*

The amendments to HKAS 12 provide an exception to the general principles in HKAS 12 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset. Specifically, under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 *Investment Property* are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The Group measures its investment properties using the fair value model. Since the Group’s investment properties are depreciable and are held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale, the directors have rebutted the presumption in HKAS 12. Consequently, the application of the amendments to HKAS 12 in the current interim period has had no effect on the deferred tax liabilities in relation to the Group’s investment properties.

The application of the other amendments to HKFRSs in the current interim period has had no material effect on the condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. SEGMENT INFORMATION

The Group's operating segments, based on information reported to the chief operating decision makers, the Company's executive directors, for the purposes of resource allocation and performance assessment which are analysed based on the location of customers, are as follows:

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

Information regarding the above segments is reported below.

Six months ended September 30, 2012

	USA HK\$'000	Canada HK\$'000	Asia HK\$'000	Europe and others HK\$'000	Consolidated HK\$'000
SEGMENT REVENUE					
Sales of goods – external	<u>542,343</u>	<u>22,017</u>	<u>108,987</u>	<u>59,033</u>	<u>732,380</u>
SEGMENT PROFIT/(LOSS)	<u>4,316</u>	<u>1,952</u>	<u>(4,375)</u>	<u>3,459</u>	<u>5,352</u>
Unallocated income					1,735
Unallocated expenses					(35,020)
Finance costs					(1,416)
Share of results of associates					<u>370</u>
Loss before tax					<u>(28,979)</u>

Six months ended September 30, 2011

	USA HK\$'000	Canada HK\$'000	Asia HK\$'000	Europe and others HK\$'000	Consolidated HK\$'000
SEGMENT REVENUE					
Sales of goods – external	<u>612,701</u>	<u>9,626</u>	<u>93,946</u>	<u>67,117</u>	<u>783,390</u>
SEGMENT PROFIT	<u>8,895</u>	<u>591</u>	<u>1,586</u>	<u>5,245</u>	<u>16,317</u>
Unallocated income					1,592
Unallocated expenses					(32,872)
Finance costs					(1,194)
Share of results of associates					<u>148</u>
Loss before tax					<u>(16,009)</u>

Segment profit/(loss) represents the profit/(loss) earned/(expensed) by each segment without allocation of central administration costs, directors' salaries, depreciation of property, plant and equipment, amortisation of prepaid lease payments, fair value changes on derivative financial instruments, share of results of associates, other income and finance costs. This is the measure reported to the Company's executive directors for the purposes of resource allocation and performance assessment.

4. LOSS BEFORE TAX

	Six months ended September 30,	
	2012	2011
	HK\$'000	HK\$'000
Loss before tax has been arrived at after charging:		
Amortisation of intangible assets	33	34
Amortisation of prepaid lease payments	192	192
Depreciation of property, plant and equipment	10,383	10,630
Loss on disposal of property, plant and equipment	85	74
and after crediting:		
Bank interest income	76	89
Rental income from properties under operating leases	<u>1,659</u>	<u>1,503</u>

5. INCOME TAX EXPENSE

	Six months ended September 30,	
	2012	2011
	HK\$'000	HK\$'000
Current tax:		
Hong Kong	601	686
People's Republic of China (the "PRC")	434	652
Other jurisdictions	<u>21</u>	<u>54</u>
	1,056	1,392
Overprovision	<u>(37)</u>	<u>(203)</u>
	1,019	1,189
Deferred taxation	<u>(122)</u>	<u>(208)</u>
	<u>897</u>	<u>981</u>

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

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

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of certain PRC subsidiaries of the Company increases progressively from 15% to 25% before January 1, 2013. The tax rate of the other PRC subsidiaries was 25% for both years.

According to the EIT Law, the profits of the PRC subsidiaries of the Company and PRC associates of the Group derived since January 1, 2008 will be subject to withholding tax at a rate of 5% upon the distribution of such profits to foreign investors incorporated in Hong Kong, or at a rate of 10% for other foreign investors. The Group determined that no deferred tax on withholding tax liabilities shall be recognised since no significant distributable profit was derived by the PRC subsidiaries and associates from January 1, 2008.

6. DIVIDENDS

On September 13, 2012, a special dividend of HK2.0 cents per share for the year ended March 31, 2012, amounting to a total of HK\$7,035,000 was paid to shareholders (six months ended September 30, 2011: final dividend of HK4.25 cents per share for the year ended March 31, 2011, amounting to HK\$14,949,000).

Subsequent to September 30, 2012, the directors do not recommend the payment of an interim dividend but have determined that a special dividend of HK1.0 cent per share (six months ended September 30, 2011: a special dividend of HK2.0 cents per share) will be paid to the shareholders of the Company whose names appear in the Register of Members on December 20, 2012.

7. LOSS PER SHARE

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

	Six months ended September 30,	
	2012	2011
	HK\$'000	HK\$'000
Loss for the period attributable to owners of the Company	<u>(26,023)</u>	<u>(16,712)</u>
	2012	2011
Number of ordinary shares in issue during the period	<u>351,731,298</u>	<u>351,731,298</u>

The computation of diluted loss per share for the six months ended September 30, 2012 and 2011 does not assume the exercise of the Company'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, 2012, the directors considered the carrying amount of the Group's investment properties carried at their fair values and estimated that the carrying amounts do not differ significantly from that which would be determined using fair values at the reporting date. Consequently, no fair value adjustment has been recognised in the current period (six months ended September 30, 2011: Nil).

In addition, the Group spent HK\$10,529,000 (six months ended September 30, 2011: HK\$8,375,000) on acquisition of property, plant and equipment during the period.

9. TRADE AND OTHER RECEIVABLES

The Group allows a credit period ranging from 30 days to 90 days to its trade customers, with a significant portion being 30 days. Included in trade and other receivables are trade and bills receivables, mainly denominated in United States dollars, with the following aged analysis presented based on the invoice date at the end of the reporting period:

	September 30, 2012 HK\$'000	March 31, 2012 HK\$'000
Up to 30 days	107,916	116,558
31 – 60 days	22,342	26,621
61 – 90 days	17,757	22,927
More than 90 days	1,506	2,763
	<u>149,521</u>	<u>168,869</u>

10. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables with the following aged analysis presented based on the invoice date at the end of the reporting period:

	September 30, 2012 HK\$'000	March 31, 2012 HK\$'000
Up to 30 days	87,879	88,928
31 – 60 days	7,925	33,406
61 – 90 days	11,619	16,803
More than 90 days	7,394	5,329
	<u>114,817</u>	<u>144,466</u>

11. CAPITAL COMMITMENT

Six months ended September 30,	
2012	2011
HK\$'000	HK\$'000

Capital expenditure in respect of the acquisition of
a property contracted for but not provided in the condensed
consolidated financial statements

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INTERIM DIVIDEND

The Board of Directors does not recommend the payment of an interim dividend but has declared a special dividend of HK1.0 cent per share (six months ended September 30, 2011: a special dividend of HK2.0 cents per share) payable on January 4, 2013 to shareholders whose names appear in the Register of Members on December 20, 2012.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed on Thursday, December 20, 2012, on which day no transfers of shares will be effected. In order to qualify for the entitlement to the special dividend, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's share registrar, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Wednesday, December 19, 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

Summary of Operating Results

During the period under review, the already sluggish global economic recovery was dragged down by continuing financial difficulties in Europe and fiscal uncertainty in the United States. Overshadowed by the astringent world-wide economic conditions, the Group encountered shrinking export demands which hindering its economies of scale and, thus, continued to record a loss for the period.

In the six months ended September 2012, loss attributable to owners of the Company and loss per share were HK\$26.0 million and HK7.4 cents per share respectively, as compared to HK\$16.7 million and HK4.8 cents respectively for the same period last year. The board of directors does not recommend the payment of an interim dividend, but has resolved to declare a special dividend of HK1.0 cent per share.

Business Review

Affected by the unfavorable macroeconomic factors as pinpointed in our last annual report, the Group's business faced severe challenges during the financial period. The United States' recovery pace for the period remained very slow and was hardly enough to lead to robust hiring. The chronic high unemployment, coupled with the anxiety about excessive fiscal tightening that might be imposed, undermined customers' sentiment. Meanwhile, shock waves from eurozone's indebtedness also hampered consumer confidence and worsened unemployment, eventually causing eurozone stumbled into recession. The Group's turnover of HK\$732 million in the first half of the financial year was 6.5% below that of the last corresponding period. In terms of geographical segment, sales to North America, the Group's principal export market, declined 9.3% to HK\$564 million, accounted for 77.1% of the Group's turnover. Sales to Europe and other markets recorded a fall of 12.0% to HK\$59 million, representing 8.1% of the Group's turnover. As for Asia, total sales were HK\$109 million, increased by 16.0% from the same period last year.

During the financial period, the Group's retail sales in mainland China recorded a rise of 23.4% as compared with the same period last year and accounted for 11.5% of the Group's turnover. This growth primarily reflected our keen determination in expanding our retail brand business in mainland China to fit in with China's persistent economic strategy of enhancing domestic consumption and rapid urbanization. At the end of the financial period, the Group had 130 directly managed stores and 110 franchised stores in operation.

During the period under review, the surge in manufacturing costs, which was hardly to be substantially diverted to our customers, was managed to be partially offset by our stiff costs control and continuous betterment in the production process. Consequently, the cost of sales was sustained at 80.5% of total sales, slightly higher than 80.1% of the same period last year; while lower than 81.0% of last financial year on whole year basis. Compared to prior year period, selling and distribution costs increased from 6.3% to 6.9%, while administrative expenses increased from 15.7% to 16.6% as a percentage of sales. Finance costs rose 18.6% to HK\$1.4 million owing to the increase in short-term bank financing.

As indicated in our last annual report, the Group had a firm intention to strategically increase production capacities in Asian country other than China. In August of this year, the Group entered into an agreement for acquiring the land use rights of a piece of land in Long An province of Vietnam with the purpose of constructing factory premises. The transaction was completed with a consideration equivalent to approximately HK\$6.5 million in October of this year. It is expected that the production lines in the new factory premises will commence operation and attract additional export orders in the next fiscal year.

Prospects

Looking ahead, our export business will be subject to world-wide economic conditions and the resulting impact on consumer confidence, which may remain within a depressed range in the short-term. The grim business environment and precarious outlook of the global economy will continue to entwine the Group in terms of its export business recovery and overall performance in the second half of the financial year. In this case, we will keep on devoting full efforts to provide high-quality services satisfying customers' core needs. On the other hand, we strive to explore new opportunities and expand our client base steadily with continuous strict credit control over trade receivables.

Supposing the threat of worrisome fiscal cliff in the United States is resolved in a rational way to avoid resulting in a drastic recession, we expect that the general export business environment, as well as our export performance, will improve gradually in the next fiscal year. In the long run, we are confident that we can get over the hump with our solid fiscal resources, cohesive work teams, superb product quality, adequate manufacturing facilities, versatility to fulfill customers' needs and well-established trust with our business partners.

To reduce operating expenditures structurally in an effective manner while keeping the existing efficiency, the Group is committed to reorganizing and integrating parts of its internal operation. Disciplined execution of lean management will continue to be applied over all manageable areas especially for procurement, production and distribution. Meanwhile, strategically enhancing production efficiency, simplifying procedural operations and broadening sourcing scope are all under way to fight with the surged costs.

Notwithstanding China's economic growth was moderately decelerating recently, we will keep growing our China retail business with a firm and steady pace. To hurdle the highly competitive market conditions in China, we will continue to strengthen our favorable brand name and recognition by our quality product innovation, competitive store locations, harmonized store design and multimedia commercials. As at the report date, the Group is running 133 directly managed "Betu" stores and 122 franchised stores in mainland China.

With a view to exploit China's national economic strategy of expanding domestic consumption, the Group has been exploring the potential of manufacturing and selling garments to domestic brands in China. To satisfy the overall expansion need for our long-term export business development as well as the additional factory capacities required for the above expansion plan in China, the Group entered into an agreement in November of this year for the acquisition of an industrial property in Dongguan of China. The acquisition of the industrial property can also facilitate rationalization of our existing manufacturing facilities in China. The Group has planned to occupy the industrial property in Dongguan after the expiry of existing lease agreement with third party in 2014.

CAPITAL EXPENDITURE

During the period under review, the Group has incurred HK\$10.5 million capital expenditure as compared to HK\$8.4 million of the last corresponding period. It mainly represented leasehold improvement of retail stores and regular replacement and advancement of production facilities.

LIQUIDITY AND FINANCIAL RESOURCES

The Group continued to maintain solid liquidity and financial position. Working capital cycle was closely watched where inventory turnover and trade receivable turnover remained healthy. As at September 30, 2012, the Group had a cash balance of HK\$188 million compared to HK\$179 million as at March 31, 2012. Most of the cash balance was placed in USD, HKD and RMB short-term deposits with major banks. Total bank borrowings of HK\$81 million, as compared to HK\$44 million as at March 31, 2012. Total bank borrowings as a percentage of equity attributable to owners of the Company was at 19.2% at the end of the reporting period. With net cash of HK\$107 million and sufficient banking facilities available, the Group has adequate liquidity and financial resources to meet the working capital requirement and future expansion needs and, if necessary, the Group will be able to obtain additional financing with favorable terms.

As at September 30, 2012, certain land and buildings with an aggregate net book value of approximately HK\$5 million and certain investment properties with an aggregate carrying value of approximately HK\$66 million were pledged to banks to secure general banking facilities granted to the Group. No additional tangible security was given to banks during the period.

TREASURY POLICY

The Group devoted to maintain a stable financial position and adhered to cautious policies consistently to hedge exchange rate and interest rate risks associated with our core business. It is our Group's policy not to engage in speculative activities. The majority of our export sales are denominated in USD while a tiny portion destined for the European markets is denominated in EUR. As a substantial portion of the purchases and overheads are denominated in RMB and the EUR exchange rate fluctuation may be significant, the Group entered into forward contracts to hedge the risks as deemed appropriate.

HUMAN RESOURCES

To maintain competitive edge, the Group has streamlined the human resources structure, while retaining competent staff and attracting new joiners during the period under review. We offer employees with career development opportunities, competitive remuneration package with reference to the market practice and the Group's share option scheme. In-house and external training programs were provided during the period for management and staff development. As at September 30, 2012, the Group had approximately 5,500 employees globally, as compared to 5,800 as at March 31, 2012.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

AUDIT COMMITTEE

The Audit Committee has reviewed with management and the Group's external auditors, the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the unaudited interim financial statements of the Group for the six months ended September 30, 2012.

The Audit Committee of the Company comprises four independent non-executive directors, namely Mr. Leslie Chang Shuk Chien, Mr. Tony Chang Chung Kay, Mr. Robert Yau Ming Kim and Mr. Edwin Siu Pui Lap, with Mr. Leslie Chang Shuk Chien as the Chairman.

CORPORATE GOVERNANCE

The Stock Exchange of Hong Kong Limited (the "Stock Exchange") made various amendments to the Code on Corporate Governance (the "Former Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange and renamed it the Corporate Governance Code (the "CG Code"). The CG Code took effect on April 1, 2012. The Company complied with all the code provisions set out in the CG Code 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 during the period.

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, November 30, 2012

As at the date of this announcement, the Executive Directors of the Company are Mr. Benson Tung Wah Wing (Chairman), Mr. Alan Lam Yiu On (Managing Director), Mr. Raymond Tung Wai Man, Mr. Martin Tung Hau Man and Mr. Billy Tung Chung Man; the Non-Executive Directors of the Company are Mr. Tung Siu Wing and Mr. Kevin Lee Kwok Bun; and the Independent Non-Executive Directors of the Company are Mr. Johnny Chang Tak Cheung, Mr. Tony Chang Chung Kay, Mr. Robert Yau Ming Kim, Mr. Edwin Siu Pui Lap and Mr. Leslie Chang Shuk Chien.