

Tongxin International, Ltd. Reports Second Quarter 2009 Financial Results

CHANGSHA, China, August 10, 2009 /Xinhua-PRNewswire-FirstCall/ -- Tongxin International Ltd. (NASDAQ: [TXIC](#) - [News](#)), a China-based manufacturer of engineered vehicle body structures (“EVBS” or “truck cabs”) and stamped parts for the commercial automotive industry, today announced the Company's second quarter 2009 financial results.

- **Q2 2009 revenues increased 50.2% to \$34.8 million vs. Q2 2008.**
- **Second quarter revenues grew 18.2% sequentially over Q1 2009**
- **Q2 2009 net income increased 80.4% to \$4.4 million vs. Q2 2008 and 7.9% higher compared to Q1 2009.**
- **Earnings per share based on 11.3 million basic shares outstanding were \$0.39 and \$0.34 per weighted diluted shares**
- **Company provides revised guidance of \$120.0 million in revenues and \$14.7 million in net income for the 2009 calendar year.**

Second Quarter Financial Results

Net revenues for the second quarter ended June 30, 2009 reached \$34.8 million, an approximate \$11.7 million, or 50.2 % increase, over the same period the prior year. Significant quarter-over-quarter sales increases were directly attributed to increased sales to existing customers, new contracts the continued recovery of the manufacturing sector after factory quotas and shutdowns were ordered by Beijing in April, May and June 2008 in preparation for the Summer Olympics. In the four identifiable truck segments; “Mini”, “Light”, “Medium” and “Heavy”, Tongxin built and shipped the majority of their truck cabs to Mini and Light duty truck manufacturers in China. The Company also reported their customer base is taking an increasing number of “complete cabs” with interiors and instrumentation installed in each truck cab. For the 3-month period ended June 30, 2009, complete truck cabs accounted for 24% of revenues compared to 10% in 2008. Complete truck cabs are Tongxin’s highest revenue goods and have increased the average selling price per unit.

Tongxin also reported sequential sales growth of 18.2% over the first quarter of 2009. Driving this sales growth were shipments to the Company’s more than 130 commercial vehicle manufacturers in China. Tongxin secured additional sales orders from manufacturers who view outsourcing of cab-manufacturing as a method to reduce overhead and manufacturing costs in a competitive environment.

“The financial crisis has taken its toll on some of the manufacturers in our customer base, but it has also impacted competitors in the sector,” began Vice-Chairman Duanxiang Zhang of Hunan Tongxin. “Signs of recovery are evident by our growth year to date and we have benefitted by picking up business from smaller competitors who were ill equipped financially to navigate the downturn and unconfirmed reports have disclosed shut downs of many smaller operations. Our sales team has been able to capitalize on this event and our plants have responded quickly to shipment date requirements to secure new business from both existing and new customers.”

Cost of goods sold were \$27.0 million in the second quarter 2009. 80% of Tongxin’s costs are cold rolled steel. The balance of costs are components, paint and interiors used in the manufacturing process and labor cost. Corresponding gross profits for the second quarter were \$7.9 million compared to \$4.7 million in the second quarter of 2008. Gross margins increased 237 basis points to 22.6% in 2009 from 20.2% for the prior quarter ended June 30, 2008. A decline in gross margins from the first quarter 2009 was due to the Company’s efforts in securing current sales orders by installing less costly and lower margin accessories into finished cabs. The goal of this strategy is to win sales orders for new models and to stabilize the factory work force in anticipation of a full market recovery.

Total operating expenses for the second quarter of 2009 were \$1.2 million versus \$0.9 million for the same period in 2008. Included in the second quarter operating expenses were approximately \$0.6 million costs reflecting added accounting expenses, ERP system implementation and SOX compliance costs. Operating expenses were 3.3% compared with 4.0% for the same period, 2008. Operating income and operating margins for the quarter were \$6.7 million and 19.3%, respectively, versus \$ 3.8 million and 16.2 % in 2008.

Net income was \$4.4 million, representing an increase of 80.4% from \$2.6 million reported in the same period prior year. Net profit margins were 12.7% for the quarter which is a 200-basis point improvement in net margins from 10.6% reported the second quarter of 2008. Earnings per share for the quarter were \$0.39 based on 11.3 million basic shares outstanding.

“We have been pleased with the rebound in our business for this quarter and the improving trends in key operating metrics we have witnessed compared to 2008,” opened Jackie Chang, CFO of Tongxin International. “Although margins came down a bit in the second quarter of 2009 compared to the first quarter, we made a decision on pricing to gain market share and position us for further growth. We negotiated a contract for steel, our largest cost component, which effectively locks us in on current prices for the remainder of 2009, which we believe serves as a good hedge against rising prices in the face of improving economic activity,” Chang concluded.

Six-Months Ended June, 30, 2009

According to the June 2009 China Business Update – AutoStatistics ("CBU"), a total of 5,996,914 vehicles were sold in China (excluding exports) during the six month period ended June 30, 2009. A breakdown in the volume is below;

- 3.2 million passenger cars, a 22.51% increase from a year ago

- 1.32 million Multi Purpose Vehicles (MPV), Sport Utility vehicles (SUV) and Mini Vans (MV), a 35.36% increase from a year

- 1.56 million commercial vehicles, a 0.53% decrease from a year ago

For the first six months ended June 30, 2009 total revenues were \$64.4M representing an increase of 20.4% over the same period in 2008. Tongxin's increase in revenues outperformed the overall market during the first half of 2009 and is attributed to the securing of 17 new manufacturing contracts earlier in the year. The growth for the first half of the year is also qualified in the Company's increase of "complete" or "finished" cabs, (the highest priced category of cabs it sells throughout their customer base) and the first wave of export orders from its customer base in Vietnam. Exports to Vietnam were \$7.8M for the first six months of 2009, a 21.1% decrease compared to the same period in 2008. Since both the cabs and chassis are shipped to Vietnam, Tongxin credits the decrease to timing of components availability from other suppliers and not a loss of its customer volume. Tongxin anticipates the 2009 full year export volume to remain as strong as 2008. According to the Vietnamese Automotive Manufacturing Association, Vietnam sold 22,000 commercial vehicles in the six-month period ended June 30, 2009 versus 43,000 in the same period in 2008. Excluding exports from Tongxin's revenues, the Company reported an increase in domestic revenues of 30.1% for the first six months of 2009.

Earnings before interest and taxes were \$12.8 million versus \$9.3 million and 19.8% for the six months ended June 30, 2009 versus 17.3% in 2008. Tongxin pays the standard Chinese corporate tax rate of 25% however the Company has applied for a designation as a High-Tech Enterprise and a reduction to 15% for its income tax rate. This application is still in the process of review and if approved, would be retroactive to the first of the year for three consecutive years.

Net income for the six-month period ended June 30th, 2009 increased 41.7% to \$8.5 from \$6.0 in the first six months of 2008. Earnings per share were \$0.75 versus \$0.54 for the six month period, respectively, a 41% increase.

"We believe that the first half of 2009 gives a strong representation of our capabilities as a valued added supplier to the market", stated CEO and Chairman, Rudy Wilson of Tongxin International. "As domestic demand and the effects of the stimulus packages including the latest subsidy program announced on July 15 to spur commercial vehicles sales continue to work their way through the economy plus a noticeable return of export orders, we, anticipate a succession of strong quarters for Tongxin and continued demand for EVBS in 2009." Wilson concluded

Balance Sheet and Cash Flow Discussion

As of June 30, 2009, Tongxin International had approximately \$10.4 million in cash and cash equivalents compared to \$11.3 million on December 31st, 2008. The Company maintained a current ratio of 1.51x and \$24.6 million in accounts receivable on June 30, 2009. Corresponding days sales outstanding ("DSO") were 83 days. Stockholders' equity was \$90.6 million on June 30, 2009 from \$ 79.8 million for December 31, 2008, an

increase of \$10.8 million as result of 2009 net profit of \$8.5 million and exchange rate impact of \$2.3 million. Cash flow from operations was \$6.3 million mainly due to net profit of \$8.5m.

Revised 2009 Guidance

Based upon continued strong growth in the Chinese domestic market and anticipated improvement in exports to Vietnam, the Company is revising earnings guidance and providing revenue guidance for 2009. Revenues are estimated to be \$120.0 million for the calendar year, 2009. Net income is forecasted to increase to \$14.7 million, an 18.5% increase from previously issued guidance. Earnings per basic share outstanding are forecasted to be \$1.30 compared to previous guidance of \$1.10 based on 11.3 million shares. As of June 30, 2009 the company had 12.9 million diluted shares outstanding (based upon the Treasury Method).

The variance in basic and diluted shares is derived from the treasury calculation for warrants. The Company has approximately five million warrants outstanding with strike price of \$5.00 and callable at \$10.00. At the Company's option, and in the event the selling price of the Company's common shares trades at an average price of \$10.00 or more for twenty days out of a thirty day selling period, it may redeem warrants on "an all-or-none" basis. If the warrants are redeemed the Company would recognize gross proceeds of approximately \$25 million.

Company Announcements

Tongxin is planning a number of events in the coming months.

- September 9-11, 2009 - Rodman&Renshaw Investor Conference, NYC
- September 18, 2009 - NASDAQ Bell Ringing and Ceremony and Non Deal East Coast Road Show
- September 29, 2009 - Maxim Group Investor Conference, NYC and Non-Deal Road Show

Q2 2009 Earnings Conference Call

To attend the call, please use the dial information below. When prompted, ask for the "Tongxin International Conference Call" and/or be prepared to provide the conference ID. Details of the conference call are noted below:

Date:	August, 11th 2009
Time:	11:00am ET
Conference Line Dial-In (U.S.):	1-877-941-8610
International Dial-In:	+1-480-629-9031
Conference ID:	4135987
Webcast link:	http://viavid.net/dce.aspx?sid=000068B7

Please dial in at least 10-minutes before the call to ensure timely participation. A playback will be available through August 18th, 2009. To listen, please call 1-800-406-7325 within

the United States or +1-303-590-3030 when calling internationally. Utilize the pass code 4135987 for the replay.

About Tongxin International Ltd.

Tongxin International Ltd., the largest independent supplier of EVBS in China, is capable of providing EVBS for both the commercial truck and light vehicle market segments. The Company also designs, fabricates and tests dies used in the vehicle body structure manufacturing process. EVBS consists of exterior body panels including doors, floor pans, hoods, side panels and fenders. Tongxin maintains a network of 130 customers throughout 20 provinces in China. Headquartered in Changsha, Tongxin also maintains regional manufacturing in Dali, Ziyang and Zhucheng.

FORWARD LOOKING STATEMENTS

Statements contained in this press release, which are not historical fact, constitute "Forward-Looking Statements." Actual results may differ materially due to numerous important factors that are described in Tongxin International's most recent report to the SEC on Form 6-K, which may be revised or supplemented in subsequent reports to the SEC. Such factors include, among others, the cost and timing of implementing restructuring actions, the Company's ability to generate cost savings or manufacturing efficiencies to offset or exceed contractually or competitively required price reductions or price reductions to obtain new business, conditions in the automotive industry, and certain global and regional economic conditions. Tongxin International does not intend or assume any obligation to update any forward-looking statement to reflect events or circumstances after the date of this press release.

For more information, please contact:

COMPANY:

Mr. Rudy Wilson, CEO

Tel: 248-593-8330

Email: rudy@txicint.com

Ms. Jackie Chang, CFO

Tel: 626-660-7117

China: +86-13467553808

Email: jackie@txicint.com

Web: www.txicint.com

INVESTOR RELATIONS:



John Mattio, SVP

HC International, Inc.

Tel: +1-914-669-5340 (U.S.)

Email: john.mattio@hcinternational.net

Web: www.hcinternational.net

TONGXIN INTERNATIONAL, LTD.
CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2009 AND 2008 AND DECEMBER 31, 2008
(US\$ amounts expressed in thousands, except for share data and earnings per share)

	<u>30-Jun-09</u> (Unaudited)	<u>30-Jun-08</u> (Unaudited)	<u>31-Dec-08</u> (Audited)
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 10,374	\$ 15,966	\$ 11,313
Restricted Cash - Security deposit	3,812		5,836
Accounts receivable-Trade, net of allowance for doubtful accounts	24,613	20,248	13,153
Other receivable- net of allowance for doubtful \ accounts	1,270	2,476	1,600
Due from Related party		9,855	17,313
Notes receivable	4,523	4,937	
Inventories	16,808	18,225	19,096
Investment in marketable securities	147	73	146
Prepaid expenses	3,779	7,644	4,197
Deferred tax assets	1,947	1,674	2,067
Total current assets	<u>67,273</u>	<u>81,098</u>	<u>74,721</u>
Investment in non-consolidated subsidiaries and affiliates	473	907	208
Property, plant and equipment, net of depreciation	38,373	31,167	36,918
Land occupancy rights	11,011	2,028	9,633
HNTX internal receivable	41	0	0
Deferred income tax	879	0	0
Goodwill	19,296	0	36,696
TOTAL ASSETS	<u>\$ 137,346</u>	<u>\$ 115,200</u>	<u>\$ 158,176</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	\$ 13,926	\$ 18,677	\$ 21,037
Accrued expenses and other liabilities	1,670	11,602	7,393
Income tax payable	3,422	17,975	17,418
Short-term loans	24,965	18,976	16,669

Short-term loans from shareholders	0	2,463	8,591
Derivative liabilities	452	0	452
Total current liabilities	<u>44,435</u>	<u>69,693</u>	<u>71,560</u>
Long-term liabilities:			
Long-term loans	0	2,736	4,523
Long-term loans from shareholders	0	10,476	0
Deferred tax liability	2,256	0	2,243
Other	0	24	25
Total liabilities	<u>46,691</u>	<u>82,929</u>	<u>78,351</u>
Stockholders' equity:			
Preferred Stock, \$0.001 par value, authorized 1,000,000 shares; none issued			
Common stock - \$0.001 par value, authorized 39,000,000 shares; issued 12,889,758 shares and outstanding 11,300,336 shares	13	8,762	13
Reserve funds		13,059	
Additional paid-in capital	77,081		77,081
Treasury Stock, 1,589,422 shares	(7,682)		(7,682)
Accumulated other comprehensive income	426	2,373	426
Retained earnings	20,817	8,077	9,987
Total stockholders' equity	<u>90,655</u>	<u>32,271</u>	<u>79,825</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 137,346</u>	<u>\$ 115,200</u>	<u>\$ 158,176</u>

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS APRIL 1 THROUGH JUNE 30, 2009 AND 2008
AND SIX MONTHS JANUARY 1ST THROUGH JUNE 30, 2009 AND 2008
(US\$ amounts expressed in thousands, except for share data and earnings per share)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009 (unaudited)	2008 (unaudited)	2009 (unaudited)	2008 (unaudited)
Revenue	\$ 34,862	\$ 23,198	\$ 64,361	\$ 53,479
Cost of goods sold	(26,994)	(18,511)	(48,065)	(41,245)
Gross profit	7,868	4,687	16,296	12,234
Operating expenses:				
Selling, general and administrative expenses	(1,442)	(926)	(4,107)	(2,983)
Other income	302		572	0
Interest Expenses	(585)	(615)	(1,101)	(1,230)
Income before income taxes	6,143	3,146	11,660	8,021
Income taxes	(1,720)	(694)	(3,138)	(1,977)
Net income	\$ 4,423	\$ 2,452	\$ 8,522	\$ 6,044
Comprehensive income	4,423	2,452	8,522	6,044
Net income per common share	0.39	0.22	0.75	0.54
Net income per common share-diluted	0.34	0.19	0.66	0.47
Weighted average shares outstanding	11,294,633	11,294,633	11,294,633	11,294,633
Weighted average shares outstanding – diluted	12,925,932	12,925,932	12,925,932	12,925,932

TONGXIN INTERNATIONAL, LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2009 AND TWELVE MONTHS ENDED 2008
(US\$ amounts expressed in thousands)

	FOR THE SIX MONTHS ENDED JUNE 30	FOR THE TWELVE MONTHS ENDED DECEMBER 31
	2009	2008
	(unaudited)	(audited)
Cash flows from operating activities:		
Net income	\$ 8,522	\$ 20,486
Adjustments to reconcile net income to net cash provided by operating activities:		
Reversal of bad debt allowance	-	(944)
Depreciation expense	733	2,828
Amortization expense	-	54
Unrealized gain on warrant	-	(13,535)
Changes in operating assets and liabilities:		
(Increase)/decrease in inventories	2,288	(5,112)
(Increase)/decrease in trade accounts / notes receivable	(15,983)	11,453
(Increase)/decrease in Due from related party	17,313	(1,724)
(Increase)/decrease of prepaid expenses and other current assets	2,441	(1,275)
(Increase)/decrease in Deferred tax assets	120	192
(Increase)/decrease in Other Receivable	330	2
Increase/(decrease) in accounts payable	(7,111)	967
Increase/(decrease) of accrued expenses, and other liabilities	(2,306)	(943)
Net cash provided by operating activities	6,347	12,449
Cash flows from investing activities:		
Acquisition of Hunan Tongxin Enterprise Co. Ltd., net of cash acquired of \$5,319	-	(7,700)
Cash paid for purchase of fixed assets and intangible assets	(3,566)	(9,493)
Cash paid for investment	(265)	(75)
Net cash used in investing activities	(3,831)	(17,268)

Cash flows from financing activities:

Proceeds from loans	3,773	23,649
Proceeds from loans-related parties	(8,591)	9,894
Debt repayments	(25)	(23,444)
Debt repayments-related parties	-	(16,425)
Net cash (used in) provided by financing activities	(4,843)	(6,326)
Effect of foreign exchange rate changes	1,388	199
Net increase (decrease) in cash and cash equivalents	(939)	9,651
Cash and cash equivalents at beginning of year	11,313	1,662
Cash and cash equivalents at end of year	10,374	11,313
Supplemental information:		
Income taxes paid	3,138	2,843
Interest paid	1,102	2,702