Tiangong International Company Limited

天 工 國 際 有 限 公 司 *

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 826)

ANNOUNCEMENT OF THE INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2007

Financial Highlights

- Revenue of the Group for the first half of 2007 totaled RMB833,116,000, representing an increase of 55.1 % when compared with RMB537,217,000 for the same period in 2006.
- Profit attributable to equity holders of the Company was up by 258.1% to RMB108,374,000 for the first half of 2007 (2006: RMB30,266,000).
- All three product segments of the Group demonstrated robust growth trends. Revenue of High Speed Steel ("HSS"), HSS cutting tools and die steel recorded growth rates of 43.8%, 32.4% and 618.1%, respectively.
- Earnings per share was RMB0.36 (2006: RMB0.10), an increase of 260.0%.

The board of directors (the "Board") of Tiangong International Company Limited (the "Company") is pleased to announce the unaudited combined income statement of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2007 and the combined balance sheet of the Group as at 30 June 2007 which have been reviewed by the Company's auditor, KPMG, and the Audit Committee of the Company, together with the comparative figures for the same period of 2006 as follows:

Unaudited Combined Income Statement

		Unaudited	
		For the six months ended 30 June	
		2007	2006
	Note	***RMB'000***	*RMB'000*
Revenue	4	**833,116**	537,217
Cost of sales		**(668,660)**	(421,404)
Gross profit		**164,456**	115,813
Other income		**20,747**	294
Distribution expenses		**(17,387)**	(14,664)
Administrative expenses		**(25,092)**	(19,695)
Other expenses		**(875)**	(2,781)
Result from operating activities		**141,849**	78,967
Finance income		**1,093**	1,902
Finance expenses		**(33,553)**	(24,628)
Net finance cost		**(32,460)**	(22,726)
Profit before income tax	5	**109,389**	56,241
Income tax expense	6	**(620)**	(20,074)
Profit for the period		**108,769**	36,167
Attributable to:			
Equity holders of the Company		**108,374**	30,266
Minority interests		**395**	5,901
Profit for the period		**108,769**	36,167
Earnings per share			
Basic earnings per share	7	**0.36**	0.10

Combined Balance Sheet

	Note	Unaudited As at 30 June 2007 *RMB'000*	Audited As at 31 December 2006 *RMB'000*
Non-current assets			
Property, plant and equipment		**549,655**	443,819
Lease prepayments		**65,871**	56,121
Goodwill		**21,959**	—
Other investments		**10,000**	10,000
Deferred tax assets		**2,886**	3,428
		650,371	513,368
Current assets			
Inventories		**734,458**	646,153
Trade and other receivables	8	**561,758**	408,040
Pledged deposits		**43,258**	70,852
Cash and cash equivalents		**73,164**	62,927
		1,412,638	1,187,972
Current liabilities			
Interest-bearing borrowings		**846,840**	581,909
Trade and other payables	9	**358,939**	344,378
Income tax payables		**11,495**	31,693
		1,217,274	957,980
Net current assets		**195,364**	229,992
Total assets less current liabilities		**845,735**	743,360
Non-current liabilities			
Interest-bearing borrowings		**205,000**	130,000
Deferred income		**12,360**	7,900
		217,360	137,900
Net assets		**628,375**	605,460
Equity attributable to equity holders of the Company		**607,850**	543,978
Minority interests		**20,525**	61,482
Total equity		**628,375**	605,460

Notes to the Unaudited Interim Financial Report

1. Reporting entity

The Company was incorporated in the Cayman Islands on 14 August 2006 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961 as consolidated and revised) of the Cayman Islands.

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 26 July 2007.

2. Corporate reorganisation and basis of presentation

Through a group reorganisation to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Stock Exchange (the "Reorganisation"), the Company became the holding company of the subsidiaries now comprising the Group on 13 March 2007.

Details of the Reorganisation are more fully explained in Appendix VI to the prospectus of the Company dated 13 July 2007 (the "Prospectus").

As the companies that took part in the Reorganisation were controlled by the same group of ultimate equity holders (referred to as "the controlling equity holders") before and after the Reorganisation and, consequently there was a continuation of the risks and benefits to the controlling equity holders, the combined financial statements for the six months ended 30 June 2006 and 2007 (the "periods presented") have been prepared using the merger basis of accounting as if the Group has always been in existence. The net assets of the combining companies are consolidated using the existing book values from the controlling equity holders' perspective. Accordingly, the interests of equity holders other than the controlling equity holders in the combining companies have been presented as minority interests in the Group's combined financial statements.

The combined income statement, combined statement of changes in equity and the condensed combined cash flow statement of the Group for the periods presented include the results of operations of the companies now comprising the Group as if the current group structure had been in existence and remained unchanged throughout the entire periods referred to in this report, or since the dates of their incorporation where this is a shorter period. The combined balance sheet of the Group as at 30 June 2007 and 31 December 2006 have been prepared to present the state of affairs of the companies now comprising the Group as at the respective dates as if the current group structure had been in existence as at the respective dates. All material intra-group transactions and balances have been eliminated on combination. In the opinion of the directors, the combined financial statements prepared on this basis present fairly the results of operations and the state of affairs of the Group as a whole.

3. Statement of compliance

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange, including compliance with International Accounting Standard ("IAS") 34 "Interim financial reporting", issued by the International Accounting Standards Board.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the preparation of the Accountants' Report of the Company included in the Prospectus (the "Accountants' Report").

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report contains condensed combined financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the issuance of the Accountants' Report. The condensed combined interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. KPMG's independent review report to the board of directors is included in the interim report.

The financial information relating to the financial year ended 31 December 2006 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from the Accountants' Report. The financial information of the Group for the year ended 31 December 2006 is contained in the Accountants' Report included in the Prospectus. The Accountants' Report is available from the Company's registered office. The reporting accountants have expressed an unqualified opinion in the Accountants' Report dated 13 July 2007.

4. Segment reporting

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

Business segments

The Group comprises the following main business segments

— *High alloy steel ("HAS")* The HAS segment manufactures and sells high speed steel ("HSS") and die steel for steel industry.

— *HSS cutting tools* The HSS cutting tools segment manufactures and sales HSS cutting tools for tool industry.

	For the six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
Revenue		
HAS	**516,050**	297,682
HSS cutting tools	**317,066**	239,535
Total	**833,116**	537,217
Segment result		
HAS	**103,291**	66,198
HSS cutting tools	**43,778**	34,951
Total	**147,069**	101,149
Unallocated operating income and expenses	**(5,220)**	(22,182)
Profit from operations	**141,849**	78,967
Net finance cost	**(32,460)**	(22,726)
Income tax expense	**(620)**	(20,074)
Profit for the period	**108,769**	36,167

Geographical segments

The Group's business is managed on a worldwide basis, but participates in four principal economic environments, the People's Republic of China ("PRC"), North America, Europe and Asia (other than the PRC).

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers.

	For the six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
Revenue		
The PRC	**414,606**	317,615
North America	**144,052**	79,527
Europe	**150,959**	62,249
Asia (other than the PRC)	**104,832**	68,048
Others	**18,667**	9,778
Total	**833,116**	537,217

5. Profit before tax

Profit before tax is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
Interest on bank loans	**26,286**	21,663
Net foreign exchange loss	**7,267**	2,965
Cost of inventories	**668,660**	421,404
Depreciation	**26,262**	17,404
Amortisation of lease prepayments	**663**	432
Impairment loss for doubtful debts	**239**	2,388
Write down for inventories	**126**	96
Government grants	**(20,000)**	—

6. Income tax expense

Income tax expense in the combined income statement represents:

	For the six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
Current tax		
Provision for PRC income tax	**79**	20,432
Deferred tax		
Origination and reversal of temporary differences	**541**	(358)
	620	20,074

(a) Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands or British Virgin Islands.

(b) The provision for PRC income tax is based on the respective applicable rates on the estimated assessable income of the Group's subsidiaries in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC. The applicable tax rates of the Group's operating subsidiaries in the PRC ranged from 27% to 33%. Pursuant to the income tax rules and regulations of the PRC, certain subsidiaries located in the PRC are entitled to a tax holiday of a tax-free period for two years from their first profit-making year of operations and thereafter, they are subject to PRC enterprise income tax at 50% of the applicable income tax rate for the following three years.

(c) On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China ("new tax law") which will take effect on 1 January 2008. As a result of the new tax law, it is expected that the income tax rate applicable to the Group's PRC subsidiaries will be all changed to 25% from 1 January 2008. The new rate was used to measure the Group's deferred tax assets as at 30 June 2007. The enactment of the new tax law is not expected to have any financial effect on the amounts accrued in the combined balance sheets in the respect of current tax payable.

7. **Earnings per share**

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company during the periods presented and the 300,000,000 shares in issue and issuable, comprising 5,000,000 shares in issue as at the date of the Prospectus and 295,000,000 shares to be issued pursuant to the capitalisation issue as detailed in the paragraph headed "Resolutions in writing of shareholders of the Company passed on 7 July 2007" set out in the Appendix VI to the Prospectus as if the shares were outstanding throughout the entire periods presented. The 119,500,000 shares in issue as at the date of this report which were issued pursuant to the Hong Kong Public Offering and International Placing are not taken into account in the calculation of basic earnings per share.

There were no dilutive potential ordinary shares during the periods presented and, therefore, diluted earnings per share are not presented.

8. **Trade and other receivables**

	As at 30 June 2007 *RMB'000*	As at 31 December 2006 *RMB'000*
Trade and bills receivables	**374,532**	283,235
Prepayments	**154,617**	104,455
Non-trade receivables	**32,609**	20,077
Receivables due from Tiangong Holdings Company Limited	**—**	273
	561,758	408,040

A substantial amount of the trade receivables are expected to be recovered within one year.

Customers are normally granted credit terms of 0 to 150 days depending on the credit worthiness of individual customers.

An ageing analysis of trade and bills receivables of the Group is as follows:

	As at 30 June 2007 *RMB'000*	As at 31 December 2006 *RMB'000*
Within 3 months	**343,355**	254,342
Over 3 months but less than 6 months	**46,216**	34,974
Over 6 months but less than 12 months	**1,976**	7,095
Over 12 months but less than 24 months	**5,167**	7,188
Over 24 months	**908**	2,487
	397,622	306,086
Less: impairment loss for doubtful debts	**(23,090)**	(22,851)
	374,532	283,235

9. Trade and other payables

	As at 30 June 2007 *RMB'000*	As at 31 December 2006 *RMB'000*
Trade and bills payables	**293,067**	277,059
Non-trade payables and accrued expenses	**65,872**	53,791
Payables due to TG Group	**—**	13,528
	358,939	344,378

An ageing analysis of trade and bills payables is set out below:

	As at 30 June 2007 *RMB'000*	As at 31 December 2006 *RMB'000*
Within 3 months	**201,021**	194,151
Over 3 months but less than 6 months	**86,793**	74,261
Over 6 months but less than 12 months	**2,085**	7,337
Over 1 year but less than 2 years	**3,168**	1,310
	293,067	277,059

MANAGEMENT DISCUSSION AND ANALYSIS

Market review

The world's and China's national economy have maintained robust growth in recent years. Benefiting from the resulted rapid industrial expansion, the demand for special steel and cutting tools have been solid and the Chinese HSS and cutting tools industries have been growing strongly. According to Special Steel Enterprise Association of China, the output of HSS and die steel in China recorded an annual growth rate of 17% and 38% respectively from 2002 to 2005. The compound annual growth rate of the cutting tools industry in China was 13.7% from 2004 to 2006.

Moreover, China has the world's largest reserves of tungsten, molybdenum and vanadium, the major raw materials of HSS. Such has provided the Chinese special steel and cutting tools industry with a secure stable supply of raw material and lower production cost. As a result, China has become a major manufacturer of special steel and cutting tools in the world.

Business review

The Group was the number one integrated HSS and HSS cutting tools manufacturer in China. According to Special Steel Enterprise Association of China and China Machine Tool & Tool Builders' Association, the Group is the largest manufacturer of HSS by volume and the largest HSS cutting tools manufacturer by revenue in China in 2005 and 2006.

To maintain the leading position in the market, the Group has increased its production capacity to meet the expanding market demand, and implemented measures to lower the production cost while maintaining the Group's emphasis on safety, higher efficiency, and product quality. The Group also actively researches, develops and improves production process and product specification. As a result, the Group has recorded significant growth in profit for the first half of 2007. All three product segments of the Group have demonstrated robust growth trends. The revenue of HSS, HSS cutting tools and die steel recorded growth rates of 43.8%, 32.4% and 618.1%, respectively.

	For the six months ended 30 June					
	2007		2006		Change	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
HSS	**406,028**	**48.7**	282,360	52.5	123,668	43.8
HSS cutting tools	**317,066**	**38.1**	239,535	44.6	77,531	32.4
Die steel	**110,022**	**13.2**	15,322	2.9	94,700	618.1
	833,116	**100.0**	537,217	100.0	295,899	55.1

HSS

The HSS business has seen continuous growth and remained as the primary revenue driver of the Group for the first half of 2007, accounting for approximately 48.7% of the Group's revenue. Benefiting from the demand for HSS as a result of industrial expansion in the world, export volume and selling price of HSS increased as compared with the first 6 months of 2006. As a result, sales of HSS reached RMB406,028,000 (2006: RMB282,360,000), representing an increase of approximately 43.8% over the same period of last year. The Group's HSS sales to overseas customers continue to increase since it commenced HSS export sales in 2005. The export sales increased by approximately 274.9% to RMB101,574,000 for the first half of 2007, accounting for approximately 25.0% of the total HSS sales. The reasons for the increase include the continuous development of our HSS exports sales and also the price advantage over overseas competitors.

Set out below is a geographical breakdown of the sales of HSS for the six months ended 30 June 2006 and 2007:

	For the six months ended 30 June					
	2007		2006		Change	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
HSS						
Export	**101,574**	**25.0**	27,096	9.6	74,478	274.9
Domestic	**304,454**	**75.0**	255,264	90.4	49,190	19.3
Total	**406,028**	**100.0**	282,360	100.0	123,668	43.8

HSS cutting tools

Revenues from sales of HSS cutting tools increased by approximately 32.4% to RMB317,066,000, accounting for approximately 38.1% of the Group's total revenue. During the period under review, revenues from sales of HSS cutting tools continued to increase, mainly resulted from increase in sales volume of industrial and professional use products as well as the overall increase in the market demand for HSS cutting tools.

Set out below is a geographical breakdown of the sales of HSS cutting tools for the six months ended 30 June 2006 and 2007:

	For the six months ended 30 June					
	2007		2006		Change	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
HSS cutting tools						
Export	**256,668**	**81.0**	192,506	80.4	64,162	33.3
Domestic	**60,398**	**19.0**	47,029	19.6	13,369	28.4
Total	**317,066**	**100.0**	239,535	100.0	77,531	32.4

Die steel

The Group commenced its die steel operation in November 2005. The Group's die steel business has recorded significant growth in the first half of 2007. Revenues from sales of die steel increased by approximately 618.1% from RMB15,322,000 for the first half of 2006 to RMB110,022,000 for the same period of 2007, accounting for approximately 13.2% of the total revenues. The reasons for the significant increase include the Group's promotion effort on die steel sales and the higher production utilization as compared with last year's trial production sales. The Group commenced exports sales of die steel in the second half of 2006. For the first half of 2007, exports sales accounted for 54.8% of the total die steel sales.

Set out below is a geographical breakdown of the sales of die steel for the six months ended 30 June 2006 and 2007:

	For the six months ended 30 June					
	2007		2006		Change	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Die steel						
Export	**60,268**	**54.8**	—	—	60,268	N/A
Domestic	**49,754**	**45.2**	15,322	100.0	34,432	224.7
Total	**110,022**	**100.0**	15,322	100.0	94,700	618.1

Financial review

The Group benefited from its double-digit percentage organic growth. Net profit attributable to equity holders of the Company increased by approximately 258.1% to RMB108,374,000 for the first half of 2007 from RMB30,266,000 in the last corresponding period. All three product segments of the Group have demonstrated robust growth trends.

Revenue

Revenue of the Group for the first half of 2007 totaled RMB833,116,000, representing an increase of approximately 55.1 % when compared with RMB537,217,000 for the same period in 2006. The increase was mainly attributable to increments in sales volume and sales prices of HSS and HSS tools as well as die steel of the Group.

Cost of sales

The Group's cost of sales increased by RMB247,256,000 from RMB421,404,000 for the first half of 2006 to RMB668,660,000 for the first half of 2007, representing an increase of approximately 58.7%. The increase was broadly in line with the approximately 55.1% increase in revenue between these periods and reflected an increase in sales of die steel and slight increase in scrap steel prices. As a percentage of total revenue, the Group's cost of sales increased slightly from approximately 78.4% in the first six months of 2006 to approximately 80.3% in the first six months of 2007.

Gross Margin

For the first half of 2007, the gross margin, as a percentage of total revenue, was approximately 19.7% (2006: 21.6%). The decrease was mainly due to 1) the slight increase in cost of scrap steel prices and 2) the rapid growth of the die steel sales, the product segment which the Group is developing and aims to achieve higher future gross margin.

Other income

The Group's other income totaled RMB20,747,000 for the first half of 2007, representing an increase of RMB20,453,000 from RMB294,000 over the same period in 2006. The increase was attributable to the fact that the Group received RMB20 million in unconditional grants from the local government in Danyang to encourage further development of its business in the first half of 2007.

Distribution expenses

The Group's distribution expenses was RMB17,387,000 (2006: RMB14,664,000), representing an increase of approximately 18.6%. The increase was mainly attributable to the rise of commissions to the Group's overseas sales agent and transportation expenses by RMB1,284,000 and RMB1,844,000, respectively, resulted from increase in sales volume. For the first half of 2007, the distribution expense as a percentage of revenue was 2.1% (2006: 2.7%).

Administrative expenses

For the first half of 2007, the Group's administrative expenses increased by approximately 27.4% to RMB25,092,000 (2006: RMB19,695,000) primarily because depreciation charges and traveling and entertainment expenses increased by RMB2,069,000 and RMB3,347,000, respectively, as a result of business expansion. For the first six months of 2007, the administrative expense as a percentage of revenue was 3.0% (2006: 3.7%)

Net finance cost

The Group's net finance cost was RMB32,460,000 for the first half of 2007, representing an increase of 42.8% when compared with the RMB22,726,000 for the same period of 2006. It is primarily because interest on bank loans increased by RMB4,623,000 over the period, as well as an increase in foreign currency exchange losses resulting from appreciation of the value of the Renminbi, the book keeping currency of the Group, between these periods.

Income tax expense

The Group's income tax expense decreased by RMB19,454,000 from RMB20,074,000 for the first half of 2006 to RMB620,000 for the first half of 2007, representing a decrease of approximately 96.9%. Such decrease was due to the fact that the Group's effective tax rate decreased from approximately 35.7% to approximately 0.57% periods because, Jiangsu Tiangong Tools Company Limited ("TG Tools"), being a major subsidiary of the Group is entitled to a two-year tax holiday starting from 2007.

Profit for the period

As a result of the factors discussed above, the Group's profit increased by approximately 200.7% to RMB108,769,000 for the first half of 2007 from RMB36,167,000 for the last corresponding period. The Group's net profit margin increased from 6.7% in the first half of 2006 to 13.1% in the first half 2007.

Profit attributable to equity holders of the Company

For the first half of 2007, profit attributable to equity holders of the Company was RMB108,374,000 (2006: RMB30,266,000), representing an increase of 258.1%. The increase was broadly in line with the 200.7% increase in net profit.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2007, the Group's current assets mainly included cash and cash equivalents of approximately RMB73,164,000, inventories of approximately RMB734,458,000, trade and other receivables of RMB561,758,000 and pledged deposits of RMB43,258,000. As at 30 June 2007, the interest-bearing borrowings of the Group was RMB1,051,840,000, RMB846,840,000 of which was repayable within one year and RMB205,000,000 of which was repayable over one year. Of the RMB846,840,000 bank loans, RMB296,000,000 has been subsequently repaid after 30 June 2007 by application of the net proceeds from the Global Offering. The Group's gearing ratio (calculated based on the total outstanding interest-bearing debt divided by the total assets) was 51.0%, higher than 41.8% as at 31 December 2006. The increase was because the Group has invested more capital into plants and production equipment for production capacity expansion in order to meet increasing sales orders by bank borrowings. Such ratio decreased significantly after the repayment of loan by application of the net proceeds from the Global Offering as mentioned above.

As at 30 June 2007, USD13,768,000 of the borrowings was denominated in USD. The majority of the borrowings of the Group were subject to interests payable at fixed rates. The Group did not enter into any interest rate swap to hedge itself against the risks associated with interest rates.

CAPITAL EXPENDITURES AND CAPITAL COMMITMENTS

For the first half of 2007, the Group's increase in fixed assets amounted to RMB132,946,000, mainly for the production plant and facilities for HSS, HSS cutting tools and die steel. As at 30 June 2007, capital commitments was RMB225,975,000, of which RMB186,606,000 was contracted and RMB39,369,000 was authorized but not contracted for. The majority of the capital commitment was related to acquisition of production equipment.

FOREIGN EXCHANGE EXPOSURE

The Group's revenues were denominated in RMB, US dollars and Euros, with RMB accounting for the largest portion (approximately 49.8%). Approximately 50.2% of total sales and the Group's costs and operating profit were subject to exchange rate fluctuations. The Group has put in place measures such as monthly review of product pricing in light of foreign exchange fluctuation and urging overseas customers to settle balances on a more timely basis to minimize the financial impact from exchange rate exposure.

EMPLOYEE'S REMUNERATION AND TRAINING

As at 30 June 2007, the Group employed 4,720 employees (30 June 2006: 4,679). The Group provided employees with remuneration packages comparable to the market and employees are rewarded on performance basis according to the framework of the Group's salary, incentives and bonus scheme.

In order to enhance the Group's productivity, and further improve the quality of the Group's human resources, the Group provides compulsory continuous education and training for all of its staff on a monthly basis.

CONTINGENT LIABILITIES

The Company had no material contingent liabilities as at 30 June 2007.

PROSPECTS

The continuously growing market demand resulting from global and PRC industrial development will continue to provide momentum and opportunities for special steel and cutting tools industry. The management is of the view that cost saving from our size of operation and vertical integration, and our established relationships with customers and leading research institutes are major factors in being the leader in the HSS and HSS cutting tools industry. Based on these strengths, the Group will strive to maintain its leading position in the industry. The Group will invest in production facilities that enable the Group to produce higher quality and higher margin products, invest to increase the production capacity for both HSS, die steel and HSS cutting tools and to further expand the market share.

HSS

In the second half of 2007, a series of production equipment including a 2,000-tonne forging equipment will commence operation which will enable the Group to produce HSS with new product specification to meet the market demand. The production capacity for HSS will also increase by 5,000-tonne to 40,000-tonne on an annual basis as a result.

HSS cutting tools

The Group has been selling more HSS cutting tools for professional use than for general use in the recent years. The selling price and margin for professional use HSS cutting tools are higher than tools for general use. As a result, it is the Group's objective to continue its production in this direction and place emphasis on improving the grade of HSS cutting tools as well as on production capacity expansion. In the second half of 2007, a screw taps production line imported from US is scheduled to commence operation. This production line would enable the Group to produce higher quality and higher margin screw taps for both overseas and domestic customers.

Die steel

The market of die steel in China has been growing at an annual rate of over 30%. The Group will continue to develop this high growth industry. As the production process and production equipments for HSS and die steel are interchangeable, the equipment for HSS production mentioned above will also boost up die steel's production capacity and product specification. Moreover, the Group will continue to promote die steel sales by increasing promotion activities and sales incentives in order continue the expansion trend of this business.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the period.

SHARE OPTIONS SCHEME

The Company adopted a share options scheme on 7 July 2007, but the Company has not granted any share options.

PURCHASE, SALES OR REDEMPTION OF SHARES

Since the date of listing and save for the issue of shares under the over-allotment option granted to the global coordinator of the initial public offering of the Company , neither the Company nor any of its subsidiaries has not purchased, sold or redeemed any of its securities.

CORPORATE GOVERNANCE

Since listing, the Company has, so far when applicable, meet the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

AUDIT COMMITTEE

The Audit Committee was established on 7 July 2007 to review the Group's financial reporting internal controls and corporate governance issues and make relevant recommendations to the Board. The Audit Committee comprises of three non-executive directors, two of which are independent non-executive directors. The Audit Committee held a meeting on 19 September 2007 to consider and review the interim report and interim financial statements of the Group and to give their opinion and recommendation to the Board. The Audit Committee considers that the 2007 interim report and interim financial statements of the Company have complied with the applicable accounting standards and the Company has made appropriate disclosure thereof.

THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

On 7 July 2007, the Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the "Model Code for Securities Transactions by Directors of Listed Issuers" as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all directors, all directors have complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions.

PUBLICATION OF INTERIM REPORT ON THE STOCK EXCHANGE WEBSITE

The Company's 2007 interim report as of 30 June 2007 will be submitted to the Stock Exchange for uploading onto the Stock Exchange's website (www.hkex.com.hk) as well as the Company's website (www. tggj.cn) in due course.

APPRECIATION

The board of Directors would like to take this opportunity to express gratitude to our shareholders, customers, the management and employees for their unreserved support to the Group.

By order of the Board of Directors
Tiangong International Company Limited
Zhu Xiao Kun
Chairman

Danyang, Jiangsu, PRC, 19 September 2007

As at the date of this announcement, the Directors are:
Executive Directors: ZHU Xiaokun, ZHU Zhihe, ZHU Mingyao and YAN Ronghua
Non-executive Directors: LIN John Sian-zu and THONG Kwee Chee
Independent non-executive Directors: LI Zhengbang, GAO Xiang and LAU Siu Fai

* *For identification purpose*