Tiangong International Company Limited
天工國際有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 826)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

FINANCIAL HIGHLIGHTS

- Revenue of the Group for the year ended 31 December 2007 totalled RMB1,735,763,000, representing an increase of 33.1% when compared with RMB1,303,987,000 for the year of 2006.
- Profit attributable to equity holders of the Company was up by 96.4% to RMB180,172,000 for the year of 2007 (2006: RMB91,729,000)
- All three product segments of the Group demonstrate robust growth trends. Revenue of High Speed Steel ("HSS"), HSS cutting tools and die steel ("DS") recorded growth rates of 26.3%, 14.2% and 302.3%, respectively.
- Earnings per share was RMB0.51 (2006: RMB0.31), an increase of 64.5%

The board of directors (the "Board") of Tiangong International Company Limited (the "Company") is pleased to announce the audited combined income statement of the Company and its subsidiaries (the "Group") for the year ended 31 December 2007 and the combined balance sheet of the Group as at 31 December 2007, together with the comparative figures for 2006 as follows:

COMBINED INCOME STATEMENT

for the year ended 31 December 2007

	Note	**2007** ***RMB'000***	2006 *RMB'000*
Revenue	4	**1,735,763**	1,303,987
Cost of sales		**(1,445,911)**	(1,054,147)
Gross profit		**289,852**	249,840
Other income		**21,817**	30,066
Distribution expenses		**(41,428)**	(30,940)
Administrative expenses		**(57,578)**	(42,652)
Other expenses		**(4,013)**	(8,496)
Result from operating activities		**208,650**	197,818
Finance income		**41,018**	5,717
Finance expenses		**(68,311)**	(56,424)
Net finance cost		**(27,293)**	(50,707)
Profit before income tax	5	**181,357**	147,111
Income tax expense	6	**(437)**	(50,507)
Profit for the year		**180,920**	96,604
Attributable to:			
Equity holders of the Company		**180,172**	91,729
Minority interests		**748**	4,875
Profit for the year		**180,920**	96,604
Dividends attributable to the year			
Dividend declared during the year	7	**—**	53,000
Earnings per share			
Basic earnings per share (RMB)	8	**0.51**	0.31

COMBINED BALANCE SHEET
as at 31 December 2007

	Note	**2007** *RMB'000*	2006 *RMB'000*
Non-current assets			
Property, plant and equipment		**733,785**	443,819
Lease prepayments		**65,291**	56,121
Goodwill		**21,959**	—
Other investments		**10,000**	10,000
Deferred tax assets		**3,190**	3,428
		834,225	513,368
Current assets			
Inventories		**845,036**	646,153
Trade and other receivables	9	**580,241**	408,040
Pledged deposits		**86,297**	70,852
Cash and cash equivalents		**156,688**	62,927
		1,668,262	1,187,972
Current liabilities			
Interest-bearing borrowings		**623,969**	581,909
Trade and other payables	10	**397,037**	344,378
Income tax payables		**12,217**	31,693
		1,033,223	957,980
Net current assets		**635,039**	229,992
Total assets less current liabilities		**1,469,264**	743,360
Non-current liabilities			
Interest-bearing borrowings		**75,000**	130,000
Deferred income		**9,900**	7,900
		84,900	137,900
Net assets		**1,384,364**	605,460
Capital and reserves			
Share capital		**31,806**	183,085
Reserves		**1,331,680**	360,893
Total equity attributable to equity holders of the Company		**1,363,486**	543,978
Minority interests		**20,878**	61,482
Total equity		**1,384,364**	605,460

Notes:

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.

Pursuant to a reorganisation (the "Reorganisation") of the Group to rationalise the group structure in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the subsidiaries comprising the Group. Details of the Reorganisation are set out in the Prospectus of the Company dated 13 July 2007.

The Company's shares were listed on the main Board of the Stock Exchange on 26 July 2007.

2 Basis of preparation

The Group is regarded as a continuing entity resulting from the Reorganisation of entities under common control. The combined financial statements have been prepared on the basis that the Company was the holding company of the Group for both years presented, rather than from the date when the Company became the holding company of the Group pursuant to the Reorganisation. Accordingly, the combined results of the Group for the years ended 31 December 2006 and 2007 include the results of the Company and its subsidiaries with effect from 1 January 2006 or, if later, since their respective dates of incorporation or at the date that common control was established as if the current group structure had been in existence throughout the two years presented. The combined balance sheets at 31 December 2006 and 31 December 2007 have been prepared on the basis that the current group structure was in place with effective from 1 January 2006. 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

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board ("IASB"). IFRSs include International Accounting Standards and interpretations. These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

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.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly other investments and related income, pledged deposits, cash and cash equivalents, loans and related expenses, and income tax assets, liabilities and expense.

Business segments

The Group comprises the following main business segments

—	*HSS*	The HSS segment manufactures and sales high speed steel for steel industry.
—	*HSS cutting tools*	The HSS cutting tools segment manufactures and sales HSS cutting tools for tool industry.
—	*DS*	The DS segment manufactures and sales die steel for steel industry.

	2007	2006
	RMB'000	*RMB'000*
Revenue		
HSS	**843,484**	667,600
HSS cutting tools	**661,445**	579,012
DS	**230,834**	57,375
Total	**1,735,763**	1,303,987
Segment result		
HSS	**161,728**	142,853
HSS cutting tools	**80,666**	74,204
DS	**6,029**	1,843
Total	**248,423**	218,900
Unallocated operating income and expenses	**(39,773)**	(21,082)
Profit from operations	**208,650**	197,818
Net finance cost	**(27,293)**	(50,707)
Income tax expense	**(437)**	(50,507)
Profit for the year	**180,920**	96,604
Segment assets		
HSS	**1,025,237**	681,161
HSS cutting tools	**776,052**	673,374
DS	**433,523**	179,248
Total	**2,234,812**	1,533,783
Unallocated assets	**267,675**	167,557
Total assets	**2,502,487**	1,701,340
Segment liabilities		
HSS	**255,118**	192,208
HSS cutting tools	**81,617**	113,375
DS	**55,123**	35,450
Total	**391,858**	341,033
Unallocated liabilities	**726,265**	754,847
Total liabilities	**1,118,123**	1,095,880

	2007	2006
	RMB'000	*RMB'000*
Capital expenditure		
HSS	**184,336**	70,194
HSS cutting tools	**33,857**	30,802
DS	**137,063**	34,573
Total	**355,256**	135,569
Depreciation and amortisation		
HSS	**26,389**	21,202
HSS cutting tools	**9,692**	9,095
DS	**18,756**	12,994
Total	**54,837**	43,291

Geographical segments

The Group's business is managed on a worldwide basis, but participates in four principal economic environments, the Peoples' 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. Segment assets and capital expenditure are based on the geographical location of the assets. The Group's assets and liabilities are almost located in the PRC and accordingly, no analysis of segment assets, liabilities and capital expenditure is provided.

	2007	2006
	RMB'000	*RMB'000*
Revenue		
The PRC	**791,811**	728,515
North America	**307,868**	231,781
Europe	**405,512**	155,044
Asia (other than the PRC)	**198,672**	169,438
Others	**31,900**	19,209
Total	**1,735,763**	1,303,987

5 Profit before tax

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

(i) Net finance cost

	2007 *RMB'000*	2006 *RMB'000*
Interest income*	**(41,018)**	(2,125)
Dividend income on available-for-sale financial assets	—	(501)
Net gain on disposal of investments in trading securities	—	(3,091)
Finance income	**(41,018)**	(5,717)
Interest on bank loans	**46,824**	47,320
Net foreign exchange loss	**21,487**	9,104
Finance expenses	**68,311**	56,424
Net finance cost	**27,293**	50,707

* Interest income includes RMB 35,983,000 relating to one-off interest income arising from share application funds during the Hong Kong Public Offering (the "Offering") and the International Placing (the "Placement").

(ii) Staff costs

	2007 *RMB'000*	2006 *RMB'000*
Wages, salaries and other benefits	**95,223**	74,190
Contributions to defined contribution plans	**2,053**	1,671
	97,276	75,861

The Group participates in pension funds organised by the PRC government. According to the respective pension fund regulations, the Group is required to pay annual contributions by the relevant authorities in the PRC. The Group remits all the pension fund contributions to the respective social security offices, which are responsible for the payments and liabilities relating to the pension funds. The Group has no obligation for payment of retirement and other post-retirement benefits of employees other than the contributions described above.

(iii) Other items

	2007 *RMB'000*	2006 *RMB'000*
Cost of inventories*	**1,445,911**	1,054,147
Depreciation	**53,569**	42,229
Amortisation of lease prepayments	**1,268**	1,062
Impairment loss for doubtful debts	**2,667**	7,179
Auditor's remuneration	**1,976**	572
Write down for inventories	**399**	662
Operating lease charges	**1,123**	777

* Cost of inventories includes RMB 128,871,000 (2006: RMB 89,646,000) relating to staff costs and depreciation expenses which amounts are also included in the respective total amounts disclosed separately above for each of these types of expenses.

6 Income tax expense

(i) Income tax expense in the combined income statement represents:

	2007	2006
	RMB'000	*RMB'000*
Current tax		
Provision for PRC income tax	**200**	51,584
Deferred tax		
Origination and reversal of temporary differences	**237**	(1,077)
	437	50,507

(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 corporate income tax rates applicable to the subsidiaries located 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 range from 27% to 33%.

Pursuant to the income tax rules and regulations of the PRC, the 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.

The year of 2003 is the first profit making year for Danyang Tianfa Forging Company Limited ("Tianfa Forging"). Due to the above-mentioned tax holiday, Tianfa Forging was subject to PRC enterprise income tax rate at 50% of its applicable tax rate for 3 years from 2005.

The statutory income tax rate applicable to TG Tools was 33%. On 21 August 2006, China Tiangong Company Limited ("CTCL") acquired the entire equity interests in Jiangsu Tiangong Tools Company Limited ("TG Tools"). As a result, TG Tools became a wholly foreign-owned enterprise and is entitled to a reduced income tax rate of 27%. Furthermore, due to the above-mentioned tax holiday, TG Tools was exempted from PRC enterprise income tax for 2007.

As Tiangong Aihe Special Steel Company Limited ("TG Aihe") sustained accumulated operating losses for tax purposes during the year 2007, no income tax is provided in the combined income statement.

(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 (the "new tax law") which has taken 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 31 December 2007. The enactment of the new tax law is not expected to have any financial effect on the amounts accrued in the combined balance sheet in respect of current tax payable.

(ii) Reconciliation between tax expense and accounting profit at applicable tax rate:

	2007 *RMB'000*	2006 *RMB'000*
Profit before income tax	**181,357**	147,111
Computed tax using the Group's PRC statutory tax rate (33%)	**59,848**	48,547
Rate differential on the PRC operations	**(418)**	(5,941)
Tax exemption	**(67,299)**	—
Non-taxable income	**—**	(165)
Non-deductible expenses	**1,750**	1,538
Unrecognised deferred tax assets in respect of tax losses of a subsidiary	**6,556**	6,528
	437	50,507

7 Dividends

Pursuant to the resolution passed at the board of directors' meeting on 5 August 2006, dividends of RMB 53,000,000 were declared by TG Tools to its then respective shareholders before the Reorganisation.

8 Earnings per share

(i) Basic earnings per share

The calculation of basic earnings per share at 31 December 2007 was based on the profit attributable to ordinary shareholders of RMB 180,172,000 (2006: RMB 91,729,000) and a weighted average number of ordinary shares outstanding of 352,056,165 (2006: 300,000,000), calculated as follows:

Weighted average number of ordinary shares

	2007 **Number of shares**
Share issued upon incorporation	**50,000**
Subdivision of shares	**4,950,000**
Capitalisation issue	**295,000,000**
Effect of issuance of shares for placing and public offering	**43,561,644**
Effect of issuance of shares under the over-allotment option related to the placement	**8,494,521**
Weighted average number of ordinary shares at 31 December 2007	**352,056,165**

The weighted average number of shares in issue during the year ended 31 December 2006 represents the 300,000,000 shares in issue before the listing of the Company's shares on the Stock Exchange, as if such shares had been outstanding during the above entire year.

(ii) Diluted earnings per share

No dilutive potential ordinary shares were in issue as at 31 December 2007 (2006: Nil).

9 Trade and other receivables

	2007 *RMB'000*	2006 *RMB'000*
Trade and bills receivables	**432,009**	283,235
Prepayments	**136,732**	104,455
Non-trade receivables	**11,500**	20,077
Receivables due from Tiangong Holdings Company Limited	**—**	273
	580,241	408,040

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

The Group's 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:

	2007 *RMB'000*	2006 *RMB'000*
Within 3 months	**398,205**	254,342
Over 3 months but less than 6 months	**37,490**	34,974
Over 6 months but less than 12 months	**14,550**	7,095
Over 12 months but less than 24 months	**6,374**	7,188
Over 24 months	**908**	2,487
	457,527	306,086
Less: impairment loss for doubtful debts	**(25,518)**	(22,851)
	432,009	283,235

Included in trade and other receivables are the following amounts denominated in currencies other than RMB:

	2007 *'000*	2006 *'000*
USD	**14,751**	12,855
EUR	**11,821**	1,721

10 Trade and other payables

	2007 *RMB'000*	2006 *RMB'000*
Trade and bills payables	**324,911**	277,059
Non-trade payables and accrued expenses	**71,326**	53,791
Payables due to Jiangsu Tiangong Group Company Limited	**800**	13,528
	397,037	344,378

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

	2007 *RMB'000*	2006 *RMB'000*
Within 3 months	**236,663**	194,151
Over 3 months but less than 6 months	**82,408**	74,261
Over 6 months but less than 12 months	**4,608**	7,337
Over 1 year but less than 2 years	**1,232**	1,310
	324,911	277,059

Included in trade and other payables are the following amounts denominated in currencies other than RMB:

	2007 *'000*	2006 *'000*
USD	**594**	490
EUR	**—**	152

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is engaged in the production and sales of HSS, HSS cutting tools and DS. Our operations are classified as the following product segments:

HSS

It involves the purchase of various rare metals such as tungsten, molybdenum, chromium, vanadium and other raw materials, production of HSS for both internal supply to the Group's HSS cutting tools production and external sale to customers outside the Group. HSS typically has higher pressure and temperature tolerances than does regular steel and is more wear resistant. It is widely used in more specific industrial applications such as in automotive, machinery manufacture, aviation, chemical processing and electronics industries. The Group commenced its production of HSS in 1992.

HSS cutting tools

It involves the production and sales of HSS cutting tools to external customers. Over 80% of its sales was exported to over 30 countries and regions throughout Europe, North America, Africa and Middle East in 2006 and 2007. The Group produces an extensive range of HSS cutting tools products which can be categorized into four types – twist drill bits, screw taps, end mills and turning tools. This segment has been in operation since 1987, being the longest-established sector of the Group.

Die steel

It involves the purchase of various rare metals and other raw materials, production and sale of die steel to customers. The characteristics and production process of die steel are similar to those of HSS. It is suitable for use in dies and molds for die casting and machining processes. The Group commenced its production of die steel since 2005.

Market review

In 2007, China continued to experience robust growth in its economy with a 11.4% increase in GDP year-on-year. The rapid industrial expansion created enormous market for the production of HSS as it is widely used for various industrial and manufacturing purposes. The HSS production in China grew to 92,816 tonnes in 2007. According to Special Steel Enterprise Association of China, the output of HSS in China grew at a compound annual growth rate ("CAGR") of 15% from 2001 to 2007.

The rapid development of China's industrial sector has also contributed to the increase in demand for manufacturing machineries. As cutting tools are used extensively during the production of machineries, demand for cutting tools has continued to grow in recent years. The production of cutting tools has been growing at a CAGR of 11% from 2001 to 2007.

The demand for die steel, a major raw material in the production of manufacturing moulds, has also been recording strong growth in recent years. The volume of die steel manufactured in China grew at a CAGR of 25% from 2002 to 2007.

Moreover, China has the world's largest reserves of tungsten, molybdenum and vanadium, representing 62%, 38% and 38% of the total world reserves, respectively. These metals are the major raw materials of HSS. This has provided the Chinese special steel and cutting tools manufacturers with a secure and stable supply of raw material and lowered 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 in China from 2001 to 2007 and the largest HSS cutting tools manufacturer by revenue in China in 2006 and 2007.

In order 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. In addition, the Group actively researches, develops and improves production process and product specification. As a result, the Group has recorded significant growth in profit in 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 26.3%, 14.2% and 302.3%, respectively.

	Year ended 31 December		
	2007	2006	
	RMB'000	*RMB'000*	*Change %*
HSS	**843,484**	667,600	26.3
HSS Cutting Tools	**661,445**	579,012	14.2
Die Steel	**230,834**	57,375	302.3
	1,735,763	1,303,987	33.1

HSS

The HSS business has seen continuous growth and remained as the primary revenue driver of the Group for 2007, accounting for approximately 48.6% of the Group's revenue. Benefiting from the increase in demand for HSS as a result of the global industrial expansion, export volume and selling price of HSS increased as compared with that for 2006. As a result, sales of HSS reached RMB843,484,000 (2006: RMB667,600,000), representing an increase of approximately 26.3% over the sales of HSS in 2006. 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 155.5% to RMB226,408,000 in 2007, accounting for approximately 26.8% of the total HSS sales in 2007. The reasons for the increase include the continuous development of our HSS export sales, the price advantage over overseas competitors and also the favorable conditions due to PRC government's implementation of policy to control export of rare metals.

Set out below is a geographical breakdown of the sales of HSS for the year ended 31 December 2006 and 31 December 2007:

	Year ended 31 December					
	2007		2006		Changes	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
HSS						
Domestic	**617,076**	**73.2**	578,987	86.7	38,089	6.6
Export	**226,408**	**26.8**	88,613	13.3	137,795	155.5
	843,484	**100.0**	667,600	100.0	175,884	26.3

HSS cutting tools

Revenues from sales of HSS cutting tools increased by approximately 14.2% to RMB661,445,000 in 2007, accounting for approximately 38.1% of the Group's total revenue in 2007. During 2007, 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 year ended 31 December 2006 and 31 December 2007:

	Year ended 31 December					
	2007		2006		**Changes**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Cutting tools						
Domestic	**120,204**	**18.2**	107,089	18.5	13,115	12.2
Export	**541,241**	**81.8**	471,923	81.5	69,318	14.7
	661,445	**100.0**	579,012	100.0	82,433	14.2

Die steel

The Group commenced its die steel operation in November 2005. The Group's die steel business has recorded significant growth in 2007. Revenues from sales of die steel increased by approximately 302.3% from RMB57,375,000 in 2006 to RMB230,834,000 in 2007, accounting for approximately 13.3% of the total revenues in 2007. 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. The Group commenced export sales of die steel in the second half of 2006. For 2007, export sales accounted for approximately 76.4% of the total die steel sales.

Set out below is a geographical breakdown of the sales of die steel for the year ended 31 December 2006 and 31 December 2007:

	Year ended 31 December					
	2007		2006		**Change**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Die steel						
Domestic	**54,531**	**23.6**	42,439	74.0	12,092	28.5
Export	**176,303**	**76.4**	14,936	26.0	161,367	1080.4
	230,834	**100.0**	57,375	100.0	173,459	302.3

Financial review

Benefited from its double-digit percentage organic growth, net profit attributable to equity holders of the Company increased by approximately 96.4% to RMB180,172,000 in 2007 from RMB91,729,000 for 2006. All three product segments of the Group have demonstrated robust growth trends.

Revenue

Revenue of the Group for 2007 totalled RMB1,735,763,000, representing an increase of approximately 33.1% when compared with RMB1,303,987,000 in 2006. The increase was mainly attributable to increase in sales volume and sales prices of HSS and HSS cutting tools as well as die steel of the Group.

Cost of sales

The Group's cost of sales increased by RMB391,764,000 from RMB1,054,147,000 for 2006 to RMB1,445,911,000 for 2007, representing an increase of approximately 37.2%. The increase was broadly in line with the 33.1% increase in revenue during the year and reflected an increase in sales of die steel and a slight increase in cost of sales for HSS. As a percentage of total revenue, the Group's cost of sales increased slightly from approximately 80.8% in 2006 to approximately 83.3% in 2007.

Gross margin

For 2007, the gross margin, was approximately 16.7% (2006: 19.2%). The decrease was mainly due to the slight decrease in gross margin of HSS and die steel.

HSS

The slight decrease in HSS gross margin from 23.2% in 2006 to 21.3% in 2007 was mainly due to the increase in the cost of scrap steel and the decrease in tax rebate.

HSS cutting tools

In 2007, the gross margin of HSS Cutting Tools remained relatively stable as additional production cost was largely passed onto our customers.

Die steel

The gross margin of die steel decreased from 7.5% in 2006 to 4.7% in 2007. The decrease was mainly due to the higher manufacturing overhead cost resulted from the costs associated with the pilot run of the new production equipment installed in the second half of 2007.

Other income

The Group's other income totalled RMB21,817,000 in 2007, representing a decrease of RMB8,249,000 from RMB30,066,000 in 2006. The decrease was attributable to the fact that the Group only received RMB20,992,000 (2006: RMB29,759,000) in unconditional grants from the local government in Danyang to encourage further development of its business in 2007.

Distribution expenses

The Group's distribution expenses was RMB41,428,000 (2006: RMB30,940,000), representing an increase of approximately 33.9%. The increase was mainly attributable to the rise in transportation expenses by RMB7,061,000, resulted from increase in sales volume. For 2007, the distribution expense as a percentage of revenue was 2.4% (2006: 2.4%).

Administrative expenses

For 2007, the Group's administrative expenses increased by approximately 35.0% to RMB57,578,000 (2006: RMB42,652,000) primarily because depreciation charges and traveling and entertainment expenses increased by RMB3,048,000 and RMB7,848,000, respectively, as a result of business expansion. For 2007, the administrative expense as a percentage of revenue was 3.3% (2006: 3.3%).

Net finance cost

The Group's net finance cost was RMB27,293,000 for 2007, representing a decrease of 46.2% when compared with the RMB50,707,000 for 2006. Putting aside the effect of the RMB35,983,000 interest received from IPO subscription in July 2007, interest on bank loans decreased by RMB496,000 but the foreign currency exchange losses resulting from appreciation of the value of the Renminbi increased by RMB12,383,000 in 2007.

Income tax expense

The Group's income tax expense decreased by RMB50,070,000 from RMB50,507,000 in 2006 to RMB437,000 in 2007, representing a decrease of approximately 99.1%. Such decrease was due to the fact that TG Tools, being a major subsidiary of the Group, is entitled to a two-year tax holiday starting from 2007.

Profit for the year

As a result of the factors discussed above, the Group's profit increased by approximately 87.3% to RMB180,920,000 for 2007 from RMB96,604,000 for 2006. The Group's net profit margin increased from 7.4% in 2006 to 10.4% in 2007.

Profit attributable to equity holders of the Company

For 2007, profit attributable to equity holders of the Company was RMB180,172,000 (2006: RMB91,729,000), representing an increase of 96.4%. The increase was broadly in line with the 87.3% increase in net profit.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2007, the Group's current assets mainly included cash and cash equivalents of approximately RMB156,688,000, inventories of approximately RMB845,036,000, trade and other receivables of RMB580,241,000 and pledged deposits of RMB86,297,000. As at 31 December 2007, the interest-bearing borrowings of the Group was RMB698,969,000, RMB623,969,000 of which was repayable within one year and RMB75,000,000 of which was repayable over one year. The Group's gearing ratio (calculated based on the total outstanding interest-bearing debt divided by the total assets) was 27.9%, lower than 41.8% as at 31 December 2006. The decrease was mainly attributable to the net proceeds of approximately HKD694.6 million raised from the Global Offering. As at 31 December 2007, USD4,200,000 of the borrowings was denominated in US dollars. The majority of the borrowings of the Group were subject to interests payable at rates ranging from 4.6% to 7.5% 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 2007, the Group's increase in fixed assets amounted to RMB289,966,000, which were mainly for the production plant and facilities for HSS, HSS cutting tools and DS. As at 31 December 2007, capital commitments was RMB296,108,000, of which RMB203,264,000 was contracted and RMB92,844,000 was authorised 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 45.6%). Approximately 54.4% 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 incentivising 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 31 December 2007, the Group employed around 5,090 employees (31 December 2006: around 5,156). Total staff costs during the year amounted to RMB97,276,000 (2006: RMB75,861,000). The Group provided employees with remuneration packages comparable to the market rates and employees are further rewarded based on their performance 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 regular basis.

CONTINGENT LIABILITIES

The Company had no material contingent liabilities as at 31 December 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. Moreover, the PRC government's new policy in controlling the export of rare metals which are raw material of HSS provided the PRC HSS and HSS cutting tools manufacturer with a competitive advantage over the overseas competitors.

The management is of the view that, cost saving from our size of operation and integrated business model, and our established relationships with customers and leading research institutes are some of the major factors in making the Group the leader in the HSS and HSS cutting tools industry. To further maintain its leading position in the industry, the Group will invest in production facilities that produce higher quality and higher margin products and also invest to increase the production capacity for both HSS, die steel and HSS cutting tools. The investment is to be funded with remainder of proceeds from IPO and bank loans.

HSS

In 2008, a series of production equipment including a new 1,300-tonne forging machine equipment and a new smelting equipment will commence operation. With the new forging machine, the HSS production capacity and the gross margin are expected to be increased as a result of higher production rate. The new smelting equipment will reduce the production cost as its implementation will eliminate part of the electroslag re-melting process. The Group planned to increase HSS annual production capacity by 5,000-tonne to 45,000-tonne in 2008.

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 2008, the installation of the advanced cutting tools production line which covers the grinding, heat treatment and slot, surface and edge grinding processes will be completed. The new production line will enable the Group to produce products with higher quality and increase profit margin for both overseas and domestic customers.

Die steel

The market of die steel in China has been growing at an annual rate of over 25%. The Group will continue to develop this high growth industry. In 2008, the Group will invest to install new sets of forging equipment and deep processing and precision forming equipment. These new production equipments will increase the die steel production capacity as well as the production efficiency. The die steel annual production capacity is planned to increase by 10,000-tonne to 22,000-tonne in 2008. Moreover, the Group will continue to promote die steel sales by increasing promotion activities and sales incentives in order to continue the expansion trend of this business.

In order to improve the DS profit margin, the Group has implemented a number of measures. Firstly, the Group has hiked the selling pricing of all DS products in February of 2008. Secondly, the Group has installed a set of production equipments which has commenced production in January of 2008. These equipments are expected to increase the production rate as well as the profit margin. Moreover, the Group has set up a committee to closely monitor and examine the production process of DS in order to improve the efficiency of DS production. Management expects the effects of these measures will be reflected in higher DS gross margin in 2008.

FINAL DIVIDEND

The Directors do not recommend the payment of a final dividend for the year.

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

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed 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"). Please refer to the Corporate Governance Report in the annual report to the published by the Company for details.

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 namely Mr. LAU Siu Fai, Mr. GAO Xiang and Mr. THONG Kwee Chee. As a result of the resignation of Mr. LIN John Sian-zu, Mr. THONG Kwee Chee was appointed as a member of the Audit Committee on 20 March 2008. The Audit Committee held a meeting on 1 April 2008 to consider and review the annual results of the Group and to give their opinion and recommendation to the Board. The Audit Committee considers that the 2007 annual results of the Group 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 equiry of all Directors of the Company, 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 annual report 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, 1 April 2008

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

* *for identification purpose only*