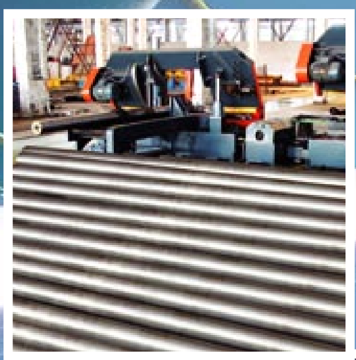
天工國際有限公司*

TIANGONG INTERNATIONAL COMPANY LIMITED

(incorporated in the Cayman Islands with limited liability)

Stock Code : 826



INTERIM REPORT 2008

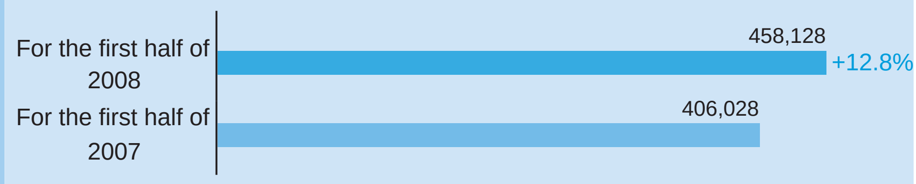
* For identification purpose only

Contents

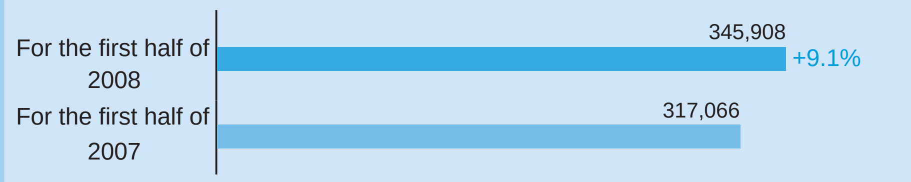
Financial Highlights

	Unaudited For the six months ended 30 June		
	2008	2007	Change
	RMB'000	RMB'000	%
Revenue	**1,074,414**	833,116	29.0
Net profit attributable to equity holders of the Company	**92,617**	108,374	(14.5)
Basic earnings per share (RMB)	**0.22**	0.36	(38.9)

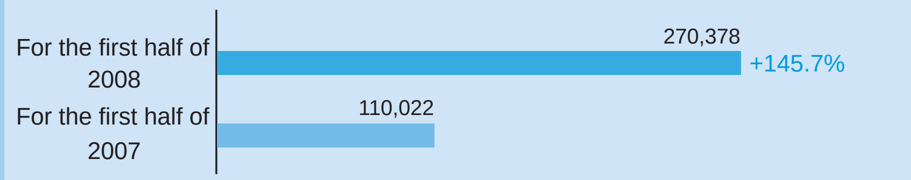
Total revenue from the sales of HSS (RMB'000)



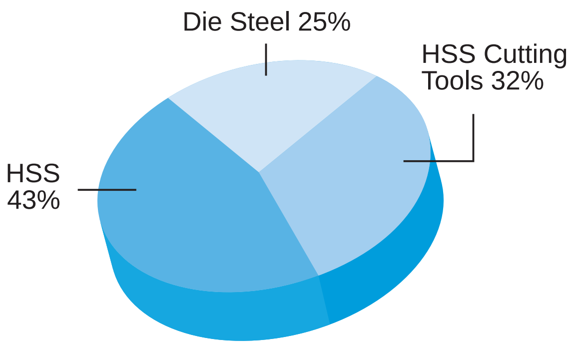
Total revenue from the sales of HSS Cutting tools (RMB'000)



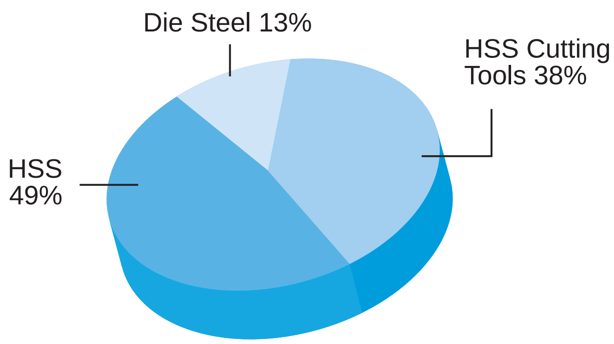
Total revenue from the sales of Die Steel (RMB'000)



Revenue by Product Mix



For the first half of 2008



For the first half of 2007

Management Discussion and Analysis

The following management discussion and analysis should be read in conjunction with the interim consolidated financial statements, which have been reviewed by KPMG and the audit committee of the Company, as set out in this interim report.

The Group is engaged in the production and sales of High Speed Steel ("HSS"), HSS cutting tools and Die Steel ("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 for the production of HSS. HSS will be further processed for the Group's HSS cutting tools production and its external sale to customers. HSS typically has higher pressure and temperature tolerances than does regular steel and is more wear resistant. It is widely used in specific industrial applications such as automotive, machinery manufacture, aviation, chemical processing and electronics industries. The Group has produced HSS since 1992.

HSS CUTTING TOOLS

Over 80% of its sales was exported to over 30 countries and regions throughout Europe, North America, Africa and the Middle East. 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, as well as the 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 moulds for die casting and machining processes. The Group has produced die steel since 2005.

MARKET REVIEW

From 2001 to 2007, the output from the production of HSS and HSS cutting tools grew at a compound annual growth rate ("CAGR") of 15.0% and 11.0%, respectively. Such growth has been mainly due to the rapid development of China's industrial sector and increase in demand for machineries. The production of die steel in China, a major raw material in the production of manufacturing moulds, has grown at a CAGR of 24.8% from 2002 to 2007.

In 2008, the world's economy growth has slowed down slightly. China's economic growth has also shown signs of slowing down in the first half of the year. The GDP growth for the second quarter is only 10.1% as compared with 11.4% increase for the year of 2007. As the special steel and cutting tools industries are reliant on industrial and economic activities, slow down in business activities had a negative impact on China's HSS, HSS cutting tools and die steel industries.

However, the Chinese government's policies on taxing export of rare metals have provided opportunity for the Chinese manufacturers. China has the world's largest reserves of tungsten, molybdenum and vanadium which are the major raw materials for the production of HSS, HSS cutting tools and die steel. This has provided the Chinese special steel and cutting tools manufacturers with a cost advantage over its overseas peers.

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 the first half of 2008, the Group continued to be the largest producer of HSS and HSS cutting tools in China. With the increased production capacity, the Group was able to meet additional customer orders. The Group has also gained market share over its Chinese competitors.

As a result, the Group has recorded significant growth in revenue in the first half of 2008. All three product segments of the Group have seen revenue growth. The revenue of HSS, HSS cutting tools and die steel grew at growth rates of 12.8%, 9.1% and 145.7%, respectively. These growth rates are lower than the growth rates of 43.8%, 32.4% and 618.1% for HSS, HSS cutting tools and die steel in the first half of 2007. The decrease is mainly due to the smaller base in the calculation of growth rate in 2007 and also the slowdown in the worldwide and China's industrial activities in 2008.

SALES BREAKDOWN

	For the six months ended 30 June					
	2008		2007		Change	
	RMB'000	%	RMB'000	%	RMB'000	%
HSS	458,128	42.6%	406,028	48.7%	52,100	12.8%
HSS cutting tools	345,908	32.2%	317,066	38.1%	28,842	9.1%
Die steel	270,378	25.2%	110,022	13.2%	160,356	145.7%
Total	1,074,414	100.0%	833,116	100.0%	241,298	29.0%

HSS

The HSS business has seen continuous growth and remained as the primary revenue driver of the Group for the first half of 2008, accounting for approximately 42.6% of the Group's revenue. During the period, the Group has gained market share of HSS from its competitors. Benefiting from the increase in volume and selling price of HSS, sales reached RMB458,128,000 (2007: RMB406,028,000), representing an increase of approximately 12.8% over the sales of HSS in the first half of 2007.

The Group's HSS domestic sales increased by approximately 16.8% to RMB355,546,000, accounting for approximately 77.6% of the total HSS sales in the first half of 2008. The increase is partly due to the Group's focus on further development of the domestic market.

Set out below is a geographical breakdown of the sales of HSS for the period ended 30 June 2007 and 30 June 2008:

	For the six months ended 30 June					
	2008		2007		Change	
	RMB'000	%	RMB'000	%	RMB'000	%
HSS						
Domestic	355,546	77.6%	304,454	75.0%	51,092	16.8%
Export	102,582	22.4%	101,574	25.0%	1,008	1.0%
Total	458,128	100.0%	406,028	100.0%	52,100	12.8%

HSS cutting tools

Revenues from sales of HSS cutting tools increased by approximately 9.1% to RMB345,908,000 in the first half of 2008, accounting for approximately 32.2% of the Group's total revenue. During the first half of 2008, revenue from export of HSS cutting tools decreased by 8.6% because of the decrease in overseas sales order caused by slowdown in the global economy. Domestic sales have grown by 84.4% as a result of increased promotional effort. As there is more growth opportunity in the domestic market and there is no foreign exchange loss risk associated with domestic sales, the group will continue to further develop the domestic market for HSS cutting tools.

Set out below is a geographical breakdown of the sales of HSS cutting tools for the period ended 30 June 2007 and 30 June 2008:

	For the six months ended 30 June					
	2008		2007		Change	
	RMB'000	%	RMB'000	%	RMB'000	%
HSS cutting tools						
Domestic	111,356	32.2%	60,398	19.0%	50,958	84.4%
Export	234,552	67.8%	256,668	81.0%	(22,116)	(8.6%)
Total	345,908	100.0%	317,066	100.0%	28,842	9.1%

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 2008. Revenues from sales of die steel increased by approximately 145.7% from RMB110,022,000 to RMB270,378,000 for the period ended 30 June 2008, accounting for approximately 25.2% of the total revenues. The reasons for the significant increase are attributable to the increase in die steel production capacity as a result of installation completion, the Group's promotional effort on die steel sales and higher production utilization. The Group commenced export sales of die steel in the second half of 2006. In 2008, export sales continued to grow, accounting for approximately 62.1% of the total die steel sales.

Set out below is a geographical breakdown of the sales of die steel for the period ended 30 June 2007 and 30 June 2008:

	For the six months ended 30 June					
	2008		2007		Change	
	RMB'000	%	RMB'000	%	RMB'000	%
Die steel						
Domestic	102,455	37.9%	49,754	45.2%	52,701	105.9%
Export	167,923	62.1%	60,268	54.8%	107,655	178.6%
Total	270,378	100.0%	110,022	100.0%	160,356	145.7%

FINANCIAL REVIEW

All three product segments of the Group continued to grow in the first half of 2008 in spite of the slowdown of the worldwide economical growth. Revenue has increased significantly by approximately 29.0% as compared with the first half of 2007.

Net profit attributable to the equity holders of the Company decreased from RMB108,374,000 to RMB92,617,000 for the six months ended 30 June 2008. The decrease is mainly due to the non-recurring income of RMB20 million unconditional grants last year and the increase in production cost in this period.

Revenue

Revenue of the Group for the first half of 2008 totaled RMB1,074,414,000, representing an increase of approximately 29.0% when compared with RMB833,116,000 in 2007. The increase was mainly attributable to the continuous growth of die steel sales and the increase in sales volume and selling prices of HSS and HSS cutting tools.

Cost of sales

The Group's cost of sales increased by RMB227,479,000 from RMB668,660,000 for the first half of 2007 to RMB896,139,000 for 2008, representing an increase of approximately 34.0%. The increase was higher than the 29.0% increase in revenue as compared with the same period last year. Such increase is mainly attributable to the increase in production cost of HSS and HSS cutting tools. As a percentage of total revenue, the Group's cost of sales increased slightly from approximately 80.3% in the first half of 2007 to approximately 83.4% in the same period in 2008. The Group will monitor the rare metal and other raw material cost closely and try to increase the product completion rate in order to lower the cost of sales.

Gross margin

For the six months ended 30 June 2008, the gross margin was approximately 16.6% (2007:19.7%). The decrease was mainly due to the decrease in gross margin of HSS and HSS cutting tools.

HSS

HSS gross margin decreased from 24.5% in the first half of 2007 to 20.3% in the same period in 2008. The fall in gross margin was mainly due to the increase in cost of scrap steel and production cost. During the period, unit cost of scrap steel and utility expense has increased by 14% and 10%, respectively.

HSS cutting tools

As compared with the same period last year, the gross margin of HSS cutting tools decreased slightly from 16.6% to 14.7%. Reduction in tax rebate on export sales and increase in production cost have contributed to the fall in gross margin.

Die steel

The gross margin of die steel increased from 11.3% in the first half of 2007 to 12.8% in 2008. The increase was mainly due to the increase in product completion ratio and the Group's strategy of higher pricing.

Other income

The Group's other income totaled RMB2,474,000 in the first half of 2008, representing a decrease of RMB18,273,000 from RMB20,747,000 in the same period in 2007. The decrease was attributable to the receipt of RMB20 million in unconditional grants from the local government of Danyang in 2007 to encourage further development of its business in 2007.

Distribution expenses

The Group's distribution expenses was RMB23,477,000 (2007: RMB17,387,000), representing an increase of approximately 35.0%. The increase was mainly attributable to the rise in transportation expenses by RMB2,985,000, resulted from increase in sales volume and fuel costs. For the first six months of 2008, the distribution expenses as a percentage of revenue was 2.2% (2007: 2.1%).

Administrative expenses

For the first half of 2008, the Group's administrative expenses increased by approximately 10.1% to RMB27,626,000 (2007: RMB25,092,000) primarily because staff cost increased by RMB1,802,000, as a result of business expansion. For the first half of 2008, the administrative expenses as a percentage of revenue was 2.6% (2007: 3.0%).

Net finance cost

The Group's net finance cost was RMB32,522,000 for the first half of 2008, generally in line with the RMB32,460,000 for the same period last year.

Income tax expenses

The Group's income tax expenses increased from RMB620,000 for the first half of 2007 to RMB2,555,000 in 2008. The Group's major subsidiary, Jiangsu Tiangong Tools Company Limited ("TG Tools"), is entitled to a two-year tax holiday starting from 2007. The increase in the first half of 2008 was mainly due to the recognition of deferred tax liability.

Profit for the period

As a result of the factors discussed above, the Group's profit decreased by approximately 16.8% to RMB90,465,000 for the first half of 2008 from RMB108,769,000 for the same period of 2007. The Group's net profit margin decreased from 13.1% in the first six months of 2007 to 8.4% in 2008.

Profit attributable to equity holders of the Company

For the first half of 2008, profit attributable to equity holders of the Company was RMB92,617,000 (2007: RMB108,374,000), representing a decrease of 14.5%.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2008, the Group's current assets mainly included cash and cash equivalents of approximately RMB161,001,000, inventories of approximately RMB1,045,492,000, trade and other receivables of RMB933,159,000 and pledged deposits of RMB142,735,000. The interest-bearing borrowings of the Group was RMB1,221,573,000 of which RMB1,031,573,000 was repayable within one year and RMB190,000,000 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 37.8% as compared with 27.9% as at 31 December 2007. The increase was mainly attributable to the increase in bank loan of RMB522,604,000 to finance the production facilities expansion and operation. As at 30 June 2008, USD30,000,000 of the borrowings were denominated in US dollars. The majority of the borrowings of the Group were subject to interests payable at rates ranging from 5.7% p.a. to 7.6% p.a.. 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 2008, the Group's increase in fixed assets amounted to RMB79,053,000, which were mainly for the production plant and facilities for HSS, HSS cutting tools and die steel. As at 30 June 2008, capital commitments amounted to RMB263,649,000, of which RMB209,135,000 was contracted and RMB54,514,000 was authorised but not contracted for. The majority of the capital commitment was related to the 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 53.0%). Approximately 47.0% of total sales and the Group's costs and operating profit were subject to exchange rate fluctuations. The Group regularly reviews product pricing in light of foreign exchange fluctuation to minimize the financial impact from exchange rate exposure.

EMPLOYEE'S REMUNERATION AND TRAINING

As at 30 June 2008, the Group employed approximately 5,260 employees (30 June 2007: around 4,720). The increase in headcount was primarily due to the increase in the production capacity of die steel and HSS. 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 30 June 2008.

PROSPECTS

With the cost saving from our size of operation, integrated business model, and our established relationships with customers, the Group aims to strengthen its market leading position in the HSS and HSS cutting tools industry. The Group will continue to invest in production facilities that produce higher quality and higher margin products and also invest in research and development in order to broaden our product range. The investment is to be funded with bank loan.

HSS

HSS will remain as the revenue driver of the Group. Upon completion of installation of production equipment, the production capacity will be increased by 5,000-tonne to 45,000-tonne. With the new forging machine, 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 production cost as its implementation will eliminate part of the electroslag re-melting process.

HSS cutting tools

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. 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 by the end of 2008. The new production line will enable the Group to produce products with higher quality and profit margin in respect of sales to both overseas and domestic customers.

Die steel

Die steel has been one of the growth drivers of the Group since 2007. The Group will continue to develop this high growth industry. In 2008, the Group continues to invest in installing 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 annual production capacity of die steel is expected to be increased by 10,000-tonne to 22,000- tonne in 2008. Moreover, the Group will continue to promote die steel sales by increasing promotional activities and providing sales incentives in order to continue the expansion trend of this business.

In order to improve the die steel profit margin, the Group continues to implement a series of measures. These measures include close monitoring of the production process and production cost in order to improve production efficiency. A new production equipment will be installed to increase production rate. The Group also reviews the pricing policy on a regular basis to ensure the die steel is priced at appropriate markup level. These measures have already improved the gross margin of die steel in the first half of 2008.

Report of the Directors

The Board is pleased to submit the interim report together with the consolidated financial statements for the six months ended 30 June 2008 which have been reviewed by the Company's auditor KPMG, and the Audit Committee of the Company.

INTERIM DIVIDEND

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

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2008, the interests, long positions or short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were recorded in the register required to be kept under Section 352 of the SFO, or which were notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

(a) Interests in the Company

Director's name	Interests	Ordinary shares held	Approximate attributable interest (%)
Mr. Zhu Xiaokun (Note)	Corporate interests	216,532,000(L)	51.62

Notes:

As at 30 June 2008,

(1) Tiangong Holdings Company Limited ("THCL") held 210,000,000 Ordinary shares. THCL was held as to 89.02% and 10.98% by Zhu Xiaokun and Yu Yumei, the spouse of Zhu Xiaokun, respectively. Zhu Xiaokun is deemed to be interested in the 210,000,000 Shares held by THCL.

(2) Silver Power (HK) Limited, which was wholly-owned by Zhu Xiaokun, held 6,532,000 Ordinary shares.

(L) represents long position

(b) Interests in the shares of associated corporation

Name of Director	Name of associated corporation	Nature of interests and capacity	Total Number of Shares	Approximate percentage of interests (%)
Zhu Xiaokun	THCL	Beneficial owner	44,511(L)	89.02
Yu Yumei	THCL	Beneficial owner	5,489(L)	10.98

(L) represents long position

Save as disclosed above, as at the interim report date, as far as the Company's directors are aware, none of the Company's directors and chief executive had any other interests, long positions or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2008, save for the Company's Directors or chief executives as disclosed above, the following persons have an interest or short position in the shares or the underlying shares of the Company which are required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, which were recorded in the register required to be kept under Section 336 of the SFO:

Substantial shareholders' name	Ordinary shares	Approximate Attributable interest (%)
AIG Global Emerging Markets Fund II, LP.	21,000,000(L)	5.01
AIG GEM II G.P., L.P. (Note 1)	21,000,000(L)	5.01
AIG GEM II G.P., Co. (Note 1)	21,000,000(L)	5.01
AIG Capital Partners, Inc. (Note 1)	21,000,000(L)	5.01
AIG Global Asset Management Holdings Corp. (Note 1)	21,000,000(L)	5.01
AIG Capital Corporation (Note 1)	21,000,000(L)	5.01
AIG Asia Opportunity Fund II, L.P.	30,000,000(L)	7.15
AIG AOF II G.P., L.P. (Note 2)	30,000,000(L)	7.15
AIG Asian Opportunity II G.P. Ltd. (Note 2)	30,000,000(L)	7.15
AIG Global Investment Corporation (Asia) Ltd. (Note 2)	30,000,000(L)	7.15
American International Assurance Company (Bermuda) Limited (Note 2)	39,000,000(L)	9.30
American International Reinsurance Company, Ltd. (Note 3)	39,000,000(L)	9.30
AIG Life Holdings (International) LLC (Note 3)	39,000,000(L)	9.30
American International Group, Inc. (Note 4)	60,000,000(L)	14.30

Notes:

(1) AIG GEM II G.P., L.P. is deemed to be interested in the Shares in the capacity as the general partner of AIG Global Emerging Markets Fund II, L.P. AIG GEM II G.P., Co. is deemed to be interested in the Shares in the capacity as the general partner of AIG GEM II G.P., L.P. AIG Capital Partners, Inc. is deemed to be interested in the deemed interests of AIG GEM II G.P., Co., its wholly-owned subsidiary. AIG Global Asset Management Holdings Corp. is deemed to be interested in the deemed interests of AIG Capital Partners, Inc., its wholly-owned subsidiary. AIG Capital Corporation is deemed to be interested in the deemed interests of AIG Global Asset Management Holdings Corp., its wholly-owned subsidiary.

(2) AIG AOF II G.P., L.P. is deemed to be interested in the Shares in the capacity as the general partner of AIG Asian Opportunity Fund II, L.P. AIG Asian Opportunity II G.P. Ltd. is deemed to be interested in the Shares in the capacity as the general partner of AIG AOF II G.P., L.P. AIG Global Investment Corporation (Asia) Ltd. is deemed to be interested in the deemed interests of AIG Asian Opportunity II G.P. Ltd., its wholly-owned subsidiary. American International Assurance Company (Bermuda) Limited holds 9,000,000 Shares and is also deemed to be interested in the deemed interests of AIG Global Investment Corporation (Asia) Ltd., its wholly-owned subsidiary.

(3) American International Reinsurance Company, Ltd. is deemed to be interested in the Shares and the deemed interests of American International Assurance Company (Bermuda) Limited, its wholly-owned subsidiary. AIG Life Holdings (International) LLC. is deemed to be interested in the deemed interests of American International Reinsurance Company, Ltd., its wholly-owned subsidiary.

(4) American International Group, Inc. is deemed to be interested in the Shares and the deemed interests of AIG Capital Corporation and AIG Life Holdings (International) LLC.

SHARE OPTIONS SCHEME

The Company adopted a share options scheme, but the Company has not granted any share options.

PURCHASE, SALES OR REDEMPTION OF SHARES

During the six months ended 30 June 2008, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities.

CORPORATE GOVERNANCE

During the six months ended 30 June 2008, the Company has, so far where 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 comprises of three non-executive directors, two of which are independent non-executive directors. The Audit Committee held a meeting on 5 September 2008 to consider and review the interim report and consolidated interim financial statements of the Company and to give their opinion and recommendation to the Board. The Audit Committee considers that the 2008 interim report and consolidated 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

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 confirmed that they had complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions.

APPLICATION OF PROCEEDS FROM INITIAL PUBLIC OFFERING

	Proposed application amount HKD'000	Amount utilized up to 30 June 2008 HKD'000	Unutilized amount as at 30 June 2008 HKD'000
— repayment of bank loans	316,000	316,000	—
— for capital expenditure	350,000	350,000	—
— as general working capital	28,600	28,600	—
	694,600	694,600	—

ASSETS PLEDGED

On 30 June 2008, the Group's pledged assets included bank deposits amounted to about RMB142,735,000 (31 December 2007: RMB86,297,000).

Independent Review Report

INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF TIANGONG INTERNATIONAL COMPANY LIMITED
For the six months ended 30 June 2008

INTRODUCTION

We have reviewed the interim financial report set out on pages 14 to 28 which comprises the consolidated balance sheet of Tiangong International Company Limited as at 30 June 2008 and the related consolidated income statement, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim financial reporting" issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review 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. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2008 is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim financial reporting".

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

8 September 2008

Consolidated Income Statement

For the six months ended 30 June (unaudited)

	Note	Six months ended 30 June 2008 RMB'000	2007 RMB'000
Revenue	3	1,074,414	833,116
Cost of sales		(896,139)	(668,660)
Gross profit		178,275	164,456
Other income		2,474	20,747
Distribution expenses		(23,477)	(17,387)
Administrative expenses		(27,626)	(25,092)
Other expenses		(4,104)	(875)
Result from operating activities		125,542	141,849
Finance income		2,355	1,093
Finance expenses		(34,877)	(33,553)
Net finance cost		(32,522)	(32,460)
Profit before income tax	4	93,020	109,389
Income tax expense	5	(2,555)	(620)
Profit for the period		90,465	108,769
Attributable to:			
Equity holders of the Company		92,617	108,374
Minority interests		(2,152)	395
Profit for the period		90,465	108,769
Earnings per share			
Basic earnings per share (RMB)	6	0.22	0.36

The notes on page 19 to 28 form part of this interim financial report.

Consolidated Balance Sheet

At 30 June 2008 (unaudited)

	Note	At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
Non-current assets			
Property, plant and equipment	7	812,838	733,785
Lease prepayments	8	98,330	65,291
Goodwill		21,959	21,959
Other investments		10,000	10,000
Deferred tax assets		3,405	3,190
		946,532	834,225
Current assets			
Inventories	9	1,045,492	845,036
Trade and other receivables	10	933,159	580,241
Pledged deposits	11	142,735	86,297
Cash and cash equivalents	12	161,001	156,688
		2,282,387	1,668,262
Current liabilities			
Interest-bearing borrowings	13	1,031,573	623,969
Trade and other payables	14	507,810	397,037
Income tax payables		12,063	12,217
		1,551,446	1,033,223
Net current assets		730,941	635,039
Total assets less current liabilities		1,677,473	1,469,264
Non-current liabilities			
Interest-bearing borrowings	13	190,000	75,000
Deferred income		9,900	9,900
Deferred tax liabilities		2,744	—
		202,644	84,900
Net assets		1,474,829	1,384,364

The notes on page 19 to 28 form part of this interim financial report.

Consolidated Balance Sheet (Continued)

At 30 June 2008 (unaudited)

	At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
Capital and reserves		
Share capital	31,806	31,806
Reserves	1,424,297	1,331,680
Total equity attributable to equity holders of the Company	1,456,103	1,363,486
Minority interests	18,726	20,878
Total equity	1,474,829	1,384,364

Approved and authorised for issue by the board of directors on 8 September 2008.

Zhu Xiao Kun
Directors

Yan Rong Hua
Directors

The notes on page 19 to 28 form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended 30 June (unaudited)

	Attributable to equity holders of the Company								
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Merger reserve RMB'000	PRC statutory reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2007	183,085	234,144	—	10,730	43,911	72,108	543,978	61,482	605,460
Capital contribution	—	—	56,998	—	—	—	56,998	—	56,998
Arising from reorganisation	(182,695)	—	—	81,195	—	—	(101,500)	—	(101,500)
Acquisition of minority interests	—	—	—	—	—	—	—	(56,057)	(56,057)
Capital injection	—	—	—	—	—	—	—	14,705	14,705
Profit for the period	—	—	—	—	—	108,374	108,374	395	108,769
At 30 June 2007	390	234,144	56,998	91,925	43,911	180,482	607,850	20,525	628,375

	Attributable to equity holders of the Company								
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Merger reserve RMB'000	PRC statutory reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2008	31,806	886,566	56,998	91,925	67,085	229,106	1,363,486	20,878	1,384,364
Profit for the period	—	—	—	—	—	92,617	92,617	(2,152)	90,465
At 30 June 2008	31,806	886,566	56,998	91,925	67,085	321,723	1,456,103	18,726	1,474,829

The notes on page 19 to 28 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June (unaudited)

	Note	Six months ended 30 June 2008 RMB'000	2007 RMB'000
Net cash used in operating activities		(300,281)	(129,419)
Net cash used in investing activities		(133,487)	(215,061)
Net cash generated from financing activities		438,081	354,717
Net increase in cash and cash equivalents		4,313	10,237
Cash and cash equivalents at 1 January		156,688	62,927
Cash and cash equivalents at 30 June	12	161,001	73,164

The notes on page 19 to 28 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

1. REPORTING ENTITY

Tiangong International Company Limited (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 interim financial report of the Company as at and for the six months ended 30 June 2008 comprises the Company and its subsidiaries (together referred to as the "Group").

2. 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 of Hong Kong Limited, 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 2007 annual financial statements.

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 consolidated 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 2007 annual financial statements. The condensed consolidated 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 on page 13.

The financial information relating to the financial year ended 31 December 2007 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 those financial statements. Statutory financial statements for the year ended 31 December 2007 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 1 April 2008.

3. 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 speed steel ("HSS")*	The HSS segment manufactures and sells high speed steel for steel industry.
— *HSS cutting tools*	The HSS cutting tools segment manufactures and sells HSS cutting tools for tool industry.
— *Die steel ("DS")*	The DS segment manufactures and sells die steel for steel industry.

	Six months ended 30 June	
	2008 RMB'000	2007 RMB'000
Revenue		
HSS	458,128	406,028
HSS cutting tools	345,908	317,066
DS	270,378	110,022
Total	1,074,414	833,116
Segment result		
HSS	85,293	92,758
HSS cutting tools	39,937	43,778
DS	29,568	10,533
Total	154,798	147,069
Unallocated operating income and expenses	(29,256)	(5,220)
Profit from operations	125,542	141,849
Net finance cost	(32,522)	(32,460)
Income tax expense	(2,555)	(620)
Profit for the period	90,465	108,769

3. SEGMENT REPORTING (Continued)

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.

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Revenue		
The PRC	569,357	414,606
North America	161,162	144,052
Europe	214,883	150,959
Asia (other than the PRC)	118,186	104,832
Others	10,826	18,667
Total	1,074,414	833,116

4. PROFIT BEFORE INCOME TAX

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

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Interest on bank loans	28,085	26,286
Net foreign exchange loss	6,792	7,267
Cost of inventories	896,139	668,660
Depreciation	28,120	26,262
Amortisation of lease prepayments	734	663
Impairment loss for doubtful debts	1,725	239
Write down for inventories	1,325	126
Government grants	(2,168)	(20,000)

5. INCOME TAX EXPENSE

Income tax expense in the consolidated income statement represents:

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Current tax		
Provision for PRC income tax	26	79
Deferred tax		
Origination and reversal of temporary differences	2,529	541
	2,555	620

(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 applicable rate of 25% (2007: 27% to 33%) 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.

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.

Jiangsu Tiangong Tools Company Limited ("TG Tools") became a wholly foreign-owned enterprise on 21 August 2006 and due to the above-mentioned tax holiday, TG Tools is exempted from PRC enterprise income tax for the year of 2007 and 2008.

As Tiangong Aihe Special Steel Company Limited sustained accumulated operating losses for tax purposes during the six months ended 30 June 2008, no income tax is provided in the consolidated income statement.

6. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company of RMB92,617,000 during the period presented (six months ended 30 June 2007: RMB108,374,000) and the issued 419,500,000 ordinary shares (six months ended 30 June 2007: 300,000,000).

No dilutive potential ordinary shares were in issue as at 30 June 2008 (2007: Nil).

7. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2008, the Group acquired items of plant and machinery with a cost of RMB107,453,000 (2007: RMB344,818,000). Apart from that, there are no significant acquisitions/disposals during the period from 1 January 2008 to 30 June 2008.

8. LEASE PREPAYMENTS

During the six months ended 30 June 2008, the Group acquired a new land with a cost of RMB33,773,000 (2007: RMB10,438,000).

9. INVENTORIES

	At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
Raw materials	70,145	53,622
Work in progress	577,916	403,923
Finished goods	397,431	387,491
	1,045,492	845,036

Provisions of RMB2,704,000 (2007: RMB1,379,000) were made against those inventories with net realisable value lower than carrying value. Except for the above, none of the inventories as at 30 June 2008 and 31 December 2007 was carried at net realisable value.

10. TRADE AND OTHER RECEIVABLES

	At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
Trade and bills receivables	571,475	432,009
Prepayments	343,701	136,732
Non-trade receivables	17,983	11,500
	933,159	580,241

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.

10. TRADE AND OTHER RECEIVABLES (Continued)

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

	At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
Within 3 months	456,322	398,205
Over 3 months but less than 6 months	122,257	37,490
Over 6 months but less than 12 months	10,052	14,550
Over 12 months but less than 24 months	9,179	6,374
Over 24 months	908	908
	598,718	457,527
Less: impairment loss for doubtful debts	(27,243)	(25,518)
	571,475	432,009

11. PLEDGED DEPOSITS

Bank deposits of RMB142,735,000 (2007: RMB86,297,000) had been pledged to banks as securities for the Group to issue bank acceptance bills and other banking facilities. The pledged bank deposits will be released upon the settlement of the relevant bills payables by the Group and the termination of relevant banking facilities.

12. CASH AND CASH EQUIVALENTS

All the balances of cash and cash equivalents as at 30 June 2008 are cash at bank and in hand.

13. INTEREST-BEARING BORROWINGS

		At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
Current			
Secured bank loans		—	56,000
Unsecured bank loans	(i)	986,573	447,969
Current portion of non-current unsecured bank loans		45,000	120,000
		1,031,573	623,969
Non-current			
Unsecured bank loans	(ii)	235,000	195,000
Less: Current portion of non-current unsecured bank loans	(ii)	(45,000)	(120,000)
		190,000	75,000
		1,221,573	698,969

(i) Current unsecured bank loans carried interest at annual rates ranging from 5.67% to 7.47% (2007: 4.59% to 7.47%) and were all repayable within one year.

Current unsecured bank loans of RMB90,000,000 (2007: RMB90,000,000) were guaranteed by third parties.

(ii) Non-current unsecured bank loans carried interest at annual rates ranging from 7.47% to 7.56% (2007: 6.03% to 7.47%).

The Group's non-current bank loans were repayable as follows:

	At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
Over 1 year but less than 2 years	150,000	75,000
Over 3 years but less than 4 years	40,000	—
	190,000	75,000

14. TRADE AND OTHER PAYABLES

		At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
Trade and bills payables		415,869	324,911
Non-trade payables and accrued expenses		91,441	71,326
Payables due to related parties	15(c)	500	800
		507,810	397,037

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

	At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
Within 3 months	277,402	236,663
Over 3 months but less than 6 months	123,370	82,408
Over 6 months but less than 12 months	12,554	4,608
Over 1 year but less than 2 years	2,543	1,232
	415,869	324,911

15. RELATED PARTY TRANSACTIONS

The Group has transactions with Jiangsu Tiangong Group Company Limited ("TG Group"), a wholly-owned company of controlling equity holders of the Company. The following is a summary of principal related party transactions carried out by the Group with TG Group.

Particulars of significant transactions between the Group and TG Group are as follows:

(a) Significant Related Party Transactions-Recurring

	Six months ended 30 June 2008 RMB'000	Six months ended 30 June 2007 RMB'000
Lease expense to:		
TG Group	500	300

15. RELATED PARTY TRANSACTIONS (Continued)

(b) Significant Related Party Transactions — Non-recurring

	Six months ended 30 June	
	2008 RMB'000	2007 RMB'000
Purchases of fixed assets from:		
TG Group	—	19,770
Purchases of land use rights from:		
TG Group	—	10,438
Acquisition of equity interests in subsidiaries from:		
TG Group	—	101,500
Waiver of liabilities by:		
TG Group	—	56,998

(c) Amounts due to related parties

	At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
TG Group	500	800

16. COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at respective balance sheet dates not provided for in the interim financial report were as follows:

	At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
Contracted for		
— Land and buildings	94,046	81,463
— Equipment	115,089	121,801
	209,135	203,264
Authorised but not contracted for		
— Equipment	54,514	92,844

16. COMMITMENTS (Continued)

(b) Operating leases commitments

At the balance sheet date, the Group's total future minimum lease payments under non-cancellable operating leases were payables as follows:

	At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
Within 1 year	1,468	1,468
After 1 year but within 5 years	623	1,357
	2,091	2,825

Corporate Information

REGISTERED NAME
Tiangong International Company Limited

CHINESE NAME
天工國際有限公司

STOCK CODE
Hong Kong Stock Exchange 826

BOARD OF DIRECTORS
Executive Directors
Mr. Zhu Xiaokun (Chairman)
Mr. Zhu Zhihe (Chief Executive Officier)
Mr. Zhu Mingyao
Mr. Yan Ronghua

Non-executive Directors
Mr. Thong Kwee Chee

Independent Non-executive Directors
Mr. Li Zhengbang
Mr. Gao Xiang
Mr. Lau Siu Fai

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT
Mr. Leung Wai Yip, AHKICPA

AUTHORIZED REPRESENTATIVES
Mr. Lau Siu Fai
Mr. Leung Wai Yip, AHKICPA

AUDIT COMMITTEE
Mr. Lau Siu Fai (Chairman)
Mr. Gao Xiang
Mr. Thong Kwee Chee

REMUNERATION COMMITTEE
Mr. Li Zhengbang (Chairman)
Mr. Zhu Xiaokun
Mr. Gao Xiang
Mr. Lau Siu Fai
Mr. Thong Kwee Chee

NOMINATION COMMITTEE
Mr. Gao Xiang (Chairman)
Mr. Zhu Xiaokun
Mr. Li Zhengbang
Mr. Lau Siu Fai
Mr. Thong Kwee Chee

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PRINCIPAL BANKERS

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Industrial and Commercial Bank of China Limited
Bank of China Limited
Agricultural Bank of China