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 2008

FINANCIAL HIGHLIGHTS

- Revenue of the Group for the year ended 31 December 2008 totalled RMB1,993,269,000, representing an increase of 14.8% when compared with RMB1,735,763,000 for the year of 2007.

- Profit attributable to equity holders of the Company was RMB114,643,000 (2007: 180,172,000).

- Earnings per share was RMB0.27 (2007: RMB0.51).

- The Board proposed a final dividend of RMB0.0536 per share for the year ended 31 December 2008. This represented a total distribution for the year of RMB22,485,000.

The Board of Directors (the "Board") of Tiangong International Company Limited (the "Company") is pleased to announce the audited consolidated income statement of the Company and its subsidiaries (the "Group") for the year ended 31 December 2008 and the consolidated balance sheet of the Group as at 31 December 2008, together with the comparative figures for the same period of 2007 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
Revenue	4	**1,993,269**	1,735,763
Cost of sales		**(1,673,566)**	(1,445,911)
Gross profit		**319,703**	289,852
Other income		**6,068**	21,817
Distribution expenses		**(50,106)**	(41,428)
Administrative expenses		**(61,155)**	(57,578)
Other expenses		**(7,843)**	(4,013)
Profit from operations		**206,667**	208,650
Finance income		**4,607**	41,018
Finance expenses		**(96,162)**	(68,311)
Net finance cost		**(91,555)**	(27,293)
Profit before income tax	5	**115,112**	181,357
Income tax expense	6	**(2,602)**	(437)
Profit for the year		**112,510**	180,920
Attributable to:			
Equity holders of the Company		**114,643**	180,172
Minority interests		**(2,133)**	748
Profit for the year		**112,510**	180,920
Dividends payable to equity holders of the Company attributable to the year:			
Final dividend proposed after the balance sheet date	7	**22,485**	—
		22,485	—
Earnings per share			
Basic earnings per share (RMB)	8	**0.27**	0.51

CONSOLIDATED BALANCE SHEET
As at 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
Non-current assets			
Property, plant and equipment		**1,093,735**	733,785
Lease prepayments		**97,106**	65,291
Goodwill		**21,959**	21,959
Other investments		**10,000**	10,000
Deferred tax assets		**5,476**	3,190
		1,228,276	834,225
Current assets			
Inventories		**1,111,282**	845,036
Trade and other receivables	9	**616,901**	580,241
Pledged deposits		**63,600**	86,297
Time deposits		**115,000**	—
Cash and cash equivalents		**96,021**	156,688
		2,002,804	1,668,262
Current liabilities			
Interest-bearing borrowings		**1,093,865**	623,969
Trade and other payables	10	**442,257**	397,037
Income tax payables		**13,383**	12,217
		1,549,505	1,033,223
Net current assets		**453,299**	635,039
Total assets less current liabilities		**1,681,575**	1,469,264
Non-current liabilities			
Interest-bearing borrowings		**190,000**	75,000
Deferred income		**9,900**	9,900
Deferred tax liabilities		**3,546**	—
		203,446	84,900
Net assets		**1,478,129**	1,384,364
Capital and reserves			
Share capital		**31,806**	31,806
Reserves		**1,446,323**	1,331,680
Total equity attributable to equity holders of the Company		**1,478,129**	1,363,486
Minority interests		**—**	20,878
Total equity		**1,478,129**	1,384,364

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 Company and its subsidiaries to rationalise the group structure in preparation for the public listing of the Company's shares on the Main Board of 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 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 consolidated 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 consolidated results of the Group for the years ended 31 December 2008 and 2007 include the results of the Company and its subsidiaries with effect from 1 January 2007 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 consolidated balance sheets at 31 December 2008 and 31 December 2007 have been prepared on the basis that the current group structure was in place with effective from 1 January 2007. All material intra-group transactions and balances have been eliminated on consolidation. In the opinion of the directors, the consolidated 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 of Hong Kong Limited.

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, time 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 sells high speed steel for steel industry.
- *HSS cutting tools* — The HSS cutting tools segment manufactures and sells HSS cutting tools for tool industry.
- *DS* — The DS segment manufactures and sells die steel for steel industry.

	2008 *RMB'000*	2007 *RMB'000*
Revenue		
HSS	**815,316**	843,484
HSS cutting tools	**658,061**	661,445
DS	**519,892**	230,834
Total	**1,993,269**	1,735,763
Segment result		
HSS	**135,893**	161,728
HSS cutting tools	**67,366**	80,666
DS	**66,338**	6,029
Total	**269,597**	248,423
Unallocated operating income and expenses	**(62,930)**	(39,773)
Profit from operations	**206,667**	208,650
Net finance cost	**(91,555)**	(27,293)
Income tax expense	**(2,602)**	(437)
Profit for the year	**112,510**	180,920

	2008 *RMB'000*	2007 *RMB'000*
Segment assets		
HSS	**1,022,031**	1,025,237
HSS cutting tools	**868,464**	776,052
DS	**1,034,816**	433,523
Total	**2,925,311**	2,234,812
Unallocated assets	**305,769**	267,675
Total assets	**3,231,080**	2,502,487
Segment liabilities		
HSS	**220,496**	255,118
HSS cutting tools	**75,574**	81,617
DS	**136,966**	55,123
Total	**433,036**	391,858
Unallocated liabilities	**1,319,915**	726,265
Total liabilities	**1,752,951**	1,118,123

	2008	2007
	RMB'000	*RMB'000*
Capital expenditure		
HSS	**130,685**	184,336
HSS cutting tools	**96,724**	33,857
DS	**224,684**	137,063
Total	**452,093**	355,256
Depreciation and amortisation		
HSS	**27,895**	26,389
HSS cutting tools	**10,807**	9,692
DS	**21,345**	18,756
Total	**60,047**	54,837

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 (the "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.

	2008	2007
	RMB'000	*RMB'000*
Revenue		
The PRC	**1,007,715**	791,811
North America	**365,148**	307,868
Europe	**376,136**	405,512
Asia (other than the PRC)	**222,774**	198,672
Others	**21,496**	31,900
Total	**1,993,269**	1,735,763

5 PROFIT BEFORE INCOME TAX

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

(i) Net finance cost

	2008 *RMB'000*	2007 *RMB'000*
Interest income*	**(4,607)**	(41,018)
Finance income	**(4,607)**	(41,018)
Interest on bank loans	**70,464**	46,824
Net foreign exchange loss	**25,698**	21,487
Finance expenses	**96,162**	68,311
Net finance cost	**91,555**	27,293

* Interest income in the year of 2007 included RMB35,983,000 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

	2008 *RMB'000*	2007 *RMB'000*
Wages, salaries and other benefits	**111,663**	95,223
Contributions to defined contribution plans	**3,554**	2,053
	115,217	97,276

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

	2008 *RMB'000*	2007 *RMB'000*
Cost of inventories*	**1,673,566**	1,445,911
Depreciation	**58,089**	53,569
Amortisation of lease prepayments	**1,958**	1,268
Impairment loss for doubtful debts	**4,744**	2,667
Auditor's remuneration	**2,004**	1,976
Write down for inventories	**9,962**	399
Operating lease charges	**1,468**	1,123

* Cost of inventories includes RMB144,338,000 (2007: RMB128,871,000) relating to staff costs, depreciation expenses and write down for inventories which amounts are also included in the respective total amounts disclosed separately above or in Note 5(ii) for each of these types of expenses.

6 INCOME TAX EXPENSE

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

	2008	2007
	RMB'000	*RMB'000*
Current tax		
Provision for PRC income tax	**1,342**	200
Deferred tax		
Origination and reversal of temporary differences	**1,260**	237
	2,602	437

(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.

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. According to the new tax law, the applicable tax rates of the Group's operating subsidiaries in the PRC are unified at 25% with effect from 1 January 2008 (2007: range from 27% to 33%).

Pursuant to the income tax rules and regulations of the PRC, foreign-invested enterprises 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. For the enterprises that do not benefit from such tax holiday due to their non-profit making status, the period of time for which such tax holiday apply shall be calculated commencing from the year of 2008.

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. From the year of 2008, Tianfa Forging is subjected to the tax rate of 25%.

The statutory income tax rate applicable to Jiangsu Tiangong Tools Company Limited ("TG Tools") is 25% (2007: 33%). On 21 August 2006, China Tiangong Company Limited acquired the entire equity interests in TG Tools. As a result, TG Tools became a wholly foreign-owned enterprise and is exempted from PRC enterprise income tax for 2007 and 2008 due to the above-mentioned tax holiday.

Tiangong Aihe Special Steel Company Limited is exempted from PRC enterprise income tax for 2008 due to the above-mentioned tax holiday.

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

	2008	2007
	RMB'000	*RMB'000*
Profit before income tax	**115,112**	181,357
Computed tax using the Group's PRC statutory tax rate of 25% (2007: 33%)	**28,778**	59,848
Rate differential on the PRC operations	**—**	(418)
Tax exemption	**(30,227)**	(67,299)
Non-deductible expenses	**505**	1,750
Unrecognised deferred tax assets in respect of tax losses of a subsidiary	**—**	6,556
Deferred tax liabilities in respect of withholding tax on undistributed profits of subsidiaries	**3,546**	—
	2,602	437

7 DIVIDENDS

Dividends payable to equity holders of the Company attributable to the year:

	2008	2007
	RMB'000	*RMB'000*
Final dividend proposed after the balance sheet date of RMB0.0536 per share (2007: Nil)	**22,485**	—
	22,485	—

The calculation of final dividend per share is based on 419,500,000 ordinary shares in issue as at 31 December 2008 (2007: 419,500,000).

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

8 EARNINGS PER SHARE

(i) Basic earnings per share

The calculation of basic earnings per share at 31 December 2008 was based on the profit attributable to ordinary shareholders of RMB114,643,000 (2007: RMB180,172,000) and a weighted average number of ordinary shares outstanding of 419,500,000 (2007: 352,056,165), calculated as follows:

Weighted average number of ordinary shares

	2008	2007
	Number of shares	*Number of shares*
Issued ordinary shares at 1 January	**419,500,000**	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	**419,500,000**	352,056,165

(ii) Diluted earnings per share

No dilutive potential ordinary shares were in issue as at 31 December 2008 (2007: Nil).

9 TRADE AND OTHER RECEIVABLES

	2008	2007
	RMB'000	*RMB'000*
Trade and bills receivables	**504,421**	457,527
Less: impairment loss for doubtful debts	**(30,262)**	(25,518)
Net trade and bills receivables	**474,159**	432,009
Prepayments	**125,555**	136,732
Non-trade receivables	**17,187**	11,500
	616,901	580,241

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

Ageing analysis

The Group's customers are normally granted credit terms of 0 to 150 days depending on the credit worthiness of individual customers.

Included in trade and other receivables are trade and bills receivables (net of impairment loss for doubtful debts) with the following ageing analysis as of the balance sheet date:

	2008	2007
	RMB'000	*RMB'000*
Current	**166,622**	236,649
Less than 3 month past due	**182,030**	163,720
More than 3 months but less than 6 months past due	**97,628**	24,205
More than 6 months but less than 12 months past due	**25,355**	5,890
More than 12 months but less than 24 months past due	**2,524**	1,545
Amounts past due	**307,537**	195,360
	474,159	432,009

10 TRADE AND OTHER PAYABLES

	2008	2007
	RMB'000	*RMB'000*
Trade and bills payables	**373,379**	324,911
Non-trade payables and accrued expenses	**67,878**	71,326
Payables due to Jiangsu Tiangong Group Company Limited	**1,000**	800
	442,257	397,037

Included in trade and other payables are trade and bills payables with the following ageing analysis as of the balance sheet date:

	2008	2007
	RMB'000	*RMB'000*
Within 3 months	**268,650**	236,663
Over 3 months but less than 6 months	**92,830**	82,408
Over 6 months but less than 12 months	**7,877**	4,608
Over 1 year but less than 2 years	**4,022**	1,232
	373,379	324,911

MANAGEMENT DISCUSSION AND ANALYSIS

The following management discussion and analysis should be read in conjunction with our consolidated financial statements, which were audited by KPMG and reviewed by the audit committee of the Company. The Group is engaged in the production and sales of HSS, HSS cutting tools and die steel. 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 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 70% of its sales was exported to over 30 countries and regions throughout Europe, North America, Africa and the Middle East in 2007 and 2008. 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 moulds for die casting and machining processes. The Group commenced its production of die steel since 2005.

Market review

In the second half of 2008, many of the industralized countries entered into recession. This crisis was largely contributed by the collapse of United States housing market which sparked an inter-related and ongoing financial crisis. Around the world, especially in North America and Europe, credit were tightened and consumer sentiment has also deteriorated significantly.

The crisis has caused a drop in business activities as well as industrial activities in North America and Europe during the second half of 2008. This resulted in a decrease in demand for industrial products and services. Manufacturing industry such as automotive, machining are some of the hardest hit areas. Manufacturers cut back on their production scale as well as their inventory level. Overseas demand for special steel and tools decreased as a result.

The Chinese economy is partly dependent on other economies in the world. The above mentioned economic slowdown has also affected global trade and the Chinese economy. As a result, the growth of Gross Domestic Product in China in 2008 has reduced to 9.0% from 11.4% in 2007. In light of the downturn in economic growth, the Chinese government has launched the Economic Stimulus Plan which includes pumping public investment into infrastructure development such as the rail network, roads and ports. This has helped stabilizing the domestic demand for special steel and tools.

Due to the slow down in domestic demand for tooling and machineries, China's annual HSS production decreased by 13.1% to 80,658 tonne in 2008. The growth rate for China's annual die steel production has also reduced to 2.6% from 10.3% in 2007 with annual die steel production of 410,281 tonne in 2008. The slowdown in die steel growth was attributable to the decrease in demand for domestic automobile and other consumer products that required moulding in the production process.

Business review

The Group is 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 has been the largest manufacturer of HSS by volume in China from 2001 to 2008 and the largest HSS cutting tools manufacturer by revenue in China in 2007 and 2008.

In the first half of 2008, the Group has increased its production capacity to meet the expanding market demand before the above mentioned global economic crisis which took effect in the second half of 2008. The Group continued to implement measures to lower the production cost and to maintain the Group's emphasis on safety, efficiency and product quality. Meanwhile, the Group improved the production process and product specification through active research and development to cope with the changing economic environment.

The revenue from the sales of the three major products are set out as below:

	For the year ended 31 December					
	2008		2007		Change	
	RMB'000	***%***	*RMB'000*	*%*	*RMB'000*	*%*
HSS	**815,316**	**40.9%**	843,484	48.6%	(28,168)	-3.3%
HSS cutting tools	**658,061**	**33.0%**	661,445	38.1%	(3,384)	-0.5%
Die steel	**519,892**	**26.1%**	230,834	13.3%	289,058	125.2%
	1,993,269	**100.0%**	1,735,763	100.0%	257,506	14.8%

HSS

The HSS business was relatively stable and remained the largest revenue contributor of the Group for 2008, accounting for approximately 40.9% of the Group's revenue. Due to the slowdown in industrial activities, the sales volume of HSS decreased in the second half of 2008, offsetting the sales growth of 12.8% in the first half of 2008. As a result, sales of HSS reached RMB815,316,000 (2007: RMB843,484,000), representing a slight decrease of 3.3% over the sales of HSS in 2007. The Group's HSS domestic sales and export sales decreased slightly by 2.2% and 6.5%, respectively. The reason for the decrease was the drop in demand by the tooling manufacturers for HSS as a result of the financial crisis. Set out below is a geographical breakdown of the sales of HSS for the year ended 31 December 2007 and 31 December 2008:

	For the year ended 31 December					
	2008		2007		Change	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
HSS						
Domestic	**603,730**	**74.0%**	617,076	73.2%	(13,346)	-2.2%
Export	**211,586**	**26.0%**	226,408	26.8%	(14,822)	-6.5%
	815,316	**100.0%**	843,484	100.0%	(28,168)	-3.3%

HSS cutting tools

Revenues from sales of HSS cutting tools remained almost unchanged as compared with 2007. It decreased slightly by approximately 0.5% to RMB658,061,000 in 2008, accounting for approximately 33.0% of the Group's total revenue in 2008. During 2008, revenues from export sales of HSS cutting tools decreased by 12.5% to RMB473,536,000, mainly resulted from the decrease in demand of tools. Industries such as automobile, housing and machinery in North America and Europe are heavily affected by the drop in industrial activities and consumer sentiments caused by the financial crisis. Domestic sales increased by 53.5% to RMB184,525,000 for 2008 as a result of the Group's focus on expanding domestic market share. Set out below is a geographical breakdown of the sales of HSS cutting tools for the year ended 31 December 2007 and 31 December 2008:

	For the year ended 31 December					
	2008		2007		Change	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
HSS cutting tools						
Domestic	**184,525**	**28.0%**	120,204	18.2%	64,321	53.5%
Export	**473,536**	**72.0%**	541,241	81.8%	(67,705)	-12.5%
	658,061	**100.0%**	661,445	100.0%	(3,384)	-0.5%

Die steel

The Group commenced its die steel operation in November 2005. The Group's die steel business continued to record significant growth in 2008. Revenue from sales of die steel increased by approximately 125.2% from RMB230,834,000 in 2007 to RMB519,892,000 in 2008, accounting for approximately 26.1% of the total revenue in 2008. The reasons for the significant increase include the Group's promotion effort and the higher production utilization as compared with last year's. The domestic sales of die steel increased by 347.5% to RMB244,002,000 in 2008. Such was mainly due to the Group's focus on promotion effort in the domestic automobile and machinery industries. Set out below is a geographical breakdown of the sales of die steel for the year ended 31 December 2007 and 31 December 2008:

	For the year ended 31 December					
	2008		2007		Change	
	RMB'000	***%***	*RMB'000*	*%*	*RMB'000*	*%*
Die steel						
Domestic	**244,002**	**46.9%**	54,531	23.6%	189,471	347.5%
Export	**275,890**	**53.1%**	176,303	76.4%	99,587	56.5%
	519,892	**100.0%**	230,834	100.0%	289,058	125.2%

Financial review

As a result of the financial crisis in 2008 and the inclusion of various one-off incomes in 2007, net profit attributable to equity holders of the Company decreased by approximately 36.4% to RMB114,643,000 in 2008 from RMB180,172,000 for 2007. Revenue of HSS and HSS cutting tools remained broadly in line with last year. Die steel has demonstrated continued robust growth trends.

Revenue

Revenue of the Group for 2008 totalled RMB1,993,269,000, representing an increase of approximately 14.8% when compared with RMB1,735,763,000 in 2007. The increase was mainly attributable to the increase in sales volume of die steel of the Group.

Cost of sales

The Group's cost of sales increased by RMB227,655,000 from RMB1,445,911,000 for 2007 to RMB1,673,566,000 for 2008, representing an increase of approximately 15.7%. The increase was broadly in line with the 14.8% increase in revenue during the year and reflected an increase in sales of die steel. As a percentage of total revenue, the Group's cost of sales increased slightly from approximately 83.3% in 2007 to approximately 84.0% in 2008.

Gross margin

For 2008, the gross margin was approximately 16.0% (2007: 16.7%). The slight decrease was due to the net effect of the slight decrease in gross margin of HSS and cutting tools and the increase in gross margin of die steel. Set out below is the gross margin for our three products for 2007 and 2008:

	Gross Margin	
	2008	2007
HSS	**18.4%**	21.3%
HSS cutting tools	**13.1%**	15.0%
Die steel	**16.1%**	4.7%

HSS

The decrease in HSS gross margin from 21.3% in 2007 to 18.4% in 2008 was mainly due to pressure on the selling price, the reduction of the tax rebate on export sales and increase in production cost.

HSS cutting tools

In 2008, the gross margin of HSS cutting tools decreased from 15.0% to 13.1% as a result of the increase in discount promotion to domestic and overseas customers and appreciation of RMB against Euro and US dollar.

Die steel

The gross margin of die steel increased from 4.7% in 2007 to 16.1% in 2008. The increase was mainly due to the higher production rate of die steel. Moreover, the Group is also able to lower the average production cost as the production has reached the planned capacity.

Other income

The Group's other income totalled RMB6,068,000 in 2008, representing a decrease of RMB15,749,000 from RMB21,817,000 in 2007. The decrease was attributable to the inclusion of RMB20,992,000 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 RMB50,106,000 (2007: RMB41,428,000), representing an increase of approximately 20.9%. The increase was mainly attributable to the rise in transportation expenses by RMB6,671,000, resulted from increase in sales volume. For 2008, the distribution expenses as a percentage of revenue was 2.5% (2007: 2.4%).

Administrative expenses

For 2008, the Group's administrative expenses increased by approximately 6.2% to RMB61,155,000 (2007: RMB57,578,000) primarily because personnel cost and bank charges increased by RMB1,936,000 and RMB1,233,000, respectively, as a result of business expansion and increase in bank loan. For 2008, the administrative expenses as a percentage of revenue was 3.1% (2007: 3.3%).

Net finance cost

The Group's finance income was RMB4,607,000 for 2008, representing a decrease of RMB36,411,000 when compared with the RMB41,018,000 for 2007. The decrease was mainly due to the RMB35,983,000 interest received from IPO subscription in 2007.

The Group's finance expenses was RMB96,162,000 for 2008, representing an increase of 40.8% when compared with the RMB68,311,000 for 2007. The increase was attributable to the rise in interest on bank loan from RMB46,824,000 to RMB70,464,000 as a result of increase in outstanding bank loan during the year.

Income tax expense

The Group's income tax expense increased by RMB2,165,000 from RMB437,000 in 2007 to RMB2,602,000 in 2008. Such increase was mainly due to the profit tax on subsidiaries which made more profit in 2008. The major subsidiary, Jiangsu Tiangong Tools Company Limited enjoyed tax holiday in 2008.

Profit for the year

As a result of the factors discussed above, the Group's profit decreased by approximately 37.8% to RMB112,510,000 for 2008 from RMB180,920,000 for 2007. The Group's net profit margin decreased from 10.4% in 2007 to 5.6% in 2008.

Profit attributable to equity holders of the Company

For 2008, profit attributable to equity holders of the Company was RMB114,643,000 (2007: RMB180,172,000), representing a decrease of 36.4%. The profit decreased in spite of revenue increased by 14.8%. This was mainly due to the one-off income in 2007 as well as the increase in finance expenses in 2008.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2008, the Group's current assets mainly included cash and cash equivalents of approximately RMB96,021,000, inventories of approximately RMB1,111,282,000, trade and other receivables of RMB616,901,000, pledged deposits of RMB63,600,000 and time deposits of RMB115,000,000. As at 31 December 2008, the interest-bearing borrowings of the Group was RMB1,283,865,000, RMB1,093,865,000 of which was repayable within one year and RMB190,000,000 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 39.7%, higher than 27.9% as at 31 December 2007. The increase was mainly attributable to the increase in investment in production equipment and increase for inventory for the die steel business. As at 31 December 2008, USD25,000,000 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 3.51% to 7.47% 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 2008, the Group's increase in fixed assets amounted to RMB359,950,000, which were mainly for the production plant and facilities for die steel. As at 31 December 2008, capital commitments was RMB310,542,000, of which RMB125,486,000 was contracted and RMB185,056,000 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 50.2%). Approximately 49.8% 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.

PLEDGE OF ASSETS

As at 31 December 2008, the Group pledged certain bank deposits amounting to approximately RMB63,600,000 (2007: RMB86,297,000). Details are set out in the notes to the financial statements.

EMPLOYEE'S REMUNERATION AND TRAINING

As at 31 December 2008, the Group employed around 5,087 employees (31 December 2007: around 5,090). Total staff costs during the year amounted to RMB115,217,000 (2007: RMB97,276,000). 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 2008.

PROSPECTS

The slowdown in industrial activities as a result of the global recession will affect the special steel and tooling industry domestically and aboard. However, with our market leader position in the market, we are confident that we will be able to maintain the market share and sales volume for HSS and cutting tools. Moreover, with the launch of new product and installation of new production equipment, we look forward to a year of growth in the die steel business.

HSS

The Group expects the growth in HSS industry will remain stable in 2009. After years of rapid production capacity expansion, the Group's annual production capacity has reached 45,000 tonne. Being the largest HSS manufacturer in China with capacity more than double that of the closest competitor, we have established a reputation as the largest HSS maker with reliability and quality. In 2009, we will increase the promotion effort in the domestic market in order to maintain the sales growth.

China has the largest reserves of the major raw material of HSS: tungsten, molybdenum and vanadium. With a secure and stable supply of raw material at lower cost, the Group has a competitive advantage over the overseas HSS manufacturers. In spite of the financial crisis, the Group expects to maintain the same sales level in the overseas market.

HSS cutting tools

The installation of an advanced cutting tools production line which covers the grinding, heat treatment and slot, surface and edge grinding processes was completed in late 2008. This production line will enable the Group to produce products with higher quality and profit margin. In 2009, we will continue to place emphasis on selling more professional use HSS cutting tools which have higher selling price and profit margin.

Die steel

Die steel has been one of the growth driver of the Group since 2007. The die steel business grew by 125.2% in 2008. After years of experience in producing die steel, the Group starts to grip the production knowledge and technology. With the improvement in production rate and installation of new sets of forging equipment, deep processing and precision forming equipment, there was a significant improvement in gross margin in 2008. The Group will continue to monitor the production process and production cost in order to increase the gross margin of the die steel business.

A set of production equipment for flat-sheet die steel was installed in the last quarter of 2008. This enabled the Group to produce a new line of die steel products which have a wider range of use and customer base. In 2009, the Group will put in resources to develop and promote this new product line.

FINAL DIVIDEND

The Directors declared a final dividend of RMB0.0536 per share (2007: nil) payable in cash on or before 31 July 2009 to shareholders whose names appear on the Register of Member as at the close of business on 18 June 2009.

In order to qualify for the Final Dividend, all transfer of Shares must be lodged with the branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, by no later than 4:30 p.m. on Friday, 12 June 2009. The book close period will commence on 15 June 2009 and expire on 18 June 2009, both dates inclusive.

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 year ended 31 December 2008, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its securities.

CORPORATE GOVERNANCE

During the year ended 31 December 2008, the Company has, so far where applicable, met 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 2 April 2009 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 2008 annual results 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 complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions.

PUBLICATION OF ANNUAL REPORT ON THE STOCK EXCHANGE WEBSITE

The Company's 2008 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, 7 April 2009

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*