Tiangong International Company Limited

天工國際有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 826)

ANNOUNCEMENT OF THE INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2009

FINANCIAL HIGHLIGHTS

- Revenue of the Group for the first half of 2009 totaled RMB575,005,000, representing a decrease of 46.5 % when compared with RMB1,074,414,000 for the same period in 2008. The decrease was mainly due to the drop in sales of our three products in overseas markets as a result of the financial crisis.

- The gross profit margin increased from 16.6% in the first half of 2008 to 20.1% in the first half of 2009, mainly due to raw material and production cost reduction.

- Profit attributable to equity holders of the Company was RMB45,591,000 (2008: RMB92,617,000), representing a decrease of 50.8% when compared with that for the same period in 2008.

The Board of Directors (the "Board") of Tiangong International Company Limited (the "Company") is pleased to announce the unaudited consolidated income statement of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2009 (the "period") and the consolidated balance sheet of the Group as at 30 June 2009 which have been reviewed by the Company's auditor, KPMG, and the Audit Committee of the Company, together with the comparative figures for the same period of 2008 as follows:

CONSOLIDATED INCOME STATEMENT

for the six months ended 30 June 2009 (unaudited)

		Six months ended 30 June	
		2009	2008
	Note	***RMB'000***	*RMB'000*
Revenue	3	**575,005**	1,074,414
Cost of sales		**(459,665)**	(896,139)
Gross profit		**115,340**	178,275
Other income	4	**9,938**	2,474
Distribution expenses		**(13,222)**	(23,477)
Administrative expenses		**(30,537)**	(27,626)
Other expenses		**(5,811)**	(4,104)
Result from operating activities		**75,708**	125,542
Finance income		**1,688**	2,355
Finance expenses		**(26,482)**	(34,877)
Net finance costs		**(24,794)**	(32,522)
Profit before income tax	5	**50,914**	93,020
Income tax expense	6	**(5,323)**	(2,555)
Profit for the period		**45,591**	90,465
Attributable to:			
Equity holders of the Company		**45,591**	92,617
Minority interests		**—**	(2,152)
Profit for the period		**45,591**	90,465
Earnings per share (RMB)	7		
Basic		**0.11**	0.22
Diluted		**0.11**	0.22

CONSOLIDATED BALANCE SHEET
at 30 June 2009

	Note	**Unaudited At 30 June 2009 *RMB'000***	Audited At 31 December 2008 *RMB'000*
Non-current assets			
Property, plant and equipment		**1,292,272**	1,093,735
Lease prepayments		**96,105**	97,106
Goodwill		**21,959**	21,959
Other investments		**10,000**	10,000
Deferred tax assets		**7,010**	5,476
		1,427,346	1,228,276
Current assets			
Inventories		**1,146,873**	1,111,282
Trade and other receivables	8	**585,482**	616,901
Pledged deposits		**73,520**	63,600
Time deposits		**238,000**	115,000
Cash and cash equivalents		**61,836**	96,021
		2,105,711	2,002,804
Current liabilities			
Interest-bearing borrowings		**1,454,800**	1,093,865
Trade and other payables	9	**506,405**	442,257
Income tax payables		**18,468**	13,383
		1,979,673	1,549,505
Net current assets		**126,038**	453,299
Total assets less current liabilities		**1,553,384**	1,681,575
Non-current liabilities			
Interest-bearing borrowings		**40,000**	190,000
Deferred income		**9,900**	9,900
Deferred tax liabilities		**2,249**	3,546
		52,149	203,446
Net assets		**1,501,235**	1,478,129
Capital and reserves			
Share capital		**31,806**	31,806
Reserves		**1,469,429**	1,446,323
Total equity attributable to equity holders of the Company		**1,501,235**	1,478,129
Total equity		**1,501,235**	1,478,129

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.

The interim financial report of the Company as at and for the six months ended 30 June 2009 comprises the Company and its subsidiaries.

2. BASIS OF PREPARATION

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 ("IASB").

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2008 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2009 annual financial statements. Details of these changes in accounting policies are set out in interim financial report.

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

This 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 2008 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 ("IFRSs").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity,* issued by the Hong Kong Institute of Certified Public Accountants. KPMG's independent review report to the Board of Directors is included in the interim financial report.

The financial information relating to the financial year ended 31 December 2008 that is included in the interim financial report as being previously reported information does not constitute the Company's annual financial statements for that financial year but is derived from those financial statements. Annual financial statements for the year ended 31 December 2008 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 7 April 2009.

3. SEGMENT REPORTING

The Group manages its business by divisions, which are mainly organised by business lines. On first-time adoption of IFRS 8, *Operating segments* and in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purpose of resource allocation and performance assessment, the Group has identified the following three reportable segments. No operating segments have been aggregated to form the following reportable 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.

(a) Segment results, assets and liabilities

In accordance with IFRS 8, segment information disclosed in the interim financial report has been prepared in a manner consistent with the information used by the Group's most senior executive management for the purpose of assessing segment performance and allocating resources between segments. In this regard, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of other investments, pledged deposits, time deposits, cash and cash equivalents, deferred tax assets and other corporate assets. Segment liabilities include trade and bills payables, non-trade payables and accrued expenses attributable to the manufacturing and sales activities of the individual segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is "adjusted EBIT", i.e. "adjusted earnings before interest and taxes", where "interest" is regarded as net finance costs. To arrive at adjusted EBIT the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as directors' and auditors' remuneration and other head office or corporate administration costs.

In addition to receiving segment information concerning adjusted EBIT, management is provided with segment information concerning revenue (including inter segment sales), interest income and expense from cash balances and borrowings, depreciation and amortisation used by the segments in their operations.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below.

	Six months ended and as at 30 June 2009			
	HSS	**HSS cutting tools**	**DS**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Revenue from external customers	**216,442**	**161,021**	**197,542**	**575,005**
Inter-segment revenue	**95,001**	**—**	**—**	**95,001**
Reportable segment revenue	**311,443**	**161,021**	**197,542**	**670,006**
Reportable segment profit (adjusted EBIT)	**45,092**	**23,990**	**33,036**	**102,118**
Reportable segment assets	**817,175**	**976,589**	**1,319,713**	**3,113,477**
Reportable segment liabilities	**195,135**	**121,852**	**168,503**	**485,490**

	Six months ended 30 June 2008			
	HSS	HSS cutting tools	DS	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	458,128	345,908	270,378	1,074,414
Inter-segment revenue	221,503	—	—	221,503
Reportable segment revenue	679,631	345,908	270,378	1,295,917
Reportable segment profit (adjusted EBIT)	85,293	39,937	29,568	154,798

	At 31 December 2008			
	HSS	HSS cutting tools	DS	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Reportable segment assets	1,022,031	868,464	1,034,816	2,925,311
Reportable segment liabilities	220,496	75,574	136,966	433,036

(b) Reconciliations of reportable segment revenue, profit or loss, assets and liabilities

	Six months ended 30 June	
	2009	2008
	RMB'000	*RMB'000*
Revenue		
Reportable segment revenue	**670,006**	1,295,917
Elimination of inter-segment revenue	**(95,001)**	(221,503)
Consolidated turnover	**575,005**	1,074,414

	Six months ended 30 June	
	2009	2008
	RMB'000	*RMB'000*
Profit		
Reportable segment profit	**102,118**	154,798
Elimination of inter-segment profits	**—**	—
Reportable segment profit derived from Group's external customers	**102,118**	154,798
Net other income/(expenses)	**4,127**	(1,630)
Net finance costs	**(24,794)**	(32,522)
Unallocated head office and corporate expenses	**(30,537)**	(27,626)
Consolidated profit before income tax	**50,914**	93,020

	At 30 June 2009	At 31 December 2008
	RMB'000	*RMB'000*
Assets		
Reportable segment assets	**3,113,477**	2,925,311
Elimination of inter-segment receivables	**—**	—
	3,113,477	2,925,311
Other investments	**10,000**	10,000
Deferred tax assets	**7,010**	5,476
Pledged deposits	**73,520**	63,600
Time deposits	**238,000**	115,000
Cash and cash equivalents	**61,836**	96,021
Unallocated head office and corporate assets	**29,214**	15,672
Consolidated total assets	**3,533,057**	3,231,080

	At 30 June 2009 *RMB'000*	At 31 December 2008 *RMB'000*
Liabilities		
Reportable segment liabilities	**485,490**	433,036
Elimination of inter-segment payables	**—**	—
	485,490	433,036
Interest-bearing borrowings	**1,494,800**	1,283,865
Income tax payables	**18,468**	13,383
Deferred tax liabilities	**2,249**	3,546
Unallocated head office and corporate liabilities	**30,815**	19,121
Consolidated total liabilities	**2,031,822**	1,752,951

4. OTHER INCOME

	Six months ended 30 June 2009 *RMB'000*	2008 *RMB'000*
Government grants*	**9,488**	2,168
Net gain on disposal of property, plant and equipment	**229**	68
Others	**221**	238
	9,938	2,474

* Jiangsu Tiangong Tools Company Limited ("TG Tools"), a wholly-owned subsidiary of the Company, received unconditional grants amounting to RMB9,488,000 (six months ended 30 June 2008: RMB2,168,000) from the local government in Danyang concerning the encouragement of its development.

5. PROFIT BEFORE INCOME TAX

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

	Six months ended 30 June	
	2009	2008
	RMB'000	*RMB'000*
(a) Finance income and expenses		
Interest income	**(1,688)**	(2,355)
Finance income	**(1,688)**	(2,355)
Interest on bank loans	**38,351**	28,085
Less: interest expense capitalised into construction in progress	**(14,528)**	—
	23,823	28,085
Net foreign exchange loss	**2,659**	6,792
Finance expenses	**26,482**	34,877
Net finance costs	**24,794**	32,522
(b) Other items		
Cost of inventories*	**459,665**	896,139
Depreciation	**33,744**	28,120
Amortisation of lease prepayments	**1,001**	734
Impairment loss for doubtful debts	**4,810**	1,725
Write down for inventories	**5,298**	1,325

* Cost of inventories includes RMB28,139,000 (six months ended 30 June 2008: RMB21,674,000) relating to depreciation expenses and write down for inventories which amounts are also included in the respective total amounts disclosed separately above for each of these types of expenses.

6. INCOME TAX EXPENSE

Income tax expense in the consolidated income statement represents:

	Six months ended 30 June	
	2009	2008
	RMB'000	*RMB'000*
Current tax		
Provision for PRC income tax	**8,154**	26
Deferred tax		
Origination and reversal of temporary differences	**(2,831)**	2,529
	5,323	2,555

(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 statutory corporate income tax rates of the Group's operating subsidiaries in the PRC are 25% (2008: 25%).

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.

Due to the above-mentioned tax holiday, TG Tools was subject to PRC corporate income tax rate at 50% of its applicable tax rate for 3 years from 2009 (2008: 0%), and Tiangong Aihe Special Steel Company Limited is exempted from PRC corporate income tax for 2009 (2008: 0%).

7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company of RMB45,591,000 during the period presented (six months ended 30 June 2008: RMB92,617,000) and the issued 419,500,000 ordinary shares (six months ended 30 June 2008: 419,500,000).

No dilutive potential ordinary shares were in issue as at 30 June 2009 (2008: Nil).

8. TRADE AND OTHER RECEIVABLES

	At 30 June 2009 *RMB'000*	At 31 December 2008 *RMB'000*
Trade and bills receivables	**524,952**	504,421
Less: impairment loss for doubtful debts	**(35,072)**	(30,262)
Net trade and bills receivables	**489,880**	474,159
Prepayments	**66,388**	125,555
Non-trade receivables	**29,214**	17,187
	585,482	616,901

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.

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

	At 30 June 2009 *RMB'000*	At 31 December 2008 *RMB'000*
Current	**262,790**	166,622
Less than 3 months past due	**97,663**	182,030
More than 3 months but less than 6 months past due	**77,614**	97,628
More than 6 months but less than 12 months past due	**42,412**	25,355
More than 12 months but less than 24 months past due	**9,401**	2,524
Amounts past due	**227,090**	307,537
	489,880	474,159

9. TRADE AND OTHER PAYABLES

		At 30 June 2009 *RMB'000*	At 31 December 2008 *RMB'000*
Trade and bills payables		**433,038**	373,379
Non-trade payables and accrued expenses		**50,382**	67,878
Dividends payables	(i)	**22,485**	—
Payables due to Jiangsu Tiangong Group Company Limited ("TG Group")	(ii)	**500**	1,000
		506,405	442,257

Notes:

(i) Special dividend in respect of the previous financial year, approved but not paid during the following interim period, of RMB0.0536 per share (six months ended 30 June 2008: Nil)

(ii) TG Group is a wholly-owned company of controlling equity holders of the Company

Included in trade and other payables are trade and bills payables with the following ageing analysis:

	At 30 June 2009 *RMB'000*	At 31 December 2008 *RMB'000*
Within 3 months	**390,539**	268,650
Over 3 months but less than 6 months	**35,668**	92,830
Over 6 months but less than 12 months	**2,057**	7,877
Over 1 year but less than 2 years	**4,774**	4,022
	433,038	373,379

MANAGEMENT DISCUSSION AND ANALYSIS

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 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 application in dies and moulds for die casting and machining processes. The Group commenced its production of die steel since 2005.

Market review

In the first half of 2009, the economies of many industrialized countries remained in negative growth. This situation was the result of the collapse of United States housing market which sparked an inter-related financial crisis. The credit condition and consumer sentiment around the world have improved gradually since early of 2009 thanks to the collective actions of various central governments. However, the improvements are largely noticeable in selective industries such as financial and natural resources instead of the general economies. Industrial activities in North America and Europe remained at low level. The demand for industrial products and services were significantly weaker than that of pre-financial crisis. Manufacturing industries such as automotive, machining in which our main customers operate 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 and is also affected by the financial crisis. As a result, the growth of Gross Domestic Product in China in Q1 and Q2 of 2009 has reduced to 6.1% and 7.9% from the yearly GDP of 9.0% in 2008. In light of the downturn in economic growth, the Chinese government has launched the Economic Stimulus Plan which includes increasing bank loan for enterprises and pumping public investment into infrastructure development. This increase in liquidity and investment has helped stabilizing the domestic demand for special steel and tools. Demands for HSS, die steel and cutting tools have been gradually picking up in recent months.

Business review

The Group is the number one integrated HSS and HSS cutting tools manufacturer in China. According to China Special Steel Enterprise Association 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 2009, 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 below:

	For the period ended 30 June					
	2009		2008		Change	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%
HSS	**216,442**	**37.6%**	458,128	42.6%	(241,686)	-52.8%
HSS cutting tools	**161,021**	**28.0%**	345,908	32.2%	(184,887)	-53.4%
Die steel	**197,542**	**34.4%**	270,378	25.2%	(72,836)	-26.9%
	575,005	**100.0%**	1,074,414	100.0%	(499,409)	-46.5%

HSS

The HSS business has decreased in size during the period but remained as the largest revenue contributor to the Group for the first half of 2009, accounting for approximately 37.6% of the Group's revenue. Due to the slowdown in industrial activities, the sales of HSS decreased to RMB216,442,000 (2008: RMB458,128,000), representing a decrease of 52.8% over the sales in the first half of 2008. The Group's HSS domestic sales and export sales decreased by 49.9% and 62.6%, respectively. The reason for the larger drop in the export sales was the larger decrease in demand by the tooling and machinery manufacturers for HSS in North American and Europe as a result of the financial crisis. In recent months, we have noticed an improvement in order numbers and quantities in both markets. Set out below is the geographical breakdown of the sales of HSS for the periods ended 30 June 2009 and 30 June 2008:

	For the period ended 30 June					
	2009		2008		Change	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%
HSS						
Domestic	**178,064**	**82.3%**	355,546	77.6%	(177,482)	-49.9%
Export	**38,378**	**17.7%**	102,582	22.4%	(64,204)	-62.6%
	216,442	**100.0%**	458,128	100.0%	(241,686)	-52.8%

HSS cutting tools

Revenues from sales of HSS cutting tools, which accounted for approximately 28.0% of the Group's total revenue, decreased by approximately 53.4% to RMB161,021,000 in the first half of 2009. During the first half of 2009, revenues from export sales of HSS cutting tools decreased by 44.0% to RMB131,374,000, mainly resulted from the decrease in demand of cutting tools in overseas markets. 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 decreased by 73.4% to RMB29,647,000 for the first half of 2009 as a result of order reduction by a few of our major customers who supply to overseas market. Set out below is a geographical breakdown of the sales of HSS cutting tools for the period ended 30 June 2009 and 30 June 2008:

	For the period ended 30 June					
	2009		2008		Change	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
HSS cutting tools						
Domestic	**29,647**	**18.4%**	111,356	32.2%	(81,709)	-73.4%
Export	**131,374**	**81.6%**	234,552	67.8%	(103,178)	-44.0%
	161,021	**100.0%**	345,908	100.0%	(184,887)	-53.4%

Die steel

Revenue from sales of die steel, which accounted for approximately 34.4% of the total revenue, decreased by approximately 26.9% from RMB270,378,000 in the first half of 2008 to RMB197,542,000 in the first half of 2009. Domestic sales increased by 78.5% to RMB182,933,000 in the first half of 2009 because of the Group's focus on promotion effort in the domestic automobile and machinery industries. Export sales decreased significantly by 91.3% to RMB14,609,000 in the first half of 2009. The drop was mainly due to the decrease in demand from manufacturing and automobile industries in North America and Europe as these industries were severely affected by the financial crisis. Set out below is the geographical breakdown of the sales of die steel for the periods ended 30 June 2009 and 30 June 2008:

	For the period ended 30 June					
	2009		2008		Change	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Die steel						
Domestic	**182,933**	**92.6%**	102,455	37.9%	80,478	78.5%
Export	**14,609**	**7.4%**	167,923	62.1%	(153,314)	-91.3%
	197,542	**100.0%**	270,378	100.0%	(72,836)	-26.9%

Financial review

As a result of the decrease in products demand from the financial crisis, net profit attributable to equity holders of the Company decreased by approximately 50.8% to RMB45,591,000 in the first half of 2009 from RMB92,617,000 for the first half of 2008. Revenue of HSS and HSS cutting tools decreased significantly as a result of reduction in industrial activities. Die steel has seen a lighter slowdown as the sales growth to domestic manufacturing and automobile sectors have offset some of the overseas revenue loss.

Revenue

Revenue of the Group for the first half of 2009 totalled RMB575,005,000, representing an decrease of approximately 46.5% when compared with RMB1,074,414,000 in first half of 2008. The decrease was mainly attributable to the decrease in sales volume of the products of the Group.

Cost of sales

The Group's cost of sales decreased by RMB436,474,000 from RMB896,139,000 for the first half of 2008 to RMB459,665,000 for the first half of 2009, representing a decrease of approximately 48.7%. The decrease was more than the 46.5% decrease in revenue during the year and reflected an improvement in gross profit margin. As a percentage of total revenue, the Group's cost of sales decreased from approximately 83.4% in the first half of 2008 to approximately 79.9% in the first half of 2009.

Gross margin

For the first half of 2009, the gross margin was approximately 20.1% (2008: 16.6%). The increase was due to the improvement in gross margin of all three products. Set out below is the gross margin for our three products for the first half of 2008 and 2009:

	For the period ended 30 June	
	2009	2008
HSS	**22.2%**	20.3%
HSS cutting tools	**17.8%**	14.7%
Die steel	**19.5%**	12.8%

HSS

The increase in HSS gross margin from 20.3% in the first half of 2008 to 22.2% in the same period in 2009 was mainly due to the Group's tighter cost production cost control and reduction in rare metal prices.

HSS cutting tools

In the first half of 2009, the gross margin of HSS cutting tools increased from 14.7% to 17.8% as a result of the increase in tax rebate on export HSS cutting tools sales and reduction in rare metal prices.

Die steel

The gross margin of die steel increased from 12.8% in the first half of 2008 to 19.5% in the first half of 2009. The increase was mainly due to the higher production rate of die steel and reduction in cost of raw material.

Other income

The Group's other income totalled RMB9,938,000 in the first half of 2009, representing an increase of RMB7,464,000 from RMB2,474,000 in the first half of 2008. The increase was mainly attributable to the RMB9,488,000 government grants received from local government.

Distribution expenses

The Group's distribution expenses was RMB13,222,000 (2008: RMB23,477,000), representing a decrease of approximately 43.7%. The decrease was mainly attributable to the drop in commission and transportation expenses by RMB6,577,000 and RMB1,783,000, respectively, as a result of decrease in sales volume. For the first half of 2009, the distribution expenses as a percentage of revenue was 2.3% (2008: 2.2%).

Administrative expenses

For the first half of 2009, the Group's administrative expenses increased by RMB2,911,000 to RMB30,537,000 (2008: RMB27,626,000) primarily because staff cost, depreciation and bank charges increased slightly during the period. For the first half of 2009, the administrative expenses as a percentage of revenue was 5.3% (2008: 2.6%) as a result of the reduced revenue base.

Net finance cost

The Group's finance income was RMB1,688,000 for the first half of 2009, representing a decrease of RMB667,000 when compared with the RMB2,355,000 for the first half of 2008. The decrease was mainly due to the lower interest rate on bank deposit in the first half of 2009. The Group's finance expenses was RMB26,482,000 for the first half of 2009, representing a decrease of 24.1% when compared with the RMB34,877,000 for the first half of 2008. The decrease was attributable to the capitalization of RMB14,528,000 loan interest as required by the new accounting standards..

Income tax expense

The Group's income tax expense increased by RMB2,768,000 from RMB2,555,000 in the first half of 2008 to RMB5,323,000 in the first half of 2009. Such increase was mainly due to the increase in profit tax as Jiangsu Tiangong Tools Company Limited's tax exemption ended in 2008.

Profit for the period

As a result of the factors discussed above, the Group's profit decreased by approximately 49.6% to RMB45,591,000 for the first half of 2009 from RMB90,465,000 for the first half of 2008. The Group's net profit margin decreased from 8.4% in the first half of 2008 to 7.9% in the same period of 2009.

Profit attributable to equity holders of the Company

For the first half of 2009, profit attributable to equity holders of the Company was RMB45,591,000 (2008: RMB92,617,000), representing a decrease of 50.8%.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2009, the Group's current assets mainly included cash and cash equivalents of approximately RMB61,836,000, inventories of approximately RMB1,146,873,000, trade and other receivables of RMB585,482,000, pledged deposits of RMB73,520,000 and time deposits of RMB238,000,000. As at 30 June 2009, the interest bearing borrowings of the Group was RMB1,494,800,000, RMB1,454,800,000 of which was repayable within one year and RMB40,000,000 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 42.3%, higher than 39.7% as at 31 December 2008. The increase was mainly attributable to the increase in investment in production equipment. The majority of the borrowings of the Group were subject to interests payable at rates ranging from 3.51% to 6.72% rates. The Group did not enter into any interest rate swap to hedge itself against the risks associated with interest rates.

CAPITAL EXPENDITURES AND CAPITAL COMMITMENTS

For the first half of 2009, the Group's increase in fixed assets amounted to RMB198,537,000, which were mainly for the production plant and facilities for die steel. As at 30 June 2009, capital commitments was RMB169,196,000, of which RMB121,142,000 was contracted and RMB48,054,000 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 67.94%). Approximately 32.06% 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 30 June 2009, the Group pledged certain bank deposits amounting to approximately RMB73,520,000 (31 December 2008: RMB63,600,000). Details are set out in the notes to the financial statements.

EMPLOYEE'S REMUNERATION AND TRAINING

As at 30 June 2009, the Group employed around 3,900 employees (31 December 2008: around 5,100). 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 2009.

PROSPECTS

The slowdown in industrial activities as a result of the global recession has affected the special steel industry and tooling industry domestically and aboard. The Group believes the worst is behind us as the general economies have improved and we noticed improvement in market environment and increase in purchase orders in recent months. Moreover, with our market leader position in the market, we are confident that we will be able to have a recovery on our HSS and cutting tools business. With the launch of new products and installation of new production equipment, we also look forward to resumption of growth in the die steel business in the near future.

HSS

The Group expects the HSS industry will recover as both the domestic and global economies pick up gradually in the second half of 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 the second half of 2009, we will continue to increase the promotion effort in the domestic market in order to maintain the sales growth. Our number of sales centres have increased from 16 at the end of 2008 to 56 as at 30 June 2009. We plan to add another 15 sales centre by the end of 2009.

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 HSS cutting tools for professional use which have higher selling price and profit margin.

Die steel

Our die steel has been growing rapidly in recent years and now becomes our second revenue driver. 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. With the new production equipment for flat-sheet die steel, the Group starts to produce a new line of die steel products which have a wider range of use and customer base. In the second half of 2009, the Group will continue to develop and promote this new product line.

INTERIM DIVIDEND

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

SHARE OPTIONS SCHEME

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

PURCHASE, SALES OR REDEMPTION OF SHARES

During the six months ended 30 June 2009, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its securities.

CORPORATE GOVERNANCE

During the six months ended 30 June 2009, the Company has, so far where applicable, complied with 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 three non-executive directors, two of which are independent non-executive directors. The Audit Committee held a meeting on 10 September 2009 to consider and review the interim report and interim financial statements of the Group and to give their opinion and recommendation to the Board.

The Audit Committee considers that the 2009 interim report and interim financial statements of the Company have complied with the applicable accounting standards and the Company has made appropriate disclosure thereof.

THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

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.

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
Tiangong International Company Limited
Zhu Xiao Kun
Chairman

Hong Kong, 14 September 2009

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

* *For identification purpose*