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 2009

* For identification purpose only

CONTENTS

CORPORATE INFORMATION

STOCK CODE

826 (HKEx)

BOARD OF DIRECTORS

Executive Directors

Mr. Zhu Xiaokun *(Chairman)*

Mr. Zhu Zhihe *(Chief Executive Officier)*

Mr. Zhu Mingyao

Mr. Yan Ronghua

Non-executive Director

Mr. Thong Kwee Chee

Independent Non-executive Directors

Mr. Li Zhengbang

Mr. Gao Xiang

Mr. Lau Siu Fai

REGISTERED OFFICE IN THE CAYMAN ISLANDS

P.O. Box 309

G.T. Ugland House

South Church Street, George Town

Grand Cayman, Cayman Islands

REGISTERED OFFICE IN HONG KONG

Unit 1303

13/F Jubilee Centre

18 Fenwick Street

Wanchai

Hong Kong

PRINCIPAL PLACE OF BUSINESS

Houxiang Town

Danyang City

Jiangsu Province

The PRC

AUDITORS

KPMG

HONG KONG LEGAL ADVISER

Richards Butler

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited

Butterfield House, 68 Fort Street

P.O. Box 705

Grand Cayman KY1-1107

Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Computershare Hong Kong Investor Services Limited

Shops 1712–1716, 17th Floor

Hopewell Center 183, Queen's Road East

Wanchai, Hong Kong

PRINCIPAL BANKERS

China Construction Bank Corporation

Industrial and Commercial Bank of China Limited

Bank of China Limited

Agricultural Bank of China

MANAGEMENT DISCUSSION AND ANALYSIS

The following management discussion and analysis should be read in conjunction with our consolidated financial statements, which were reviewed by KPMG and the audit committee of the Company. The Group is engaged in the production and sales of High Speed Steel "HSS", HSS cutting tools and die steel. Our operations are classified into 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 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. As at 30 June 2009, all borrowings were in RMB. 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 did not enter into any financial instrument to hedge against foreign exchange risk. 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 abroad. 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, leveraging on our market leader position in the market, we are confident that our HSS and cutting tools business will recover in the second half of 2009. 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 as 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.

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 2009 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 2009, 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	220,183,000(L)	52.49

Notes:

As at 30 June 2009,

(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 10,183,000 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 2009, 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 (%)
THCL (Note 1)	210,000,000(L)	50.06
Yu Yumei (Note 1)	210,000,000(L)	50.06
AIG Global Emerging Markets Fund II, LP.	21,000,000(L)	5.01
AIG GEM II G.P., L.P. (Note 2)	21,000,000(L)	5.01
AIG GEM II G.P., Co. (Note 2)	21,000,000(L)	5.01
AIG Capital Partners, Inc. (Note 2)	21,000,000(L)	5.01
AIG Global Asset Management Holdings Corp. (Note 2)	21,000,000(L)	5.01
AIG Capital Corporation (Note 2)	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 3)	30,000,000(L)	7.15
AIG Asian Opportunity II G.P. Ltd. (Note 3)	30,000,000(L)	7.15
AIG Global Investment Corporation (Asia) Ltd. (Note 3)	30,000,000(L)	7.15
American International Assurance Company (Bermuda) Limited (Note 3)	39,000,000(L)	9.30
American International Reinsurance Company, Ltd. (Note 4)	39,000,000(L)	9.30
AIG Life Holdings (International) LLC (Note 4)	39,000,000(L)	9.30
American International Group, Inc. (Note 5)	60,000,000(L)	14.30
Feldberg B Chester (Note 6)	60,000,000(L)	14.30
Foshee L Douglas (Note 6)	60,000,000(L)	14.30
United State Treasury (Note 7)	60,000,000(L)	14.30

Notes:

(1) THCL is owned as to 89.02% by Mr Zhu Xiaokun and 10.98% by his spouse, Madam Yu Yumei.

(2) 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.

(3) 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.

(4) 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.

(5) 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.

(6) Feldberg B Chester and Foshee L Douglas reported that they were deemed to be interested in the shares as they were joint trustees (together another person) of AIG Credit Facility Trust.

(7) United State Treasury reported that it was deemed to be interested in the shares as it was a beneficial of the AIG Credit Facility Trust.

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 the Company's 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.

ASSETS PLEDGED

On 30 June 2009, the Group's pledged assets included bank deposits amounted to about RMB73,520,000 (31 December 2008: RMB63,600,000).

INDEPENDENT REVIEW REPORT

REVIEW REPORT TO THE BOARD OF DIRECTORS OF
TIANGONG INTERNATIONAL COMPANY LIMITED
For the six months ended 30 June 2009
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 13 to 32 which comprises the consolidated balance sheet of Tiangong International Company Limited as of 30 June 2009 and the related consolidated income statement, statement of comprehensive income and statement of changes in equity and condensed consolidated statement of cash flows 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 2009 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

14 September 2009

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2009 (unaudited)

		Six months ended 30 June	
	Note	2009 RMB'000	2008 RMB'000
Revenue	4	575,005	1,074,414
Cost of sales		(459,665)	(896,139)
Gross profit		115,340	178,275
Other income	5	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	6(a)	(24,794)	(32,522)
Profit before income tax	6	50,914	93,020
Income tax expense	7	(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)	8		
Basic		0.11	0.22
Diluted		0.11	0.22

The notes on pages 19 to 32 form part of this interim financial report. Details of dividends payable to equity holders of the Company are set out in Note 17.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2009 (unaudited)

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Profit for the period	**45,591**	90,465
Other comprehensive income for the period	**—**	—
Total comprehensive income for the period	**45,591**	90,465
Attributable to:		
Equity holders of the Company	**45,591**	92,617
Minority interests	**—**	(2,152)
Total comprehensive income for the period	**45,591**	90,465

The notes on pages 19 to 32 form part of this interim financial report.

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	9	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	10	1,146,873	1,111,282
Trade and other receivables	11	585,482	616,901
Pledged deposits	12	73,520	63,600
Time deposits	13	238,000	115,000
Cash and cash equivalents	14	61,836	96,021
		2,105,711	2,002,804
Current liabilities			
Interest-bearing borrowings	15	1,454,800	1,093,865
Trade and other payables	16	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	15	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

The notes on pages 19 to 32 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET (CONTINUED)

At 30 June 2009

	Note	Unaudited At 30 June 2009 RMB'000	Audited At 31 December 2008 RMB'000
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

Approved and authorised for issue by the board of directors on 14 September 2009.

Zhu Xiao Kun	**Yan Rong Hua**
Director	*Director*

The notes on pages 19 to 32 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2009 (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 2008	31,806	886,566	56,998	91,925	67,085	229,106	1,363,486	20,878	1,384,364
Changes in equity for the six months ended 30 June 2008:									
Total comprehensive income for the period	–	–	–	–	–	92,617	92,617	(2,152)	90,465
At 30 June 2008 and 1 July 2008	31,806	886,566	56,998	91,925	67,085	321,723	1,456,103	18,726	1,474,829
Changes in equity for the six months ended 31 December 2008:									
Acquisition of minority interests	–	–	–	–	–	–	–	(18,745)	(18,745)
Transfer to reserve	–	–	–	–	17,962	(17,962)	–	–	–
Total comprehensive income for the period	–	–	–	–	–	22,026	22,026	19	22,045
At 31 December 2008 and 1 January 2009	31,806	886,566	56,998	91,925	85,047	325,787	1,478,129	–	1,478,129
Changes in equity for the six months ended 30 June 2009:									
Dividends approved in respect of the previous year (Note 17)	–	–	–	–	–	(22,485)	(22,485)	–	(22,485)
Total comprehensive income for the period	–	–	–	–	–	45,591	45,591	–	45,591
At 30 June 2009	31,806	886,566	56,998	91,925	85,047	348,893	1,501,235	–	1,501,235

The notes on pages 19 to 32 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2009 (unaudited)

		Six months ended 30 June	
	Note	**2009** **RMB'000**	2008 RMB'000
Net cash generated from/(used in) operating activities		**142,350**	(300,281)
Net cash used in investing activities		**(360,988)**	(133,487)
Net cash generated from financing activities		**184,453**	438,081
Net (decrease)/increase in cash and cash equivalents		**(34,185)**	4,313
Cash and cash equivalents at 1 January		**96,021**	156,688
Cash and cash equivalents at 30 June	14	**61,836**	161,001

The notes on pages 19 to 32 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 2009 comprises the Company and its subsidiaries (together referred to as the "Group").

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 Note 3.

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 on page 12.

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. CHANGES IN ACCOUNTING POLICIES

The IASB has issued one new IFRS, a number of amendments to IFRSs and new Interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- IFRS 8, *Operating segments*
- Revised IAS 1, *Presentation of financial statements*
- Improvements to IFRSs (2008)
- Amendment to IAS 27, *Consolidated and separate financial statements — cost of an investment in a subsidiary, jointly controlled entity or associate*
- Amendment to IFRS 7, *Financial instruments: Disclosures — improving disclosures about financial instruments*
- Revised IAS 23, *Borrowing costs*

The "Improvements to IFRSs (2008)" comprise a number of minor and non-urgent amendments to a range of IFRSs which the IASB has issued as an omnibus batch of amendments. The amendments have not resulted in any significant changes to the Group's accounting policies. In addition, the amendments to IFRS 7 do not contain any additional disclosure requirements specifically applicable to the interim financial report. The impact of the remainder of these developments on the interim financial report is as follows:

- IFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on related products and services and on geographical areas. The adoption of IFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management (see Note 4). As this is the first period in which the Group has presented segment information in accordance with IFRS 8, additional explanation has been included in the interim financial report which explains the basis of preparation of the information. Corresponding amounts have also been provided on a basis consistent with the revised segment information.

- As a result of the adoption of Revised IAS 1, details of changes in equity during the period arising from transactions with equity holders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. The new format for the consolidated statement of comprehensive income and the consolidated statement of changes in equity has been adopted in this interim financial report and corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

3. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

- The amendment to IAS 27 has removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009 all dividends receivable from subsidiaries, associates and jointly controlled entities, whether out of pre- or post-acquisition profits, will be recognised in the Company's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the Company would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

- As a result of the adoption of Revised IAS 23, in respect of borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009, the Group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Previously the Group immediately recognised all borrowing costs as an expense. This change in accounting policy was due to the prospective adoption of Revised IAS 23 in accordance with the transitional provisions of such standard; comparative figures have not been restated. At 30 June 2009, capitalised borrowing costs related to the construction in progress amounted to RMB14,528,000, with a capitalisation rate of 4.7%–5.76% per annum.

4. 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.

4. SEGMENT REPORTING (CONTINUED)

(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 RMB'000	**HSS cutting tools RMB'000**	**DS RMB'000**	**Total 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

4. SEGMENT REPORTING (CONTINUED)

(a) Segment results, assets and liabilities (continued)

	Six months ended 30 June 2008			
	HSS RMB'000	HSS cutting tools RMB'000	DS RMB'000	Total 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 RMB'000	HSS cutting tools RMB'000	DS RMB'000	Total 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 RMB'000	2008 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

4. SEGMENT REPORTING (CONTINUED)

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

	Six months ended 30 June	
	2009 RMB'000	2008 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 RMB'000	At 31 December 2008 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

4. SEGMENT REPORTING (CONTINUED)

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

	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

5. 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.

6. PROFIT BEFORE INCOME TAX

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

	Six months ended 30 June	
	2009 RMB'000	2008 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.

7. INCOME TAX EXPENSE

Income tax expense in the consolidated income statement represents:

	Six months ended 30 June	
	2009 RMB'000	2008 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

7. INCOME TAX EXPENSE (CONTINUED)

(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%).

8. 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).

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2009, the Group acquired items of plant and machinery with a cost of RMB232,890,000 (2008: RMB418,320,000). Apart from that, there are no significant acquisitions/disposals during the period from 1 January 2009 to 30 June 2009.

10. INVENTORIES

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Raw materials	**47,618**	50,009
Work in progress	**562,633**	551,862
Finished goods	**536,622**	509,411
	1,146,873	1,111,282

10. INVENTORIES (CONTINUED)

Provisions of RMB16,639,000 (2008: RMB11,341,000) 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 2009 and 31 December 2008 was carried at net realisable value.

11. 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

12. PLEDGED DEPOSITS

Bank deposits of RMB73,520,000 (2008: RMB63,600,000) 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.

13. TIME DEPOSITS

Time deposits on the consolidated balance sheet represent bank deposits that are over 3 months of maturity at acquisition.

14. CASH AND CASH EQUIVALENTS

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Deposits with banks within three months of maturity at acquisition	—	50,000
Cash at bank and in hand	61,836	46,021
	61,836	96,021

15. INTEREST-BEARING BORROWINGS

		At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Current			
Unsecured bank loans	(i)	1,304,800	1,093,865
Current portion of non-current unsecured bank loans		150,000	—
		1,454,800	1,093,865
Non-current			
Unsecured bank loans	(ii)	190,000	190,000
Less: Current portion of non-current unsecured bank loans	(ii)	(150,000)	—
		40,000	190,000
		1,494,800	1,283,865

(i) Current unsecured bank loans carried interest at annual rates ranging from 3.51% to 6.72% (2008: 3.51% to 6.93%) and were all repayable within one year.

Current unsecured bank loans of RMB240,000,000 (2008: RMB240,000,000) were guaranteed by third parties.

15. INTEREST-BEARING BORROWINGS (CONTINUED)

(ii) Non-current unsecured bank loans carried interest at annual rate of 5.76% (2008: 5.67% to 7.47%).

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

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Within 1 year	**150,000**	—
Over 1 year but less than 2 years	**—**	150,000
Over 2 years but less than 3 years	**40,000**	40,000
	40,000	190,000
	190,000	190,000

16. 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	17	**22,485**	—
Payables due to related parties	18(b)	**500**	1,000
		506,405	442,257

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

17. DIVIDENDS

Dividends payable to equity holders attributable to the previous financial year, approved but not paid during the interim period:

	Six months ended 30 June	
	2009 **RMB'000**	2008 RMB'000
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)	**22,485**	—

18. 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	
	2009 **RMB'000**	2008 RMB'000
Lease expense to:		
TG Group	**500**	500

(b) Amounts due to related parties

	At **30 June** **2009** **RMB'000**	At 31 December 2008 RMB'000
TG Group	**500**	1,000

19. COMMITMENTS

(a) Capital commitments

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

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Contracted for		
— Land and buildings	**15,150**	23,915
— Equipment	**105,992**	101,571
	121,142	125,486
Authorised but not contracted for		
— Equipment	**48,054**	185,056

(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 2009 RMB'000	At 31 December 2008 RMB'000
Within 1 year	**896**	1,323
After 1 year but within 5 years	**326**	34
	1,222	1,357

20. COMPARATIVE FIGURES

As a result of the application of Revised IAS 1, *Presentation of financial statements*, and IFRS 8, *Operating segments*, certain comparative figures have been adjusted to conform to current period's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in Note 3.