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 2010

FINANCIAL HIGHLIGHTS

Revenue of the Group for the first half of 2010 totaled RMB1,081,293,000, representing an increase of 88.0 % when compared with RMB575,005,000 for the same period in 2009.

All three main product segments of the Group grew in the first half of 2010. Revenue of High Speed Steel ("HSS"), HSS cutting tools and Die Steel ("DS") increased by 50.9%, 34.4% and 97.9%, respectively, when compared with those for the same period in 2009.

Profit attributable to equity holders of the Company was RMB110,294,000 (2009: RMB45,591,000), representing an increase of 141.9% when compared with that for the same period in 2009.

The Board of Directors (the "Board") of Tiangong International Company Limited (the "Company") is pleased to announce the unaudited consolidated statement of comprehensive income of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2010 (the "period") and the consolidated statement of financial position of the Group as at 30 June 2010 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 2009 as follows:

Consolidated statement of comprehensive income
for the six months ended 30 June 2010 (unaudited)

		Six months ended 30 June	
		2010	2009
	Note	***RMB'000***	*RMB'000*
Revenue	5	**1,081,293**	575,005
Cost of sales		**(864,910)**	(459,665)
Gross profit		**216,383**	115,340
Other income	6	**3,351**	9,938
Distribution expenses		**(19,372)**	(13,222)
Administrative expenses		**(33,080)**	(30,537)
Other expenses		**(4,871)**	(5,811)
Result from operations		**162,411**	75,708
Finance income		**1,347**	1,688
Finance expenses		**(29,681)**	(26,482)
Net finance costs		**(28,334)**	(24,794)
Share of profit of associate		**14**	—
Share of loss of jointly controlled entity		**(859)**	—
Profit before income tax	7	**133,232**	50,914
Income tax expense	8	**(22,938)**	(5,323)
Profit and total comprehensive income for the period attributable to the equity shareholders of the Company		**110,294**	45,591
Earnings per share (RMB)	9		
Basic and diluted		**0.26**	0.11

Consolidated statement of financial position
at 30 June 2010 (unaudited)

	Note	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Non-current assets			
Property, plant and equipment		**1,498,044**	1,348,285
Lease prepayments		**61,976**	62,639
Goodwill		**21,959**	21,959
Interest in associate		**2,014**	—
Interest in jointly controlled entity		**3,921**	—
Other investments		**10,000**	10,000
Deferred tax assets		**9,654**	10,032
		1,607,568	1,452,915
Current assets			
Inventories		**1,251,787**	1,252,748
Trade and other receivables	10	**935,188**	656,959
Pledged deposits		**118,849**	119,358
Time deposits		**197,590**	192,000
Cash and cash equivalents		**115,035**	63,467
Assets classified as held for sale		**64,778**	64,778
		2,683,227	2,349,310
Current liabilities			
Interest-bearing borrowings		**848,027**	1,379,700
Trade and other payables	11	**728,627**	645,124
Income tax payables		**22,159**	14,964
Deferred income		**1,162**	1,162
		1,599,975	2,040,950
Net current assets		**1,083,252**	308,360
Total assets less current liabilities		**2,690,820**	1,761,275
Non-current liabilities			
Interest-bearing borrowings		**1,013,500**	177,000
Deferred income		**7,770**	8,351
Deferred tax liabilities		**13,935**	8,202
		1,035,205	193,553
Net assets		**1,655,615**	1,567,722
Capital and reserves			
Share capital		**31,806**	31,806
Reserves		**1,623,809**	1,535,916
Total equity		**1,655,615**	1,567,722

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 2010 comprises the Company and its subsidiaries.

2. **BASIS OF PREPARATION**

The 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"). It was authorised for issue on 24 August 2010.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2009 annual financial statements, except for the accounting policy changes and adoptions that are expected to be reflected in the 2010 annual financial statements. Details of these changes and adoptions of accounting policies are set out in the following notes.

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 report 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 2009 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 2009 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 2009 are available from the Company's registered office. The auditor has expressed an unqualified opinion on those financial statements in their report dated 13 April 2010.

3. **CHANGES IN ACCOUNTING POLICIES**

The IASB has issued two revised IFRSs, a number of amendments to IFRSs and one new Interpretation 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 3 (revised 2008), *Business combinations*
- IAS 27, *Consolidated and separate financial statements*
- Amendments to IFRS 5, *Non-current assets held for sale and discontinued operations - plan to sell the controlling interest in a subsidiary*
- Improvements to IFRSs (2009)

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

These developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods, for the following reasons:

- The impact of the majority of the revisions to IFRS 3, IAS 27 and IFRS 5 have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination or a disposal of a subsidiary) and there is no requirement to restate the amounts recorded in respect of previous such transactions.

- The impact of the amendment to IFRS 3 (in respect of recognition of acquiree's deferred tax assets) and IAS 27 (in respect of allocation of losses to non-controlling interests (previously known as minority interests) in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.

- The amendment introduced by the *Improvements to IFRSs (2009)* omnibus standard in respect of IAS 17, Leases, resulted in no change of classification of the Group's leasehold land interests.

Further details of these changes in accounting policy are as follows:

- As a result of the adoption of IFRS 3 (revised 2008), any business combination acquired on or after 1 January 2010 will be recognised in accordance with the new requirements and detailed guidance contained in IFRS 3 (revised 2008). These include the following changes in accounting policies:

  — Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, will be expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.

  — If the Group holds interests in the acquiree immediately prior to obtaining control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

  — Contingent consideration will be measured at fair value at the acquisition date. Any subsequent changes in the measurement of that contingent consideration will be recognised in profit or loss, unless they arise from obtaining additional information about facts and circumstances that existed at the acquisition date within 12 months from the date of acquisition (in which case they will be recognised as an adjustment to the cost of the business combination). Previously, contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably. All subsequent changes in the measurement of contingent consideration and from its settlement were previously recognised as an adjustment to the cost of the business combination and therefore impacted the amount of goodwill recognised.

  — If the acquiree has accumulated tax losses or other temporary deductible differences and these fail to meet the recognition criteria for deferred tax assets at the date of acquisition, then any subsequent recognition of these assets will be recognised in profit or loss, rather than as an adjustment to goodwill as was previously the policy.

  — In addition to the Group's existing policy of measuring the non-controlling interests (previously known as the "minority interests") in the acquiree at the non-controlling interest's proportionate share of the acquiree's net identifiable assets, in future the Group may elect, on a transaction by transaction basis, to measure the non-controlling interest at fair value.

In accordance with the transitional provisions in IFRS 3 (revised 2008), these new accounting policies will be applied prospectively to any business combinations in the current or future periods. The new policy in respect of recognition in the movement of deferred tax assets will also be applied prospectively to accumulated tax losses and other temporary deductible differences acquired in previous business combinations. No adjustments have been made to the carrying values of assets and liabilities that arose from business combinations whose acquisition dates preceded the application of this revised standard.

- As a result of the adoption of IAS 27 (amended 2008), the following changes in policies will be applied as from 1 January 2010:

  — If the Group acquires an additional interest in a non-wholly owned subsidiary, the transaction will be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no goodwill will be recognised as a result of such transactions. Similarly, if the Group disposes of part of its interest in a subsidiary but still retains control, this transaction will also be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no profit or loss will be recognised as a result of such transactions. Previously the Group treated such transactions as step-up transactions and partial disposals, respectively.

  — If the Group loses control of a subsidiary, the transaction will be accounted for as a disposal of the entire interest in that subsidiary, with any remaining interest retained by the Group being recognised at fair value as if reacquired. In addition, as a result of the adoption of the amendment to IFRS 5, if at the date of the consolidated statement of financial position the Group has the intention to dispose of a controlling interest in a subsidiary, the entire interest in that subsidiary will be classified as held for sale (assuming that the held for sale criteria in IFRS 5 are met) irrespective of the extent to which the Group will retain an interest. Previously such transactions were treated as partial disposals.

In accordance with the transitional provisions in IAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

- In order to be consistent with the above amendments to IFRS 3 and IAS 27, and as a result of amendments to IAS 28, *Investments in associates*, and IAS 31, *Interests in joint ventures*, the following policies will be applied as from 1 January 2010:

  — If the Group holds interests in the acquiree immediately prior to obtaining significant influence or joint control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining significant influence or joint control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

  — If the Group loses significant influence or joint control, the transaction will be accounted for as a disposal of the entire interest in that investee, with any remaining interest being recognised at fair value as if reacquired. Previously such transactions were treated as partial disposals.

  Consistent with the transitional provisions in IFRS 3 and IAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

Other changes in accounting policies which are relevant to the Group's financial statements are as follows:

- As a result of the amendments to IAS 27, as from 1 January 2010 any losses incurred by a non-wholly owned subsidiary will be allocated between the controlling and non-controlling interests in proportion to their interests in that entity, even if this results in a deficit balance within consolidated equity being attributed to the non-controlling interests. Previously, if the allocation of losses to the non-controlling interests would have resulted in a deficit balance, the losses were only allocated to the non-controlling interests if the non-controlling interests were under a binding obligation to make good the losses. In accordance with the transitional provisions in IAS 27, this new accounting policy is being applied prospectively and therefore previous periods have not been restated.

- As a result of the amendment to IAS 17, *Leases*, arising from the "Improvements to IFRSs (2009)" omnibus standard, the Group has re-evaluated the classification of its interests in leasehold land as to whether, in the Group's judgement, the lease transfers significantly all the risks and rewards of ownership of the land such that the Group is in a position economically similar to that of a purchaser. The Group has concluded that the classification of such leases as operating leases continues to be appropriate with no exception.

4. ACCOUNTING POLICIES FOR NEW TRANSACTIONS AND EVENTS

(a) Jointly controlled entity

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in a jointly controlled entity is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale).

Under the equity method, the investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment. The Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In the Company's statement of financial position, investments in jointly controlled entities are stated at cost less impairment losses, unless classified as held for sale (or included in a disposal group that is classified as held for sale).

(b) Impairment of investments in jointly controlled entity

For investments in a jointly controlled entity recognised using the equity method, the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount. The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

5. SEGMENT REPORTING

As the business of selling chemical goods has expanded and met the quantitative thresholds according to IFRS 8, *Operating Segments*, separate information of this operating segment is reported. The Group has identified the following four reportable segments. No operating segments have been aggregated to form the following reportable segments. Comparative information has been restated in order to reflect this change and conform with the current period's presentation.

— *High speed steel ("HSS")* The HSS segment manufactures and sells high speed steel for the steel industry.

— *HSS cutting tools* The HSS cutting tools segment manufactures and sells HSS cutting tools for the tool industry.

— *Die steel ("DS")* The DS segment manufactures and sells die steel for the steel industry.

— *Chemical goods* The chemical goods segment sells purified terepthatic acid and other chemicals.

(a) Segment results, assets and liabilities

	Six months ended and as at 30 June 2010				
	HSS	**HSS cutting tools**	**DS**	**Chemical goods**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	**326,657**	**216,464**	**390,981**	**147,191**	**1,081,293**
Inter-segment revenue	**119,051**	**—**	**—**	**—**	**119,051**
Reportable segment revenue	**445,708**	**216,464**	**390,981**	**147,191**	**1,200,344**
Reportable segment profit (adjusted EBIT)	**62,775**	**32,573**	**100,114**	**1,549**	**197,011**
Reportable segment assets	**1,024,926**	**898,114**	**1,857,771**	**26,366**	**3,807,177**
Reportable segment liabilities	**258,878**	**141,730**	**275,302**	**26,263**	**702,173**

	Six months ended 30 June 2009				
	HSS	HSS cutting tools	DS	Chemical goods	Total
	RMB'000	*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

	At 31 December 2009				
	HSS	HSS cutting tools	DS	Chemical goods	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Reportable segment assets	872,295	979,294	1,488,068	41,559	3,381,216
Reportable segment liabilities	209,238	162,873	228,972	41,448	642,531

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

	Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
Revenue		
Reportable segment revenue	**1,200,344**	670,006
Elimination of inter-segment revenue	**(119,051)**	(95,001)
Consolidated revenue	**1,081,293**	575,005
Profit		
Reportable segment profit	**197,011**	102,118
Net finance costs	**(28,334)**	(24,794)
Share of profit of associate	**14**	—
Share of loss of jointly controlled entity	**(859)**	—
Other unallocated head office and corporate expenses	**(34,600)**	(26,410)
Consolidated profit before income tax	**133,232**	50,914

	At 30 June	At 31 December
	2010	2009
	RMB'000	*RMB'000*
Assets		
Reportable segment assets	**3,807,177**	3,381,216
Interest in associate	**2,014**	—
Interest in jointly controlled entity	**3,921**	—
Other investments	**10,000**	10,000
Deferred tax assets	**9,654**	10,032
Pledged deposits	**118,849**	119,358
Time deposits	**197,590**	192,000
Cash and cash equivalents	**115,035**	63,467
Other unallocated head office and corporate assets	**26,555**	26,152
Consolidated total assets	**4,290,795**	3,802,225
Liabilities		
Reportable segment liabilities	**702,173**	642,531
Interest-bearing borrowings	**1,861,527**	1,556,700
Income tax payables	**22,159**	14,964
Deferred tax liabilities	**13,935**	8,202
Unallocated head office and corporate liabilities	**35,386**	12,106
Consolidated total liabilities	**2,635,180**	2,234,503

6. OTHER INCOME

		Six months ended 30 June	
		2010	2009
		RMB'000	*RMB'000*
Government grants	(i)	**1,725**	9,488
Net gain on disposal of property, plant and equipment		**—**	229
Dividend income from unlisted securities	(ii)	**1,600**	—
Others		**26**	221
		3,351	9,938

(i) Jiangsu Tiangong Tools Company Limited ("TG Tools"), a wholly-owned subsidiary of the Company located in People's Republic of China (the "PRC"), received unconditional grants amounting to RMB1,144,000 (six months ended 30 June 2009: RMB9,488,000) from the local government in Danyang concerning the encouragement of its development and recognised amortisation of government grants related to assets of RMB581,000 (six months ended 30 June 2009: nil) during the six months ended 30 June 2010.

(ii) The Group received dividends totalling to RMB1,600,000 from its unlisted equity investments during the six months ended 30 June 2010.

7. PROFIT BEFORE INCOME TAX

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

	Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
(a) Finance income and expenses		
Interest income	**(1,347)**	(1,688)
Finance income	**(1,347)**	(1,688)
Interest on bank loans	**45,716**	38,351
Less: interest expense capitalised into property, plant and equipment under construction	**(25,492)**	(14,528)
Net foreign exchange loss	**9,457**	2,659
Finance expenses	**29,681**	26,482
Net finance costs	**28,334**	24,794
(b) Other items		
Cost of inventories*	**864,910**	459,665
Depreciation	**38,402**	33,744
Amortisation of lease prepayments	**663**	1,001
Impairment loss for doubtful debts	**3,088**	4,810
Write down for inventories	**10,870**	5,298

* Cost of inventories includes RMB41,637,000 (six months ended 30 June 2009: RMB28,139,000) 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.

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
Current tax		
Provision for PRC income tax	**16,827**	8,154
Deferred tax		
Origination and reversal of temporary differences	**6,111**	(2,831)
	22,938	5,323

(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 Group does not carry on business in Hong Kong and therefore does not incur Hong Kong Profits Tax.

(c) 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% (2009: 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 corporate 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 is subject to the PRC corporate income tax rate at 50% of its applicable tax rate for 3 years from 2009. Tiangong Aihe Special Steel Company Limited ("TG Aihe") is subject to the PRC corporate income tax rate at 50% of its applicable tax rate for 3 years from 2010 (2009: 0%).

Danyang Tianfa Forging Company Limited and Jiangsu Tiangong Titanium Technology Company Limited are both subject to the statutory income tax rate 25%.

9. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB110,294,000 during the period presented (six months ended 30 June 2009: RMB45,591,000) and the weighted average number of ordinary shares outstanding of 419,500,000 (six months ended 30 June 2009: 419,500,000).

No dilutive potential ordinary shares were in issue as at 30 June 2010 (2009: Nil).

10. TRADE AND OTHER RECEIVABLES

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

	At 30 June 2010 *RMB'000*	At 31 December 2009 *RMB'000*
Current	**583,505**	360,734
Less than 3 months past due	**153,511**	148,649
More than 3 months but less than 6 months past due	**15,337**	24,884
More than 6 months but less than 12 months past due	**21,331**	30,375
More than 12 months but less than 24 months past due	**19,834**	16,603
Trade debtors and bills receivables, net of allowance for doubtful debts	**793,518**	581,245
Prepayments	**86,115**	49,670
Other receivables	**27,976**	26,044
Receivables due from related parties	**27,579**	—
	935,188	656,959

Trade debtors and bills receivable are normally due within 0 to 150 days from the date of billing.

11. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis as at the date of the consolidated statement of financial position.

	At 30 June 2010 *RMB'000*	At 31 December 2009 *RMB'000*
Due within 3 month or on demand	**299,228**	361,235
Due after 3 month but within 6 months	**280,982**	121,067
Due after 6 month but within 12 months	**17,587**	4,891
Due after 1 year but within 2 years	**6,174**	2,443
Total trade creditors and bills payable	**603,971**	489,636
Non-trade payables and accrued expenses	**101,755**	154,488
Dividends payable	**22,401**	—
Payables due to related parties	**500**	1,000
	728,627	645,124

12. DIVIDENDS

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

	Six months ended 30 June	
	2010 *RMB'000*	2009 *RMB'000*
Dividend in respect of the previous financial year, approved but not paid during the interim period, of RMB0.0534 per share (six months ended 30 June 2009: RMB0.0536 per share)	**22,401**	22,485

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 60% of its sales was exported to over 30 countries and regions throughout Europe, North America, Africa and the Middle East since 2007. The Group produces an extensive range of HSS cutting tools products which can be categorized into four types — twist drill bits, screw taps, end mills and turning tools. This segment has been in operation since 1987, being the longest-established sector of the Group.

Die steel

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

Chemical goods

It involves the purchase and sales of chemicals which mainly comprises purified terepthatic acid. Purified terepthatic acid is mainly used for production of household building materials such as blinds and covers.

Market review

In the second half of 2009, the world economy began to recover slowly from the global financial crisis thanks to the collective monetary and fiscal measures adopted by different governments to boost the economy. This recovery trend has continued into the first half of 2010. Industries such as manufacturing and tooling have been recovering gradually. Demand for raw materials used in these industries have rose accordingly. Such has significant improved the overseas market environment for our businesses.

Since the Chinese economy is export-driven, recovery in the world economy has helped fuel improvement in the Chinese economic growth. The growth was further spurred by improved domestic consumer spending and favorable government policies. In the first half of 2010, the Chinese economy recorded a growth rate of 11.1%. In addition to manufacturing and tooling, industries such automotive and machining have also improved significantly as compared with last year.

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 2009 and the largest HSS cutting tools manufacturer by revenue in China from 2007 to 2009.

Since the global financial crisis, some of our customers have been facing keener market competition. This has forced them to improve on product quality and to exercise more stringent control over production cost to differentiate from other competitors. In order to enhance pricing and quality competitiveness and to expand their market shares, our customers tended to be more prudent in selecting suppliers.

To cope with this changing market environment, the Group implemented measures to lower the production cost while at the same time maintain it's emphasis on product quality, safety and production efficiency. The Group also put in efforts to improve the production process and product specification through active research and development.

The revenue from the sales of the four major segments are set out below:

	For the period ended 30 June					
	2010		2009		Change	
	RMB'000	***%***	*RMB'000*	*%*	*RMB'000*	*%*
HSS	**326,657**	**30.21%**	216,442	37.64%	110,215	50.92%
HSS cutting tools	**216,464**	**20.02%**	161,021	28.00%	55,443	34.43%
DS	**390,981**	**36.16%**	197,542	34.36%	193,439	97.92%
Chemical goods	**147,191**	**13.61%**	—	0.00%	147,191	—
	1,081,293	**100.00%**	575,005	100.00%	506,288	88.05%

HSS

Due to the recovery in industrial activities such as manufacturing and tooling, the HSS business has recovered significantly during the period. Revenue from sales of HSS, which accounted for approximately 30.2% of the Group's total revenue increased by 50.9% to RMB326,657,000 in the first half of 2010. During the first half of 2010, revenue from domestic sales of HSS increased by 73.7% to RMB309,368,000, mainly resulted from increase in demand of HSS in machinery and tooling industries. Overseas sales decreased by 55.0% to RMB17,289,000 because of the decrease in order from overseas tools manufactures. Some of the tooling companies have changed from manufacturing their own products to purchasing from tools manufacturers.

Set out below is the geographical breakdown of the sales of HSS for the periods ended 30 June 2010 and 30 June 2009:

	For the period ended 30 June					
	2010		2009		Change	
	RMB'000	***%***	*RMB'000*	*%*	*RMB'000*	*%*
HSS						
Domestic	**309,368**	**94.71%**	178,064	82.27%	131,304	73.74%
Export	**17,289**	**5.29%**	38,378	17.73%	(21,089)	–54.95%
	326,657	**100.00%**	216,442	100.00%	110,215	50.92%

HSS cutting tools

Revenues from sales of HSS cutting tools, which accounted for approximately 20.0% of the Group's total revenue, increased by approximately 34.4% to RMB216,464,000 in the first half of 2010. During the first half of 2010, revenues from export sales of HSS cutting tools increased by 11.6% to RMB146,598,000, mainly attributable to the increase in demand of cutting tools in overseas markets. Domestic sales increased by 135.7% to RMB69,866,000 for the first half of 2010 as a result of improvement in housing and consumer industries. The reason for the larger increase in domestic sales was the stronger recovery in domestic consumer sentiment.

Set out below is a geographical breakdown of the sales of HSS cutting tools for the period ended 30 June 2010 and 30 June 2009:

	For the period ended 30 June					
	2010		2009		Change	
	RMB'000	***%***	*RMB'000*	*%*	*RMB'000*	*%*
HSS cutting tools						
Domestic	**69,866**	**32.28%**	29,647	18.41%	40,219	135.66%
Export	**146,598**	**67.72%**	131,374	81.59%	15,224	11.59%
	216,464	**100.00%**	161,021	100.00%	55,443	34.43%

Die steel

Since the second half of 2009, die steel has become the largest revenue contributor to the Group. For the first half of 2010, revenue of die steel accounted for 36.2% of the Group's total revenue. The Group's die steel revenue increased by 97.9% from RMB197,542,000 to RMB390,981,000 in 2010. Domestic sales increased by 32.2% to RMB241,875,000 during the period under review due to the strong demand for die steel from the domestic automobile and machinery industries. Export sales increased significantly by 920.6% to RMB149,106,000 in the first half of 2010, which was mainly due to a few material orders placed by machinery customers in Germany, US and the newly developed Korea market. Set out below is the geographical breakdown of the sales of die steel for the periods ended 30 June 2010 and 30 June 2009:

	For the period ended 30 June					
	2010		2009		Change	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Die steel						
Domestic	**241,875**	**61.86%**	182,933	92.60%	58,942	32.22%
Export	**149,106**	**38.14%**	14,609	7.40%	134,497	920.64%
	390,981	**100.00%**	197,542	100.00%	193,439	97.92%

Chemical goods

The Group started trading of chemical goods such as purified terepthatic acid since the second half of 2009. In the first half of 2010, revenue of sales of chemical goods amounted to RMB147,191,000. All sales are made to customers which produce household building materials such as blinds and covers for export.

Financial review

As a result of the economic recovery and rise in market demand, net profit attributable to equity holders of the Company increased by approximately 141.9% to RMB110,294,000 in the first half of 2010 from RMB45,591,000 for the first half of 2009. Revenue of the Group's all main businesses increased significantly as a result of increase in market demand of the products.

Revenue

Revenue of the Group for the first half of 2010 totalled RMB1,081,293,000, representing an increase of approximately 88.0% when compared with RMB575,005,000 in first half of 2009. The increase was mainly attributable to the increase in sales volume of the products of the Group.

Cost of sales

The Group's cost of sales increased by RMB405,245,000 from RMB459,665,000 for the first half of 2009 to RMB864,910,000 for the first half of 2010, representing an increase of approximately 88.2%. The increase was in line with the 88.0% increase in revenue during the period. As a percentage of total revenue, the Group's cost of sales increased from approximately 79.9% in the first half of 2009 to approximately 80.0% in the first half of 2010.

Gross margin

For the first half of 2010, the gross margin was approximately 20.0% (2009: 20.1%). The slight decrease was mainly due to the net effect of the improvement in gross margin of die steel and increase in sales of chemical goods. Set out below is the gross margin for our four products for the first half of 2009 and 2010:

	For the period ended 30 June	
	2010	2009
HSS	**20.5%**	22.2%
HSS cutting tools	**17.3%**	17.8%
Die steel	**28.2%**	19.5%
Chemical goods	**1.1%**	—

HSS

The decrease in HSS gross margin from 22.2% in the first half of 2009 to 20.5% in the same period in 2010 was mainly due to the slight increase in cost for a few of the HSS raw materials.

HSS cutting tools

In the first half of 2010, the gross margin of HSS cutting tools stayed almost unchanged at 17.3% (2009: 17.8%).

Die steel

The gross margin of die steel increased significantly from 19.5% in the first half of 2009 to 28.2% in the first half of 2010. The significant improvement was mainly due to the higher production rate of die steel as the sales volume increased. Moreover, newly installed production equipment which came into production last year has also improvement production and cost efficiency.

Other income

The Group's other income totalled RMB3,351,000 in the first half of 2010, representing a decrease of RMB6,587,000 from RMB9,938,000 in the first half of 2009. The decrease was mainly attributable to reduction of RMB7,763,000 in grants received from local government.

Distribution expenses

The Group's distribution expenses was RMB19,372,000 (2009: RMB13,222,000), representing an increase of approximately 46.5%. The increase was mainly attributable to the increase in transportation expenses by RMB6,987,000 as a result of increase in sales volume. For the first half of 2010, the distribution expenses as a percentage of revenue was 1.8% (2009: 2.3%).

Administrative expenses

For the first half of 2010, the Group's administrative expenses increased by RMB2,543,000 to RMB33,080,000 (2009: RMB30,537,000) primarily because staff cost, depreciation and bank charges increased slightly during the period. For the first half of 2010, the administrative expenses as a percentage of revenue was 3.1% (2009: 5.3%).

Net finance cost

The Group's finance income was RMB1,347,000 for the first half of 2010, representing a decrease of RMB341,000 when compared with the RMB1,688,000 for the first half of 2009. The decrease was mainly due to the lower bank deposit rate in the first half of 2010. The Group's finance expenses was RMB29,681,000 for the first half of 2010, representing an increase of 12.1% when compared with the RMB26,482,000 for the first half of 2009. The increase was attributable to the increase in bank loan during the period.

Income tax expense

The Group's income tax expense increased by RMB17,615,000 from RMB5,323,000 in the first half of 2009 to RMB22,938,000 in the first half of 2010. Such increase was mainly due to the increase in profit tax as operating profit increased and applicable tax rate increased as tax exemption for TG Aihe ended in 2009.

Profit for the period

As a result of the factors discussed above, the Group's profit increased by approximately 141.9% to RMB110,294,000 for the first half of 2010 from RMB45,591,000 for the first half of 2009. The Group's net profit margin increased from 7.9% in the first half of 2009 to 10.2% in the same period of 2010.

Profit attributable to equity holders of the Company

For the first half of 2010, profit attributable to equity holders of the Company was RMB110,294,000 (2009: RMB45,591,000), representing an increase of 141.9%.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2010, the Group's current assets mainly included cash and cash equivalents of approximately RMB115,035,000, inventories of approximately RMB1,251,787,000, trade and other receivables of RMB935,188,000, pledged deposits of RMB118,849,000 and time deposits of RMB197,590,000. As at 30 June 2010, the interest bearing borrowings of the Group was RMB1,867,527,000, RMB848,027,000 of which was repayable within one year and RMB1,013,500,000 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 43.4%, higher than 40.9% as at 31 December 2009. The increase was mainly attributable to the increase in investment in production equipment. As at 30 June 2010, borrowings of RMB1,819,200,000 were in RMB and USD6,200,000 were in USD. The majority of the borrowings of the Group were subject to interests payable at rates ranging from 1.19% to 5.76% 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 2010, the Group's increase in fixed assets amounted to RMB188,161,000, which were mainly for the production plant and facilities for die steel. As at 30 June 2010, capital commitments was RMB278,016,000, of which RMB93,312,000 was contracted and RMB184,704,000 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 57.44%). Approximately 42.56% 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 2010, the Group pledged certain bank deposits amounting to approximately RMB118,849,000 (31 December 2009: RMB119,358,000). Details are set out in the notes to the financial statements.

EMPLOYEE'S REMUNERATION AND TRAINING

As at 30 June 2010, the Group employed around 4,130 employees (31 December 2009: around 4,420). 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 2010.

PROSPECTS

The effect from the slowdown in domestic and overseas special steel industry and cutting tools industry caused by the global financial crisis has started to ease. The hardest hit periods in the last quarter of 2008 and the first quarter of 2009 when a significant portion of the sales orders were cancelled are behind us. Since the second half of 2009, the special steel and cutting tools industry began to recover. The overall market environment improved and there was a general upward trend on order quantities from customers. Leveraging on our leading market position and our pricing and product quality advantages over our competitors, we are confident that we will be able to resume our growing trend on all business lines in the second half of 2010 or first half of 2011.

HSS

The HSS business has recovered significantly in the period under review as a result of the improvement in manufacturing and tooling industries. We believe this general recovery trend will continue. However the growth rate will not be as high as the one for the period under review because overseas market demand still has not recovered back to pre-financial crisis level. Given the Group believes the overseas market will not have a speedy recovery, the Group will continue to focus on domestic market. Our number of sales centres have increased from 70 at the end of 2009 to 76 as at 30 June 2010. We plan to further expand our network of sales centres in 2010.

HSS cutting tools

The Group had completed the installation of advanced cutting tools production line which would enable production of higher quality. In the first half of 2010, the Group has seen strong domestic demand in HSS cutting tools resulting from growing automobile and machinery industries in China. In the second half of 2010, the Group will continue to place emphasis on these sectors.

Die steel

In 2010, all the major die steel production line had been installed and commenced operation. Along with the sales volume achieving the planned level, the die steel business has become the Group's revenue and profit growth driver. In the second half of 2010, the Group will introduce certain new die steel product specification to meet the market demand. The Group will also focus the promotional effort on the domestic die steel market to capitalize on the growing automobile and machineries industries. The Group forecasts the growth in die steel business will continue.

Chemical Goods

The Group commenced trading of chemical goods such as purified terepthatic acid in the second half of 2009. This new business line was developed mainly to generate additional source of revenue and to utilize the existing sales network. The Group expects this business to maintain steady growth in the reminder of 2010.

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 2010, 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 2010, 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").

INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. Lau Siu Fai tendered his resignation as independent non-executive director of the Company and member of the Audit Committee, Remuneration Committee and Nomination Committee with effect from 3 June 2010. As such, the Company and its Audit Committee only has two independent non-executive directors and two members respectively, each of which falls below the minimum number and in each case does not meet the requirement that at least one of the independent non-executive directors must have appropriate professional qualifications or accounting or related financial management expertise, as set out in Rules 3.10 and 3.21 of the Listing Rules. The Company noted the requirement to identify suitable candidate for the appointment of a new independent non-executive director as soon as possible and in any event within three months from the date of the announcement issued by the Company on 2 June 2010 as required under Rule 3.11 of the Listing Rules.

AUDIT COMMITTEE

The Audit Committee comprises two independent non-executive directors. The Audit Committee held a meeting on 19 August 2010 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 2010 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, 24 August 2010

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 and GAO Xiang

* *For identification purpose*