Tiangong International Company Limited
天 工 國 際 有 限 公 司 *

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 826)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

FINANCIAL HIGHLIGHTS

- Revenue of the Group for the year ended 31 December 2009 totaled RMB1,323,752,000, representing a decrease of 33.6% when compared with RMB1,993,269,000 for the year of 2008. The decrease was mainly due to the drop in sales of our products as a result of the slowdown in the economy.

- The gross profit margin increased from 16.0% in 2008 to 19.7% in 2009, mainly due to raw material and production cost reduction.

- Profit attributable to equity holders of the Company was RMB112,078,000 (2008: RMB114,643,000).

- Earnings per share was RMB0.27 (2008: RMB0.27).

- The Board proposed a final dividend of RMB0.0534 per share for the year ended 31 December 2009. This represented a total distribution for the year of RMB22,401,000.

The Board of Directors (the "Board") of Tiangong International Company Limited (the "Company") is pleased to announce the audited consolidated statement of comprehensive income of the Company and its subsidiaries (the "Group") for the year ended 31 December 2009 and the consolidated balance sheet of the Group as at 31 December 2009, together with the comparative figures for the same period of 2008 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	Note	**2009** *RMB'000*	2008 *RMB'000*
Revenue	4	**1,323,752**	1,993,269
Cost of sales		**(1,062,867)**	(1,673,566)
Gross profit		**260,885**	319,703
Other income		**10,970**	6,068
Distribution expenses		**(29,573)**	(50,106)
Administrative expenses		**(60,810)**	(61,155)
Other expenses		**(14,839)**	(7,843)
Profit from operations		**166,633**	206,667
Finance income		**2,736**	4,607
Finance expenses		**(50,049)**	(96,162)
Net finance costs		**(47,313)**	(91,555)
Profit before income tax	5	**119,320**	115,112
Income tax expense	6	**(7,242)**	(2,602)
Profit and total comprehensive income for the year		**112,078**	112,510
Attributable to:			
Equity holders of the Company		**112,078**	114,643
Non-controlling interest		**—**	(2,133)
Profit and total comprehensive income for the year		**112,078**	112,510
Earnings per share	7		
Basic		**0.27**	0.27

CONSOLIDATED BALANCE SHEET
As at 31 December 2009

	Note	**2009** **RMB'000**	2008 RMB'000
Non-current assets			
Property, plant and equipment		**1,348,285**	1,093,735
Lease prepayments		**62,639**	97,106
Goodwill		**21,959**	21,959
Other investments		**10,000**	10,000
Deferred tax assets		**10,032**	5,476
		1,452,915	1,228,276
Current assets			
Inventories		**1,252,748**	1,111,282
Trade and other receivables	8	**656,959**	616,901
Pledged deposits		**119,358**	63,600
Time deposits		**192,000**	115,000
Cash and cash equivalents		**63,467**	96,021
Assets classified as held for sale	9	**64,778**	—
		2,349,310	2,002,804
Current liabilities			
Interest-bearing borrowings		**1,379,700**	1,093,865
Trade and other payables	10	**645,124**	442,257
Income tax payables		**14,964**	13,383
Deferred income		**1,162**	—
		2,040,950	1,549,505
Net current assets		**308,360**	453,299
Total assets less current liabilities		**1,761,275**	1,681,575
Non-current liabilities			
Interest-bearing borrowings		**177,000**	190,000
Deferred income		**8,351**	9,900
Deferred tax liabilities		**8,202**	3,546
		193,553	203,446
Net assets		**1,567,722**	1,478,129
Capital and reserves			
Share capital		**31,806**	31,806
Reserves		**1,535,916**	1,446,323
Total equity		**1,567,722**	1,478,129

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 consolidated financial statements of the Company as at and for the year ended 31 December 2009 comprise the Company and its subsidiaries. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 26 July 2007.

2 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board ("IASB"). IFRSs include International Accounting Standards and interpretations. These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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. Of these, the following developments are relevant to the Group's financial statements:

- IFRS 8, *Operating segments*
- IAS 1 (revised 2007), *Presentation of financial statements*
- Amendment to IFRS 7, *Financial instruments: Disclosures — improving disclosures about financial instruments*
- 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*
- IAS 23 (revised 2007), *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. The impact of the remainder of these developments is as follows:

(a) 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). Corresponding amounts have also been provided on a basis consistent with the revised segment information.

(b) As a result of the adoption of IAS 1 (revised 2007), 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 statement of comprehensive income, 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. 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.

(c) 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 statement of comprehensive income 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 statement of comprehensive income, 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.

(d) As a result of the adoption of IAS 23 (revised 2007), 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 IAS 23 (revised 2007) in accordance with the transitional provisions of this standard; comparative figures have not been restated. The Group has capitalised borrowing costs with respect to property, plant and equipment under construction. See Note 5(i).

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

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 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.

(a) Segment results, assets and liabilities

In accordance with IFRS 8, segment information disclosed 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 auditor's remuneration and other administrative expenses.

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 years ended 31 December 2009 and 2008 is set out below.

	Year ended and as at 31 December 2009				
	HSS	**HSS cutting tools**	**DS**	**Others***	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	415,571	380,886	450,327	76,968	1,323,752
Inter-segment revenue	144,305	—	—	—	144,305
Reportable segment revenue	559,876	380,886	450,327	76,968	1,468,057
Reportable segment profit (adjusted EBIT)	80,161	50,318	100,078	755	231,312
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

	Year ended and as at 31 December 2008				
	HSS	HSS cutting tools	DS	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	815,316	658,061	519,892	—	1,993,269
Inter-segment revenue	330,590	—	—	—	330,590
Reportable segment revenue	1,145,906	658,061	519,892	—	2,323,859
Reportable segment profit (adjusted EBIT)	135,893	67,366	66,338	—	269,597
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

* Revenues from segments below the quantitative thresholds are mainly attributable to the business of selling chemical products.

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

Revenue	**2009** *RMB'000*	2008 *RMB'000*
Reportable segment revenue	**1,391,089**	2,323,859
Other revenue	**76,968**	—
Elimination of inter-segment revenue	**(144,305)**	(330,590)
Consolidated revenue	**1,323,752**	1,993,269

Profit	**2009** *RMB'000*	2008 *RMB'000*
Reportable segment profit	**230,557**	269,597
Other profit	**755**	—
	231,312	269,597
Net finance costs	**(47,313)**	(91,555)
Other unallocated head office and corporate expenses	**(64,679)**	(62,930)
Consolidated profit before income tax	**119,320**	115,112

Assets	2009 *RMB'000*	2008 *RMB'000*
Reportable segment assets	**3,339,657**	2,925,311
Other assets	**41,559**	—
	3,381,216	2,925,311
Other investments	**10,000**	10,000
Deferred tax assets	**10,032**	5,476
Pledged deposits	**119,358**	63,600
Time deposits	**192,000**	115,000
Cash and cash equivalents	**63,467**	96,021
Other unallocated head office and corporate assets	**26,152**	15,672
Consolidated total assets	**3,802,225**	3,231,080

Liabilities	2009 *RMB'000*	2008 *RMB'000*
Reportable segment liabilities	**601,083**	433,036
Other liabilities	**41,448**	—
	642,531	433,036
Interest-bearing borrowings	**1,556,700**	1,283,865
Income tax payables	**14,964**	13,383
Deferred tax liabilities	**8,202**	3,546
Other unallocated head office and corporate liabilities	**12,106**	19,121
Consolidated total liabilities	**2,234,503**	1,752,951

(c) Geographical information

The Group's business is managed on a worldwide basis, but participates in four principal economic environments, the PRC, North America, Europe and Asia (other than the PRC).

In presenting geographical information, segment revenue is based on the geographical location of customers. Substantially all of the Group's assets and liabilities are located in the PRC and accordingly, no geographical analysis of segment assets, liabilities and capital expenditure is provided.

	2009 *RMB'000*	2008 *RMB'000*
Revenue		
The PRC	**921,827**	1,007,715
North America	**195,345**	365,148
Europe	**118,275**	376,136
Asia (other than the PRC)	**78,490**	222,774
Others	**9,815**	21,496
Total	**1,323,752**	1,993,269

5 PROFIT BEFORE INCOME TAX

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

(i) Net finance cost

	2009	2008
	RMB'000	*RMB'000*
Interest income	**(2,736)**	(4,607)
Finance income	**(2,736)**	(4,607)
Interest on bank loans	**77,363**	70,464
Less: interest capitalised into property, plant and equipment under construction*	**(27,860)**	—
Net foreign exchange loss	**546**	25,698
Finance expenses	**50,049**	96,162
Net finance cost	**47,313**	91,555

* The borrowing costs have been capitalised at a rate of 3.51%–6.72% per annum (2008: nil).

(ii) Staff costs

	2009	2008
	RMB'000	*RMB'000*
Wages, salaries and other benefits	**95,112**	111,663
Contributions to defined contribution plans	**3,721**	3,554
	98,833	115,217

The Group participates in defined contribution pension funds managed by the PRC local government authorities. According to the respective pension fund regulations, the Group is required to pay annual contributions determined by the respective authorities in the PRC. The Group remits all the pension fund contributions to the respective social security offices, which are responsible for the payments and liabilities relating to the pension funds. The Group has no obligation for payment of retirement and other post-retirement benefits of employees other than the contributions described above.

(iii) Other items

	2009	2008
	RMB'000	*RMB'000*
Cost of inventories*	**1,062,867**	1,673,566
Depreciation	**69,131**	58,089
Amortisation of lease prepayments	**2,001**	1,958
Impairment loss for doubtful debts	**13,259**	4,744
Auditor's remuneration	**2,026**	2,004
Write down of inventories	**13,796**	9,962
Operating lease charges	**1,433**	1,468

* Cost of inventories includes RMB153,021,000 (2008: RMB144,338,000) relating to staff costs, depreciation expenses and write down of inventories which amounts are also included in the respective total amounts disclosed separately above or in Note 5(ii) for each of these types of expenses.

6 INCOME TAX EXPENSE

(a) Income tax expense in the consolidated statement of comprehensive income represents:

	2009	2008
	RMB'000	*RMB'000*
Current tax		
Provision for PRC income tax	**7,142**	1,342
Deferred tax		
Origination and reversal of temporary differences	**100**	1,260
	7,242	2,602

(i) 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.

(ii) The provision for PRC income tax is based on the respective corporate income tax rates applicable to the subsidiaries located in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China (the "new tax law") which has taken effect on 1 January 2008. According to the new tax law, the applicable tax rates of the Group's operating subsidiaries in the PRC are unified at 25% with effect from 1 January 2008.

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 applies shall be calculated commencing from the year of 2008.

The statutory income tax rate applicable to Jiangsu Tiangong Tools Company Limited ("TG Tools") is 25% (2008: 25%). On 21 August 2006, China Tiangong Company Limited ("CTCL") acquired the entire equity interests in TG Tools. As a result, TG Tools became a wholly foreign-owned enterprise and was exempted from PRC enterprise income tax for 2007 and 2008 and subject to PRC enterprise income tax rate at 50% of its applicable tax rate for 3 years from 2009 due to the above-mentioned tax holiday.

Tiangong Aihe Special Steel Company Limited ("TG Aihe") is exempted from PRC enterprise income tax for 2008 and 2009 due to the above-mentioned tax holiday.

Danyang Tianfa Forging Company Limited ("Tianfa Forging") is subject to the statutory income tax rate 25%.

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

	2009	2008
	RMB'000	*RMB'000*
Profit before income tax	**119,320**	115,112
Notional tax on profit before income tax, calculated using the Group's PRC statutory tax rate of 25% (2008: 25%)	**29,830**	28,778
Effect of preferential tax rates	**(22,647)**	(30,227)
Tax effect of non-deductible expenses	**950**	505
Deferred tax liabilities in respect of withholding tax on undistributed profits of subsidiaries	**(891)**	3,546
	7,242	2,602

7 EARNINGS PER SHARE

(i) Basic earnings per share

The calculation of basic earnings per share at 31 December 2009 was based on the profit attributable to ordinary shareholders of RMB112,078,000 (2008: RMB114,643,000) and a weighted average number of ordinary shares outstanding of 419,500,000 (2008: 419,500,000).

(ii) Diluted earnings per share

No dilutive potential ordinary shares were in issue as at 31 December 2009 (2008: Nil).

8 TRADE AND OTHER RECEIVABLES

	2009	2008
	RMB'000	*RMB'000*
Trade and bills receivables	**624,766**	504,421
Less: impairment loss for doubtful debts	**(43,521)**	(30,262)
Net trade and bills receivables	**581,245**	474,159
Prepayments	**49,670**	125,555
Non-trade receivables	**26,044**	17,187
	656,959	616,901

Substantially all of the trade receivables are expected to be recovered within one year.

(a) Ageing analysis

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and taking into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group's customers are normally granted credit terms of 0 to 150 days depending on the creditworthiness of individual customers. Normally, the Group does not obtain collateral from customers.

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

	2009	2008
	RMB'000	*RMB'000*
Current	**360,734**	166,622
Less than 3 months past due	**148,649**	182,030
More than 3 months but less than 6 months past due	**24,884**	97,628
More than 6 months but less than 12 months past due	**30,375**	25,355
More than 12 months but less than 24 months past due	**16,603**	2,524
Amounts past due	**220,511**	307,537
	581,245	474,159

(b) Impairment of trade and bills receivables

Impairment losses in respect of trade and bills receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivables directly.

The movement in the impairment loss for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2009	2008
	RMB'000	*RMB'000*
At 1 January	**30,262**	25,518
Impairment loss recognised	**13,259**	4,744
At 31 December	**43,521**	30,262

9 NON-CURRENT ASSETS HELD FOR SALE

A land use right and the vacant building thereon are presented as a disposal group held for sale as the Group has entered into a frame agreement with a local authority and has received a refundable deposit of RMB23,000,000 before 31 December 2009. Subject to the finalisation of the consideration payable and the entering into of a binding contract, the disposal is expected to take place in 2010.

The disposal group comprised assets with the following carrying values:

The Group	**2009**
	RMB'000
Property, plant and equipment — Building	**32,312**
Lease prepayments — Land use right	**32,466**
	64,778

No impairment loss on the remeasurement of the disposal group to the lower of its carrying amount and its fair value less costs to sell has been recognised in other expenses, as the consideration of the disposal under negotiation is no less than the carrying value of the assets plus costs to sell.

10 TRADE AND OTHER PAYABLES

	2009	2008
	RMB'000	*RMB'000*
Trade and bills payables	**489,636**	373,379
Non-trade payables and accrued expenses	**154,488**	67,878
Payables due to Jiangsu Tiangong Group Company Limited	**1,000**	1,000
	645,124	442,257

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

	2009	2008
	RMB'000	*RMB'000*
Due within 3 months	**361,235**	268,650
Due after 3 months but within 6 months	**121,067**	92,830
Due after 6 months but within 12 months	**4,891**	7,877
Due after 1 year but within 2 years	**2,443**	4,022
	489,636	373,379

11 DIVIDENDS

(i) Dividends payable to equity holders of the Company attributable to the year:

	2009	2008
	RMB'000	*RMB'000*
Dividend proposed after the balance sheet date of RMB0.0534 per share (2008: RMB0.0536)	**22,401**	22,485
	22,401	22,485

(ii) Dividends payable to equity holders of the Company attributable to the previous financial year, approved and paid during the year:

	2009	2008
	RMB'000	*RMB'000*
Special dividend in respect of the previous financial year, approved and paid during the year of RMB0.0536 per share (2008: Nil)	**22,485**	—
	22,485	—

MANAGEMENT DISCUSSION AND ANALYSIS

The following management discussion and analysis should be read in conjunction with our consolidated financial statements, which were audited by KPMG and reviewed by the audit committee of the Company. The Group is mainly engaged in the production and sales of HSS, HSS cutting tools and die steel. Our operations are classified into the following product segments:

HSS

HSS involves the purchase of various rare metals such as tungsten, molybdenum, chromium, vanadium and other raw materials, production of HSS for both internal supply to the Group's HSS cutting tools production and external sale to customers outside the Group. HSS typically has higher pressure and temperature tolerances than 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

HSS cutting tools involves the production and sales of HSS cutting tools to external customers. Over 70% of its sales were exported to over 30 countries and regions throughout Europe, North America, Africa and the Middle East in 2008 and 2009. 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

Die steel 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 in 2005.

MARKET REVIEW

In 2009, the global economy was severely affected by the global financial crisis which was a result of the collapse of United States housing market in 2008. The global economy experienced one of the most serious slowdowns since the Great Depression. To respond to the crisis, various countries acted collectively to implement monetary and fiscal measures to boost the economy. As a result, the world economy began to recover slowly from the economic downturn. Encouraging signs in the macro-economy and various industries such as housing and retail exhibited an encouraging development trend.

As China is an export driven economy, the significant drop in demand from overseas caused by the global financial crisis has significantly impacted the Chinese domestic economy. Following the actions of overseas central banks and government, the Chinese government has also implemented and continued to modify the Economic Stimulus Plan which includes increasing bank loans for enterprises, pumping public investment into infrastructure development as well as encouraging consumption in various industries. Such measures have reversed the economy contraction and the domestic economy is recovering gradually.

Gross Domestic Product in China in 2009 grew at 8.7%. The growth rate was slightly below that of 9.0% in 2008. Due to the slow down in domestic demand for cutting tools and machinery, China's annual HSS production decreased by 13.3% to 69,897 tonne in 2009. China's annual die steel production has dropped by 4.5% (2008: growth rate of 2.6%) to 401,890 tonne in 2009. The slowdown in die steel growth was attributable to the decrease in demand for domestic machineries and other consumer products that required moulding in the production process.

BUSINESS REVIEW

The Group is the number one integrated HSS and HSS cutting tools manufacturer in China. According to 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 faced keener market competition. This 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.

Operating in this challenging environment, the Group which is the largest HSS and HSS cutting tools manufacturer with vertical integration, has cost advantages over other market players. With the largest range of products to offer and a long history of delivering quality products, the Group always satisfy the market and customers' needs. As a result, the Group managed to enhance its market share in the ongoing changing market.

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

	For the year ended 31 December					
	2009		2008		change	
	RMB'000	***%***	*RMB'000*	*%*	*RMB'000*	*%*
HSS	**415,571**	**31.4%**	815,316	40.9%	(399,745)	-49.0%
HSS cutting tools	**380,886**	**28.8%**	658,061	33.0%	(277,175)	-42.1%
Die steels	**450,327**	**34.0%**	519,892	26.1%	(69,565)	-13.4%
Others	**76,968**	**5.8%**	—	—	76,968	—
	1,323,752	**100.0%**	1,993,269	100.0%	(669,517)	-33.6%

HSS

The HSS market has slowed down as a result of the drop in industrial demand caused by the global financial crisis. Some of the customers need to utilize their excess inventory before placing replenishment orders with us. As a result, HSS revenue dropped and accounted for 31.4% of the Group's revenue for 2009 as compared to 40.9% for 2008. Due to the slowdown in industrial activities and drop in demand in the HSS market, the sales volume and sales price of HSS both decreased in the first half of 2009. Although the sales volume picked up in the second half of 2009, the sales price of HSS remained lower than in 2008 because of the decrease in raw material costs. As a result, the sales of HSS decreased from RMB815,316,000 in 2008 to RMB415,571,000 in 2009, representing a decrease of 49.0%. The Group's HSS domestic sales and export sales decreased by 41.2% and 71.4%, respectively. During the year, export sales fell more than domestic sales because demand from cutting tools and machinery manufacturers for HSS in North America and Europe remained relatively weak as a result of the financial crisis. We have noticed recovery trends in both markets in recent months. Set out below is a geographical breakdown of the sales of HSS for the two years ended 31 December 2008 and 31 December 2009:

	For the year ended 31 December					
	2009		2008		change	
	RMB'000	***%***	*RMB'000*	*%*	*RMB'000*	*%*
HSS						
Domestic	**355,038**	**85.4%**	603,730	74.0%	(248,692)	-41.2%
Export	**60,533**	**14.6%**	211,586	26.0%	(151,053)	-71.4%
	415,571	**100.0%**	815,316	100.0%	(399,745)	-49.0%

HSS CUTTING TOOLS

Revenues from sales of HSS cutting tools decreased by approximately 42.1% to RMB380,886,000 in 2009, accounting for approximately 28.8% of the Group's total revenue in 2009. During 2009, revenues from export sales of HSS cutting tools decreased by 38.3% to RMB292,341,000, mainly resulting from the decrease in demand for cutting tools in automobile, housing and machinery industries in North America and Europe. The Financial crisis had a significant negative impact on these industries in the first half of 2009. Positive signs are beginning to appear in these industries in the second half of the year. Domestic sales decreased by 52.0% to RMB88,545,000 for 2009 as a result of a decrease in orders by a few of our major customers who supply to overseas markets. Set out below is a geographical breakdown of the sales of HSS cutting tools for the two years ended 31 December 2008 and 31 December 2009:

	For the year ended 31 December					
	2009		2008		change	
	RMB'000	***%***	*RMB'000*	*%*	*RMB'000*	*%*
HSS cutting tools						
Domestic	**88,545**	**23.2%**	184,525	28.0%	(95,980)	-52.0%
Export	**292,341**	**76.8%**	473,536	72.0%	(181,195)	-38.3%
	380,886	**100.0%**	658,061	100.0%	(277,175)	-42.1%

DIE STEEL

Revenue from sales of die steel accounted for 34.0% of the Group's total revenue, becoming the largest revenue contributor to the Group for 2009. The Group's die steel revenue decreased by 13.4% from RMB519,892,000 in 2008 to RMB450,327,000 in 2009. Domestic sales increased by 64.5% to RMB401,276,000 in 2009 because of the increase in sales to the domestic automobile and machinery markets. During 2009, these domestic markets recovered gradually as a result of the Chinese Economic Stimilus Package. Export sales decreased by 82.2% to RMB49,051,000 in 2009. The drop was mainly due to the decrease in demand from manufacturing and automobile industries in North America and Europe as these industries remained weak as a result of the global financial crisis. Set out below is a geographical breakdown of the sales of die steel for the two years ended 31 December 2008 and 31 December 2009:

	For the year ended 31 December					
	2009		2008		change	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Die steel						
Domestic	**401,276**	**89.1%**	244,002	46.9%	157,274	64.5%
Export	**49,051**	**10.9%**	275,890	53.1%	(226,839)	-82.2%
	450,327	**100.0%**	519,892	100.0%	(69,565)	-13.4%

FINANCIAL REVIEW

Net profit attributable to equity holders of the Company decreased slightly from RMB114,643,000 for 2008 to RMB112,078,000 for 2009. The slight decrease was mainly due to the net decrease resulting from the decrease in operating profit caused by the weaker market demand and the reduction in financial costs. Given the different market conditions, the three business lines experienced different levels of impact from the economic slowdown. As Die Steel business remained relatively more resilient, it overtook HSS business as the largest revenue contributor.

Revenue

Revenue of the Group for 2009 totaled RMB1,323,752,000, representing a decrease of approximately 33.6% when compared with RMB1,993,269,000 in 2008. The decrease was mainly attributable to the decrease in sales volume and sales price of HSS and HSS cutting tools.

Cost of sales

The Group's cost of sales decreased by RMB610,699,000 from RMB1,673,566,000 for 2008 to RMB1,062,867,000 for 2009, representing a decrease of approximately 36.5%. The decrease was higher than the 33.6% decrease in revenue during the year. This was mainly due to an improvement in profit margins for all three lines of businesses. As a percentage of total revenue, the Group's cost of sales decreased from approximately 84.0% in 2008 to approximately 80.3% in 2009.

Gross margin

For 2009, the gross margin was approximately 19.7% (2008: 16.0%). The increase was due to the increase in profit margin for all three businesses. Set out below is the gross margin for our three products for 2008 and 2009:

	2009	2008
HSS	**20.9%**	18.4%
HSS cutting tools	**16.2%**	13.1%
Die steel	**24.8%**	16.1%

HSS

In 2009, the gross margin of HSS increased from 18.4% to 20.9%. The increase was mainly due to the Group's tighter production cost control and reduction in raw material costs such as rare metals and scrap steel.

HSS cutting tools

The increase in HSS cutting tools gross margin from 13.1% in 2008 to 16.2% in 2009 was attributable to the increase in tax rebates on export HSS cutting tools sales and reduction in rare metal prices.

Die steel

The gross margin of die steel increased from 16.1% in 2008 to 24.8% in 2009 as a result of the higher production rate of die steel and increase in sales of higher profit market product specifications.

Other income

The Group's other income totaled RMB10,970,000 in 2009, representing an increase of RMB4,902,000 from RMB6,068,000 in 2008. The increase was attributable to the RMB10,158,000 government grants received from local governments in 2009.

Distribution expenses

The Group's distribution expenses were RMB29,573,000 (2008: RMB50,106,000), representing a decrease of approximately 41.0%. The decrease was mainly attributable to the decrease in commission and transportation expenses by RMB10,974,000 and RMB6,314,000 respectively, resulting from the decrease in sales. For 2009, the distribution expenses as a percentage of revenue were 2.2% (2008: 2.5%).

Administrative expenses

For 2009, the Group's administrative expenses decreased slightly from RMB61,155,000 in 2008 to RMB60,810,000 in 2009 primarily because the total staff cost, depreciation and bank charges decreased slightly over the year. For 2009, the administrative expenses as a percentage of revenue were 4.6% (2008: 3.1%).

Net finance cost

The Group's finance income was RMB2,736,000 for 2009, representing a decrease of RMB1,871,000 when compared with that of RMB4,607,000 for 2008. The decrease was mainly due to the decrease in interest rates during 2009.

The Group's finance expenses were RMB50,049,000 for 2009, representing a decrease of 48.0% when compared with the RMB96,162,000 for 2008. The decrease was attributable to the decrease of exchange loss of RMB25,152,000 and the capitalization of RMB27,860,000 interest during the building phase which was required by the revised accounting standard.

Income tax expense

The Group's income tax expense increased by RMB4,640,000 from RMB2,602,000 in 2008 to RMB7,242,000 in 2009. This increase was mainly due to the increase in income tax as Jiangsu Tiangong Tools Company Limited's tax exemption ended in 2008.

Profit for the year

As a result of the factors discussed above, the Group's profit slightly decreased by approximately 0.4% to RMB112,078,000 for 2009 from RMB112,510,000 for 2008. The Group's net profit margin increased from 5.6% in 2008 to 8.5% in 2009.

Profit attributable to equity holders of the Company

For 2009, profit attributable to equity holders of the Company was RMB112,078,000 (2008: RMB114,643,000), representing a decrease of 2.2%.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2009, the Group's current assets mainly included cash and cash equivalents of approximately RMB63,467,000, inventories of approximately RMB1,252,748,000, trade and other receivables of RMB656,959,000, pledged deposits of RMB119,358,000 and time deposits of RMB192,000,000. As at 31 December 2009, the interest bearing borrowings of the Group were RMB1,556,700,000, RMB1,379,700,000 of which were repayable within one year and RMB177,000,000 of which were repayable after more than one year. The Group's gearing ratio (calculated based on the total outstanding interest-bearing debt divided by the total assets) was 40.9%, higher than the 39.7% as at 31 December 2008. The increase was mainly attributable to the increase in investment in production equipment and increase for inventory for the die steel business. The majority of the borrowings of the Group were subject to interest payable at rates ranging from 2.40% to 5.76%. The Group did not enter into any interest rate swap to hedge itself against the risks associated with interest rates.

CAPITAL EXPENDITURE AND CAPITAL COMMITMENTS

For 2009, the Group's increase in fixed assets amounted to RMB254,550,000, which were mainly for the production plant and facilities for die steel. As at 31 December 2009, capital commitments were RMB236,815,000, of which RMB66,505,000 were contracted and RMB170,310,000 were authorised but not contracted for. The majority of the capital commitments were related to investment to completion production equipment installation.

FOREIGN EXCHANGE EXPOSURE

The Group's revenues were denominated in RMB, US dollars and Euros, with RMB accounting for the largest portion (approximately 69.6%). Approximately 30.4% of total sales and the Group's costs and operating profit were subject to exchange rate fluctuations. The Group has put in place measures such as monthly review of product pricing in light of foreign exchange fluctuation and incentivising overseas customers to settle balances on a more timely basis to minimize the financial impact from exchange rate exposure.

PLEDGE OF ASSETS

As at 31 December 2009, the Group pledged certain bank deposits amounting to approximately RMB119,358,000 (2008: RMB63,600,000). Details are set out in the notes to the financial statements.

EMPLOYEES' REMUNERATION AND TRAINING

As at 31 December 2009, the Group employed around 4,419 employees (31 December 2008: around 5,087). Total staff costs during the year amounted to RMB98,833,000 (2008: RMB115,217,000). The Group provided employees with remuneration packages comparable to the market rates and employees are further rewarded based on their performance according to the framework of the Group's salary, incentives and bonus scheme. In order to enhance the Group's productivity, and further improve the quality of the Group's human resources, the Group provides compulsory continuous training for all of its staff on a regular basis.

CONTINGENT LIABILITIES

The Company had no material contingent liabilities as at 31 December 2009.

PROSPECTS

The global financial crisis has caused a slowdown in domestic and overseas special steel industry and cutting tools industry. The hardest hit periods were the last quarter of 2008 and the first quarter of 2009 when a significant portion of the sales orders were cancelled. During 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 three business lines soon in the near future.

HSS

After years of rapid production capacity expansion, the Group's annual production capacity has reached 45,000 tonnes. Being the largest HSS manufacturer in China with capacity more than double that of the closest competitor, the Group has established a reputation as the largest HSS maker with reliability and quality. Given the decrease in raw material price and our stringent control on production cost, we managed to improve gross margin on a number of HSS products in 2009. In 2010, we will continue to build on the trend. Moreover, we will also continue to increase the promotion effort in the domestic market in order to place more focus on domestic HSS markets. Our number of sales centres have increased from 16 at the end of 2008 to 70 as at 31 December 2009. We plan to further expand our network of sales centres in 2010.

HSS cutting tools

China has the largest reserves of a number of rare metals. As high tariffs are imposed on export of these cutting tools raw materials, the Group has advantages over its overseas competitors. The Group will continue to build on its strength in overseas markets. Lately, the Group has invested on an advanced cutting tools production line covering the grinding, heat treatment and slot, surface and edge grinding processes. With the capacity to produce higher quality cutting tools, the Group will continue to place emphasis on selling more HSS cutting tools for professional use which have higher selling price and profit margins.

Die steel

Our die steel business has been growing rapidly in recent years and has now become the Group's largest revenue driver. After years of experience in producing die steel, the Group started to grip the production knowledge and technology. With the improvement in production rate, the Group has managed to improve die steel's gross margin significantly in 2009. Moreover, the commencement of production of the newly installed production line in the 2009. This enabled the Group to enter a new flat steel market, the products of which has a wider range of use and customer base. The Group's plan for 2010 is to continue to improve the gross margin by cost control measures and to develop and promote the flat steel business.

FINAL DIVIDEND

The Directors declared a final dividend of RMB0.0534 per share (2008: RMB0.0536) payable in cash on or before 30 July 2010 to shareholders whose names appear on the Register of Member as at the close of business on 17 June 2010.

In order to qualify for the final dividend, all transfer of Shares must be lodged with the branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, by no later than 4:30 p.m. on Friday, 11 June 2010. The book close period will commence from 14 June 2010 to 17 June 2010 (both dates inclusive).

SHARE OPTIONS SCHEME

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

PURCHASE, SALES OR REDEMPTION OF SHARES

During the year ended 31 December 2009, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its securities.

CORPORATE GOVERNANCE

During the year ended 31 December 2009, the Company has, so far where applicable, met the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

AUDIT COMMITTEE

The Audit Committee comprises of three non-executive directors, two of which are independent non-executive directors. The Audit Committee held a meeting on 8 April 2010 to consider and review the annual results of the Group and to give their opinion and recommendations to the Board. The Audit Committee considers that the 2009 annual results of the Company have complied with the applicable accounting standards and the Company has made appropriate disclosure thereof.

THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the "Model Code for Securities Transactions by Directors of Listed Issuers" as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all directors, all directors have complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions.

PUBLICATION OF ANNUAL REPORT ON THE STOCK EXCHANGE WEBSITE

The Company's 2009 annual report will be submitted to the Stock Exchange for uploading onto the Stock Exchange's website (www.hkex.com.hk) as well as the Company's website (www.tggj.cn) in due course.

APPRECIATION

The board of Directors would like to take this opportunity to express gratitude to our shareholders, customers, the management and employees for their unreserved support to the Group.

By order of the Board of Directors
Tiangong International Company Limited
Zhu Xiao Kun
Chairman

Danyang, Jiangsu, PRC, 13 April 2010

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

* *for identification purpose only*