

**TIANGONG INTERNATIONAL COMPANY LTD:
ONE HAS TO STUDY THE COMPANY'S PROSPECTUS, VERY CAREFULLY,
IN ORDER TO UNDERSTAND THE NITTY-GRITTY**

The next time that one hears the term, '*creative accounting*', the company's name of Tiangong International Company Ltd should accompany this special nomenclature.

TARGET (), always, thought the chutzpah was a term, reserved for people of the Jewish persuasion: Now this medium knows better.

Tiangong International Company Ltd () (Code: 826, Main Board, The Stock Exchange of Hongkong Ltd) went public in the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) on July 13, 2007, when it made a Global Offering of 130 million, one-cent (US) Shares at \$HK6.36 per Share.

The Profit and Loss Accounts, termed as being, '*Combined Income Statements*', located at Appendix I-6 of the Prospects, was given as follows:

| | Financial Year, Ended December 31 | | | Three Months, Ended March 31 | |
|-----------------------------|--|----------------------|----------------------|------------------------------|----------------------|
| | 2004 | 2005 | 2006 | 2006 (Unaudited) | 2007 |
| | All Figures Are Denominated In Renminbi'000 (except where otherwise specified) | | | | |
| Revenue | 841,913 | 1,094,711 | 1,303,987 | 248,880 | 384,035 |
| Cost Of Sales | (689,728) | (900,321) | (1,054,147) | (197,772) | (309,377) |
| Gross Profit | 152,185 | 194,390 | 249,840 | 51,108 | 74,658 |
| Gross Profit Margin* | 18.08 percent | 17.76 percent | 19.16 percent | 20.54 percent | 19.44 percent |
| Other Income | 374 | 1,327 | 30,066 | 174 | 8,606 |
| Distribution Expenses | (21,843) | (26,749) | (30,940) | (4,768) | (8,739) |

| | | | | | |
|--|---------------------|---------------------|---------------------|---------------------|----------------------|
| Administrative Expenses | (25,061) | (29,614) | (42,652) | (8,276) | (14,168) |
| Other Expenses | (3,716) | (6,176) | (8,496) | (2,723) | (682) |
| Results From Operating Activities | 101,939 | 133,178 | 197,818 | 35,515 | 59,675 |
| Financing Expenses | (27,932) | (39,748) | (56,424) | (12,532) | (14,864) |
| Net Financing Costs | (25,257) | (36,197) | (50,707) | (11,087) | (14,301) |
| Share Of Losses Of An Associated Company | (1,537) | (4,841) | Nil | Nil | Nil |
| Profit Before Income Tax | 75,145 | 92,140 | 147,111 | 24,428 | 45,374 |
| Income Tax Expense | (25,449) | (33,255) | (50,507) | (9,614) | (584) |
| Net Profit Attributable to Shareholders | 49,696 | 58,885 | 96,604 | 14,814 | 44,790 |
| Net Profit Margin* | 5.90 percent | 5.38 percent | 7.41 percent | 5.95 percent | 11.66 percent |
| Attributable To: | | | | | |
| Equity Holders Of The Company | 40,861 | 47,940 | 91,729 | 12,326 | 44,495 |
| Minority interests | 8,835 | 10,945 | 4,875 | 2,488 | 295 |
| | 49,696 | 58,885 | 96,604 | 14,814 | 44,790 |

* These are **TARGET**'s calculations

It looks impressive ... except when analysed, carefully.

At Appendix I-9, under '*Investing Activities*', it is clearly stated that, in the 2006 Financial Year, the Company booked a credit of 19,392,000 renminbi, being '*Proceeds from Sale of Other Investments*'.

Had it not been for this little windfall, the Net Profit Attributable to Shareholders for the 2006-Year would have been reduced to about 77,212,000 renminbi instead of 96,604,000 renminbi.

Reverting to the 2005-Year, there was another, one-off item, named '*Net cash inflow from turning an associate into a subsidiary*'.

The amount of money that was credited to the Profit and Loss Account in respect of this matter was 31,709,000 renminbi.

Without that little piece of creative accounting, the Net Profit Attributable to Shareholders for the 2005-Year would have dropped to 27,176,000 renminbi.

What does the above mean?

Well ... [CLICK TO ORDER FULL ARTICLE](#)

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