天工國際有限公司*

TIANGONG INTERNATIONAL COMPANY LIMITED

(incorporated in the Cayman Islands with limited liability)

Stock Code : 826

ANNUAL REPORT 2008

* For identification purpose only

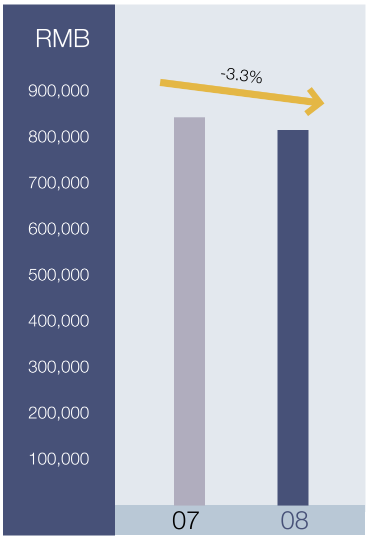
Contents

Financial Highlights

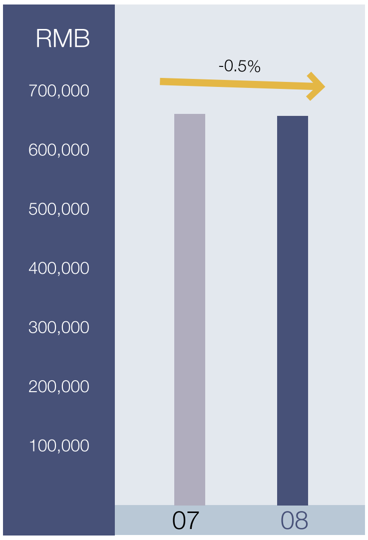
As at 31 December 2008

	Audited 2008 RMB'000	2007 RMB'000
Revenue	**1,993,269**	1,735,763
Net profit attributable to equity holders of the Company	**114,643**	180,172
Earnings per share (RMB)	**0.27**	0.51
Proposed final dividend per share (RMB)	**0.0536**	—

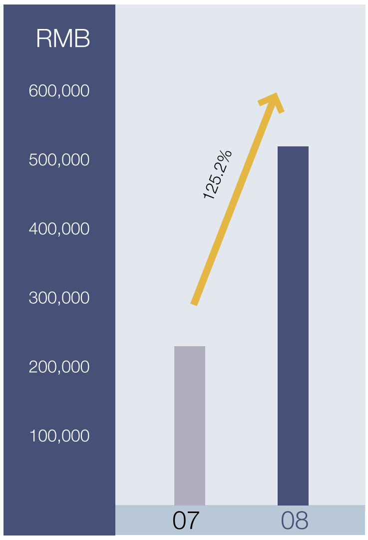
Revenue from Sales of HSS



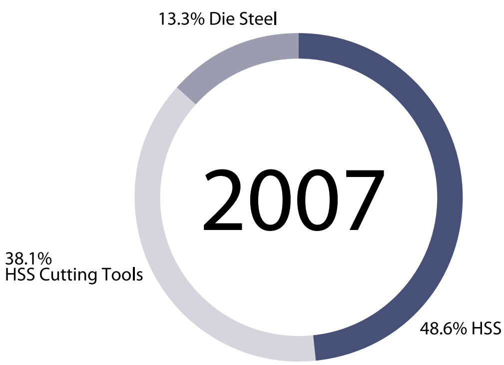
Revenue from Sales of HSS Cutting Tools

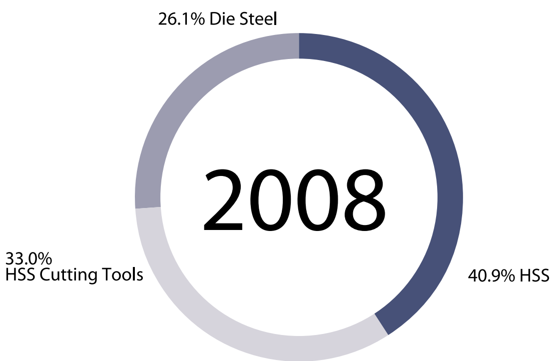


Revenue from Sales of Die Steel



Revenue by Product Mix





Chairman's Statement

Leveraging on our dominating position in the market and our advantage in costing and product range, we will strive to maintain growth and maximize returns to the shareholders of the Company.

Zhu Xiaokun
Chairman

Dear Shareholders,

On behalf of the Board of Directors (the "Board") of Tiangong International Company Limited ("Tiangong International" or the "Company", together with its subsidiaries, collectively the "Group"), we are pleased to present to our shareholders the annual results for the year ended 31 December 2008.

Year 2008 was a year marked with challenges and difficulties. The industrial activities decreased as demands for manufactured products declined. Sectors in which some of our major customers are operating in such as automotive, tooling and machining were affected.

During the year under review, revenue of the Group increased by 14.8% to approximately RMB1,993.3 million because of the strong growth of die steel business. Profit attributable to equity holders of the Group experienced a decline of 36.4% to approximately RMB114.6 million mainly due to one-off income in 2007 and increase in finance expenses in 2008. Basic earnings per share was RMB0.27. To reward our shareholders, the Board proposed a final dividend of RMB0.0536 per share for the year ended 31 December 2008.

Despite market challenges during the year, Tiangong International has continued to be the leading integrated High Speed Steel ("HSS") and HSS cutting tools in China in terms of revenue and volume.

During 2008, the Group has completed the installation of a series of HSS and cutting tools production equipment which enables the Group to produce a wider range of products as well as to reduce production costs. With our market leading position, lean cost structure from large production scale and vertically integrated model, we are confident that we will achieve a higher market share and operational efficiency. In 2009, we will place more emphasis on the domestic HSS and cutting tools market as its outlooks are more positive than the overseas market which is more affected by the financial crisis.

Chairman's Statement

Die steel business recorded a significant growth of 125% in 2008 as compared to 2007. Gross margin has also improved significantly from 4.7% to 16.1%. With its wide range of use in manufacturing, we believe that the prospect for die steel market is positive. The Group will continue to develop this high growth business in 2009.

The slowdown resulting from the financial crisis will have impact on the special steel and tooling industry. However, by leveraging on our dominating position in the market and our advantage in costing and product range, we will strive to maintain growth and maximize returns to the shareholders of the Company. The Company will adopt the following strategies:

- To emphasize on HSS and HSS cutting tools domestic market
- To further develop die steel business and increase market penetration with the new die steel production line
- To capture market opportunities arising from the PRC government's economic stimulus plan
- To further enhance sales growth through brand building

Finally, on behalf of the Board, I would like to express my sincere gratitude for the continued support of our dedicated staff, shareholders, customers and business partners throughout the year. We always strive to achieve better results by delivering future sustainable business growth in order to repay all of our shareholders.

By order of the Board

Tiangong International Company Limited
Zhu Xiaokun
Chairman

Hong Kong, 7 April 2009

Management Discussion and Analysis

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 engaged in the production and sales of HSS, HSS cutting tools and die steel. Our operations are classified into the following product segments:

HSS

It involves the purchase of various rare metals such as tungsten, molybdenum, chromium, vanadium and other raw materials, production of HSS for both internal supply to the Group's HSS cutting tools production and external sale to customers outside the Group. HSS typically has higher pressure and temperature tolerances than does regular steel and is more wear resistant. It is widely used in more specific industrial applications such as automotive, machinery manufacture, aviation, chemical processing and electronics industries. The Group commenced its production of HSS in 1992.

HSS cutting tools

It involves the production and sales of HSS cutting tools to external customers. Over 70% of its sales was exported to over 30 countries and regions throughout Europe, North America, Africa and the Middle East in 2007 and 2008. The Group produces an extensive range of HSS cutting tools products which can be categorized into four types — twist drill bits, screw taps, end mills and turning tools. This segment has been in operation since 1987, being the longest-established sector of the Group.

Die steel

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

Management Discussion and Analysis

Market review

In the second half of 2008, many of the industralized countries entered into recession. This crisis was largely contributed by the collapse of United States housing market which sparked an inter-related and ongoing financial crisis. Around the world, especially in North America and Europe, credit was tightened and consumer sentiment has also deteriorated significantly.

The crisis has caused a drop in business activities as well as industrial activities in North America and Europe during the second half of 2008. This resulted in a decrease in demand for industrial products and services. Manufacturing industry such as automotive, machining are some of the hardest hit areas. Manufacturers cut back on their production scale as well as their inventory level. Overseas demand for special steel and tools decreased as a result.

The Chinese economy is partly dependent on other economies in the world. The above mentioned economic slowdown has also affected global trade and the Chinese economy. As a result, the growth of Gross Domestic Product in China in 2008 has reduced to 9.0% from 11.4% in 2007. In light of the downturn in economic growth, the Chinese government has launched the Economic Stimulus Plan which includes pumping public investment into infrastructure development such as the rail network, roads and ports. This has helped stabilizing the domestic demand for special steel and tools.

Due to the slow down in domestic demand for tooling and machineries, China's annual HSS production decreased by 13.1% to 80,658 tonne in 2008. The growth rate for China's annual die steel production has also reduced to 2.6% from 10.3% in 2007 with annual die steel production of 410,281 tonne in 2008. The slowdown in die steel growth was attributable to the decrease in demand for domestic automobile and other consumer products that required moulding in the production process.

Management Discussion and Analysis

Business review

The Group is the number one integrated HSS and HSS cutting tools manufacturer in China. According to China Special Steel Enterprise Association and China Machine Tool & Tool Builders' Association, the Group has been the largest manufacturer of HSS by volume in China from 2001 to 2008 and the largest HSS cutting tools manufacturer by revenue in China in 2007 and 2008.

In the first half of 2008, the Group has increased its production capacity to meet the expanding market demand before the above mentioned global economic crisis which took effect in the second half of 2008. The Group continued to implement measures to lower the production cost and to maintain the Group's emphasis on safety, efficiency and product quality. Meanwhile, the Group improved the production process and product specification through active research and development to cope with the changing economic environment.

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

	For the year ended 31 December					
	2008		2007		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
HSS	**815,316**	**40.9%**	843,484	48.6%	(28,168)	-3.3%
HSS cutting tools	**658,061**	**33.0%**	661,445	38.1%	(3,384)	-0.5%
Die steel	**519,892**	**26.1%**	230,834	13.3%	289,058	125.2%
	1,993,269	**100.0%**	1,735,763	100.0%	257,506	14.8%

HSS

The HSS business was relatively stable and remained the largest revenue contributor to the Group for 2008, accounting for approximately 40.9% of the Group's revenue. Due to the slowdown in industrial activities, the sales volume of HSS decreased in the second half of 2008, offsetting the sales growth of 12.8% in the first half of 2008. As a result, sales of HSS reached RMB815,316,000 (2007: RMB843,484,000), representing a slight decrease of 3.3% over the sales of HSS in 2007. The Group's HSS domestic sales and export sales decreased slightly by 2.2% and 6.5%, respectively. The reason for the decrease was the drop in demand by the tooling manufacturers for HSS as a result of the financial crisis. Set out below is a geographical breakdown of the sales of HSS for the two years ended 31 December 2007 and 31 December 2008:

	For the year ended 31 December					
	2008		2007		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
HSS						
Domestic	**603,730**	**74.0%**	617,076	73.2%	(13,346)	-2.2%
Export	**211,586**	**26.0%**	226,408	26.8%	(14,822)	-6.5%
	815,316	**100.0%**	843,484	100.0%	(28,168)	-3.3%

Management Discussion and Analysis

HSS cutting tools

Revenues from sales of HSS cutting tools remained almost unchanged as compared with 2007. It decreased slightly by approximately 0.5% to RMB658,061,000 in 2008, accounting for approximately 33.0% of the Group's total revenue in 2008. During 2008, revenues from export sales of HSS cutting tools decreased by 12.5% to RMB473,536,000, mainly resulted from the decrease in demand of tools. Industries such as automobile, housing and machinery in North America and Europe are heavily affected by the drop in industrial activities and consumer sentiments caused by the financial crisis. Domestic sales increased by 53.5% to RMB184,525,000 for 2008 as a result of the Group's focus on expanding domestic market share. Set out below is a geographical breakdown of the sales of HSS cutting tools for the two years ended 31 December 2007 and 31 December 2008:

	For the year ended 31 December					
	2008		2007		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
HSS cutting tools						
Domestic	**184,525**	**28.0%**	120,204	18.2%	64,321	53.5%
Export	**473,536**	**72.0%**	541,241	81.8%	(67,705)	-12.5%
	658,061	**100.0%**	661,445	100.0%	(3,384)	-0.5%

Die steel

The Group commenced its die steel operation in November 2005. The Group's die steel business continued to record significant growth in 2008. Revenue from sales of die steel increased by approximately 125.2% from RMB230,834,000 in 2007 to RMB519,892,000 in 2008, accounting for approximately 26.1% of the total revenue in 2008. The reasons for the significant increase include the Group's promotion effort and the higher production utilization as compared with last year's. The domestic sales of die steel increased by 347.5% to RMB244,002,000 in 2008. Such was mainly due to the Group's focus on promotion effort in the domestic automobile and machinery industries. Set out below is a geographical breakdown of the sales of die steel for the two years ended 31 December 2007 and 31 December 2008:

	For the year ended 31 December					
	2008		2007		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
Die steel						
Domestic	**244,002**	**46.9%**	54,531	23.6%	189,471	347.5%
Export	**275,890**	**53.1%**	176,303	76.4%	99,587	56.5%
	519,892	**100.0%**	230,834	100.0%	289,058	125.2%

Management Discussion and Analysis

Financial review

As a result of the financial crisis in 2008 and the inclusion of various one-off incomes in 2007, net profit attributable to equity holders of the Company decreased by approximately 36.4% to RMB114,643,000 in 2008 from RMB180,172,000 for 2007. Revenue of HSS and HSS cutting tools remained broadly in line with last year. Die steel has demonstrated continued robust growth trends.

Revenue

Revenue of the Group for 2008 totalled RMB1,993,269,000, representing an increase of approximately 14.8% when compared with RMB1,735,763,000 in 2007. The increase was mainly attributable to the increase in sales volume of die steel of the Group.

Cost of sales

The Group's cost of sales increased by RMB227,655,000 from RMB1,445,911,000 for 2007 to RMB1,673,566,000 for 2008, representing an increase of approximately 15.7%. The increase was broadly in line with the 14.8% increase in revenue during the year and reflected an increase in sales of die steel. As a percentage of total revenue, the Group's cost of sales increased slightly from approximately 83.3% in 2007 to approximately 84.0% in 2008.

Gross margin

For 2008, the gross margin was approximately 16.0% (2007: 16.7%). The slight decrease was due to the net effect of the slight decrease in gross margin of HSS and cutting tools and the increase in gross margin of die steel. Set out below is the gross margin for our three products for 2007 and 2008:

	Gross Margin	
	2008	2007
HSS	**18.4%**	21.3%
HSS cutting tools	**13.1%**	15.0%
Die steel	**16.1%**	4.7%

HSS

The decrease in HSS gross margin from 21.3% in 2007 to 18.4% in 2008 was mainly due to pressure on the selling price, the reduction of the tax rebate on export sales and increase in production cost.

HSS cutting tools

In 2008, the gross margin of HSS cutting tools decreased from 15.0% to 13.1% as a result of the increase in discount promotion to domestic and overseas customers and appreciation of RMB against Euro and US dollar.

Die steel

The gross margin of die steel increased from 4.7% in 2007 to 16.1% in 2008. The increase was mainly due to the higher production rate of die steel. Moreover, the Group is also able to lower the average production cost as the production has reached the planned capacity.

Other income

The Group's other income totalled RMB6,068,000 in 2008, representing a decrease of RMB15,749,000 from RMB21,817,000 in 2007. The decrease was attributable to the inclusion of RMB20,992,000 unconditional grants from the local government in Danyang to encourage further development of our business in 2007.

Management Discussion and Analysis

Distribution expenses

The Group's distribution expenses was RMB50,106,000 (2007: RMB41,428,000), representing an increase of approximately 20.9%. The increase was mainly attributable to the rise in transportation expenses by RMB6,671,000, resulted from increase in sales volume. For 2008, the distribution expenses as a percentage of revenue was 2.5% (2007: 2.4%).

Administrative expenses

For 2008, the Group's administrative expenses increased by approximately 6.2% to RMB61,155,000 (2007: RMB57,578,000) primarily because personnel cost and bank charges increased by RMB1,936,000 and RMB1,233,000, respectively, as a result of business expansion and increase in bank loan. For 2008, the administrative expenses as a percentage of revenue was 3.1% (2007: 3.3%).

Net finance cost

The Group's finance income was RMB4,607,000 for 2008, representing a decrease of RMB36,411,000 when compared with the RMB41,018,000 for 2007. The decrease was mainly due to the RMB35,983,000 interest received from IPO subscription in 2007.

The Group's finance expenses was RMB96,162,000 for 2008, representing an increase of 40.8% when compared with the RMB68,311,000 for 2007. The increase was attributable to the rise in interest on bank loan from RMB46,824,000 to RMB70,464,000 as a result of increase in outstanding bank loan during the year.

Income tax expense

The Group's income tax expense increased by RMB2,165,000 from RMB437,000 in 2007 to RMB2,602,000 in 2008. Such increase was mainly due to the profit tax on subsidiaries which made more profit in 2008. The major subsidiary, Jiangsu Tiangong Tools Company Limited enjoyed tax holiday in 2008.

Profit for the year

As a result of the factors discussed above, the Group's profit decreased by approximately 37.8% to RMB112,510,000 for 2008 from RMB180,920,000 for 2007. The Group's net profit margin decreased from 10.4% in 2007 to 5.6% in 2008.

Profit attributable to equity holders of the Company

For 2008, profit attributable to equity holders of the Company was RMB114,643,000 (2007: RMB180,172,000), representing a decrease of 36.4%. The profit decreased in spite of revenue increased by 14.8%. This was mainly due to the one-off income in 2007 as well as the increase in finance expenses in 2008.

Liquidity and Financial Resources

As at 31 December 2008, the Group's current assets mainly included cash and cash equivalents of approximately RMB96,021,000, inventories of approximately RMB1,111,282,000, trade and other receivables of RMB616,901,000, pledged deposits of RMB63,600,000 and time deposits of RMB115,000,000. As at 31 December 2008, the interest-bearing borrowings of the Group was RMB1,283,865,000, RMB1,093,865,000 of which was repayable within one year and RMB190,000,000 of which was repayable over one year. The Group's gearing ratio (calculated based on the total outstanding interest-bearing debt divided by the total assets) was 39.7%, higher than 27.9% as at 31 December 2007. The increase was mainly attributable to the increase in investment in production equipment and increase for inventory for the die steel business. As at 31 December 2008, USD25,000,000 of the borrowings was denominated in US dollars. The majority of the borrowings of the Group were subject to interests payable at rates ranging from 3.51% to 7.47% rates. The Group did not enter into any interest rate swap to hedge itself against the risks associated with interest rates.

Management Discussion and Analysis

Capital Expenditures and Capital Commitments

For 2008, the Group's increase in fixed assets amounted to RMB359,950,000, which were mainly for the production plant and facilities for die steel. As at 31 December 2008, capital commitments was RMB310,542,000, of which RMB125,486,000 was contracted and RMB185,056,000 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 50.2%). Approximately 49.8% 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 2008, the Group pledged certain bank deposits amounting to approximately RMB63,600,000 (2007: RMB86,297,000). Details are set out in the notes to the financial statements.

Employee's Remuneration and Training

As at 31 December 2008, the Group employed around 5,087 employees (31 December 2007: around 5,090). Total staff costs during the year amounted to RMB115,217,000 (2007: RMB97,276,000). 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 education and training for all of its staff on a regular basis.

Contingent Liabilities

The Company had no material contingent liabilities as at 31 December 2008.

Prospects

The slowdown in industrial activities as a result of the global recession will affect the special steel and tooling industry domestically and aboard. However, with our market leader position in the market, we are confident that we will be able to maintain the market share and sales volume for HSS and cutting tools. Moreover, with the launch of new products and installation of new production equipment, we look forward to a year of growth in the die steel business.

HSS

The Group expects the growth in HSS industry will remain stable in 2009. After years of rapid production capacity expansion, the Group's annual production capacity has reached 45,000 tonne. Being the largest HSS manufacturer in China with capacity more than double that of the closest competitor, we have established a reputation as the largest HSS maker with reliability and quality. In 2009, we will increase the promotion effort in the domestic market in order to maintain the sales growth.

China has the largest reserves of the major raw material of HSS: tungsten, molybdenum and vanadium. With a secure and stable supply of raw material at lower cost, the Group has a competitive advantage over the overseas HSS manufacturers. In spite of the financial crisis, the Group expects to maintain the same sales level in the overseas market.

Management Discussion and Analysis

HSS cutting tools

The installation of an advanced cutting tools production line which covers the grinding, heat treatment and slot, surface and edge grinding processes was completed in late 2008. This production line will enable the Group to produce products with higher quality and profit margin. In 2009, we will continue to place emphasis on selling more HSS cutting tools for professional use which have higher selling price and profit margin.

Die steel

Die steel has been one of the growth driver of the Group since 2007. The die steel business grew by 125.2% in 2008. After years of experience in producing die steel, the Group starts to grip the production knowledge and technology. With the improvement in production rate and installation of new sets of forging equipment, deep processing and precision forming equipment, there was a significant improvement in gross margin in 2008. The Group will continue to monitor the production process and production cost in order to increase the gross margin of the die steel business.

A set of production equipment for flat-sheet die steel was installed in the last quarter of 2008. This enabled the Group to produce a new line of die steel products which have a wider range of use and customer base. In 2009, the Group will put in resources to develop and promote this new product line.

Directors & Senior Management

Executive Directors

Mr. ZHU Xiaokun, aged 52, is an Executive Director and the Chairman of the Group. He is responsible for the overall business development strategy of the Group and has over 20 years of experience in HSS and cutting tools industry. Mr. Zhu graduated from the Economic and Management Department of Jiangsu Radio and TV University. In 1984. he joined Danyang Houxiang Television Antenna Factory (the predecessor of TG Group) as the general manager. He led the factory to transform from a television antenna factory to an enterprise of HSS cutting tools in 1987 and also subsequently to expand to include the production of HSS in 1992. He has been acting as the Chairman of the Group since July 1997. In 1998, he was awarded as a National Township Factory Manager and was named as a National Township Entrepreneur in 2004 by Ministry of Agriculture.

Mr. ZHU Zhihe, aged 58, is an Executive Director and the Chief Executive Officer (General Manager) of the Group. He is responsible for the daily operations of the Group and has over 20 years of experience in factory management. Prior to joining the Group, he worked for Feida Village in Houxiang Town and Jiangsu Danyang Houxiang Gaoshi Bridge Yumeng Metallic Factory. He joined the Group in 1993. During July 2000 to August 2006, he was an executive director and the vice general manager of Jiangsu Tiangong Tools Company Limited. He is now in charge of the production, operation and sales of HSS and die steels for TG Tools and TG Aihe.

Mr. ZHU Mingyao, aged 53, is an Executive Director of the Group. Prior to joining the Group, he worked for Qianxiang Village. In 1995, he joined the Group as the head of the sales division and factory manager of the smelting factory. From July 1997 to August 2006, he acted as an Executive Director and deputy general manager of Jiangsu Tiangong Tools Company Limited. He is currently in charge of the production, operation and management of TG Aihe.

Mr. YAN Ronghua, aged 40, is an Executive Director of the Group. He graduated from the Economic and Management Department of Jiangsu Radio and TV University. He joined the Group in 1994. He was appointed as the head of office administration and subsequently the assistant general manager of the Group. Mr. Yan is currently in charge of human resources management, external relations, secretarial and office administration of the Group.

Directors & Senior Management

Non-Executive Director

Mr. THONG Kwee Chee, aged 36, was appointed as a Non-Executive Director of the Company in September 2006. Mr. Thong is currently the Vice President of the AIG Global Investment Corp's (AIGGIG) Greater China direct investment team and actively manages AIGGIG's China investments. Prior to joining AIGGIG (Asia), Mr. Thong is affiliated with Arthur Andersen, Meridian Asset Management (Malaysia) and China Development Industrial Bank. Mr. Thong holds BSc (Hons) in Accounting and Finance from Warwick University, England and Chartered Financial Analayst (CFA) qualification, since 2001.

Independent Non-Executive Directors

Mr. LI Zhengbang, aged 76, joined the Group in June 2007 as an Independent Non-Executive Director. He graduated from Harbin Institute of Technology in 1958 and was elected as the academician of the Chinese Academy of Engineering in 1999. He is a qualified senior engineer in the PRC and is currently a Professor and Supervisor of PhD candidates of the Central Iron & Steel Research Institute. Mr. Li has been engaged in the research and development of electroslag metallurgy for years and has been one of the few pioneers in this area. His achievement was recognized by The Science and Technology Committee of the People's Republic of China as one of the inventors of electroslag metallurgy technology in China. He has been granted special government subsidy by the State Council as a result of such achievement.

Mr. GAO Xiang, aged 65, joined the Group in July 2007 as an Independent Non-Executive Director. In July 1966, he graduated from Wuhan Institute of Mechanics, majoring in production craftsmanship of machines and equipment. He is a senior engineer. Under his leadership, the study of twist drill extrusion technology by Chengdu Tools Research Institute was honoured with Third Class Award of Technical Findings of the Ministry of Mechanics. His achievements are widely recognized in the industry, and he has been granted special government subsidy by the State Council since 1999 as a result of such achievements.

Mr. LAU Siu Fai, aged 51, joined the Group in July 2007 as an Independent Non-Executive Director. He graduated from the Parkhurst University, UK with a PhD in Finance, the Clayton University, USA with a Master's Degree in Business Administration and the Sussex College of Technology with a Master of Arts degree in Accounting. He is a registered financial planner of the Society of Registered Financial Planners, a member of The American Management Association, an associate of The Association of Cost and Executive Accountants, a fellow member of the Institute of Financial Accountants, a member of the British Institute of Management and an affiliated member of the Association of International Accountants. Mr. Lau was previously the Group Financial Controller of Imagination Solutions, the Regional Accounting Manager of the North Asia region of Quaker Oats Asia, Inc. and the Deputy General Manager of the Investment Related Trade Department of Chia Tai Intertrade Company, Limited. In October 2005, he was appointed as the financial adviser of Shantow University.

Directors & Senior Management

Senior Management

Mr. SHI Guorui, aged 62, is the chief financial officer of the Group. He graduated from the Industrial Accounting Department of the University of Suzhou in 1986. He is an accountant. Prior to joining the Group in July 2004, he worked for Jiangsu Province Zhenjiang Casting Factory, Zhenjiang Radio Electronic Factory, Jiangsu Province Zhenjiang Electronics Tube Factory, Zhenjiang Electronics Industry Company, Limited and Zhejiang Wireless Applicances and Materials Factory. He has extensive experience in finance and accounting.

Mr. ZHU Xingyuan, aged 57, is an executive director and a deputy general manager of TG Tools and Tianji Packaging. In 1984, he joined the Group as the vice factory manager of Danyang Houxiang Television Antenna Factory. He is currently in charge of the production, operation and management of HSS tools of the Group. He has over 20 years of experience in the management of tools production.

Mr. ZHU Wanglong, aged 50, is an executive director and a deputy general manager of TG Aihe. Prior to joining the Group, Mr. Zhu worked for Qianxiang Village and Danyang Machining Tools Factory. He joined the Group in July 1997 and has been in charge of product innovation, technology improvement, investment development and quality inspection. He has over 20 years of experience in the management of tools production.

Mr. WU Suojun, aged 36, is an executive director and a deputy general manager of TG Tools, and a deputy general manager of Tianfa Forging. Mr. Wu joined the Group in 1993 as a workshop officer. He is in charge of the production, operation and management of HSS.

Mr. JIANG Rongjun, aged 39, is an executive director and a deputy general manager of TG Tools and a deputy manager of Tianji Packaging. He joined the Group in 1985 as a workshop officer. Mr. Jiang is currently in charge of the sale of HSS tools and the export of die steel.

Mr. CHEN Jianguo, aged 49, is a deputy general manager of TG Tools and an executive director of TG Aihe. He joined the Group in 1996. Prior to joining the Group, Mr. Chen worked at the Houxiang branch of Danyang Construction Engineering Company, Jiangsu Feida Tools Company Limited. Mr. Chen is currently in charge of production security and human resources.

Mr. LEUNG Wai Yip, aged 33, is the financial controller and the company secretary of the Company. Mr. Leung joined the Group in June 2007. Prior to joining the Group, Mr. Leung was an internal auditor of the Swire Group and was previously a manager with the assurance and advisory business services department of Ernst & Young Certified Public Accountants. Mr. Leung graduated with a Bachelor of Commerce degree from the University of Alberta in Canada. He is a member of the American Institute of Certified Public Accountants, and an associate member of the Hong Kong Institute of Certified Public Accountants.

Corporate Governance Report

The Group strives to attain and maintain high standards of corporate governance as it believes that good corporate governance practices are fundamental to the Group's development and essential for safeguarding shareholders' interests. To achieve this objective, the Group strengthens its internal policies and procedures, provides continuous training to its staff and increases the transparency of its operation and accountability to all shareholders. The Group is committed to improving this practice and maintaining an ethical corporate culture. During the year, the Group had complied with the principles and code provisions set out in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The Board

The Board's primary role is to secure and enhance long-term shareholder value. It focuses on the Group's overall strategic policy and provides proper supervision to ensure effective management and to achieve sound returns for its shareholders. The Board has delegated the authority and responsibility for implementing business strategies and management of the daily operations of the Group's business to the management. The Board is mainly responsible for developing long term objectives and strategy of the Group, monitoring operation performance and results, monitoring performance of the management, establishing dividend policy and reviewing significant investment plans and decisions. The Board meets at least four times a year and additional meetings are held when required to discuss significant events and issues. The company secretary assists the Chairman in preparing the agenda for Board meetings. Board meetings are held with at least 14 days' advance notice, and all Directors would be served with an agenda with supporting papers at least 3 days before the Board meetings, so as to ensure that there is timely access to relevant information. The Group ensures that all the Board members are informed of the Group's latest development and thereby assists them in the discharge of their duties. The Directors may take independent professional advice when appropriate, at the Company's expense. Four Board meetings were held for the year ended 31 December 2008, with all the Directors attending, except for Mr. Li Zheng Bang who was absent from one meeting as he had other engagement. Minutes of the Board and Board Committees are taken by the company secretary. Such minutes of the Board and Board Committees, together with supporting papers, are open for inspection following reasonable notice by any Director. Draft and final versions of minutes are sent to all Directors for their comment and records.

Composition of the Board

The Board comprises four Executive Directors (Mr. Zhu Xiaokun, Mr. Zhu Zhihe, Mr. Zhu Mingyao and Mr. Yan Ronghua), one Non-Executive Director (Mr. Thong Kwee Chee) and three Independent Non-Executive Directors (Mr. Li Zheng Bang, Mr. Gao Xiang and Mr. Lau Siu Fai). Biographical details of the Directors of the Group as at the date of this report are set out on page 14 to 16 of this annual report.

Independent Non-Executive Directors account for more than one-third of the members of the Board. The Independent Non-Executive Directors come either from steel industry or have related professional background, bringing valuable expertise and experience that promotes the best interests of the Group and its shareholders. The role of the Independent Non-Executive Directors is to provide independent and objective opinions to the Board for its consideration. The Company has received confirmation from each Independent Non-Executive Director about his independence as set out in Rule 3.13 of the Listing Rules and continues to consider each of them to be independent.

Corporate Governance Report

Chairman and Chief Executive Officer

The Chairman of the Board is Mr. Zhu Xiaokun, and the chief executive officer is Mr. Zhu Zhihe. The Chairman's and the chief executive officer's roles are clearly defined to ensure their independence. The Chairman of the Board is responsible for the overall management of the Board and monitoring the Group's business strategies, while the chief executive officer is responsible for managing the daily operations of the Group.

Appointment and Re-election of Directors

A person may be appointed as a member of the Board at any time either by shareholders' resolutions in general meetings or by resolutions of the Board upon recommendation by the Nominations Committee of the Company. New Directors appointed by the Board during the year are required to retire and submit themselves for re-election at the first annual general meeting immediately following their appointments. All Directors are required to retire by rotation at least once every three years at the annual general meeting, subject to re-election by the shareholders. All Non-Executive Directors (including Independent Non-Executive Directors) are appointed for a term of not more than three years.

Board Committees

The Board has established three Board Committees to oversee different aspects of the Company's affairs. These Board Committees include Audit Committee, Remuneration Committee and Nomination Committee. The Board Committees have been structured to include a majority of Independent Non-Executive Directors as members in order to ensure that all relevant issues are reviewed independently and objectively. The terms of reference of the respective Board Committees have complied with the Code provisions and are available on the Company's website http://www.tggj.cn.

Audit Committee

The Audit Committee comprises two Independent Non-Executive Directors, namely, Mr. Lau Sui Fai, Mr. Gao Xiang and a Non-Executive Director, Mr. Thong Kwee Chee. The Chairman of the Audit Committee, Mr. Lau Sui Fai, possesses expertise in accounting, auditing and finance. Under its terms of reference, the Audit Committee is mainly responsible for overseeing the Company's financial reporting system and internal procedures, reviewing the financial information of the Company and overseeing the relationship with external auditors. These include reviewing and recommending for the Board's approval the interim and the annual financial statements; reviewing the external auditors' independence, objectivity and the effectiveness of the audit process; and reviewing and recommending to the Board for approval the external auditor's remuneration and review of the effectiveness of the internal control system of the Group.

The committee had two meetings in 2008 and one meeting to date in 2009 with full attendance. The meetings were held together with the external auditors of the Company, the Chief Financial Officer, the Financial Controller and Qualified Accountant of the Company, to discuss auditing, internal control and financial reporting matters which include the review of the interim and annual financial statements.

Remuneration Committee

The Remuneration Committee comprises one Executive Director, one Non-Executive Director and three Independent Non-Executive Directors, namely, Mr. Zhu Xiaokun, Mr. Thong Kwee Chee, Mr. Gao Xiang, Mr. Lau Siu Fai and Mr. Li Zhengbang. Mr. Li Zhengbang is the Chairman of the Remuneration Committee.

The primary role of the Remuneration Committee is to make recommendation to the Board on the Company's policy and structure for remuneration of Directors and senior management. No Director will take part in any discussion on his own remuneration. Details of the fees of the Directors are set out in note 12 to the financial statements.

Corporate Governance Report

The Company's remuneration policy is to maintain fair and competitive remuneration packages based on business needs and market practice. Factors such as market rate, an individual's qualification, experience, performance and expected workload are taken into account during the remuneration package determination process.

Remuneration Committee had one meeting in 2008 and one meeting to date in 2009.

The meetings were held to assess the performance of the directors and senior management, discuss and review the overall remuneration policy and structure. Recommendations have been made to the Board.

Nomination Committee

It comprises one Executive Director, one Non-Executive Director and three Independent Non-Executive Directors, namely, Mr. Zhu Xiaokun, Mr. Thong Kwee Chee, Mr. Gao Xiang, Mr. Li Zhengbang and Mr. Lau Siu Fai. Mr. Gao Xiang is the Chairman of the Nomination Committee.

The primary responsibility of the Nomination Committee is making recommendations to the Board on matters relating to the appointment of Directors and succession planning for Directors, and assessing the independence of the Independent Non-Executive Directors.

The Nomination Committee had one meeting in 2008 and one meeting to date in 2009.

The meeting were held to discuss and review the composition and structure of the Board and senior management.

The Executive Directors and Non-Executive Directors were appointed based on their qualification and experience in relation to the Group's business. The Independent Non-Executive Directors were appointed based on their professional qualifications and experience in their respective areas.

Directors' Responsibility for the Financial Statements

The Directors are responsible for overseeing the preparation of accounts for each financial period with a view to ensuring that such accounts give a true and fair view of the state of affairs of the Group and of the results and cash flow for that financial period. The Company's accounts are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Company has selected appropriate accounting policies and has applied them consistently based on prudent and reasonable judgments and estimates.

Internal Control

A sound internal control system enhances the effectiveness and efficiency of operations, ensures compliance with laws and regulations and mitigates the Group's business risk. The Board is responsible for the system of internal control of the Group and reviewing its effectiveness.

The Board and the Group's management hold meetings on a regular basis to review and evaluate the Group's business operations, production processes and financial reporting processes in order to achieve reasonable assurance of the following:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

Corporate Governance Report

To maintain an effective internal control system that helps the Group to achieve its business objectives and safeguard its assets, the Group has implemented measures including: (i) establishing written policies and work flow for major operations and production cycles; (ii) having in place appropriate segregation of duties; and (iii) setting proper authorization levels.

The Board, through the Audit Committee, reviewed the internal control system of the Group for the year ended 31 December 2008 and considered that the system of internal control of the Group had been in place and had been functioning effectively.

External Auditors

The Group's external auditors are KPMG. In order to maintain their independence, objectivity and effectiveness in performing the audit services, the Audit Committee pre-approved all audit services and discussed with KPMG the nature and scope of the audit services.

During 2008, the remuneration paid or payable to KPMG in respect of statutory audit services was RMB2,004,000.

Model Code for Securities Transactions

The Group has adopted a code of conduct governing securities transactions by Directors in compliance with the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code"). Following a specific enquiry, each of the Directors confirmed that he complied with the required standard set out in the Model Code and the Group's code of conduct governing securities transactions by Directors during the 2008.

The Group has also adopted a code of conduct governing securities transactions by employees who may possess or have access to price sensitive information.

Investor Relationship and Communication

The Board and senior management recognize the importance of communication with shareholders and accountability to shareholders. Annual and interim reports offer comprehensive operational and financial performance information to shareholders and the annual general meetings provide a forum for shareholders to make comments and raise concerns to the Board directly. The Group's senior management also maintains close communication with investors, analysts and the media by other channels including roadshows, briefings and individual meetings. The Group has set up its own website http://www.tggj.cn, which is updated on a regular basis, as a means to provide updated information on the Company to investors.

Report of the Directors

The Board is pleased to submit the annual report together with the consolidated financial statements for the year ended 31 December 2008 which have been audited by the Company's auditor KPMG and reviewed by the audit committee of the Company.

Principal Activities

The principal activities of the Company are the production and sales of HSS, HSS cutting tools and die steel. The principal activities and other particulars of the subsidiaries are set out in note 20 to the financial statements.

Financial Statements

The profit of the Group for the year ended 31 December 2008 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 31 to 87.

Results and Appropriations

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 31.

The Board proposed a final dividend payment of RMB0.0536 per share for the financial year ended 31 December 2008 (2007: nil).

Charitable Donations

Charitable donations made by the Group during the year amounted to RMB2,107,000 (2007: 1,000,000).

Property, Plant and Equipment

Details of the movements in the property, plant and equipment of the Group and the Company during the year are set out in note 17 to the financial statements.

Reserves

Details of movements in the reserves of the Company and of the Group during the year are set out in note 31 to the financial statements and in the consolidated statements of changes in equity, respectively.

Distributable Reserves

Distributable reserves of the Company as at 31 December 2008, calculated in accordance with the Companies Law (Cap. 22) (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to RMB903,768,000.

Pre-emptive Rights

There is no provision for pre-emptive rights under the Company's articles of association and there is no restriction against such rights under the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Share Capital

Details of the movements in share capital of the Company during the year are set out in note 31 to the financial statements.

Report of the Directors

Directors

The Directors during the financial year were:

Executive Directors

Mr. Zhu Xiaokun
Mr. Zhu Zhihe
Mr. Zhu Mingyao
Mr. Yan Ronghua

Non-Executive Directors

Mr. Thong Kwee Chee

Independent Non-Executive Directors

Mr. Li Zhengbang
Mr. Gao Xiang
Mr. Lau Siu Fai

Mr. Zhu Mingyao and Mr. Yan Ronghua will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. The Non-Executive Directors and Independent Non-Executive Directors are appointed for periods of three years.

The Company considers that Mr. Li Zhengbang, Mr. Gao Xiang and Mr. Lau Siu Fai are independent pursuant to the criteria set out in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") and that a confirmation of independence has been received from each of them.

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2008, the interests, long positions or short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were recorded in the register required to be kept under Section 352 of the SFO, or which were notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") (set out in Appendix 10 of the Listing Rules) were as follows:

(a) Interests in the Company

Director's name	Interests	Ordinary shares held	Approximate attributable interest (%)
Zhu Xiaokun	Corporate interest	217,200,000(L)	51.78

Note:

As at 31 December 2008,

(1) Tiangong Holdings Company Limited ("THCL") held 210,000,000 Ordinary shares. THCL was held as to 89.02% and 10.98% by Mr. Zhu Xiaokun and Madam Yu, Yumei the spouse of Mr. Zhu Xiaokun, respectively. Mr. Zhu Xiaokun is deemed to be interested in the 210,000,000 Shares held by THCL.

Report of the Directors

(2) Silver Power (HK) Limited, which was wholly-owned by Zhu Xiaokun, held 7,200,000 Shares.

(L) represents long position

(b) Interests in the shares of associated corporation

Name of Director	Name of associated corporation	Nature of interests and capacity	Total Number of Shares	Approximate percentage of interests
Zhu Xiaokun	THCL	Beneficial owner	44,511	89.02%

Save as disclosed above, as at the date of this annual report, so far as the Directors are aware, none of the Group's directors and chief executives had any other interests, long positions or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations.

Substantial Shareholders' Interests

As at 31 December 2008, save for the Directors or chief executives' interests as disclosed above, the following persons had interests or short positions in the shares or underlying shares of the Company which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under Section 336 of the SFO:

Substantial shareholders' name	Ordinary shares	Approximate attributable interest (%)
THCL (Note 1)	210,000,000(L)	50.06
Yu Yumei (Note 1)	210,000,000(L)	50.06
AIG Global Emerging Markets Fund II, LP.	21,000,000(L)	5.01
AIG GEM II G.P., L.P. (Note 2)	21,000,000(L)	5.01
AIG GEM II G.P., Co. (Note 2)	21,000,000(L)	5.01
AIG Capital Partners, Inc. (Note 2)	21,000,000(L)	5.01
AIG Global Asset Management Holdings Corp. (Note 2)	21,000,000(L)	5.01
AIG Capital Corporation (Note 2)	21,000,000(L)	5.01
AIG Asia Opportunity Fund II, L.P.	30,000,000(L)	7.15
AIG AOF II G.P., L.P. (Note 3)	30,000,000(L)	7.15
AIG Asian Opportunity II G.P. Ltd. (Note 3)	30,000,000(L)	7.15
AIG Global Investment Corporation (Asia) Ltd. (Note 3)	30,000,000(L)	7.15
American International Assurance Company (Bermuda) Limited (Note 3)	39,000,000(L)	9.30
American International Reinsurance Company, Ltd (Note 4)	39,000,000(L)	9.30
AIG Life Holdings (International) LLC (Note 4)	39,000,000(L)	9.30
American International Group, Inc. (Note 5)	60,000,000(L)	14.30

Report of the Directors

Notes:

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

(2) AIG GEM II G.P., L.P. was deemed to be interested in the Shares in the capacity as the general partner of AIG Global Emerging Markets Fund II, L.P. AIG GEM II G.P., Co. was deemed to be interested in the Shares in the capacity as the general partner of AIG GEM II G.P., L.P. AIG Capital Partners, Inc. was deemed to be interested in the deemed interests of AIG GEM II G.P., Co., its wholly-owned subsidiary. AIG Global Asset Management Holdings Corp. was deemed to be interested in the deemed interests of AIG Capital Partners, Inc., its wholly-owned subsidiary. AIG Capital Corporation was deemed to be interested in the deemed interests of AIG Global Asset Management Holdings Corp., its wholly-owned subsidiary.

(3) AIG AOF II G.P., L.P. was deemed to be interested in the Shares in the capacity as the general partner of AIG Asian Opportunity Fund II, L.P. AIG Asian Opportunity II G.P. Ltd. was deemed to be interested in the Shares in the capacity as the general partner of AIG AOF II G.P., L.P. AIG Global Investment Corporation (Asia) Ltd. was deemed to be interested in the deemed interests of AIG Asian Opportunity II G.P. Ltd., its wholly-owned subsidiary. American International Assurance Company (Bermuda) Limited held 9,000,000 Shares and was also deemed to be interested in the deemed interests of AIG Global Investment Corporation (Asia) Ltd., its wholly-owned subsidiary.

(4) American International Reinsurance Company, Ltd. was deemed to be interested in the Shares and the deemed interests of American International Assurance Company (Bermuda) Limited, its wholly-owned subsidiary. AIG Life Holdings (International) LLC. was deemed to be interested in the deemed interests of American International Reinsurance Company, Ltd., its wholly-owned subsidiary.

(5) American International Group, Inc. was deemed to be interested in the Shares and the deemed interests of AIG Capital Corporation and AIG Life Holdings (International) LLC.

Arrangements to Acquire Shares or Debentures

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries, holding companies or fellow subsidiaries a party to any arrangements to enable a Director of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Biographical Details of Directors and Senior Management

Brief biographical details of the Directors and the senior management are set out on pages 14 to 16.

Share Option Scheme

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

Directors' and Controlling Shareholders' Interests in Contracts

Save as disclosed under the heading "Connected transactions" below and "Related party transactions" in note 34 to the financial statements, no Director or controlling shareholder or any of their respective subsidiaries had a material interest, either directly or indirectly, in any contract of significance to the business of the Group, to which the Company, or any of its holding companies, subsidiaries or fellow subsidiaries was a part, during the year.

During the year, no contract of significance for the provision of services to the Group by a controlling shareholder or any of its subsidiaries was made.

Report of the Directors

Directors' Service Contracts

No Director of the Company proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries, which is not determinable by the employing company within one year without payment of compensation (other than statutory compensation).

Purchase, Sales or Redemption of Shares

During the year ended 31 December 2008, 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 2008, 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 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 2 April 2009 to consider and review the annual results of the Group and to give their opinion and recommendation to the Board. The Audit Committee considers that the 2008 annual results of the Company have complied with the applicable accounting standards and the Company has made appropriate disclosure thereof.

Application of Proceeds from Initial Public Offering

	Proposed application amount HKD'000	Amount utilized up to 31 December 2008 HKD'000	Unutilized amount as at 31 December 2008 HKD'000
— repayment of bank loans	316,000	316,000	—
— for capital expenditure	350,000	350,000	—
— as general working capital	28,600	28,600	—
	694,600	694,600	—

Report of the Directors

Major Customers and Suppliers

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers during the financial year ended 31 December 2008 is as follows:

	Percentage of the Group's total	
	Sales	**Purchases**
The largest customer/supplier	8.1	9.2
Five largest customers/suppliers in aggregate	22.6	28.4

At no time during the year had the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

Connected Transactions

Certain related party transactions as disclosed in note 34 to the financial statements also constituted connected transactions under the Listing Rules, and are required to be disclosed in accordance with Chapter 14A of the Listing Rules. The following transactions between certain connected parties (as defined in the Listing Rules) and the Company have been entered into and/or are ongoing for which relevant disclosure had been made by the Company in the Prospectus.

One-off Connected Transactions

No one-off connected transactions occurred after the listing of the Company.

Continuing Connected Transactions

The following transactions fall under the de minimis provision set forth in rule 14.A33(3) of the listing rule and is therefore exempt from reporting, announcement and independent shareholders' approval.

Lease of office premises

Jiangsu Tiangong Tools Company Limited ("TG Tools"), a wholly-owned subsidiary of the Company and Jiangsu Tiangong Group Company Limited ("TG Group"), entered into a lease agreement dated 28 February 2007, by which TG Group leased to TG Tools the office premises at Tiangong building for a term commencing from 1 January 2007 to 31 December 2009 with fixed annual rentals of RMB600,000, which was determined under normal commercial terms and with reference to an independent valuation. The rental is payable on an annual basis. During the year, the Group incurred rentals of office premises to TG Group which amounted to RMB600,000.

TG Group, a collective enterprise established under the laws of PRC, is wholly owned by Mr. Zhu Xiaokun and Madam Yu Yumei. Given that Mr. Zhu Xiaokun is an Executive Director of the Company and Mr. Zhu Xiaokun and Madam Yu Yumei are the controlling shareholders of the Company, TG Group, an associate under the Listing Rules, is a connected person by virtue of Rule 14A.11 (4) of the Listing Rules.

Report of the Directors

Amenity Facilities Provision Agreement

TG Tools, Tiangong Aihe Special Steel Company Limited ("TG Aihe"), Danyang Tianfa Forging Company Limited ("Tianfa Forging"), Danyang Tianji Tools Packaging Company Limited ("Tianji Packaging") and TG Group, entered into an agreement dated 7 July 2007, by which TG Group's amenity facilities will be open to employees of TG Tools, TG Aihe, Tianfa Forging and Tianji Packaging for a fixed annual amenity fee of RMB400,000 for a term commencing from 1 July 2007 to 31 December 2009. The fixed annual fee was determined under normal commercial terms and with reference to the depreciation expenses and maintenance costs of facilities. The rental is payable on an annual basis. During the year, the Group incurred amenity fee of RMB400,000 to TG Group. TG Tools, TG Aihe, Tianfa Forging and Tianji Packaging are all wholly-owned subsidiaries of the Company. TG Group, as defined above, is an associate under the Listing Rules and is a connected person by virtue of Rule 14A.11 (4) of the Listing Rules.

The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules with regard to the above Continuing Connected Transactions.

The Independent Non-executive Directors have reviewed the above non-exempt continuing connected transactions of the Group and have confirmed that these transactions have been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms;

(iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and

(iv) have not exceeded the respective cap amounts set out in the relevant agreements referred to above.

The auditors of the Company have reported to the Directors that during the financial year:

(i) the above continuing connected transactions have been approved by the board of Directors;

(ii) the above continuing connected transactions have been entered into in accordance with the terms of the agreements governing such transactions; and

(iii) the respective cap amounts set out in the relevant agreements referred to above have not been exceeded.

Financial Information Summary

A financial summary of the Group is set out on page 88 of this annual report.

Directors' Interests in Competing Business

During the year and up to the date of this annual report, none of the Directors are considered to have interests in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, pursuant to the Listing Rules.

Management Contracts

No contracts concerning the management and/or administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Report of the Directors

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company as at the date of this annual report, the Company has maintained sufficient public float as required under the Listing Rules.

Auditors

The financial statements for the year were audited by KPMG who will retire at the conclusion of the forthcoming annual general meeting and, being eligible, will offer themselves for re-appointment.

On behalf of the Board of Directors

Tiangong International Company Limited
Zhu Xiaokun
Chairman

Hong Kong, 7 April 2009

Independent Auditors' Report

KPMG

Independent auditors' report to the shareholders of
Tiangong International Company Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Tiangong International Company Limited (the "Company") set out on pages 31 to 87, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. The responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the content of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditors' Report (continued)

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

7 April 2009

Consolidated Income Statement

For the year ended 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
Revenue	6	**1,993,269**	1,735,763
Cost of sales		**(1,673,566)**	(1,445,911)
Gross profit		**319,703**	289,852
Other income	9	**6,068**	21,817
Distribution expenses		**(50,106)**	(41,428)
Administrative expenses		**(61,155)**	(57,578)
Other expenses		**(7,843)**	(4,013)
Profit from operations		**206,667**	208,650
Finance income		**4,607**	41,018
Finance expenses		**(96,162)**	(68,311)
Net finance cost	10(i)	**(91,555)**	(27,293)
Profit before income tax	10	**115,112**	181,357
Income tax expense	11	**(2,602)**	(437)
Profit for the year		**112,510**	180,920
Attributable to:			
Equity holders of the Company	31(a)	**114,643**	180,172
Minority interests		**(2,133)**	748
Profit for the year		**112,510**	180,920
Dividends payable to equity holders of the Company attributable to the year:	15		
Final dividend proposed after the balance sheet date		**22,485**	—
		22,485	—
Earnings per share			
Basic earnings per share (RMB)	16	**0.27**	0.51

The notes on Page 38 to 87 form part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
Non-current assets			
Property, plant and equipment	17	**1,093,735**	733,785
Lease prepayments	18	**97,106**	65,291
Goodwill	19	**21,959**	21,959
Other investments	21	**10,000**	10,000
Deferred tax assets	30(ii)	**5,476**	3,190
		1,228,276	834,225
Current assets			
Inventories	22	**1,111,282**	845,036
Trade and other receivables	23	**616,901**	580,241
Pledged deposits	24	**63,600**	86,297
Time deposits	25	**115,000**	—
Cash and cash equivalents	26	**96,021**	156,688
		2,002,804	1,668,262
Current liabilities			
Interest-bearing borrowings	27	**1,093,865**	623,969
Trade and other payables	28	**442,257**	397,037
Income tax payables	30(i)	**13,383**	12,217
		1,549,505	1,033,223
Net current assets		**453,299**	635,039
Total assets less current liabilities		**1,681,575**	1,469,264
Non-current liabilities			
Interest-bearing borrowings	27	**190,000**	75,000
Deferred income	29	**9,900**	9,900
Deferred tax liabilities	30(iii)	**3,546**	—
		203,446	84,900
Net assets		**1,478,129**	1,384,364

The notes on Page 38 to 87 form part of these financial statements.

Consolidated Balance Sheet (continued)

As at 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
Capital and reserves			
Share capital	31(a),(c)	**31,806**	31,806
Reserves	31(a),(d)	**1,446,323**	1,331,680
Total equity attributable to equity holders of the Company		**1,478,129**	1,363,486
Minority interests		**—**	20,878
Total equity		**1,478,129**	1,384,364

Approved and authorised for issue by the board of directors on 7 April 2009.

Zhu Xiao Kun
Director

Yan Rong Hua
Director

The notes on Page 38 to 87 form part of these financial statements.

Balance Sheet

As at 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
Non-current assets			
Property, plant and equipment	17	136	168
Interests in subsidiaries	20	1,111,379	939,261
		1,111,515	939,429
Current assets			
Trade and other receivables	23	1,239	4,332
Cash and cash equivalents	26	3,740	4,614
		4,979	8,946
Current liabilities			
Interest-bearing borrowings	27	170,865	—
Trade and other payables	28	10,055	3,297
		180,920	3,297
Net current (liabilities)/assets		(175,941)	5,649
Net assets		935,574	945,078
Capital and reserves			
Share capital	31(b),(c)	31,806	31,806
Reserves	31(b),(d)	903,768	913,272
Total equity		935,574	945,078

Approved and authorised for issue by the board of directors on 7 April 2009.

Zhu Xiao Kun
Director

Yan Rong Hua
Director

The notes on Page 38 to 87 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Attributable to equity holders of the Company								
	Share capital RMB'000 (Note 31(c))	Share premium RMB'000 (Note 31(d))	Capital reserve RMB'000 (Note 31(d))	Merger reserve RMB'000 (Note 31(d))	PRC statutory reserve RMB'000 (Note 31(d))	Retained earnings RMB'000	Total RMB'000	Minority interests RMB'000 (Note 8)	Total equity RMB'000
At 1 January 2007	183,085	234,144	—	10,730	43,911	72,108	543,978	61,482	605,460
Capital contribution	—	—	56,998	—	—	—	56,998	—	56,998
Arising from reorganisation	(182,695)	—	—	81,195	—	—	(101,500)	—	(101,500)
Acquisition of minority interests	—	—	—	—	—	—	—	(56,057)	(56,057)
Capital injection	—	—	—	—	—	—	—	14,705	14,705
Issuance of share by placing and public offer	7,579	608,578	—	—	—	—	616,157	—	616,157
Capitalisation issue	22,358	(22,358)	—	—	—	—	—	—	—
Issuance of share under the over-allotment option related to the placement	1,479	118,709	—	—	—	—	120,188	—	120,188
Share issuance expenses	—	(52,507)	—	—	—	—	(52,507)	—	(52,507)
Profit for the year	—	—	—	—	—	180,172	180,172	748	180,920
Transfer to reserve	—	—	—	—	23,174	(23,174)	—	—	—
At 31 December 2007	31,806	886,566	56,998	91,925	67,085	229,106	1,363,486	20,878	1,384,364
Acquisition of minority interests	—	—	—	—	—	—	—	(18,745)	(18,745)
Profit for the year	—	—	—	—	—	114,643	114,643	(2,133)	112,510
Transfer to reserve	—	—	—	—	17,962	(17,962)	—	—	—
At 31 December 2008	31,806	886,566	56,998	91,925	85,047	325,787	1,478,129	—	1,478,129

The notes on Page 38 to 87 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	2008 RMB'000	2007 RMB'000
Operating activities		
Profit before income tax	**115,112**	181,357
Adjustments for:		
Depreciation	**58,089**	53,569
Amortisation of lease prepayments	**1,958**	1,268
Impairment loss for doubtful debts	**4,744**	2,667
Write down for inventories	**9,962**	399
Interest income	**(4,607)**	(41,018)
Interest on bank loans	**70,464**	46,824
Gain on disposal of property, plant and equipment	**(96)**	(113)
Gain on acquisition of minority interests	**(2,339)**	(96)
Operating profit before changes in working capital	**253,287**	244,857
Change in inventories	**(276,208)**	(199,282)
Change in trade and other receivables	**(98,733)**	(166,933)
Change in trade and other payables	**45,220**	79,449
Change in deferred income	**—**	2,000
Income tax paid	**(176)**	(19,676)
Net cash used in operating activities	**(76,610)**	(59,585)

The notes on Page 38 to 87 form part of these financial statements.

Consolidated Cash Flow Statement (continued)

For the year ended 31 December 2008

	2008 RMB'000	2007 RMB'000
Investing activities		
Interest received	4,607	5,035
Proceeds from disposal of property, plant and equipment	377	1,396
Payment for property, plant and equipment	(360,991)	(333,255)
Payment for lease prepayments	(33,773)	—
Change in time deposits	(115,000)	—
Payment for acquisition of minority interests	(16,406)	(77,920)
Net cash used in investing activities	(521,186)	(404,744)
Financing activities		
Proceeds from issuance of shares	—	736,345
Interest income received on application funds	—	35,983
Share issue expenses	—	(52,507)
Capital injection	—	14,978
Capital distribution	—	(101,500)
Proceeds from interest-bearing borrowings	2,021,191	1,494,982
Repayment of interest-bearing borrowings	(1,436,295)	(1,507,922)
Change in pledged deposits	22,697	(15,445)
Interest paid	(70,464)	(46,824)
Net cash generated from financing activities	537,129	558,090
Net (decrease)/increase in cash and cash equivalents	(60,667)	93,761
Cash and cash equivalents at 1 January	156,688	62,927
Cash and cash equivalents at 31 December	96,021	156,688

The notes on Page 38 to 87 form part of these financial statements.

Notes to the Consolidated Financial Statements

1 Reporting entity

Tiangong International Company Limited (the "Company") was incorporated in the Cayman Islands on 14 August 2006 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961 as consolidated and revised) of the Cayman Islands.

Pursuant to a reorganisation (the "Reorganisation") of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") to rationalise the group structure in preparation for the public listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the subsidiaries comprising the Group. Details of the Reorganisation are set out in the Prospectus of the Company dated 13 July 2007.

The Company's shares were listed on the Stock Exchange on 26 July 2007.

2 Basis of preparation

The Group is regarded as a continuing entity resulting from the Reorganisation of entities under common control. The consolidated financial statements have been prepared on the basis that the Company was the holding company of the Group for both years presented, rather than from the date when the Company became the holding company of the Group pursuant to the Reorganisation. Accordingly, the consolidated results of the Group for the years ended 31 December 2008 and 2007 include the results of the Company and its subsidiaries with effect from 1 January 2007 or, if later, since their respective dates of incorporation or at the date that common control was established as if the current group structure had been in existence throughout the two years presented. The consolidated balance sheets at 31 December 2008 and 31 December 2007 have been prepared on the basis that the current group structure was in place with effective from 1 January 2007. All material intra-group transactions and balances have been eliminated on consolidation. In the opinion of the directors, the consolidated financial statements prepared on this basis present fairly the results of operations and the state of affairs of the Group as a whole.

(a) 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. A summary of the significant accounting policies adopted by the Group is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 5 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of measurement

These financial statements have been prepared on the historical cost basis.

The methods used to measure fair values are discussed further in Note 4.

These consolidated financial statements are presented in Renminbi ("RMB"). Except for per share data, financial information presented in RMB has been rounded to the nearest thousand.

Notes to the Consolidated Financial Statements (continued)

2 Basis of preparation (continued)

(c) Accounting estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is discussed in Note 35.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (Note 3(h)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(ii) Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity. Any cash paid for the acquisition is recognised directly in equity.

Notes to the Consolidated Financial Statements (continued)

3 Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(iii) Transaction eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(iv) Minority interests

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity holders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity holders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

(b) Goodwill

Goodwill arising on the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of exchange. Negative goodwill is recognised immediately in profit or loss.

Goodwill is measured at cost less accumulated impairment losses (Note 3(h)).

(c) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured in terms of historical costs are translated using the foreign exchange rates ruling at the transaction date.

Foreign currency differences arising on retranslation are recognised in profit or loss.

Notes to the Consolidated Financial Statements (continued)

3 Significant accounting policies (continued)

(c) Foreign currency (continued)

(ii) Foreign operations

The assets and liabilities of foreign operations are translated to RMB at exchange rates at the reporting date. The income and expenses of foreign operations are translated to RMB at exchange rates at the dates of the transactions.

The resulting foreign currency differences are recognised directly in a separate component of equity, foreign currency translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to profit or loss.

(d) Other investments in equity securities

The Group's and the Company's policies for investments in equity securities, other than investments in subsidiaries, associates and jointly controlled entities, are as follows:

Investments in equity securities are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs.

The Group's investments in equity securities are classified as available-for-sale financial assets. The Group's investments in equity securities do not have a quoted market price in an active market and the relevant fair value cannot be reliably measured, and therefore are recognised in the balance sheet at cost less impairment losses (Note 3(h)).

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses (Note 3(h)).

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net in profit or loss.

Notes to the Consolidated Financial Statements (continued)

3 Significant accounting policies (continued)

(e) Property, plant and equipment (continued)

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives.

The estimated useful lives for the current and comparative periods are as follows:

• Plant and buildings	20 years
• Machinery	5–20 years
• Motor vehicles	8 years
• Office equipment and others	5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(f) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

(g) Inventories

Inventories are measured at the lower of cost and net realisable value.

The cost of inventories is based on the weighted average cost principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

3 Significant accounting policies (continued)

(h) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss. For unquoted equity securities carried at cost, impairment losses are not reversed.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually at each reporting date whether or not there is any indication of impairment.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

3 Significant accounting policies (continued)

(h) Impairment (continued)

(ii) Non-financial assets (continued)

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(i) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (Note 3(h)), except where the Company's receivables are interest-free loans made to its subsidiaries without any fixed repayment term or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(k) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(l) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(m) Employee benefits

(i) Short term employee benefits

Salaries, annual bonuses, and staff welfare are accrued in the year in which the associated services are rendered by employees of the Group.

(ii) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the consolidated income statement when they are due, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

3 Significant accounting policies (continued)

(n) Provisions and contingent liabilities

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(o) Revenue

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

(p) Government grants

Government grants are recognised initially as deferred income when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Group for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

(q) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Lease prepayments in the consolidated balance sheet represent cost of land use rights paid to the People's Republic of China (the "PRC") land bureau. Land use rights are carried at cost less accumulated amortisation and accumulated impairment losses (Note 3(h)). Amortisation is charged to the income statement on a straight-line basis over the respective periods of the rights.

(r) Finance income and expenses

Finance income represents interest income from deposits placed with banks, which is recognised as it accrues in profit or loss, using the effective interest method.

Finance expenses comprise interest expense on borrowings and net foreign currency losses that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

3 Significant accounting policies (continued)

(s) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In additional, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time that the liability to pay the related dividend is recognised.

(t) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(u) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

3 Significant accounting policies (continued)

(v) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments. The Group's primary format for segment reporting is based on business segments.

(w) Related parties

For the purpose of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venture;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

Notes to the Consolidated Financial Statements (continued)

3 Significant accounting policies (continued)

(x) New standards and interpretations not yet adopted

Up to the date of this report, the IASB has issued the following new standards, amendments to standards and interpretations which are not yet effective for the year ended 31 December 2008. The Group has not early adopted these new standards, amendments to standards and interpretations in the preparation of the financial statements.

	Effective for accounting periods beginning on or after (unless specified)
IFRIC 13, *Customer loyalty programmes*	1 July 2008
Amendments to IFRIC 9, *Reassessment of embedded derivatives* and IAS 39, *Financial instruments: Recognition and measurement-Embedded derivatives*	Annual periods ending on or after 30 June 2009
IFRIC 16, *Hedges of a net investment in a foreign operation*	1 October 2008
IFRS 8, *Operating segments*	1 January 2009
Revised IAS 1, *Presentation of financial statements*	1 January 2009
Revised IAS 23, *Borrowing costs*	1 January 2009
Amendment to IFRS 2, *Share-based payment — Vesting conditions and cancellations*	1 January 2009
Amendments to IAS 32, *Financial instruments: Presentation* and IAS 1, *Presentation of financial statements-Puttable financial instruments and obligations arising on liquidation*	1 January 2009
Amendment to IFRS 1, *First-time adoption of International Financial Reporting Standards* and IAS 27, *Consolidated and separate financial statements-Cost of an investment in a subsidiary, jointly-controlled entity or associate*	1 January 2009
Amendment to IFRS 7, *Financial instruments: Disclosures-Improving disclosures about financial instruments*	1 January 2009
Improvements to IFRSs	1 January 2009 or 1 July 2009
IFRIC 15, *Agreements for the construction of real estate*	1 January 2009
Revised IFRS 1, *First-time adoption of International Financial Reporting Standards*	1 July 2009
Revised IFRS 3, *Business combinations*	Applies to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009

3 Significant accounting policies (continued)

(x) New standards and interpretations not yet adopted (continued)

	Effective for accounting periods beginning on or after (unless specified)
Amendments to IAS 27, *Consolidated and separate financial statements*	1 July 2009
Amendments to IAS 39, *Financial instruments: Recognition and measurement-Eligible hedged items*	1 July 2009
IFRIC 17, *Distributions of non-cash assets to owners*	1 July 2009
IFRIC 18, *Transfers of assets from customers*	Applies to transfers of assets from customers received on or after 1 July 2009

The directors have confirmed that the above new standards, amendments to standards and interpretations do not have a significant impact on how the results of operations and financial position for the year ended 31 December 2008 are prepared and presented. These new standards, amendments to standards and interpretations may result in changes in the future as to how the results and financial position of the Group are prepared and presented.

4 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(ii) Interest-bearing borrowings and trade and other payables

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principle and interest cash flows, discounted at the market rate of interest at the reporting date.

5 Changes in accounting policies

The IASB has issued a number of new Interpretations and an amendment to IFRSs that are first effective for the current accounting period of the Group and the Company. However, none of these developments are relevant to the Group's or the Company's operations.

The Group or the Company has not applied any new standard or interpretation that is not yet effective for the current accounting period (Note 3(x)).

Notes to the Consolidated Financial Statements (continued)

6 Revenue

Revenue represents the sales value of high alloy steel, including high speed steel ("HSS") and die steel ("DS"), and HSS cutting tools after eliminating intercompany transactions. The sales value of goods sold is stated after allowances for goods returned and deduction of any trade discounts, and excludes value added tax or other sales taxes.

7 Segment reporting

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly other investments and related income, pledged deposits, time deposits, cash and cash equivalents, loans and related expenses, and income tax assets, liabilities and expense.

Business segments

The Group comprises the following main business segments

— *HSS* The HSS segment manufactures and sells high speed steel for steel industry.

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

— *DS* The DS segment manufactures and sells die steel for steel industry.

	2008 RMB'000	2007 RMB'000
Revenue		
HSS	**815,316**	843,484
HSS cutting tools	**658,061**	661,445
DS	**519,892**	230,834
Total	**1,993,269**	1,735,763
Segment result		
HSS	**135,893**	161,728
HSS cutting tools	**67,366**	80,666
DS	**66,338**	6,029
Total	**269,597**	248,423
Unallocated operating income and expenses	**(62,930)**	(39,773)
Profit from operations	**206,667**	208,650
Net finance cost	**(91,555)**	(27,293)
Income tax expense	**(2,602)**	(437)
Profit for the year	**112,510**	180,920

Notes to the Consolidated Financial Statements (continued)

7 Segment reporting (continued)

Business segments (continued)

	2008 RMB'000	2007 RMB'000
Segment assets		
HSS	**1,022,031**	1,025,237
HSS cutting tools	**868,464**	776,052
DS	**1,034,816**	433,523
Total	**2,925,311**	2,234,812
Unallocated assets	**305,769**	267,675
Total assets	**3,231,080**	2,502,487
Segment liabilities		
HSS	**220,496**	255,118
HSS cutting tools	**75,574**	81,617
DS	**136,966**	55,123
Total	**433,036**	391,858
Unallocated liabilities	**1,319,915**	726,265
Total liabilities	**1,752,951**	1,118,123

	2008 RMB'000	2007 RMB'000
Capital expenditure		
HSS	**130,685**	184,336
HSS cutting tools	**96,724**	33,857
DS	**224,684**	137,063
Total	**452,093**	355,256
Depreciation and amortisation		
HSS	**27,895**	26,389
HSS cutting tools	**10,807**	9,692
DS	**21,345**	18,756
Total	**60,047**	54,837

Notes to the Consolidated Financial Statements (continued)

7 Segment reporting (continued)

Geographical segments

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 information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets. The Group's assets and liabilities are almost located in the PRC and accordingly, no analysis of segment assets, liabilities and capital expenditure is provided.

	2008 RMB'000	2007 RMB'000
Revenue		
The PRC	**1,007,715**	791,811
North America	**365,148**	307,868
Europe	**376,136**	405,512
Asia (other than the PRC)	**222,774**	198,672
Others	**21,496**	31,900
Total	**1,993,269**	1,735,763

8 Acquisitions of minority interests

(a) On 9 January 2007, Jiangsu Tiangong Tools Company Limited ("TG Tools") acquired 75% and 25% equity interests in Danyang Tianji Tools Packaging Company Limited ("Tianji Packaging") from Jiangsu Tiangong Group Company Limited ("TG Group"), a wholly-owned company of ultimate equity holders of the Company (referred to as "the Controlling Equity Holders"), and a minority shareholder at cash considerations of RMB1,500,000 and RMB500,000 respectively. As a result, Tianji Packaging became a wholly-owned subsidiary of the Group.

The carrying amount of the minority shareholder's net assets in the consolidated financial statements on the date of acquisition was RMB596,000. The Group recognised a decrease in minority interests of RMB596,000 and a gain on acquisition of RMB96,000 in the consolidated income statement.

(b) On 13 March 2007, TG Tools acquired 75% equity interests in Tiangong Aihe Special Steel Company Limited ("TG Aihe") from TG Group at a cash consideration of RMB100,000,000, while China Tiangong Company Limited ("CTCL"), a wholly-owned subsidiary of the Company, acquired the remaining 25% equity interests in TG Aihe from a minority shareholder at a cash consideration of USD10,000,000 (equivalent to RMB77,420,000). As a result, TG Aihe became a wholly-owned subsidiary of the Group.

The carrying amount of the minority shareholder's net assets in the consolidated financial statements on the date of acquisition was RMB55,461,000. The Group recognised a decrease in minority interests of RMB55,461,000 and goodwill of RMB21,959,000.

Notes to the Consolidated Financial Statements (continued)

8 Acquisitions of minority interests (continued)

(c) On 28 October 2008, CTCL acquired 25% equity interests in Danyang Tianfa Forging Company Limited ("Tianfa Forging") from a minority shareholder at a cash consideration of USD2,400,000 (equivalent to RMB16,406,000). As a result, Tianfa Forging became a wholly-owned subsidiary of the Group.

The carrying amount of the minority shareholder's net assets in the consolidated financial statements on the date of acquisition was RMB18,745,000. The Group recognised a decrease in minority interests of RMB18,745,000 and a gain on acquisition of RMB2,339,000 in the consolidated income statement.

9 Other income

	2008 RMB'000	2007 RMB'000
Government grants*	3,423	20,992
Net gain on disposal of property, plant and equipment	96	113
Gain on acquisition of minority interests	2,339	96
Others	210	616
	6,068	21,817

* TG Tools received unconditional grants amounting to RMB3,423,000 (2007: RMB20,992,000) from the local government in Danyang concerning the encouragement of its development.

10 Profit before income tax

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

(i) Net finance cost

	2008 RMB'000	2007 RMB'000
Interest income*	(4,607)	(41,018)
Finance income	(4,607)	(41,018)
Interest on bank loans	70,464	46,824
Net foreign exchange loss	25,698	21,487
Finance expenses	96,162	68,311
Net finance cost	91,555	27,293

* Interest income in the year of 2007 included RMB35,983,000 relating to one-off interest income arising from share application funds during the Hong Kong Public Offering (the "Offering") and the International Placing (the "Placement").

10 Profit before income tax (continued)

(ii) Staff costs

	2008 RMB'000	2007 RMB'000
Wages, salaries and other benefits	111,663	95,223
Contributions to defined contribution plans	3,554	2,053
	115,217	97,276

The Group participates in pension funds organised by the PRC government. According to the respective pension fund regulations, the Group is required to pay annual contributions by the relevant 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

	2008 RMB'000	2007 RMB'000
Cost of inventories*	1,673,566	1,445,911
Depreciation	58,089	53,569
Amortisation of lease prepayments	1,958	1,268
Impairment loss for doubtful debts	4,744	2,667
Auditor's remuneration	2,004	1,976
Write down for inventories	9,962	399
Operating lease charges	1,468	1,123

* Cost of inventories includes RMB144,338,000 (2007: RMB128,871,000) relating to staff costs, depreciation expenses and write down for inventories which amounts are also included in the respective total amounts disclosed separately above or in Note 10(ii) for each of these types of expenses.

Notes to the Consolidated Financial Statements (continued)

11 Income tax expense

(i) Income tax expense in the consolidated income statement represents:

	2008 RMB'000	2007 RMB'000
Current tax		
Provision for PRC income tax	1,342	200
Deferred tax		
Origination and reversal of temporary differences	1,260	237
	2,602	437

(a) Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands or British Virgin Islands.

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

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 (2007: range from 27% to 33%).

Pursuant to the income tax rules and regulations of the PRC, foreign-invested enterprises located in the PRC are entitled to a tax holiday of a tax-free period for two years from their first profit-making year of operations and thereafter, they are subject to PRC enterprise income tax at 50% of the applicable income tax rate for the following three years. For the enterprises that do not benefit from such tax holiday due to their non-profit making status, the period of time for which such tax holiday apply shall be calculated commencing from the year of 2008.

The year of 2003 is the first profit making year for Tianfa Forging. Due to the above-mentioned tax holiday, Tianfa Forging was subject to PRC enterprise income tax rate at 50% of its applicable tax rate for 3 years from 2005. From the year of 2008, Tianfa Forging is subjected to the tax rate of 25%.

The statutory income tax rate applicable to TG Tools is 25% (2007: 33%). On 21 August 2006, CTCL acquired the entire equity interests in TG Tools. As a result, TG Tools became a wholly foreign-owned enterprise and is exempted from PRC enterprise income tax for 2007 and 2008 due to the above-mentioned tax holiday.

TG Aihe is exempted from PRC enterprise income tax for 2008 due to the above-mentioned tax holiday.

Notes to the Consolidated Financial Statements (continued)

11 Income tax expense (continued)

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

	2008 RMB'000	2007 RMB'000
Profit before income tax	**115,112**	181,357
Computed tax using the Group's PRC statutory tax rate of 25% (2007: 33%)	**28,778**	59,848
Rate differential on the PRC operations	**—**	(418)
Tax exemption	**(30,227)**	(67,299)
Non-deductible expenses	**505**	1,750
Unrecognised deferred tax assets in respect of tax losses of a subsidiary	**—**	6,556
Deferred tax liabilities in respect of withholding tax on undistributed profits of subsidiaries	**3,546**	—
	2,602	437

12 Directors' remuneration

Details of the directors' remuneration are as follows:

Year ended 31 December 2008

	Fees RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement benefit schemes RMB'000	Bonus RMB'000	Total RMB'000
Executive directors					
Zhu Xiaokun	—	77	11	3,160	3,248
Zhu Zhihe	—	69	9	30	108
Zhu Mingyao	—	50	10	10	70
Yan Ronghua	—	73	10	27	110
Non-executive directors					
Thong Kwee Chee	—	—	—	—	—
Independent non-executive directors					
Li Zhengbang	60	—	—	—	60
Gao Xiang	24	—	—	—	24
Lau Siu Fai	84	—	—	—	84
Total	168	269	40	3,227	3,704

Notes to the Consolidated Financial Statements (continued)

12 Directors' remuneration (continued)

Year ended 31 December 2007

	Fees RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement benefit schemes RMB'000	Bonus RMB'000	Total RMB'000
Executive directors					
Zhu Xiaokun	—	70	11	4,000	4,081
Zhu Zhihe	—	65	9	25	99
Zhu Mingyao	—	68	10	20	98
Yan Ronghua	—	67	10	24	101
Non-executive directors					
Thong Kwee Chee	—	—	—	—	—
Independent non-executive directors					
Li Zhengbang	25	—	—	—	25
Gao Xiang	15	—	—	—	15
Lau Siu Fai	47	—	—	—	47
Total	87	270	40	4,069	4,466

13 Individuals with highest emoluments

Of the five individuals with the highest emoluments, one (2007: one) is a director whose emolument is disclosed in Note 12 above. The aggregate of the emoluments in respect of the other four (2007: four) individuals are as follows:

	2008 RMB'000	2007 RMB'000
Basic salaries, allowances and other benefits	**910**	686
Contributions to retirement benefit schemes	**51**	36
Bonus	**170**	129
	1,131	851

The above individuals' emoluments are within the band of Nil to Hong Kong dollars (HKD) 1,000,000.

No emoluments were paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office in current year and prior year.

Notes to the Consolidated Financial Statements (continued)

14 Profit attributable to equity holders of the Company

The consolidated profit attributable to equity holders of the Company includes a loss of RMB9,504,000 (2007: a profit of RMB26,706,000) which has been dealt with in the financial statements of the Company.

15 Dividends

Dividends payable to equity holders of the Company attributable to the year:

	2008 RMB'000	2007 RMB'000
Final dividend proposed after the balance sheet date of RMB0.0536 per share (2007: Nil)	**22,485**	—
	22,485	—

The calculation of final dividend per share is based on 419,500,000 ordinary shares in issue as at 31 December 2008 (2007: 419,500,000).

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

16 Earnings per share

(i) Basic earnings per share

The calculation of basic earnings per share at 31 December 2008 was based on the profit attributable to ordinary shareholders of RMB114,643,000 (2007: RMB180,172,000) and a weighted average number of ordinary shares outstanding of 419,500,000 (2007: 352,056,165), calculated as follows:

Weighted average number of ordinary shares

	2008 Number of shares	2007 Number of shares
Issued ordinary shares at 1 January	**419,500,000**	50,000
Subdivision of shares (Note 31(c))	**—**	4,950,000
Capitalisation issue (Note 31(c))	**—**	295,000,000
Effect of issuance of shares for placing and public offering (Note 31(c))	**—**	43,561,644
Effect of issuance of shares under the over-allotment option related to the placement (Note 31(c))	**—**	8,494,521
Weighted average number of ordinary shares at 31 December	**419,500,000**	352,056,165

(ii) Diluted earnings per share

No dilutive potential ordinary shares were in issue as at 31 December 2008 (2007: Nil).

Notes to the Consolidated Financial Statements (continued)

17 Property, plant and equipment

The Group

	Plant and buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:						
Balance at 1 January 2007	181,857	384,950	8,195	27,824	9,070	611,896
Additions	19,770	59,280	353	3,222	262,193	344,818
Transfer from construction in progress	7,726	1,775	—	—	(9,501)	—
Disposals	—	(1,322)	(2,561)	(1,092)	—	(4,975)
Balance at 31 December 2007	209,353	444,683	5,987	29,954	261,762	951,739
Additions	73	72,567	584	2,868	342,228	418,320
Transfer from construction in progress	45,580	33,650	—	—	(79,230)	—
Disposals	—	(499)	(264)	—	—	(763)
Balance at 31 December 2008	255,006	550,401	6,307	32,822	524,760	1,369,296
Depreciation:						
Balance at 1 January 2007	(32,876)	(119,744)	(2,534)	(12,923)	—	(168,077)
Charge for the year	(10,030)	(37,538)	(822)	(5,179)	—	(53,569)
Written back on disposals	—	954	1,646	1,092	—	3,692
Balance at 31 December 2007	(42,906)	(156,328)	(1,710)	(17,010)	—	(217,954)
Charge for the year	(10,716)	(41,137)	(687)	(5,549)	—	(58,089)
Written back on disposals	—	391	91	—	—	482
Balance at 31 December 2008	(53,622)	(197,074)	(2,306)	(22,559)	—	(275,561)
Carrying amounts:						
At 31 December 2008	201,384	353,327	4,001	10,263	524,760	1,093,735
At 31 December 2007	166,447	288,355	4,277	12,944	261,762	733,785

17 Property, plant and equipment (continued)

(i) All plant and buildings are located in the PRC.

(ii) Pursuant to the lease agreements entered into between the Group and TG Group on 28 February 2007 and 7 July 2007, the Group is required to pay RMB600,000 per annum for the lease of office premises from TG Group effective from 1 January 2007 to 31 December 2009, and to pay RMB400,000 per annum for the lease of amenity facilities from TG Group effective from 1 July 2007 to 31 December 2009. (Note 34(a)).

(iii) The property, plant and equipment owned by the Company with carrying amounts of RMB136,000 at 31 December 2008 (2007: RMB168,000) are all office equipments acquired during the year of 2007.

18 Lease prepayments

	The Group	
	2008	2007
	RMB'000	RMB'000
Cost:		
Balance at 1 January	**68,446**	58,008
Additions	**33,773**	10,438
Balance at 31 December	**102,219**	68,446
Amortisation:		
Balance at 1 January	**(3,155)**	(1,887)
Charge for the year	**(1,958)**	(1,268)
Balance at 31 December	**(5,113)**	(3,155)
Carrying amounts:		
At 31 December	**97,106**	65,291
At 1 January	**65,291**	56,121

Lease prepayments represent cost of land use rights in respect of land located in the PRC with a lease period of 50 years when granted.

Notes to the Consolidated Financial Statements (continued)

19 Goodwill

	The Group RMB'000
Cost:	
At 31 December 2007 and 2008	21,959
Accumulated impairment losses:	
At 31 December 2007 and 2008	—
Carrying amounts:	
At 31 December 2007 and 2008	21,959

For the purpose of impairment testing, goodwill is allocated to the Group's operating divisions which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

Goodwill is allocated to the Group's cash-generating unit identified according to the business segment as follows:

	2008 RMB'000	2007 RMB'000
Die steel	**21,959**	21,959

The recoverable amount of the DS cash-generating unit was determined based on value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rate, growth rate and gross margin. The Group prepared cash flow forecasts derived from the two-year financial budgets and extrapolates cash flows for the following eighteen years based on an estimated growth rate of 3%-8% (2007: 5%-20%), a discount rate of 6.5% (2007: 6.5%) and a gross margin of 13%-15% (2007: 4%-10%). The growth rate used does not exceed the long-term average growth rate for the business in which the cash-generating unit operates.

Management determined the budgeted gross margin and growth rate based on past performance and its expectation for market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

Notes to the Consolidated Financial Statements (continued)

20 Interests in subsidiaries

	The Company 2008 RMB'000	2007 RMB'000
Unlisted shares, at cost	**400**	400
Loans to subsidiaries	**1,110,979**	938,861
	1,111,379	939,261

The loans to subsidiaries included in the interests in subsidiaries above are unsecured, interest-free and have no fixed terms of repayment.

Details of the subsidiaries as at 31 December 2008 are set out below. The class of shares held is ordinary unless otherwise stated.

Name of company	Place and date of incorporation	Percentage of equity attributable to the Company Direct	Indirect	Issued and fully paid-up/ registered capital	Principal activities
CTCL	British Virgin Islands, 14 August 2006	100%	—	USD—/ USD50,000	Investment holding
TG Tools (i)	the PRC, 7 July 1997	—	100%	RMB844,300,000/ RMB844,300,000	Manufacture and sales of high speed steel and cutting and drilling tools
TG Aihe (ii)	the PRC, 5 December 2003	—	100%	RMB401,438,000/ RMB401,438,000	Manufacture and sales of die steel
Tianfa Forging (ii)	the PRC, 11 October 2000	—	100%	USD18,600,000/ USD18,600,000	Precision forging and sales of high speed steel
Tianji Packaging (iii)	the PRC, 13 May 2002	—	100%	RMB2,000,000/ RMB2,000,000	Manufacture and sales of packaging materials
China Tiangong (Hong Kong) Company Limited	Hong Kong, 13 June 2008	—	100%	HKD 1/HKD 1	Investment holding

Note:

(i) TG Tools is a wholly foreign-owned enterprise incorporated in the PRC.

(ii) TG Aihe and Tianfa Forging are incorporated in the PRC as sino-foreign equity joint ventures.

(iii) Tianji Packaging is incorporated in the PRC as a domestic company.

Notes to the Consolidated Financial Statements (continued)

21 Other investments

	The Group 2008 RMB'000	2007 RMB'000
Non-current investments		
Available-for-sale financial assets	**10,000**	10,000

Available-for-sale financial assets represent unlisted equity securities. As there is no quoted market price in an active market for these investments, they are stated at cost less impairment losses.

The Group's exposure to credit risk related to other investments is disclosed in Note 32.

22 Inventories

(i) Inventories in the balance sheet comprise:

	The Group 2008 RMB'000	2007 RMB'000
Raw materials	**50,009**	53,622
Work in progress	**551,862**	403,923
Finished goods	**509,411**	387,491
	1,111,282	845,036

(ii) The analysis of the amount of inventories recognised as an expense is as follows:

	The Group 2008 RMB'000	2007 RMB'000
Carrying amount of inventories sold	**1,663,604**	1,445,512
Write down for inventories	**9,962**	399
	1,673,566	1,445,911

Notes to the Consolidated Financial Statements (continued)

23 Trade and other receivables

	The Group 2008 RMB'000	The Group 2007 RMB'000	The Company 2008 RMB'000	The Company 2007 RMB'000
Trade and bills receivables	**504,421**	457,527	**–**	–
Less: impairment loss for doubtful debts (Note 23(b))	**(30,262)**	(25,518)	**–**	–
Net trade and bills receivables	**474,159**	432,009	**–**	–
Prepayments	**125,555**	136,732	**–**	–
Non-trade receivables	**17,187**	11,500	**1,239**	4,332
	616,901	580,241	**1,239**	4,332

A substantial amount of the trade receivables are expected to be recovered within one year.

The Group's and the Company's exposure to credit and currency risks related to trade and other receivables are disclosed in Note 32.

(a) Ageing analysis

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:

	The Group 2008 RMB'000	The Group 2007 RMB'000
Current	**166,622**	236,649
Less than 3 months past due	**182,030**	163,720
More than 3 months but less than 6 months past due	**97,628**	24,205
More than 6 months but less than 12 months past due	**25,355**	5,890
More than 12 months but less than 24 months past due	**2,524**	1,545
Amounts past due	**307,537**	195,360
	474,159	432,009

(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 (Note 3(h)(i)).

Notes to the Consolidated Financial Statements (continued)

23 Trade and other receivables (continued)

(b) Impairment of trade and bills receivables (continued)

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

	The Group	
	2008	2007
	RMB'000	RMB'000
At 1 January	**25,518**	22,851
Impairment loss recognised	**4,744**	2,667
At 31 December	**30,262**	25,518

At 31 December 2008, the Group's trade and bills receivables of RMB97,000 (2007: RMB886,000) were individually determined to be impaired. The individually impaired receivables related to customers who have ceased trading with the Group and have indicated to the Group that they would have difficulties in settling the outstanding balances. Management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of RMB49,000 (2007: RMB709,000) were recognised. The Group does not hold any collateral over these balances.

(c) Trade and bills receivables that are not impaired

The ageing analysis of trade and bills receivables that are neither individually nor collectively considered to be impaired are as follows:

	The Group	
	2008	2007
	RMB'000	RMB'000
Neither past due nor impaired	**166,622**	236,649
Less than 3 month past due	**10,009**	22,022
More than 3 months but less than 6 months past due	**38,625**	11,395
Amounts past due but not impaired	**48,634**	33,417
	215,256	270,066

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

Notes to the Consolidated Financial Statements (continued)

24 Pledged deposits

Bank deposits of RMB63,600,000 (2007: RMB86,297,000) had been pledged to banks as securities for the Group to issue bank acceptance bills and other banking facilities. The pledged bank deposits will be released upon the settlement of the relevant bills payables by the Group and the termination of relevant banking facilities.

The Group's exposure to credit, currency and interest rate risks are disclosed in Note 32.

25 Time deposits

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

The Group's exposure to credit and interest rate risks are disclosed in Note 32.

26 Cash and cash equivalents

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	**2008 RMB'000**	2007 RMB'000
Deposits with banks within three months of maturity at acquisition	**50,000**	—	**—**	—
Cash at bank and in hand	**46,021**	156,688	**3,740**	4,614
	96,021	156,688	**3,740**	4,614

The Group's and the Company's exposure to credit and currency risks are disclosed in Note 32.

Notes to the Consolidated Financial Statements (continued)

27 Interest-bearing borrowings

This note provides information about the contractual terms of the Group's interest-bearing borrowings, which are measured at amortised cost. For more information about the Group's and the Company's exposure to interest rate, foreign currency and liquidity risks, see Note 32.

		The Group		The Company	
		2008	2007	**2008**	2007
		RMB'000	RMB'000	**RMB'000**	RMB'000
Current					
Secured bank loans		**—**	56,000	**—**	—
Unsecured bank loans	(i)	**1,093,865**	447,969	**170,865**	—
Current portion of non-current unsecured bank loans		**—**	120,000	**—**	—
		1,093,865	623,969	**170,865**	—
Non-current					
Unsecured bank loans	(ii)	**190,000**	195,000	**—**	—
Less: Current portion of non-current unsecured bank loans	(ii)	**—**	(120,000)	**—**	—
		190,000	75,000	**—**	—
		1,283,865	698,969	**170,865**	—

(i) Current unsecured bank loans carried interest at annual rates ranging from 3.51% to 6.93% (2007: 4.59% to 7.47%) and were all repayable within one year.

Current unsecured bank loans of RMB240,000,000 (2007: RMB90,000,000) were guaranteed by third parties.

(ii) Non-current unsecured bank loans carried interest at annual rates ranging from 5.67% to 7.47% (2007: 6.03% to 7.47%).

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

	The Group	
	2008	2007
	RMB'000	RMB'000
Within 1 year	**—**	120,000
Over 1 year but less than 2 years	**150,000**	75,000
Over 2 years but less than 3 years	**40,000**	—
	190,000	75,000
	190,000	195,000

Notes to the Consolidated Financial Statements (continued)

28 Trade and other payables

	The Group 2008 RMB'000	The Group 2007 RMB'000	The Company 2008 RMB'000	The Company 2007 RMB'000
Trade and bills payables	**373,379**	324,911	**—**	—
Non-trade payables and accrued expenses	**67,878**	71,326	**10,055**	3,297
Payables due to related parties (Note 34(c))	**1,000**	800	**—**	—
	442,257	397,037	**10,055**	3,297

The Group's and the Company's exposure to liquidity and currency risks related to trade and other payables is disclosed in Note 32.

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

	The Group 2008 RMB'000	The Group 2007 RMB'000
Within 3 months	**268,650**	236,663
Over 3 months but less than 6 months	**92,830**	82,408
Over 6 months but less than 12 months	**7,877**	4,608
Over 1 year but less than 2 years	**4,022**	1,232
	373,379	324,911

29 Deferred income

Deferred income classified as non-current consists of deferred government grants received and was conditional upon the completion of certain construction projects.

30 Income tax in the consolidated balance sheet

(i) Current taxation in the consolidated balance sheet represents:

	The Group 2008 RMB'000	The Group 2007 RMB'000
At the beginning of the year	**12,217**	31,693
Provision for PRC income tax for the year	**1,342**	200
PRC income tax paid	**(176)**	(19,676)
At the end of the year	**13,383**	12,217

Notes to the Consolidated Financial Statements (continued)

30 Income tax in the consolidated balance sheet (continued)

(ii) Deferred tax assets recognised

The components of the Group's deferred tax assets recognised in the consolidated balance sheet and the movements during the year are as follows:

	Impairment loss for doubtful debts RMB'000	Write down for inventories RMB'000	Total RMB'000
At 1 January 2007	3,428	—	3,428
Recognised in consolidated income statement	333	—	333
Reversal as a result of the change of the expected income tax rate	(571)	—	(571)
At 31 December 2007	3,190	—	3,190
Recognised in consolidated income statement	622	1,664	2,286
At 31 December 2008	3,812	1,664	5,476

(iii) Deferred tax liabilities recognised and not recognised

The components of the Group's deferred tax liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

	Undistributed profits of subsidiaries RMB'000
At 1 January 2007 and 31 December 2007	—
Recognised in consolidated income statement	3,546
At 31 December 2008	3,546

Pursuant to the new tax law in the PRC, 10% withholding tax is levied on the foreign investor in respect of dividend distributions arising from a foreign investment enterprise's profit earned after 1 January 2008. As at 31 December 2008, deferred tax liabilities of RMB3,546,000 (2007: Nil) have been recognised in respect of the tax that would be payable on the distribution of the retained profits of the Group's PRC subsidiaries. Deferred tax liabilities of RMB8,780,000 have not been recognised, as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that certain of the profits earned by the Group's PRC subsidiaries for the year from 1 January 2008 to 31 December 2008 will not be distributed in the foreseeable future.

Notes to the Consolidated Financial Statements (continued)

31 Capital and reserves

(a) The Group

	Share capital RMB'000 Note 31(c)	Share premium RMB'000 Note 31(d)(i)	Capital reserve RMB'000 Note 31(d)(ii)	Merger reserve RMB'000 Note 31(d)(iii)	PRC statutory reserve RMB'000 Note 31(d)(iv)	Retained earnings RMB'000	Total RMB'000
At 1 January 2007	183,085	234,144	—	10,730	43,911	72,108	543,978
Capital contribution	—	—	56,998	—	—	—	56,998
Arising from reorganisation (31(c)(i))	(182,695)	—	—	81,195	—	—	(101,500)
Issuance of share by placing and public offer (31(d)(i))	7,579	608,578	—	—	—	—	616,157
Capitalisation issue (31(d)(i))	22,358	(22,358)	—	—	—	—	—
Issuance of share under the over-allotment option related to the placement (31(d)(i))	1,479	118,709	—	—	—	—	120,188
Share issuance expenses (31(d)(i))	—	(52,507)	—	—	—	—	(52,507)
Profit for the year	—	—	—	—	—	180,172	180,172
Transfer to reserve	—	—	—	—	23,174	(23,174)	—
At 1 January 2008	31,806	886,566	56,998	91,925	67,085	229,106	1,363,486
Profit for the year	—	—	—	—	—	114,643	114,643
Transfer to reserve	—	—	—	—	17,962	(17,962)	—
At 31 December 2008	31,806	886,566	56,998	91,925	85,047	325,787	1,478,129

Notes to the Consolidated Financial Statements (continued)

31 Capital and reserves (continued)

(b) The Company

	Share capital RMB'000 Note 31(c)	Share premium RMB'000 Note 31(d)(i)	Retained earnings RMB'000	Total RMB'000
At 1 January 2007	390	234,144	—	234,534
Issuance of share by placing and public offer	7,579	608,578	—	616,157
Capitalisation issue	22,358	(22,358)	—	—
Issuance of share under the over-allotment option related to the placement	1,479	118,709	—	120,188
Share issuance expenses	—	(52,507)	—	(52,507)
Profit for the year	—	—	26,706	26,706
At 1 January 2008	31,806	886,566	26,706	945,078
Loss for the year	—	—	(9,504)	(9,504)
At 31 December 2008	31,806	886,566	17,202	935,574

The application of the share premium account is governed by the Companies Law of the Cayman Islands. Under the Companies Law of the Cayman Islands, the funds in share premium account are distributable to shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(c) Share Capital

Authorised and issued share capital:

Authorised:

	The Group				The Company			
	2008		2007		2008		2007	
	No. of shares ('000)	Amount USD '000	No. of shares ('000)	Amount USD '000	No. of shares ('000)	Amount USD '000	No. of shares ('000)	Amount USD '000
Ordinary shares of USD0.01 each (note (i) and (ii) below)	1,000,000	10,000	1,000,000	10,000	1,000,000	10,000	1,000,000	10,000

Notes to the Consolidated Financial Statements (continued)

31 Capital and reserves (continued)

(c) Share Capital (continued)

Authorised and issued share capital: (continued)

Ordinary shares issued and fully paid:

	The Group			The Company		
	No. of Shares ('000)	Amount USD '000	Amount RMB equivalent '000	No. of shares ('000)	Amount USD '000	Amount RMB equivalent '000
At 1 January 2007 (note (i) below)	50	50	183,085	50	50	390
Arising from reorganisation (note (i) below)	—	—	(182,695)	—	—	—
Subdivision of shares (note (ii) below)	4,950	—	—	4,950	—	—
Capitalisation issue (note (iii) below)	295,000	2,950	22,358	295,000	2,950	22,358
Issuance of share by placing and public offering (note (iv) below)	100,000	1,000	7,579	100,000	1,000	7,579
Issuance of share under the over-allotment option related to the placement (note (v) below)	19,500	195	1,479	19,500	195	1,479
At 1 January 2008	419,500	4,195	31,806	419,500	4,195	31,806
At 31 December 2008	419,500	4,195	31,806	419,500	4,195	31,806

(i) The Company was incorporated in the Cayman Islands on 14 August 2006 with an authorised share capital of USD50,000 divided into 50,000 ordinary shares of par value USD1 each.

Pursuant to a board of directors' resolution dated on 15 August 2006, the Company issued 35,000 shares of the Company at the par value of USD1 per share and 15,000 shares of the Company at a price of USD2,000 per share to Tiangong Holding Company Limited ("THCL") in consideration of the issuance of two promissory notes for a total sum of USD30,035,000 (equivalent to RMB234,534,000) by THCL to the Company.

As the Reorganisation was completed in March 2007, the share capital reflected in the consolidated financial statements as at 1 January 2007 included the aggregate amount of paid-in capital of the companies comprising the Group apart from the Company at that day, after elimination of investment in subsidiaries.

Notes to the Consolidated Financial Statements (continued)

31 Capital and reserves (continued)

(c) Share Capital (continued)

Authorised and issued share capital: (continued)

(ii) Pursuant to the resolutions in writing of the shareholders of the Company passed on 7 July 2007, each share of USD1 each in the authorized share capital and the issued share capital of the Company was subdivided into 100 shares of USD0.01 each; as a result of the subdivision of shares, the authorised and issued share capital of the Company were USD50,000 divided into 5,000,000 shares of USD0.01 each; and total authorised share capital of the Company was increased from USD50,000 divided into 5,000,000 shares of USD0.01 each to USD10,000,000 divided into 1,000,000,000 shares of USD0.01 each by the creation of an additional 995,000,000 shares of USD0.01 each.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(iii) On 7 July 2007, the Company authorised the issue of 295,000,000 shares of USD0.01 each to the then shareholders of the Company in the proportion of their respective shareholdings in the Company by way of capitalisation of USD2,950,000 (equivalent to RMB22,358,000) from the share premium account upon the listing of the Company's share on the Stock Exchange. The above shares were issued on 26 July 2007.

(iv) On 26 July 2007, 100,000,000 ordinary shares of USD0.01 each were issued at a price of HKD 6.36 per share under the Offering and the Placement. The proceeds of USD1,000,000 (equivalent to RMB7,579,000) representing the par value, were credited to the Company's share capital. The remaining proceeds (equivalent to RMB608,578,000), before the share issue expenses, were credited to the share premium account.

(v) On 26 July 2007, the underwriters of the Placement exercised the over-allotment option for the issuance of 19,500,000 ordinary shares of USD0.01 each at HKD 6.36 per share. The proceeds of USD195,000 (equivalent to RMB1,479,000) representing the par value, were credited to the Company's share capital. The remaining proceeds (equivalent to RMB118,709,000), before the share issue expenses, were credited to the share premium account.

Notes to the Consolidated Financial Statements (continued)

31 Capital and reserves (continued)

(d) Nature and purpose of reserves

(i) Share premium

100,000,000 ordinary shares of USD0.01 each in the Company were issued at a price of HKD 6.36 per share under the Offering and the Placement on 26 July 2007. An additional 19,500,000 ordinary shares of USD0.01 each in the Company were issued at HKD 6.36 per share on 26 July 2007 pursuant to the over-allotment option related to the Placement. The excess of the proceeds totaling HKD 760,020,000 (equivalent to RMB736,345,000) over the nominal value of the total number of ordinary shares issued, less certain listing costs of HKD 54,187,000 (equivalent to RMB52,507,000) incurred in connection with the issue of shares, amounting to RMB674,780,000, was credited to the share premium account of the Company.

Pursuant to the resolutions in writing of shareholders of the Company passed on 7 July 2007, 295,000,000 shares of USD0.01 each in the Company were issued at par value on 26 July 2007 by way of capitalisation of USD2,950,000 (equivalent to RMB22,358,000) from the share premium account.

(ii) Capital reserve

On 26 March 2007 and 31 March 2007, TG Group waived its remaining receivables amounting to RMB37,228,000 and RMB19,770,000 due from the Group in connection with the acquisitions of land use rights and plants respectively. These waivers of liabilities by TG Group were regarded as equity transactions and recorded in capital reserve account.

(iii) Merger reserve

On 9 January 2007, TG Tools acquired 75% and 25% equity interests in Tianji Packaging from TG Group and a minority shareholder at cash considerations of RMB1,500,000 and RMB500,000 respectively. As a result, Tianji Packaging became a wholly-owned subsidiary of the Group.

On 13 March 2007, TG Tools acquired 75% equity interests in TG Aihe from TG Group at a cash consideration of RMB100,000,000, while CTCL acquired the remaining 25% equity interests in TG Aihe from a minority shareholder at a cash consideration of USD10,000,000 (equivalent to RMB77,420,000). As a result, TG Aihe became a wholly-owned subsidiary of the Group.

On the basis as set out in Note 2, the acquisitions of TG Tools, of 75% equity interests in Tianji Packaging from TG Group and of 75% equity interests in TG Aihe from TG Group were reflected in the consolidated statement of changes in equity as a capital distribution to the Controlling Equity Holders. The difference between CTCL's and TG Tools' share of the net identifiable assets acquired of TG Tools and TG Aihe over the consideration paid respectively were regarded as equity transactions and transferred to the merger reserve in the consolidated financial statements.

Notes to the Consolidated Financial Statements (continued)

31 Capital and reserves (continued)

(d) Nature and purpose of reserves (continued)

(iv) PRC statutory reserve

Transfers from retained earnings to the following PRC statutory reserves were made in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiaries incorporated in the PRC and were approved by the respective boards of directors.

General reserve fund

The subsidiaries in the PRC are required to transfer at least 10% of their profit after taxation, as determined under the PRC accounting regulations, to the general reserve fund until the reserve balance reaches 50% of their respective registered capital. The transfer to this reserve must be made before the distribution of dividends to shareholders.

The general reserve fund can be used to make good losses and convert into share capital by the issue of new shares to shareholders in proportion to their existing equity holdings, provided that the balance after such conversion is not less than 25% of their registered capital.

Enterprise expansion fund

The enterprise expansion fund can be used to convert into share capital and to develop business.

(e) Distributability of reserves

At 31 December 2008, the aggregate amount of reserves available for distribution to equity holders of the Company was RMB903,768,000 (2007: RMB913,272,000).

(f) Capital management

The Group's primary objectives when managing capital are to maintain investor, creditor and market confidence and to sustain future development of the business. The board of directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity, excluding minority interests. The board of directors also monitors the level of dividends to ordinary shareholders.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure closely, and adjusts its level of interest-bearing borrowings, trade and other payables and dividend payments to safeguard the Group's ability to continue as a going concern.

The gearing ratio of the Group for the year ended 31 December 2008 is 87% (2007: 50%). The gearing ratio is calculated by dividing total borrowings with total equity.

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

32 Financial risk management and fair values

Exposure to credit, liquidity, currency and interest rate risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance.

(i) Trade and other receivables

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 credit worthiness of individual customers. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the balance sheet date, 3% (2007: 5%) and 17% (2007: 14%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively within the Group's business segment.

The maximum exposure to credit risk for trade and bills receivables of the Group at the balance sheet dates by business segment was:

	The Group Carrying amount	
	2008 RMB'000	2007 RMB'000
HSS	**177,062**	259,047
HSS cutting tools	**113,151**	114,946
DS	**183,946**	58,016
	474,159	432,009

Notes to the Consolidated Financial Statements (continued)

32 Financial risk management and fair values (continued)

(a) Credit risk (continued)

(ii) Investments

The Group limits its exposure to credit risk by only investing in liquid securities and/or only with counterparties that have a credit rating equal to or better than the Group. Management does not expect any counterparty to fail to meet its obligations.

(iii) Guarantees

The Group's policy is to provide financial guarantees only to wholly-owned subsidiaries. At 31 December 2008 no guarantees were outstanding (2007: none).

(iv) Deposits with bank

All the bank deposits are deposited with high quality financial institutions with no significant credit risk. The management does not expect any losses arising from non-performance of these financial institutions.

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, as at 31 December 2008, total banking and borrowing facilities available to the Group amounted to RMB2,695,000,000 of which RMB1,268,500,000 had been utilised.

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay. At the balance sheet date, the Group did not have any derivative financial liabilities.

Notes to the Consolidated Financial Statements (continued)

32 Financial risk management and fair values (continued)

(b) Liquidity risk (continued)

The Group

	2008 Contractual undiscounted cash outflow				
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 3 years RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000
Non-derivative financial liabilities					
Interest-bearing borrowings	**1,138,716**	**154,025**	**42,988**	**1,335,729**	**1,283,865**
Trade and other payables	**442,257**	**—**	**—**	**442,257**	**442,257**
	1,580,973	**154,025**	**42,988**	**1,777,986**	**1,726,122**

	2007 Contractual undiscounted cash outflow				
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 3 years RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000
Non-derivative financial liabilities					
Interest-bearing borrowings	644,923	78,403	—	723,326	698,969
Trade and other payables	397,037	—	—	397,037	397,037
	1,041,960	78,403	—	1,120,363	1,096,006

Notes to the Consolidated Financial Statements (continued)

32 Financial risk management and fair values (continued)

(b) Liquidity risk (continued)

The Company

	2008 Contractual undiscounted cash outflow				
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 3 years RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000
Non-derivative financial liabilities					
Interest-bearing borrowings	179,536	—	—	179,536	170,865
Trade and other payables	10,055	—	—	10,055	10,055
	189,591	—	—	189,591	180,920

	2007 Contractual undiscounted cash outflow				
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 3 years RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000
Non-derivative financial liabilities					
Trade and other payables	3,297	—	—	3,297	3,297
	3,297	—	—	3,297	3,297

32 Financial risk management and fair values (continued)

(c) Currency risk

The Group is exposed to currency risk primarily through sales, purchases and borrowings which give rise to receivables, payables, borrowings and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States dollars (USD), Euros (EUR), HKD and Sterling (GBP).

RMB is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through the People's Bank of China or other institutions authorised to buy and sell foreign exchange. The exchange rate adopted for the foreign exchange transactions are the rates of exchange quoted by the People's Bank of China.

In respect of trade and other receivables, trade and other payables and borrowings denominated in foreign currencies, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

The following table details the Group's and the Company's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the year end date.

(i) Exposure to currency risk

The Group

	2008 Exposure to foreign currencies (expressed in RMB)			
	USD RMB'000	**EUR RMB'000**	**HKD RMB'000**	**GBP RMB'000**
Trade and other receivables	**114,827**	**38,009**	**—**	**3,707**
Cash and cash equivalents	**1,561**	**570**	**3,543**	**—**
Trade and other payables	**(6,059)**	**—**	**—**	**—**
Interest-bearing borrowings	**(170,865)**	**—**	**—**	**—**
Balance sheet net exposure	**(60,536)**	**38,579**	**3,543**	**3,707**

	2007 Exposure to foreign currencies (expressed in RMB)			
	USD RMB'000	EUR RMB'000	HKD RMB'000	GBP RMB'000
Trade and other receivables	107,750	126,093	—	—
Cash and cash equivalents	3,134	821	5,885	—
Pledged deposits	—	416	—	—
Trade and other payables	(4,339)	—	—	—
Interest-bearing borrowings	(30,679)	—	—	—
Balance sheet net exposure	75,866	127,330	5,885	—

32 Financial risk management and fair values (continued)

(c) Currency risk (continued)

(i) Exposure to currency risk (continued)

The Company

	2008 Exposure to foreign currencies (expressed in RMB) USD RMB'000	 EUR RMB'000	 HKD RMB'000	 GBP RMB'000
Cash and cash equivalents	**492**	**—**	**3,249**	**—**
Trade and other payables	**(6,059)**	**—**	**—**	**—**
Interest-bearing borrowings	**(170,865)**	**—**	**—**	**—**
Balance sheet net exposure	**(176,432)**	**—**	**3,249**	**—**

	2007 Exposure to foreign currencies (expressed in RMB) USD RMB'000	 EUR RMB'000	 HKD RMB'000	 GBP RMB'000
Cash and cash equivalents	540	—	4,074	—
Balance sheet net exposure	540	—	4,074	—

The following significant exchange rates applied during the year:

RMB	Average rate **2008**	 2007	Balance sheet date spot rate **2008**	 2007
USD 1	**6.9253**	7.5869	**6.8346**	7.3046
EUR 1	**10.2441**	10.4464	**9.6590**	10.6669
HKD 1	**0.8897**	0.9728	**0.8819**	0.9364
GBP 1	**12.8099**	15.2108	**9.8798**	14.5807

Notes to the Consolidated Financial Statements (continued)

32 Financial risk management and fair values (continued)

(c) Currency risk (continued)

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise if foreign exchange rates to which the Group has significant exposure at the balance sheet date had changed at that date, assuming all other risk variables remained constant.

The Group

	2008		2007	
	Increase/ (decrease) in foreign exchange rates	**Increase/ (decrease) on profit after tax and retained profits RMB'000**	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) on profit after tax and retained profits RMB'000
USD	**5%**	**(3,027)**	5%	3,793
	(5)%	**3,027**	(5)%	(3,793)
EUR	**10%**	**3,858**	5%	6,367
	(10)%	**(3,858)**	(5)%	(6,367)
HKD	**5%**	**177**	5%	294
	(5)%	**(177)**	(5)%	(294)
GBP	**10%**	**371**	5%	—
	(10)%	**(371)**	(5)%	—

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the balance sheet date for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date. The analysis is performed on the same basis for 2007.

32 Financial risk management and fair values (continued)

(d) Interest rate risk

The Group's interest rate risk arises primarily from interest-bearing borrowings, pledged deposits and time deposits.

Pledged bank deposits are not held for speculative purposes but are placed to satisfy conditions for issuance of bank acceptance bills and other banking facilities granted to the Group.

Interest-bearing borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The interest rates and terms of repayment of the interest-bearing borrowings of the Group are disclosed in Note 27.

(i) Interest rate profile

The following table details the interest rate profile of the Group's and the Company's interest-bearing financial instruments at the balance sheet date:

The Group

	2008 Effective interest rate %	**2008** RMB'000	2007 Effective interest rate %	2007 RMB'000
Fixed rate instruments				
Interest-bearing borrowings	**4.78%–6.72%**	**(592,865)**	6.03%–7.47%	(95,000)
Pledged deposits	**0.36%–3.78%**	**63,600**	0.72%–3.78%	86,297
Time deposits	**1.98%–3.24%**	**115,000**	—	—
		(414,265)		(8,703)
Variable rate instruments				
Interest-bearing borrowings	**3.51%-7.47%**	**(691,000)**	4.59%–7.47%	(603,969)

The Company

	2008 Effective interest rate %	**2008** RMB'000	2007 Effective interest rate %	2007 RMB'000
Fixed rate instruments				
Interest-bearing borrowings	**5.07%–5.10%**	**(170,865)**	—	—

Notes to the Consolidated Financial Statements (continued)

32 Financial risk management and fair values (continued)

(d) Interest rate risk (continued)

(ii) Sensitivity analysis

At 31 December 2008, it is estimated that a general increase / decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased / increased the Group's profit after tax and retained profits by approximately RMB6,910,000 (2007: RMB6,040,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the balance sheet date. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the balance sheet date, the impact on the Group's profit after tax (and retained profits) is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2007.

(e) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2008 and 2007 except for available-for-sale financial assets due to either the short maturities of these financial instruments or variable market interest rate for long-term bank borrowings.

For available-for-sale financial assets, they are stated at cost less impairment losses as there is no quoted market price in an active market for these assets. Further disclosures in respect of these assets are set out in Note 21.

33 Commitments

(a) Capital commitments

Capital commitments outstanding at the year end not provided for in the consolidated financial statements were as follows:

	The Group	
	2008	2007
	RMB'000	RMB'000
Contracted for		
— Land and buildings	**23,915**	81,463
— Equipment	**101,571**	121,801
	125,486	203,264
Authorised but not contracted for		
— Equipment	**185,056**	92,844

Notes to the Consolidated Financial Statements (continued)

33 Commitments (continued)

(b) Operating leases commitments

At 31 December 2008, the total future minimum lease payments under non-cancellable operating leases are payables as follows:

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**1,323**	1,468	**145**	291
After 1 year but within 5 years	**34**	1,357	**—**	145
	1,357	2,825	**145**	436

The Group leases certain properties located in the PRC and Hong Kong as the Group's office under operating lease. The leases run for an initial period of 2-5 years.

34 Related party transactions

The Group has transactions with TG Group. The following is a summary of principal related party transactions carried out by the Group with TG Group.

Particulars of significant transactions between the Group and TG Group are as follows:

(a) Significant Related Party Transactions — Recurring

	2008	2007
	RMB'000	RMB'000
Lease expense to:		
TG Group	**1,000**	800

Pursuant to two lease agreements entered into between the Group and TG Group on 28 February 2007 and 7 July 2007, the Group is required to pay RMB600,000 per annum for the lease of office premises from TG Group effective from 1 January 2007 to 31 December 2009, and to pay RMB400,000 per annum for the lease of amenity facilities from TG Group effective from 1 July 2007 to 31 December 2009. These transactions constituted continuing connected transactions.

34 Related party transactions (continued)

(b) Significant Related Party Transactions-Non-recurring

	2008 RMB'000	2007 RMB'000
Purchases of fixed assets from:		
TG Group	–	19,770
Purchases of land use rights from:		
TG Group	–	10,438
Payments on behalf of:		
TG Group	–	280
Acquisition of equity interests in subsidiaries from:		
TG Group	–	101,500
Waiver of liabilities by:		
TG Group	–	56,998

(c) Amounts due to related parties

	2008 RMB'000	2007 RMB'000
TG Group	1,000	800

(d) Transactions with key management personnel

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 12 and certain of the highest paid employees as disclosed in Note 13, is as follows:

	2008 RMB'000	2007 RMB'000
Short-term employee benefits	4,845	5,408
Post-employment benefits	109	94
	4,954	5,502

Total remuneration is included in "staff costs" (Note 10(ii)).

Notes to the Consolidated Financial Statements (continued)

35 Accounting estimates and judgments

Key sources of estimation uncertainty are as follow:

(a) Impairment losses on trade and other receivables

Impairment losses for trade and other receivables are assessed and provided based on the directors' regular review of ageing analysis and evaluation of collectibility. A considerable level of judgment is exercised by the directors when assessing the creditworthiness and past collection history of each individual customer. Any increase or decrease in the impairment losses for bad and doubtful debts would affect the income statement in future years.

(b) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews annually the useful life of an asset and its residual value, if any. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(c) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of distributing and selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles or other changes in market condition. Management will reassess the estimations at each balance sheet date.

(d) Income taxes

Determining income tax provisions involves judgment on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgment is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

(e) Estimated carrying amounts of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. Details of the recoverable amount calculation are disclosed in Note 19.

36 Parent and ultimate controlling party

At 31 December 2008, the directors consider the immediate parent and ultimate controlling party of the Group to be Tiangong Holdings Company Limited, which is incorporated in British Virgin Islands. This entity does not produce financial statements available for public use.

Financial Information Summary

	Year ended 31 December				
	2008	2007	2006	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**1,993,269**	1,735,763	1,303,987	1,094,711	841,913
Profit before income tax	**115,112**	181,357	147,111	92,140	75,145
Income tax expense	**(2,602)**	(437)	(50,507)	(33,255)	(25,449)
Profit for the year	**112,510**	180,920	96,604	58,885	49,696
Attributable to:					
Equity holders of the Company	**114,643**	180,172	91,729	47,940	40,861
Minority interests	**(2,133)**	748	4,875	10,945	8,835
Earnings per Share					
Basic	**0.27**	0.51	0.31	0.16	0.14

	Year ended 31 December				
	2008	2007	2006	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets					
Non-current assets	**1,228,276**	834,225	513,368	421,008	248,761
Current assets	**2,002,804**	1,668,262	1,187,972	1,069,770	749,223
Total assets	**3,231,080**	2,502,487	1,701,340	1,490,778	997,984
Liabilities					
Non-current liabilities	**203,446**	84,900	137,900	—	10,000
Current liabilities	**1,549,505**	1,033,223	957,980	1,009,395	757,812
Total liabilities	**1,752,951**	1,118,123	1,095,880	1,009,395	767,812
Equity					
Total equity	**1,478,129**	1,384,364	605,460	481,383	230,172

Note:

The results of the Group for the three financial years ended 31 December 2004, 2005 and 2006 and its assets and liabilities were extracted from the Prospectus, which also set forth the details of the basis of presentation of the combined accounts. The result of the Group for the financial year ended 31 December 2007 and its assets and liabilities as at 31 December 2007 are set forth on pages 31 to 33, and are presented on the basis set out in note 2 to the consolidated financial statements

Corporate Information

Registered Name
Tiangong International Company Limited

Chinese Name
天工國際有限公司

Stock Code
Hong Kong Stock Exchange 826

Board Of Directors
Executive Directors
Mr. Zhu Xiaokun *(Chairman)*

Mr. Zhu Zhihe *(Chief Executive Officier)*

Mr. Zhu Mingyao

Mr. Yan Ronghua

Non-executive Director
Mr. Thong Kwee Chee

Independent Non-executive Directors
Mr. Li Zhengbang

Mr. Gao Xiang

Mr. Lau Siu Fai

Company Secretary and Qualified Accountant
Mr. Leung Wai Yip

Authorized Representatives
Mr. Lau Siu Fai

Mr. Leung Wai Yip

Audit Committee
Mr. Lau Siu Fai *(Chairman)*

Mr. Gao Xiang

Mr. Thong Kwee Chee

Remuneration Committee
Mr. Li Zhengbang *(Chairman)*

Mr. Zhu Xiaokun

Mr. Gao Xiang

Mr. Lau Siu Fai

Mr. Thong Kwee Chee

Nomination Committee
Mr. Gao Xiang *(Chairman)*

Mr. Zhu Xiaokun

Mr. Li Zhengbang

Mr. Lau Siu Fai

Mr. Thong Kwee Chee

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Grand Cayman, Cayman Islands

Registered Office in Hong Kong
Unit 1303

13/F Jubilee Centre

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Wanchai

Hong Kong

Corporate Information

Principal Place of Business

Houxiang Town
Danyang City
Jiangsu Province
The PRC

Compliance Adviser

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59th–63rd Floors
Two International Finance Centre
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Central
Hong Kong

Auditors

KPMG
Certified Public Accountants
8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

Hong Kong Legal Adviser

Richards Butler
20th Floor, Alexandra House
16–20 Chater Road
Central
Hong Kong

Principal Share Registrar and Transfer Office

Butterfield Fund Services (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 705
Grand Cayman KY1-1107
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office in Hong Kong

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Center
183 Queen's Road East
Wanchai
Hong Kong

Principal Bankers

China Construction Bank Corporation
Industrial and Commercial Bank of China Limited
Bank of China Limited
Agricultural Bank of China