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Tiangong International Company Limited
天工國際有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 826)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

FINANCIAL HIGHLIGHTS

- Revenue of the Group for the year ended 31 December 2010 totaled RMB2,348,644,000, representing an increase of 77.4% when compared with RMB1,323,752,000 for the year of 2009.
- The gross profit margin increased slightly from 19.7% in 2009 to 19.9% in 2010.
- Profit attributable to equity holders of the Company was RMB235,921,000 (2009: RMB112,078,000).
- Earnings per share was RMB0.56 (2009: RMB0.27).
- The Board proposed a final dividend of RMB0.1125 per share for the year ended 31 December 2010. This represented a total distribution for the year of RMB47,184,000.

The Board of Directors (the "Board") of Tiangong International Company Limited (the "Company") is pleased to announce the audited consolidated statement of comprehensive income of the Company and its subsidiaries (the "Group") for the year ended 31 December 2010 and the consolidated statement of financial position of the Group as at 31 December 2010, together with the comparative figures for the same period of 2009 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2010

	Note	**2010** *RMB'000*	2009 *RMB'000*
Revenue	4	**2,348,644**	1,323,752
Cost of sales		**(1,881,981)**	(1,062,867)
Gross profit		**466,663**	260,885
Other income		**23,015**	10,970
Distribution expenses		**(40,759)**	(29,573)
Administrative expenses		**(78,918)**	(60,810)
Other expenses		**(8,282)**	(14,839)
Profit from operations		**361,719**	166,633
Finance income		**2,806**	2,736
Finance expenses		**(84,042)**	(50,049)
Net finance costs		**(81,236)**	(47,313)
Share of losses of associates		**(974)**	—
Share of loss of a jointly controlled entity		**(648)**	—
Profit before income tax	5	**278,861**	119,320
Income tax expense	6	**(42,940)**	(7,242)
Profit and total comprehensive income for the year attributable to the equity shareholders of the Company		**235,921**	112,078
Earnings per share ***(RMB)***	7		
Basic		**0.56**	0.27

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	Note	**2010** *RMB'000*	2009 *RMB'000*
Non-current assets			
Property, plant and equipment		**1,572,108**	1,348,285
Lease prepayments		**61,312**	62,639
Goodwill		**21,959**	21,959
Interest in associates		**41,281**	—
Interest in a jointly controlled entity		**4,132**	—
Other financial assets		**10,000**	10,000
Deferred tax assets		**9,645**	10,032
		1,720,437	1,452,915
Current assets			
Inventories		**1,218,332**	1,252,748
Trade and other receivables	8	**940,625**	656,959
Pledged deposits		**136,635**	119,358
Time deposits		**—**	192,000
Cash and cash equivalents		**315,831**	63,467
Assets classified as held for sale		**—**	64,778
		2,611,423	2,349,310
Current liabilities			
Interest-bearing borrowings		**1,222,250**	1,379,700
Trade and other payables	9	**650,290**	645,124
Income tax payables		**19,665**	14,964
Deferred income		**1,162**	1,162
		1,893,367	2,040,950
Net current assets		**718,056**	308,360
Total assets less current liabilities		**2,438,493**	1,761,275
Non-current liabilities			
Interest-bearing borrowings		**633,500**	177,000
Deferred income		**7,190**	8,351
Deferred tax liabilities		**16,561**	8,202
		657,251	193,553
Net assets		**1,781,242**	1,567,722
Capital and reserves			
Share capital		**31,806**	31,806
Reserves		**1,749,436**	1,535,916
Total equity		**1,781,242**	1,567,722

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. The consolidated financial statements of the Company as at and for the year ended 31 December 2010 comprise the Company and its subsidiaries (together referred to as the "Group"). The Company's shares have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 26 July 2007.

2 BASIS OF PREPARATION

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB"). 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.

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 3 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

The measurement basis used in the preparation of the financial statements is the historical cost basis.

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.

(c) Accounting estimates and judgements

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, 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 judgements 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.

3 CHANGES IN ACCOUNTING POLICIES

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

- IFRS 3 (revised 2008), *Business combinations*
- IAS 27, *Consolidated and separate financial statements*
- Amendments to IFRS 5, *Non-current assets held for sale and discontinued operations — plan to sell the controlling interest in a subsidiary*
- Improvements to IFRSs (2009)

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

- The impact of the majority of the revisions to IFRS 3, IAS 27 and IFRS 5 have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination or a disposal of a subsidiary) and there is no requirement to restate the amounts recorded in respect of previous such transactions.
- The impact of the amendment to IFRS 3 (in respect of recognition of acquiree's deferred tax assets) and IAS 27 (in respect of allocation of losses to non-controlling interests (previously known as minority interests) in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.
- The amendment introduced by the *Improvements to IFRSs (2009)* omnibus standard in respect of IAS 17, *Leases*, resulted in no change of classification of the Group's leasehold land interests.

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

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

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

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

  — Contingent consideration will be measured at fair value at the acquisition date. Subsequent changes in the measurement of that contingent consideration unrelated to facts and circumstances that existed at the acquisition date will be recognised in profit or loss, whereas previously recognised as an adjustment to the cost of the business combination and therefore impacted the amount of goodwill recognised.

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

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

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

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

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

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

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

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

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

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

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

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

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

- As a result of the amendment to IAS 17, *Leases*, arising from the "Improvements to IFRSs (2009)" omnibus standard, the Group has re-evaluated the classification of its interests in leasehold land as to whether, in the Group's judgement, the lease transfers significantly all the risks and rewards of ownership of the land such that the Group is in a position economically similar to that of a purchaser. The Group has concluded that the classification of such leases as operating leases continues to be appropriate.

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

4 REVENUE AND SEGMENT REPORTING

Revenue represents mainly 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 Group has four reportable segments, as described below, which are the Group's product divisions. For each of the product divisions the Chairman (the chief operating decision maker) reviews internal management reports on at least a monthly basis. No operating segments have been aggregated to form the following reportable segments. The following summary describes the operations in each of the Group's reportable segments:

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

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

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

— *Chemical goods* The chemical goods segment sells purified terepthatic acid and other chemicals. As the business of this division has expanded, it has become a separate reportable segment during 2010. Comparative information has been restated in order to reflect this change and conform with the current period's presentation.

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Chairman (the chief operating decision maker) monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of other investments, pledged deposits, time deposits, cash and cash equivalents, deferred tax assets and other corporate assets. Segment liabilities include trade and bills payables, non-trade payables and accrued expenses attributable to the manufacturing and sales activities of the individual segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is "adjusted EBIT", i.e. "adjusted earnings before interest and taxes", where "interest" is regarded as net finance costs. To arrive at adjusted EBIT the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as share of profits less losses of associates and jointly controlled entity and other head office and corporate expenses.

In addition to receiving segment information concerning adjusted EBIT, management is provided with segment information concerning revenue (including inter segment sales), interest income and expense from cash balances and borrowings, depreciation and amortisation used by the segments in their operations.

Information regarding the Group's reportable segments as provided to the Chairman (the chief operating decision maker) for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2010 and 2009 is set out below.

	Year ended and as at 31 December 2010				
	HSS	**HSS cutting tools**	**DS**	**Chemical goods**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	**687,459**	**508,852**	**830,656**	**321,677**	**2,348,644**
Inter-segment revenue	**197,154**	**—**	**—**	**—**	**197,154**
Reportable segment revenue	**884,613**	**508,852**	**830,656**	**321,677**	**2,545,798**
Reportable segment profit (adjusted EBIT)	**127,824**	**72,287**	**222,290**	**3,503**	**425,904**
Reportable segment assets	**953,025**	**879,940**	**1,939,191**	**21,052**	**3,793,208**
Reportable segment liabilities	**208,383**	**115,836**	**293,358**	**20,954**	**638,531**

	Year ended and as at 31 December 2009				
	HSS *RMB'000*	HSS cutting tools *RMB'000*	DS *RMB'000*	Chemical goods *RMB'000*	Total *RMB'000*
Revenue from external customers	415,571	380,886	450,327	76,968	1,323,752
Inter-segment revenue	144,305	—	—	—	144,305
Reportable segment revenue	559,876	380,886	450,327	76,968	1,468,057
Reportable segment profit (adjusted EBIT)	80,161	50,318	100,078	755	231,312
Reportable segment assets	872,295	979,294	1,488,068	41,559	3,381,216
Reportable segment liabilities	209,238	162,873	228,972	41,448	642,531

(b) Reconciliations of reportable segment revenue, comprehensive income, assets and liabilities

	2010 ***RMB'000***	2009 *RMB'000*
Revenue		
Reportable segment revenue	**2,545,798**	1,468,057
Elimination of inter-segment revenue	**(197,154)**	(144,305)
Consolidated revenue	**2,348,644**	1,323,752

	2010 ***RMB'000***	2009 *RMB'000*
Profit		
Reportable segment profit	**425,904**	231,312
Net finance costs	**(81,236)**	(47,313)
Share of losses of associates	**(974)**	—
Share of loss of jointly controlled entity	**(648)**	—
Other unallocated head office and corporate expenses	**(64,185)**	(64,679)
Consolidated profit before income tax	**278,861**	119,320

	2010 *RMB'000*	2009 *RMB'000*
Assets		
Reportable segment assets	**3,793,208**	3,381,216
Interest in associates	**41,281**	—
Interest in jointly controlled entity	**4,132**	—
Other investments	**10,000**	10,000
Deferred tax assets	**9,645**	10,032
Pledged deposits	**136,635**	119,358
Time deposits	**—**	192,000
Cash and cash equivalents	**315,831**	63,467
Other unallocated head office and corporate assets	**21,128**	26,152
Consolidated total assets	**4,331,860**	3,802,225

	2010 *RMB'000*	2009 *RMB'000*
Liabilities		
Reportable segment liabilities	**638,531**	642,531
Interest-bearing borrowings	**1,855,750**	1,556,700
Income tax payables	**19,665**	14,964
Deferred tax liabilities	**16,560**	8,202
Other unallocated head office and corporate liabilities	**20,112**	12,106
Consolidated total liabilities	**2,550,618**	2,234,503

(c) Geographical information

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

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

	2010 *RMB'000*	2009 *RMB'000*
Revenue		
The PRC	**1,235,018**	921,827
North America	**335,914**	195,345
Europe	**249,886**	118,275
Asia (other than the PRC)	**510,118**	78,490
Others	**17,708**	9,815
Total	**2,348,644**	1,323,752

5 PROFIT BEFORE INCOME TAX

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

(i) Net finance costs

	2010	2009
	RMB'000	*RMB'000*
Interest incomes	**(2,806)**	(2,736)
Finance income	**(2,806)**	(2,736)
Interest on bank loans	**90,786**	77,363
Less: interest capitalised into property, plant and equipment under construction*	**(27,862)**	(27,860)
Net foreign exchange losses	**21,118**	546
Finance expenses	**84,042**	50,049
Net finance costs	**81,236**	47,313

* The borrowing costs have been capitalised at a rate of 0.3%–5.76% per annum (2009: 3.51%–6.72%).

(ii) Staff costs

	2010	2009
	RMB'000	*RMB'000*
Wages, salaries and other benefits	**119,926**	95,112
Contributions to defined contribution plans	**4,128**	3,721
	124,054	98,833

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

(iii) Other items

	2010	2009
	RMB'000	*RMB'000*
Cost of inventories*	**1,881,981**	1,062,867
Depreciation	**88,754**	69,131
Amortisation of lease prepayments	**1,327**	2,001
(Reversal)/Provision for impairment of doubtful debts	**(3,407)**	13,259
Auditor's remuneration	**2,200**	2,026
(Reversal)/Provision for write-down of inventories	**(1,552)**	13,796
Operating lease charges	**1,251**	1,433

* Cost of inventories includes RMB177,817,000 (2009: RMB153,021,000) relating to staff costs, depreciation expenses and write-down of inventories which are also included in the respective total amounts disclosed separately above or in Note 5(ii) for each of these types of expenses.

6 INCOME TAX EXPENSE

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

	2010	2009
	RMB'000	*RMB'000*
Current tax		
Provision for PRC income tax	**34,194**	7,142
Deferred tax		
Origination and reversal of temporary differences	**8,746**	100
	42,940	7,242

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

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

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

The statutory corporate income tax rate of the Group's operating subsidiaries in the PRC is 25% (2009: 25%).

Pursuant to the income tax rules and regulations of the PRC, foreign-invested enterprises located in the PRC were previously entitled to a tax holiday of a tax-free period for two years from their first profit-making year of operations and thereafter, they are subject to PRC corporate income tax at 50% of the applicable income tax rate for the following three years. Under the grandfathering rules introduced from 1 January 2008, enterprises that had not started to benefit from such tax holidays because they had not yet generated taxable profits, started the tax holiday from 1 January 2008.

In accordance with these regulations, TG Tools is subject to the PRC corporate income tax rate at 50% of its applicable tax rate for 3 years from 2009 and Tiangong Aihe Special Steel Company Limited ("TG Aihe") is subject to the PRC corporate income tax rate at 50% of its applicable tax rate for 3 years from 2010 (2009:0%).

Danyang Tianfa Forging Company Limited ("Tianfa Forging") and Jiangsu Tiangong Titanium Technology Company Limited ("TG Titan") are both subject to the statutory income tax rate of 25%.

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

	2010 ***RMB'000***	2009 *RMB'000*
Profit before income tax	**278,861**	119,320
Notional tax on profit before income tax, calculated using the PRC statutory tax rate of 25% (2009: 25%)	**69,715**	29,830
Effect of preferential tax rates	**(32,156)**	(22,533)
Tax effect of non-deductible expenses	**3,203**	950
Withholding tax on profits of subsidiaries	**2,178**	(1,005)
	42,940	7,242

7 EARNINGS PER SHARE

(i) Basic earnings per share

The calculation of basic earnings per share at 31 December 2010 was based on the profit attributable to ordinary shareholders of RMB235,921,000 (2009: RMB112,078,000) and a weighted average number of ordinary shares outstanding of 419,500,000 (2009: 419,500,000).

(ii) Diluted earnings per share

No dilutive potential ordinary shares were in issue as at 31 December 2010 (2009: Nil).

8 TRADE AND OTHER RECEIVABLES

	2010 ***RMB'000***	2009 *RMB'000*
Trade and bills receivables	**856,843**	624,766
Less: impairment provision for doubtful debts (see Note 8(b))	**(40,113)**	(43,521)
Net trade and bills receivables	**816,730**	581,245
Prepayments	**75,700**	49,670
Non-trade receivables	**48,195**	26,044
	940,625	656,959

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

(a) Ageing analysis

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

	2010	2009
	RMB'000	*RMB'000*
Current	**623,308**	360,734
Less than 3 months past due	**160,276**	148,649
More than 3 months but less than 6 months past due	**10,182**	24,884
More than 6 months but less than 12 months past due	**15,597**	30,375
More than 12 months but less than 24 months past due	**7,367**	16,603
Amounts past due	**193,422**	220,511
	816,730	581,245

(b) Impairment of trade and bills receivables

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

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

	2010	2009
	RMB'000	*RMB'000*
At 1 January	**43,521**	30,262
(Reversal)/Provision for impairment loss recognised	**(3,408)**	13,259
At 31 December	**40,113**	43,521

(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:

	2010	2009
	RMB'000	*RMB'000*
Neither past due nor impaired	**623,308**	360,734
Less than 3 month past due	**56,815**	38,245
More than 3 months but less than 6 months past due	**2,740**	8,148
More than 6 month past due	**1,678**	—
Amounts past due but not impaired	**61,233**	46,393
	684,541	407,127

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.

9 TRADE AND OTHER PAYABLES

	2010	2009
	RMB'000	*RMB'000*
Trade and bills payables	**551,756**	489,636
Non-trade payables and accrued expenses	**98,534**	155,488
	650,290	645,124

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

	2010	2009
	RMB'000	*RMB'000*
Due within 3 months	**502,529**	361,235
Due over 3 months but within 6 months	**36,092**	121,067
Due over 6 months but within 12 months	**4,867**	4,891
Due over 1 year but within 2 years	**6,954**	2,443
Due over 2 years	**1,314**	—
	551,756	489,636

10 DIVIDENDS

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

	2010	2009
	RMB'000	*RMB'000*
Dividend proposed after the reporting date of RMB0.1125 per share (2009: RMB0.0534)	**47,184**	22,401
	47,184	22,401

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

	2010	2009
	RMB'000	*RMB'000*
Dividend in respect of the previous financial year, approved and paid during the year of RMB0.0534 per share (2009: RMB0.0536)	**22,401**	22,485
	22,401	22,485

MANAGEMENT DISCUSSION AND ANALYSIS

The following management discussion and analysis should be read in conjunction with our consolidated financial statements, which were audited by KPMG and reviewed by the audit committee of the Company.

Business Highlights

The Group is mainly engaged in the production and sales of HSS, HSS cutting tools, and die steel. During the year, the Group invested in companies of Republic of Korea, United States and Taiwan with a view to further expand the distribution of its special steel related products in these countries. Our operations are classified into the following product segments:

HSS

HSS involves the purchase of various rare metals, such as tungsten, molybdenum, chromium, vanadium, and other raw materials. It also involves the production of HSS for both the internal supply to the Group's HSS cutting tools production, and the external sale to customers outside the Group. HSS typically has higher pressure and temperature tolerances than regular steel and is more wear resistant. It is widely used in more specific industrial applications such as automotive, machinery manufacture, aviation, chemical processing and electronics industries. The Group commenced its production of HSS in 1992 and HSS accounted for approximately 29% (2009: 31%) of the Group's revenue in 2010.

HSS Cutting Tools

HSS cutting tools involve the production and sales of HSS cutting tools to external customers. Over 70% of its sales were exported to over 30 countries and regions throughout Europe, North America, Africa and the Middle East in 2009 and 2010. 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. In 2010, HSS cutting tools accounted for approximately 22% (2009: 29%) of the Group's revenue.

Die Steel

Die steel involves the purchase of various rare metals and other raw materials, production and sale of die steel to customers. The characteristics and production process of die steel are similar to those of HSS. It is suitable for application in dies and moulds for die casting and machining processes, being applied in various sectors such as automotive industry, aviation and plastic materials. The Group commenced its production of die steel in 2005 and die steel accounted for approximately 35% (2009: 34%) of the Group's revenue in 2010.

Chemical Goods

This segment involves the purchase and sales of chemicals which mainly comprises purified terepthatic acid. Purified terepthatic acid is mainly used for production of household building materials such as blinds and covers. In 2010, chemical goods accounted for approximately 14% (2009: 6%) of the Group's income.

Market Review

Under the stimulus of extensive economic measures implemented by all nations, the world economy has substantially recovered in 2010. With the vast amount of investment in infrastructure by local governments, global manufacturing industry was among the first beneficiaries, which led to a rapid recovery in the Group's HSS product and die steel business.

In addition, China made swift responses right after the financial tsunami by implementing active monetary policies, which effectively boosted domestic demand, and the result was remarkably successful. Apart from the rapid development of projects that aimed to improve the livelihood and infrastructure nationwide, the pace of urbanization in China's rural areas was also accelerated, thereby fostering the rapid growth of the national manufacturing industry of consumables such as automotives. In 2010, China's GDP increased by 10.3% compared with that of 2009. The emergence of China drives the process of national industrialization into an era of rapid growth, paving the way for further expansion of the HSS, tool steel, and die steel market.

Business Review

As the world's leading industry player, the Group captured the development opportunities arising both within and outside China. During the period, the Group achieved an encouraging result with a revenue of RMB2,348,644,000, representing an overall surge of 77%. In particular, the growth of HSS, HSS cutting tools, and die steel were 65%, 34%, and 84%, respectively.

The breakdown of revenue by product is listed as follows:

	2010		2009	
	RMB'000	*%*	*RMB'000*	*%*
HSS	**687,459**	**29.3%**	415,571	31.4%
Die steels	**830,656**	**35.4%**	450,327	34.0%
HSS cutting tools	**508,852**	**21.7%**	380,886	28.8%
Chemical goods	**321,677**	**13.6%**	76,968	5.8%
	2,348,644	**100.0%**	1,323,752	100.0%

According to China Special Steel Enterprises Association (the "CSSEA") and China Machine Tool & Tool Builders' Association, the Group continues to be the largest manufacturer of HSS by volume and HSS cutting tool manufacturer by revenue in China once again in 2010. For the die steel business which commenced in 2005, it has been in bloom via continuous exploration of new markets and upgrade in production technology throughout the last few years. In 2010, the Group's die steel production volume has exceeded 50,000 tons per annum, ranking among the top five die steel manufacturers in China according to the CSSEA.

Situated in Danyang, Nanjing, our production base has a site area of 189,000 sq. m. With our vertically integrated productions of HSS and HSS cutting tools, the Group effectively reduced wastage by recycling scrap through internal absorption, thereby lowering our

production costs. In addition to the cost advantage over other industry players, the Group was also equipped with a set of sophisticated automatic production facilities to offer the market with the most diversified range of products compliant with both national and international standards. Technological advancement also facilitated the Group to continuously develop new products, in order to establish itself as a leading, world-renowned one-stop supplier of HSS and HSS cutting tools in new materials.

In view of the financial crisis in 2008 and 2009, the Group has adopted a set of management measures on operating capital to maintain its solid financial condition. The Group implements stringent cost control measures, and by virtue of our large scale, we manage to maintain our advantageous position in bargaining over suppliers via centralized procurement amidst the surge of raw material prices, hence keeping the raw material costs at a relatively favorable level. Meanwhile, as the industry leader, the Group is also able to pass part of the increase in costs on to our customers, which alleviates the pressure brought by soaring costs. Furthermore, we utilize centralized reporting system and budget analysis as the basis for accessing the performance of every plant, so that capital expenditure and operating expenses are further lowered, while we put more efforts to raise the production efficiency of each individual plant.

HSS — accounting for approximately 29% of the Group's overall revenue.

During the reporting period, revenue generated from HSS increased significantly by approximately 65% from last year, amounting to RMB687,459,000 (2009: RMB415,571,000), which was primarily attributable to the significant growth of demand for HSS in China. Amidst the financial crisis, the Chinese Government has devoted a tremendous amount of investment to stimulate the economy, which specifically took an active step to conduct the reconstruction of infrastructure and accelerated the pace of urbanization and industrialization in rural areas, thereby driving the demand for HSS. Meanwhile, the government also implemented favorable policies to stimulate domestic demand, which, coupled with the gradual increase in the level of national income and living standard, led to a rapid growth cycle of consumables such as automotives and electronics, and even industry such as aviation and transportation machinery, and in turn sharply raised the domestic demand for HSS. In 2010, HSS domestic sales income has shown an impressive growth of approximately 76%, accounting for about 91% of HSS sales, while export remained relatively stable and accounted for less than 9% of HSS sales.

	2010		2009	
	RMB'000	*%*	*RMB'000*	*%*
HSS				
Domestic	**625,952**	**91.1%**	355,038	85.4%
Export	**61,507**	**8.9%**	60,533	14.6%
	687,459	**100.0%**	415,571	100.0%

HSS cutting tools—accounting for approximately 22% of the Group's overall revenue.

During 2010, revenue generated from HSS cutting tools increased by approximately 34% from the corresponding period in 2009 to RMB508,852,000 (2009: RMB380,886,000) with a 72% and 22% growth in domestic sales and export, respectively. This was mainly attributable to the recovery of investment activities such as real estate and manufacturing industry as a result of various degree of recovery shown in the global economy, hence stimulated the surge in the utilization rate of cutting tools and drove the global demand for HSS cutting tools. Although the growth of domestic sales market exceeded that of the export market, HSS cutting tool business was still dependent on export. During the period, the proportion of export fell to approximately 70%, while that of domestic sales increased to approximately 30%.

	2010		2009	
	RMB'000	*%*	*RMB'000*	*%*
HSS cutting tools				
Domestic	**152,150**	**29.9%**	88,545	23.2%
Export	**356,702**	**70.1%**	292,341	76.8%
	508,852	**100.0%**	380,886	100.0%

Die steel—accounting for approximately 35% of the Group's overall revenue

Die steel has experienced rapid growth and has become the Group's greatest revenue source. In 2010, revenue generated from die steel increased by approximately 84% from the corresponding period in 2009 to RMB830,656,000 (2009: RMB450,327,000), while domestic sales and export recorded a 14% and 662% growth, respectively. Benefited from the capital investment in an attempt to boost economy worldwide, the launch of die steel promptly captured the development opportunity within the domestic and foreign industry, especially in the automotive and aviation sectors, which led to a rapid growth in the die steel business. In particular, during the second half of 2010, the export of die steel showed a strong growing trend. Metal and plastic material manufacturing industry as well as the automotive market in North America and Europe began to recover, under which quality and durable die steel was well received by foreign customers, resulting in a demand comparable to the steady growth trend in China. In addition, a few material orders was placed by machinery customers in the newly developed Korea market. During the period, the distribution of domestic sales and export was even, accounting for approximately 55% and 45%, respectively.

	2010		2009	
	RMB'000	*%*	*RMB'000*	*%*
Die Steel				
Domestic	**456,916**	**55.0%**	401,276	89.1%
Export	**373,740**	**45.0%**	49,051	10.9%
	830,656	**100.0%**	450,327	100.0%

Chemical goods — accounting for approximately 14% of the Group's overall revenue

The Group started trading of chemical goods such as purified terepthatic acid since the second half of 2009. In 2010, revenue of sales of chemical goods increased significantly by 318% from last year, amounting to RMB321,677,000 (2009: RMB76,968,000). All sales are made to customers which produce household building materials such as blinds and covers for export.

FINANCIAL REVIEW

Net profit attributable to equity holders of the Company increased significantly by approximately 110% from RMB112,078,000 in 2009 to RMB235,921,000 in 2010. The significant increase was mainly attributable to the continuous expansion of domestic demand and acceleration of industrialization policies as well as the gradual recovery of overseas markets. The three major business segments of the Group recorded satisfactory growth, which together with the Group's determination to maintain strict control on operating expenses, the Company's profitability was further demonstrated.

Revenue

Revenue for the Group for 2010 totaled RMB2,348,644,000, representing an impressive increase of approximately 77% as compared with RMB1,323,752,000 in the previous corresponding period. The increase was mainly attributable to rebound in the sales volume and sales price of HSS and HSS cutting tools prior to the financial tsunami. The die steel segment grew in line with opportunities brought forth by rapid domestic and overseas industrial developments, with sales exceeding the HSS business and became the largest revenue source of the Group.

Cost of sales

The Group's cost of sales was RMB1,881,981,000 in 2010, as compared with RMB1,062,867,000 in 2009, representing an increase of approximately 77%, and was in line with the period's revenue growth. As a percentage of total revenue, the Group's cost of sales decreased slightly to 80.1% during the period (2009: 80.3%).

Gross margin

For 2010, the overall gross margin was approximately 19.9% (2009: 19.7%). The gross margin of HSS and HSS cutting tools remained stable, however gross margin growth of the die steel business was offset by higher sales contribution of the lower margin chemicals goods segment, thereby resulting in a stable overall gross margin as compared with last year.

Set out below is the gross margin of our four products in 2009 and 2010:

	2010	2009
HSS	**19.9%**	20.9%
Die steels	**29.2%**	24.8%
HSS cutting tools	**16.4%**	16.2%
Chemical goods	**1.1%**	1.1%

HSS

Gross margin of HSS slightly decreased from 20.9% in 2009 to 19.9% in 2010. The decrease was mainly attributable to increases in raw material costs such as rare metals and scrap steel during the period.

HSS cutting tools

In 2010, the gross margin of HSS cutting tools remained stable at 16.4% (2009: 16.2%).

Die steel

The gross margin of die steel increased from 24.8% in 2009 to 29.2% in 2010 as a result of the higher production rate of die steel and the corresponding increase of higher profit market product specifications.

Other income

The Group's other income totaled RMB23,015,000 in 2010, representing an increase of RMB12,045,000 from RMB10,970,000 in 2009. The increase in other income was mainly attributable to the gain on disposal of property, plant and equipment amounting to RMB9,430,000 (2009: RMB350,000) and the reversal of impairment loss for doubtful debts amounting to RMB3,407,000 (2009: Nil).

Distribution expenses

The Group's distribution expenses in 2010 were RMB40,759,000 (2009: RMB29,573,000), representing an increase of approximately 37.8%. The increase was mainly attributable to increase in commission and transportation expenses, as a result from increases in sales. For 2010, the distribution expenses as a percentage of revenue was 1.7% (2009: 2.2%).

Administrative expenses

For 2010, the Group's administrative expenses increased from RMB60,810,000 in 2009 to RMB78,918,000, mainly due to the increase of the staff cost and professional fees. For 2010, the administrative expenses as a percentage of revenue were 3.4% (2009: 4.6%).

Net finance cost

The Group's finance income was RMB2,806,000 for 2010, representing a slight increase from RMB2,736,000 in 2009, primarily due to interest rate adjustments in 2010. The Group's finance expense was RMB84,042,000 in 2010, representing an increase of 67.9% from RMB50,049,000 in 2009. The increase was attributable to exchange loss of RMB21,118,000 and the increase in bank borrowings as compared with last year.

Income tax expense

The Group's income tax expense increased by over 493% from RMB7,242,000 in 2009 to RMB42,940,000 in 2010. The increase was mainly due to the increase in profit tax as operating profit increased and applicable tax rate increased as tax exemption for Tiangong Aihe Special Steel Company Limited ended in 2009.

Profit for the year

As a result of the factors discussed above, the Group's profit significantly increased by approximately 110% from RMB112,078,000 in 2009 to RMB235,921,000 in 2010. The net profit margin increased from 8.5% in 2009 to 10.0%.

Profit attributable to equity holders of the Company

For 2010, profit attributable to equity holders of the Company was RMB235,921,000 (2009: RMB112,078,000), representing an increase of approximately 110%.

OUTLOOK

In 2010, the Group strived to make breakthroughs in its business, creating a new milestone in terms of results and profits, while laying a comprehensive foundation for future development. Production equipments and capacity have been completely upgraded via continuous scientific research and technological advancement. Therefore, we are already equipped with the capacity to meet the excessive orders in the coming year and maintain our leading position in terms of both sales and production volume. However, we will strive to further improve our products' quality in an attempt to become the world best HSS integrated supplier.

In view of the plan imposed on special steel industry by the national "Twelfth Five Year" plan, it is encouraged to develop alternatives for import categories and upgrade substitutes to meet the increasing domestic demand. The Group, with its dedication to research, development, and innovation, successfully captured the technology of manufacturing titanium and titanium alloy materials in 2010. As the key new materials in the future, titanium and titanium alloy are superior to special steel and aluminum alloy in respect of weight and strength, and are extensively applied in various industry including aviation, marine operation, and medication. Along with the increasingly extensive development and usage of titanium alloy, the demand for application technology is also raising gradually. We expect an optimistic market prospect of titanium alloy in China and a significant growth in its demand. The Group aims to become the largest one-stop titanium manufacturing base in China in futures. We expect that the production lines for titanium and titanium alloy will commence production in mid 2011, reaching a production capacity of 1,000 tons per annum.

In 2011, the Group will keep on its determined objectives, with a devotion to maintain our leading position as the largest integrated HSS and HSS cutting tool manufacturer in China. At the same time, we will also dedicate our efforts to shape our die steel business as the most professional in the industry, and further increase our production capacity to meet the opportunities brought by the recovery of global economy and emergence of China. Furthermore, we will diversify our industry footprint to titanium and titanium alloy, and actively pursue development across the special steel sector. As the leading industry player, we will continuously develop new materials and high value-added technology, and produce products of high quality and profitability in an attempt to create long-term value for our shareholders and maximize the return of their investment.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2010, the Group's current assets mainly included cash and cash equivalents of approximately RMB315,831,000, inventories of approximately RMB1,218,332,000, trade and other receivables of RMB940,625,000 and pledged deposits of RMB136,635,000. As at 31 December 2010, the interest bearing borrowings of the Group were RMB1,855,750,000, RMB1,222,250,000 of which were repayable within one year and RMB633,500,000 of which were repayable after more than one year. The Group's gearing ratio (calculated based on the total outstanding interest-bearing debt divided by the total assets) was 42.8%, higher than the 40.9% as at 31 December 2009. The increase was mainly attributable to the increase in investment in production equipment. As at 31 December 2010, borrowing of RMB1,765,000,000 were in RMB and USD13,530,000 were in USD. The borrowings of the Group were subject to interest payable at rates ranging from 0.30% to 5.76%. The Group did not enter into any interest rate swap to hedge itself against the risks associated with interest rates.

CAPITAL EXPENDITURE AND CAPITAL COMMITMENTS

For 2010, the Group's net increase in fixed assets amounted to RMB223,823,000, which were mainly for the production plant and facilities for die steel and were financed by a combination of our internal cash resources and operating cash flow and bank borrowing. As at 31 December 2010, capital commitments were RMB393,025,000, of which RMB108,061,000 were contracted and RMB284,964,000 were authorised but not contracted for. The majority of the capital commitments were related to investment to completion production equipment installation.

FOREIGN EXCHANGE EXPOSURE

The Group's revenues were denominated in RMB, US dollars and Euros, with RMB accounting for the largest portion (approximately 52.6%). Approximately 47.4% of total sales and the Group's costs and operating profit were subject to exchange rate fluctuations. The Group has put in place measures such as monthly review of product pricing in light of foreign exchange fluctuation and incentivising overseas customers to settle balances on a more timely basis to minimize the financial impact from exchange rate exposure.

PLEDGE OF ASSETS

As at 31 December 2010, the Group pledged certain bank deposits amounting to approximately RMB136,635,000 (2009: RMB119,358,000).

EMPLOYEES' REMUNERATION AND TRAINING

As at 31 December 2010, the Group employed around 3,826 employees (31 December 2009: around 4,419). Total staff costs during the year amounted to RMB124,054,000 (2009: RMB98,833,000). The Group provided employees with remuneration packages comparable to the market rates and employees are further rewarded based on their performance according to the framework of the Group's salary, incentives and bonus scheme. In order to enhance the Group's productivity, and further improve the quality of the Group's human resources, the Group provides compulsory continuous training for all of its staff on a regular basis.

CONTINGENT LIABILITIES

The Company had no material contingent liabilities as at 31 December 2010.

FINAL DIVIDEND

The Directors declared a final dividend of RMB0.1125 per share (2009: RMB0.0534) payable in cash on or before 30 July 2011 to shareholders whose names appear on the Register of Member as at the close of business on 23 May 2011. In order to qualify for the final dividend, all transfer of Shares must be lodged with the branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, by no later than 4:30 p.m. on Tuesday, 17 May 2011. The book close period will commence from 18 May 2011 to 23 May 2011 (both dates inclusive).

SHARE OPTIONS SCHEME

The Company adopted a share options scheme, but the Company has not granted any share options during 2010. Subsequent to the end of the reporting period, on 28 January 2011, a total of 4,970,000 share options were granted to certain of the directors and employees of the Company in respect of their services to the Group in the forthcoming year. These share options vest on 1 July 2012 and have an exercise price of HK$5.10 per share and an exercise period ranging from 1 July 2012 to 30 June 2016. The price of the Company's shares at the date of grant was HK$5.10 per share.

At the date of approval of these financial statements, there were 4,970,000 share options outstanding under the Scheme, which represented approximately 1.2% of the Company's shares in issue as at that date.

PURCHASE, SALES OR REDEMPTION OF SHARES

Subsequent to the end of the reporting period, on 26 January 2011, an aggregate of 32,000,000 warrants were created and issued to not less than six placees. Each warrant entitles the holder thereof to subscribe for one ordinary share of US$0.01 of the Company at a subscription price of HK$4.00 per share, payable in cash and subject to adjustment, from the date of issue to 25 January 2013.

Most of the proceeds from the warrant subscription, being HK$640,000, had been used for payment of the costs and expenses in connection with the warrant subscription. Assuming the full exercise of the subscription rights attaching to the warrants at the initial subscription

price of HK$4.00 per new share, the total funds to be raised is approximately HK$128,000,000. It is intended that the funds so raised be applied as general working capital and as funds for future development of the Group.

Save for disclosed above, neither the Company nor any of its subsidiaries purchases, sold or redeemed any of the Company's shares during the year ended 31 December 2010 and up to the date of this report.

CORPORATE GOVERNANCE

During the year ended 31 December 2010, the Company has, so far where applicable, met the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") save that for a short period of time, the Company only had two independent non-executive directors and the Audit Committee comprises of only two independent non-executive directors as a result of the resignation of an independent non-executive director.

AUDIT COMMITTEE

The Audit Committee comprises of three independence non-executive directors. The Audit Committee held a meeting on 29 March 2011 to consider and review the annual results of the Group and to give their opinion and recommendations to the Board. The Audit Committee considers that the 2010 annual results of the Company have complied with the applicable accounting standards and the Company has made appropriate disclosure thereof.

THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

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

PUBLICATION OF ANNUAL REPORT ON THE STOCK EXCHANGE WEBSITE

The Company's 2010 annual report will be submitted to the Stock Exchange for uploading onto the Stock Exchange's website (www.hkex.com.hk) as well as the Company's website (www.tggj.cn) in due course.

APPRECIATION

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

By Order of the Board
Tiangong International Company Limited
Zhu Xiaokun
Chairman

Hong Kong, 30 March 2011

As at the date of this announcement, the directors of the Company are:

Executive Directors: ZHU Xiaokun, ZHU Zhihe, YAN Ronghua and WU Suojun
Independent non-executive Directors: LI Zhengbang, GAO Xiang and LEE Cheuk Yin, Dannis

* *For identification purpose*