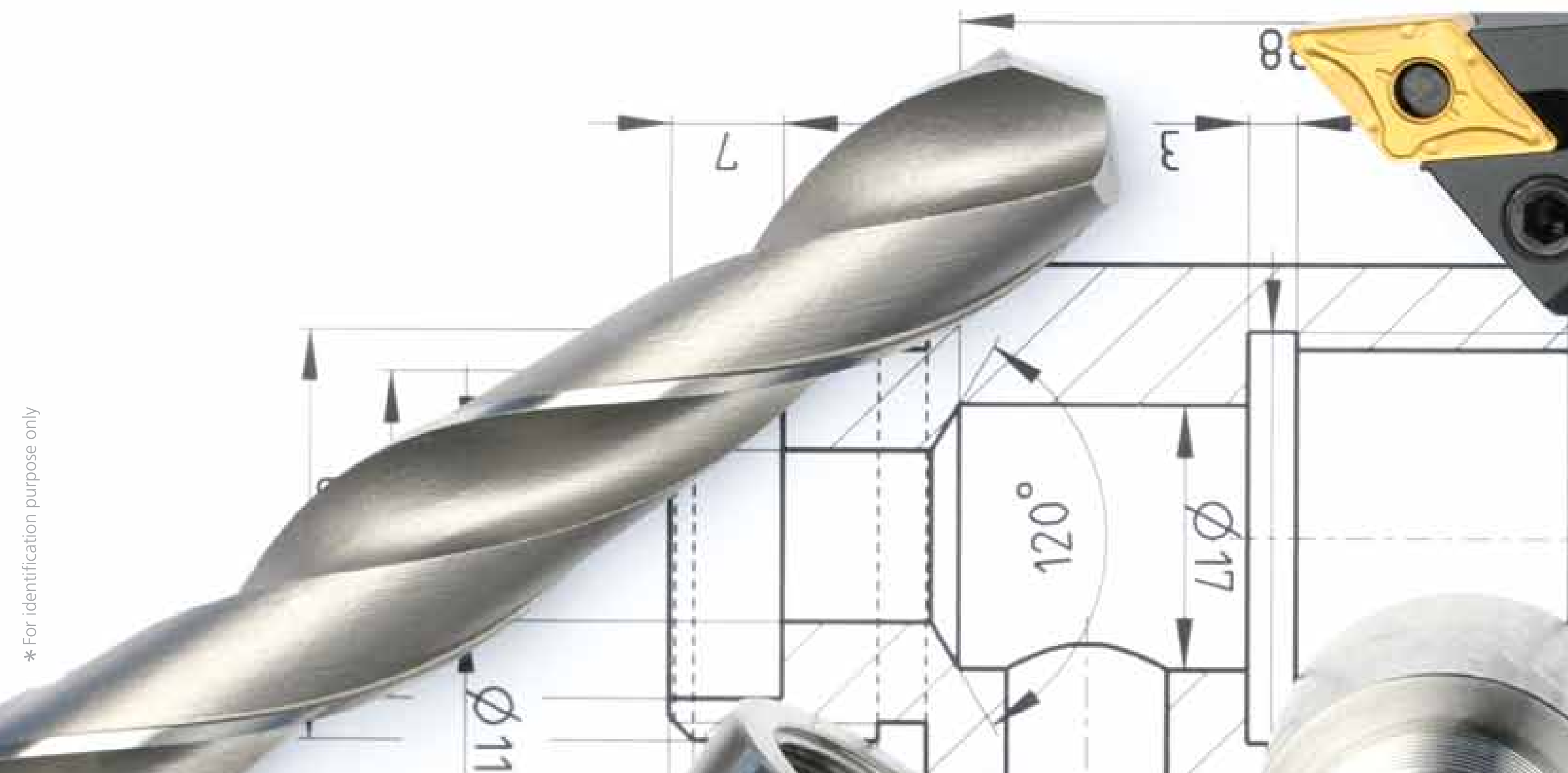
天工國際有限公司*

TIANGONG INTERNATIONAL COMPANY LIMITED

(incorporated in the Cayman Islands with limited liability)

Stock Code : 826

ANNUAL REPORT 2010



* For identification purpose only

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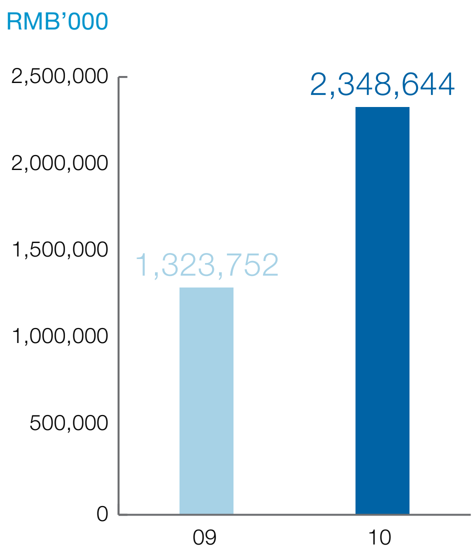
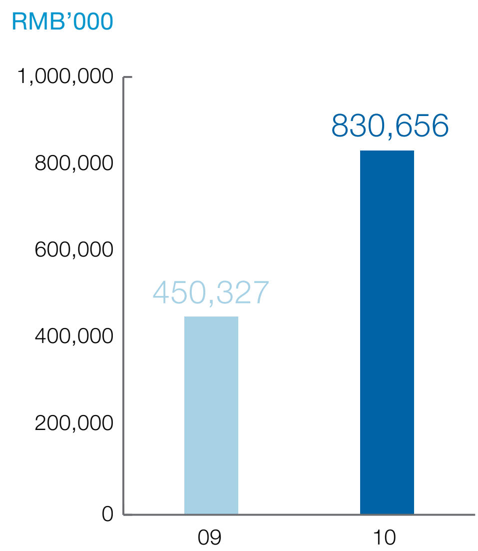
FINANCIAL HIGHLIGHTS

	Audited 2010 RMB'000	2009 RMB'000
Revenue	**2,348,644**	1,323,752
Net profit attributable to equity holders of the Company	**235,921**	112,078
Earnings per share (RMB)	**0.56**	0.27
Proposed final dividend per share (RMB)	**0.1125**	0.0534

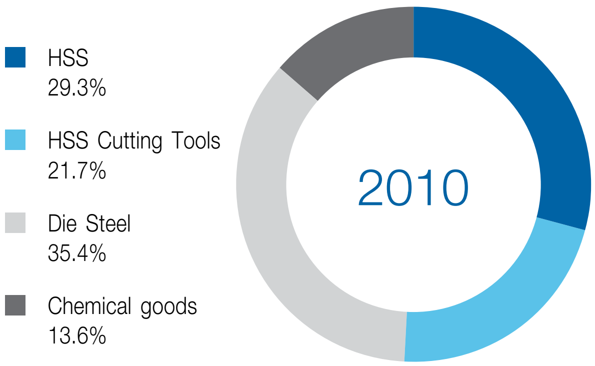
Revenue

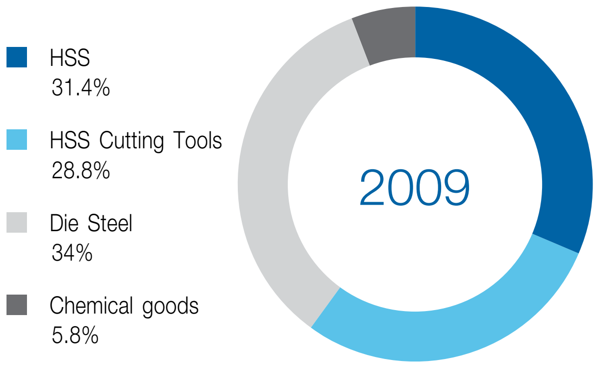


Revenue from Sales of Die Steel



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 2010.

2010 was an encouraging year, with both sales and net profit of the Group achieving a record high RMB2,348,644,000 and RMB235,921,000 respectively.

Walking out from the financial darkness in 2008 and 2009, the worldwide manufacturing sector underwent a unanimous industry consolidation process. Leveraging on our diversified services and products offerings, balanced export and domestic sales strategies, and effective cost control, Tiangong International continues to be the largest integrated High Speed Steel ("HSS") and HSS cutting tools manufacturer in China, in terms of revenue and volume respectively; hence providing our customers with premium products and services well-above international standards. Over the year, the Group continued to exemplify its leadership status and became the forerunner in leading the industry to capture development opportunities brought forth by favorable economic polices worldwide.

In 2010, revenue of the Group significantly increased by 77% to RMB2,348,644,000 from RMB1,323,752,000 in the previous year. In particular, sales of HSS, HSS cutting tools and die steel recorded a growth of 65.4%, 33.6% and 84.5% respectively. Net profit attributable to equity holders of the Company was RMB235,921,000, representing an impressive increase of 110.5% from 2009. Basic earnings per share for the year was RMB0.56, representing an increase of 110.5% from RMB0.27 in 2009. To reward our shareholders for their continual support, the Board proposed a final dividend of RMB0.1125 per share for the year ended 31 December 2010.

As the beneficiary of China's expanding domestic demand and government policies stimulating industrialization nationwide, coupled with the gradual recovery of overseas economic activities and capital expenditure, the demand for the Group's HSS and HSS cutting tools has rebounded to the pre-crisis level. The Group's HSS production output continues to top the world with 40,000 tons per annum, whilst the relatively new die steel segment has grown rapidly in conjunction with the fast developing overseas and domestic industrial, automobile and aviation sectors. The production output of die steel has reached over 50,000 tons per annum in 2010, ranking amongst the top five in China.

Chairman's Statement

In light of the industry's rapid growth and backed by our sizable one-stop production model, quality product range and extensive application; the Group became the principal supplier to a number of renowned global and domestic customers. As a result, the Group expects a full production schedule in the foreseeable future. To cope with upcoming orders, technical modifications on existing production lines will be implemented as to increase production volume and to improve the passing rate of finished products. Furthermore, strict internal control over production costs and expenses will be adhered to; thus enhancing the Group's overall profitability.

Tiangong International actively pursues in research and development with a vision to continually improve production quality and expand our business scope, as to increase our revenue stream. With years of experience in the industry and a good command in relevant technologies, the Group is now developing a new product line of titanium alloys. The Board believes that in the near future, titanium alloy will become an important industrial material based on its remarkable traits. With its lightness, extra hardness, higher corrosion resistance and non-magnetic nature, titanium alloy will be a far better material than special steels and aluminum alloy, and is therefore widely applied in the aviation, marine engineering and medical industries. As the development and use of titanium products become increasingly popular, the demand for titanium alloy in China is expected to rise significantly; hence a promising market outlook is anticipated.

In addition to achieving notable production volume and financial results in 2010, Tiangong International also took an active role in laying a solid foundation for its future development. In 2011, Tiangong will strive to maintain its dominant position as the leading integrated HSS and HSS cutting tools manufacturer in China through technical enhancements on our existing production facilities, active development in premium and high-margin products. Coupled with capacity expansion, further market share will be captured to create long-term value and fruitful rewards for our shareholders.

Finally, on behalf of the Board, I would like to express my sincere gratitude to our management and staff for their outstanding performance over the year, as their contribution was the key to the Group's success. I would also like to take this opportunity to cordially thank all shareholders, customers and business partners for their support and assistance.

Tiangong International Company Limited
Zhu Xiaokun
Chairman

Hong Kong, 30 March 2011

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.

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.

Management Discussion and Analysis

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 Enterprise 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 tools 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.

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.

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 of RMB2,736,000 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 future. 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 and will be financed by a combination of our internal cash resources and operating cash flow and bank borrowing.

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.

DIRECTORS & SENIOR MANAGEMENT

Executive Directors

Mr. ZHU Xiaokun, aged 54, 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 60, 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 Yuming 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. YAN Ronghua, aged 42, 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.

Mr. WU Suojun, aged 38, 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.

Independent Non-Executive Directors

Mr. LI Zhengbang, aged 78, joined the Group in 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 67, joined the Group in 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. LEE Cheuk Yin, Dannis, aged 40, joined the Group in 2010 as an Independent Non-Executive Director, is a graduate of Bachelor of Business Administration from Texas A&M University in the United States and is an associate member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. Mr. Lee worked in an international accounting firm and an international cigarette manufacturer. Mr. Lee is an independent non-executive director of Geely Automobile Holdings Limited (stock code: 175) and a non-executive director of Kam Hing International Holdings Limited (stock code: 2307) both are listed companies in Hong Kong. Mr. Lee was a non-executive director of Norstar Founders Group Limited (10 October 2003 to 15 January 2009), and an executive director of AMVIG Holdings Limited (26 March 2004 to 1 March 2010).

Senior Management

Mr. SHI Guorui, aged 64, is the chief financial officer of the Group. He graduated from the Industrial Accounting Department of the Soochow University 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 Appliances and Materials Factory. He has extensive experience in finance and accounting.

Mr. ZHU Xingyuan, aged 59, 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 52, 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. JIANG Rongjun, aged 41, 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 51, is an assistant 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. CHEUNG Wah Lung, Warren, aged 31, is the financial controller of the Company. Mr. Cheung joined the Group in November 2010. Prior to joining the Group, Mr. Cheung was a manager with the assurance and advisory business services department of Ernst & Young Certified Public Accountants. Mr. Cheung graduated with a Bachelor of Business and Administration degree from the Simon Fraser University in Canada. He is a member of the American Institute of Certified Public Accountants.

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") under 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. Regular 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 2010, with all the Directors attending. 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. Yan Ronghua and MR. Wu Suojun), and three Independent Non-Executive Directors (Mr. Li Zheng Bang, Mr. Gao Xiang and Mr. Lee Cheuk Yin, Dannis). Biographical details of the Directors of the Group as at the date of this report are set out on page 15 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.

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 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 three Independent Non-Executive Directors, namely, Mr. Lee Cheuk Yin, Dannis, Mr. Gao Xiang and Mr. Li Zhengbang. The Chairman of the Audit Committee, Mr. Lee Cheuk Yin, Dannis, 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 2010 and one meeting to date in 2011 with full attendance. The meetings were held together with the external auditors of the Company, the Chief Financial Officer, and the Financial Controller 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, and three Independent Non-Executive Directors, namely, Mr. Zhu Xiaokun, Mr. Gao Xiang, Mr. Lee Cheuk Yin, Dannis 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 10 to the financial statements. 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 2010 and two meetings to date in 2011, with full attendance.

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 and three Independent Non-Executive Directors, namely, Mr. Zhu Xiaokun, Mr. Gao Xiang, Mr. Li Zhengbang and Mr. Lee Cheuk Yin, Dannis. 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 2010 and two meetings to date in 2011, with full attendance.

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

The 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

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 2010 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 2010, the remuneration paid or payable to KPMG in respect of statutory audit services was RMB2,200,000.

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 year ended 31 December 2010.

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 2010 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 17 to the financial statements.

Financial Statements

The profit of the Group for the year ended 31 December 2010 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 89.

Results and Appropriations

The results of the Group for the year ended 31 December 2010 are set out in the consolidated statement of comprehensive income on page 31.

The Board proposed a final dividend payment of RMB0.1125 per share for the financial year ended 31 December 2010 (2009: RMB0.0534).

Charitable Donations

Charitable donations made by the Group during the year amounted to RMB1,330,000 (2009: RMB1,300,000).

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 14 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 2010, calculated in accordance with the Companies Law (Cap. 22) (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to RMB860,729,000.

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.

Directors

The Directors during the financial year were:

Executive Directors

Mr. Zhu Xiaokun
Mr. Zhu Zhihe
Mr. Yan Ronghua
Mr. Wu Suojun (Appointed on 28 December 2010)
Mr. Zhu Mingyao (Resigned on 28 December 2010)

Non-Executive Directors

Mr. Thong Kwee Chee (Resigned on 4 January 2011)

Independent Non-Executive Directors

Mr. Li Zhengbang
Mr. Gao Xiang
Mr. Lee Cheuk Yin, Dannis (Appointed on 1 September 2010)

Directors will retire by rotation in accordance with the requirement of the Listing Rules in the annual general meetings. 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. Lee Cheuk Yin, Dannis 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 2010, 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 (%)
Mr. Zhu Xiaokun (Notes)	Corporate interests	220,183,000(L)	52.49

Notes:

As at 31 December 2010,

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

(2) Silver Power (HK) Limited, which was wholly-owned by Zhu Xiaokun, held 10,183,000 Ordinary 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(L)	89.02
Yu Yumei	THCL	Beneficial owner	5,489(L)	10.98

(L) represents long position

Save as disclosed above, as at the annual report date, as far as the Company's directors are aware, none of the Company's directors and chief executive 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 2010, save for the Company's Directors or chief executives as disclosed above, the following persons have an interest or short position in the shares or the underlying shares of the Company which are 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 (%)
Yu Yumei (Note 1)	210,000,000 (L)	50.06
THCL (Note 1)	210,000,000 (L)	50.06
Li Tzar Kai Richard (Note 2)	49,974,000 (L)	11.91
Chiltonlink Limited (Notes 3 and 4)	49,974,000 (L)	11.91
Pacific Century Investment Holdings No. 1 Limited (Note 4)	49,974,000 (L)	11.91
Pacific Century Investment Holdings (Cayman Islands) Limited (Note 4)	49,974,000 (L)	11.91
Bridge Holdings Company Limited (Note 4)	49,974,000 (L)	11.91
Bridge Partners, L.P. (Note 4)	49,974,000 (L)	11.91
Bridge Investment Holdings Company Limited (Note 4)	49,974,000 (L)	11.91
PineBridge Capital Partners LLC (formerly named as AIG Capital Partners, Inc.) (Note 4)	20,644,000 (L)	4.92
PineBridge GEM II G.P., Co. (formerly named as AIG GEM II G.P., Co.)	20,644,000 (L)	4.92
PineBridge GEM II G.P., L.P. (formerly named as AIG GEM II G.P., L.P.) (Note 4)	20,644,000 (L)	4.92
PineBridge Global Emerging Markets Partners II, L.P. (formerly named as AIG Global Emerging Markets Fund II, L.P.) (Note 4)	20,644,000 (L)	4.92
Bridge Investment Holdings (Hong Kong) Limited (Note 4)	29,330,000 (L)	7.00
Bridge Investment Holdings Limited Sàrl (Note 4)	29,330,000 (L)	7.00
Bridge Investment Holdings (Gibraltar) No. 1 Limited (Note 4)	29,330,000 (L)	7.00
PineBridge Investments Asia Limited (formerly named as AIG Global Investment Corporation (Asia) Ltd.) (Notes 4 and 5)	29,330,000 (L)	7.00
PineBridge Asia Partners II G.P. Limited (formerly named as AIG Asian Opportunity II G.P. Ltd.) (Note 4)	29,330,000 (L)	7.00
PineBridge Asia Partners II G.P., L.P. (formerly named as AIG AOF II G.P., L.P.) (Note 4)	29,330,000 (L)	7.00
PineBridge Asia Partners II, L.P. (formerly named as AIG Asian Opportunity Fund II, L.P.) (Note 4)	29,330,000 (L)	7.00

Notes:

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

(2) Mr. Li Tzar Kai Richard reported that he is deemed to be interested in the Shares deemed to be interested in by Chiltonlink Limited, which was reported 100% controlled by Mr. Li.

(3) Chiltonlink Limited reported that it is deemed to be interested in the Shares deemed to be interested in by Pacific Century Investment Holdings No. 1 Limited which was reported 100% controlled by Chiltonlink Limited.

(4) Interests in controlled entities as reported are as follows:

Name of controlled entity	Name of controlling shareholder	% of control
Pacific Century Investment Holdings (Cayman Islands) Limited	Pacific Century Investment Holdings No. 1 Limited	100
Bridge Holdings Company Limited	Pacific Century Investment Holdings (Cayman Islands) Limited	100
Bridge Partners, L.P.	Bridge Holdings Company Limited	100
Bridge Investment Holdings Company Limited	Bridge Partners, L.P.	100
Pinebridge Capital Partners LLC	Bridge Investment Holdings Company Limited	100
Pinebridge GEM II G.P, Co.	Pinebridge Capital Partners LLC	100
Pinebridge GEM II G.P, L.P.	Pinebridge GEM II G.P, Co.	100
Pinebridge Global Emerging Markets Partners II, L.P.	Pinebridge GEM II G.P, L.P.	100
Bridge Investment Holdings (Hong Kong) Limited	Pinebridge Global Emerging Markets Partners II, L.P.	100
Bridge Investment Holdings Limited Sari	Bridge Investment Holdings (Hong Kong) Limited	100
Bridge Investment Holdings (Citicaltar) No. 1 Limited	Bridge Investment Holdings Limited Sari	100
Pinebridge Investments Asia Limited	Bridge Investment Holdings (Citicaltar) No. 1 Limited	100
Pinebridge Asia Partners II G.P. Limited	Pinebridge Investments Asia Limited	100
Pinebridge Asia Partners II G.P, L.P.	Pinebridge Asia Partners II G.P. Limited	100
Pinebridge Asia Partners II, L.P.	Pinebridge Asia Partners II G.P,L.P.	100

(5) PineBridge Investments Asia Limited reported that it is deemed to be interested in the Shares of its client as investment manager.

(6) PineBridge Global Emerging Markets Partners II, L.P., PineBridge Asia Partners II, L.P., and American International Assurance Company (Bermuda) Limited (the "Disposing Shareholders") have disposed all their interests in the Company during the period from 4 January to 6 January 2011.

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 15 to 16.

Share Options Scheme

The Company adopted a share options scheme (the "Scheme"), but the Company has not granted any share options during the year. 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, the Company had 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.

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.

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

Subsequent to the end of the reporting period, on 26 January 2011, an aggregate of 32,000,000 warrants were created and issued to six individual investors. 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 annual 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 independent 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.

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 2010 is as follows:

	Percentage of the Group's total	
	Sales	Purchases
The largest customer/supplier	13.7%	7.1%
Five largest customers/suppliers in aggregate	32.7%	27.8%

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 6 January 2010, by which TG Group leased to TG Tools the office premises at Tiangong building for a term commencing from 1 January 2010 to 31 December 2012 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.

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 6 January 2010, 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 January 2010 to 31 December 2012. The fixed annual fee was determined under normal commercial terms and with reference to an independent Valuer. 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.

Report of the Directors

Financial Information Summary

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 90. This summary does not form part of the audited financial statements.

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.

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, 30 March 2011

KPMG

Independent auditor's 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 89, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, 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 for the consolidated financial statements

The directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 contents 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view 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 Auditor's Report

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards 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

30 March 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
Revenue	5	**2,348,644**	1,323,752
Cost of sales		**(1,881,981)**	(1,062,867)
Gross profit		**466,663**	260,885
Other income	6	**23,015**	10,970
Distribution expenses		**(40,759)**	(29,573)
Administrative expenses		**(78,918)**	(60,810)
Other expenses	7	**(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	8(i)	**(81,236)**	(47,313)
Share of losses of associates	18	**(974)**	—
Share of loss of a jointly controlled entity	19	**(648)**	—
Profit before income tax	8	**278,861**	119,320
Income tax expense	9	**(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)	13		
Basic and diluted		**0.56**	0.27

The notes on Page 36 to 89 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in Note 31(b).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
Non-current assets			
Property, plant and equipment	14	**1,572,108**	1,348,285
Lease prepayments	15	**61,312**	62,639
Goodwill	16	**21,959**	21,959
Interest in associates	18	**41,281**	—
Interest in a jointly controlled entity	19	**4,132**	—
Other financial assets	20	**10,000**	10,000
Deferred tax assets	30(b)	**9,645**	10,032
		1,720,437	1,452,915
Current assets			
Inventories	21	**1,218,332**	1,252,748
Trade and other receivables	22	**940,625**	656,959
Pledged deposits	23	**136,635**	119,358
Time deposits	24	**—**	192,000
Cash and cash equivalents	25	**315,831**	63,467
Assets classified as held for sale	26	**—**	64,778
		2,611,423	2,349,310
Current liabilities			
Interest-bearing borrowings	27	**1,222,250**	1,379,700
Trade and other payables	28	**650,290**	645,124
Income tax payables	30(a)	**19,665**	14,964
Deferred income	29	**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	27	**633,500**	177,000
Deferred income	29	**7,190**	8,351
Deferred tax liabilities	30(c)	**16,561**	8,202
		657,251	193,553
Net assets		**1,781,242**	1,567,722
Capital and reserves			
Share capital	31(a)/(c)	**31,806**	31,806
Reserves	31(d)	**1,749,436**	1,535,916
Total equity		**1,781,242**	1,567,722

Approved and authorised for issue by the board of directors on 30 March 2011.

Zhu Xiao Kun
Directors

Yan Rong Hua
Directors

The notes on Page 36 to 89 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
Non-current assets			
Property, plant and equipment	14	**75**	107
Interest in subsidiaries	17	**860,353**	928,127
Interest in associates	18	**36,021**	—
		896,449	928,234
Current assets			
Cash and cash equivalents	25	**1,083**	1,771
		1,083	1,771
Current liabilities			
Trade and other payables	28	**4,997**	3,297
		4,997	3,297
Net current liabilities		**(3,914)**	(1,526)
Net assets		**892,535**	926,708
Capital and reserves			
Share capital	31(a)/(c)	**31,806**	31,806
Reserves	31(a)/(d)	**860,729**	894,902
Total equity		**892,535**	926,708

Approved and authorised for issue by the board of directors on 30 March 2011.

Zhu Xiao Kun
Directors

Yan Rong Hua
Directors

The notes on Page 36 to 89 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Attribute 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 reserves RMB'000 (Note 31(d))	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2009	31,806	886,566	56,998	91,925	85,047	325,787	1,478,129
Dividends approved in respect of previous year (Note 31(b))	—	—	—	—	—	(22,485)	(22,485)
Total comprehensive income for the year	—	—	—	—	—	112,078	112,078
Transfer to reserves	—	—	—	—	22,635	(22,635)	—
Balance at 31 December 2009 and 1 January 2010	31,806	886,566	56,998	91,925	107,682	392,745	1,567,722
Dividends approved in respect of previous year (Note 31(b))	—	—	—	—	—	(22,401)	(22,401)
Total comprehensive income for the year	—	—	—	—	—	235,921	235,921
Transfer to reserves	—	—	—	—	47,752	(47,752)	—
Balance at 31 December 2010	31,806	886,566	56,998	91,925	155,434	558,513	1,781,242

The notes on Page 36 to 89 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2010

	2010 RMB'000	2009 RMB'000
Operating activities		
Profit before income tax	**278,861**	119,320
Adjustments for:		
Depreciation	**88,754**	69,131
Amortisation of lease prepayments	**1,327**	2,001
Interest income	**(2,806)**	(2,736)
Interest on bank loans	**62,924**	50,049
Gain on disposal of property, plant and equipment and lease prepayments	**(9,430)**	(350)
Dividends received from unlisted securities	**(1,600)**	—
Share of losses of associates	**974**	—
Impairment of goodwill arising from acquisition of interest in associate	**5,627**	—
Share of loss of a jointly controlled entity	**648**	—
Operating profit before changes in working capital	**425,279**	237,415
Change in inventories	**34,416**	(141,466)
Change in trade and other receivables	**(260,398)**	(37,861)
Change in trade and other payables	**28,437**	185,798
Change in deferred income	**(1,161)**	(387)
Income tax paid	**(29,493)**	(5,561)
Net cash generated from operating activities	**197,080**	237,938
Investing activities		
Interest received	**2,806**	2,736
Proceeds from disposal of property, plant and equipment and lease prepayments	**28,287**	24,327
Payment for the purchase of property, plant and equipment	**(285,062)**	(331,307)
Net proceeds/(payment) from/for maturity/(acquisition) of time deposits	**192,000**	(77,000)
Net payment for acquisition of pledged deposits	**(17,277)**	(55,758)
Dividends received from unlisted securities	**1,600**	—
Payment for acquisition of interests in associates	**(47,882)**	—
Payment for acquisition of interest in a jointly controlled entity	**(4,780)**	—
Net cash used in investing activities	**(130,308)**	(437,002)
Financing activities		
Proceeds from new interest-bearing borrowings	**2,096,839**	1,896,900
Repayment of interest-bearing borrowings	**(1,797,789)**	(1,624,065)
Interest paid	**(91,057)**	(83,840)
Dividends paid to equity shareholders of the Company	**(22,401)**	(22,485)
Net cash generated from financing activities	**185,592**	166,510
Net increase/(decrease) in cash and cash equivalents	**252,364**	(32,554)
Cash and cash equivalents at 1 January	**63,467**	96,021
Cash and cash equivalents at 31 December	**315,831**	63,467

The notes on Page 36 to 89 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. 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. A summary of the significant accounting policies adopted by the Group is set out in Note 3.

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 4 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.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are 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, except as explained in Note 4, which addresses changes in accounting policies.

(a) 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.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 3(d)) or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity (see Note 3(b)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see 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).

3 Significant accounting policies (continued)

(b) Associates and jointly controlled entities

An associate is an entity in which the group or company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

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

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale) (see Note 3(w)).

Under the equity method, the investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the group's share of the investee's net assets and any impairment loss relating to the investment (see Notes 3(c) and (h)). The group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

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

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

When the group ceases to have significant influence over an associate or joint control over a jointly controlled entity, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 3(d)) or, when appropriate, the cost on initial recognition of an investment in an associate (see Note 3(b)).

In the company's statement of financial position, investments in associates and jointly controlled entities are stated at cost less impairment losses (see Note 3(h)), unless classified as held for sale (or included in a disposal group that is classified as held for sale)).

3 Significant accounting policies (continued)

(c) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 3(h)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(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 fair value, 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 statement of financial position at cost less impairment losses (see Note 3(h)).

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

3 Significant accounting policies (continued)

(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 (see 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, and an appropriate proportion of production overheads and borrowing costs and capitalised borrowing costs. 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 the consolidated statement of comprehensive income on the date of retirement or disposal.

(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 the consolidated statement of comprehensive income as incurred.

(iii) Depreciation

Depreciation of an asset begins when it is available to use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in the consolidated statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. 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.

3 Significant accounting policies (continued)

(f) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases and the leased assets are not recognised in the Group's consolidated statement of financial position.

(ii) Lease payments

Where the group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

Lease prepayments in the consolidated statement of financial position represent the 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 (see Note 3(h)). Amortisation is charged to the consolidated statement of comprehensive income on a straight-line basis over the respective periods of the rights.

(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 formula, 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) Impairment of investments in equity securities and other receivables

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence of impairment includes observable data that comes to the attention of the group about the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For investments in subsidiaries, associates and jointly controlled entities (including those recognised using the equity method (see Note 3(b))), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with Note 3(h)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with Note 3(h)(ii).

— 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. Impairment losses for equity securities carried at cost are not reversed.

— For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

3 Significant accounting policies (continued)

(h) Impairment (continued)

(i) Impairment of investments in equity securities and other receivables (continued)

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed.

Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each reporting date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment (other than properties carried at revalued amounts);

— intangible assets;

— Prepayments for leasehold land classified as being held under an operating lease; and

— goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment:

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

3 Significant accounting policies (continued)

(h) Impairment (continued)

(ii) Impairment of other assets (continued)

— *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see Notes 3(h)(i) and 3(h)(ii)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

(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 (see Note 3(h)), except for the Company's receivables from 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.

3 Significant accounting policies (continued)

(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 the consolidated statement of comprehensive income 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, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Defined contribution plans

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

(n) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the group or the company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

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.

3 Significant accounting policies (continued)

(o) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sales of goods

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, value added tax, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that 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. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

(ii) 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 the consolidated statement of comprehensive income 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 the consolidated statement of comprehensive income on a systematic basis over the useful life of the asset.

(iii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iv) Dividends income

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(v) Finance income

Finance income represents interest income from deposits placed with banks, which is recognised as it accrues in the consolidated statement of comprehensive income, using the effective interest method.

3 Significant accounting policies (continued)

(p) Foreign currency

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Renminbi ("RMB") at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(q) Finance expenses

Finance costs comprise interest expense on borrowings and net foreign currency losses that are recognised in the consolidated statement of comprehensive income.

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

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

3 Significant accounting policies (continued)

(r) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the consolidated statement of comprehensive income 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 in respect of 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 for deductible temporary differences 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.

(s) Dividends distributed

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

(t) 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 comprehensive income 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 comprehensive income 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)

(u) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Chairman (the chief operating decision maker) for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(v) 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 venturer;

(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.

3 Significant accounting policies (continued)

(w) Non-current assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in the consolidated statement of comprehensive income. As long as a non-current asset is classified as held for sale or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

(x) New standards and interpretations not yet adopted

Up to the date of these financial statements, the IASB has issued a number of amendments to standards and interpretations and one new standard which are not yet effective for the year ended 31 December 2010 and which have not been early adopted in these financial statements. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after (unless specified)
Revised IAS 24, *Related party disclosures*	1 January 2011
Improvements to IFRSs 2010	1 July 2010 or 1 January 2011
IFRS 9, Financial instruments	1 January 2013
Amendments to IFRS 12, Income taxes	1 July 2012

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

4 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.

4 Changes in accounting policies (continued)

— 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.

4 Changes in accounting policies (continued)

- 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 (see Note 3(x)).

5 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.

5 Revenue and segment reporting (continued)

(a) Segment results, assets and liabilities (continued)

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 RMB'000	**HSS cutting tools RMB'000**	**DS RMB'000**	**Chemical goods RMB'000**	**Total 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

5 Revenue and segment reporting (continued)

(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

5 Revenue and segment reporting (continued)

(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

6 Other income

		2010 RMB'000	2009 RMB'000
Government grants	(i)	**7,555**	10,158
Net gain on disposal of property, plant and equipment		**9,430**	350
Dividend income from unlisted securities	(ii)	**1,600**	—
Reversal of impairment loss for doubtful debts		**3,407**	—
Others		**1,023**	462
		23,015	10,970

(i) Jiangsu Tiangong Tools Company Limited ("TG Tools"), a wholly-owned subsidiary of the Company located in the PRC, received unconditional grants amounting to RMB6,393,000 (2009: RMB9,771,000) from the local government in Danyang concerning the encouragement of its development and recognised amortisation of government grants related to assets of RMB1,162,000 (2009: RMB387,000) during the year ended 31 December 2010 (Note 29).

(ii) The Group received dividends totalling to RMB1,600,000 (2009: nil) from its unlisted equity investments (Note 20) during the year ended 31 December 2010.

7 Other expenses

	2010 RMB'000	2009 RMB'000
Provision of impairment losses for doubtful trade receivables	–	13,259
Provision of impairment losses for goodwill arising from acquisition of interest in associate (Note 18)	5,627	–
Others	2,655	1,580
	8,282	14,839

8 Profit before income tax

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

(i) Net finance costs

	2010 RMB'000	2009 RMB'000
Interest income	(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 RMB'000	2009 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.

8 Profit before income tax (continued)

(iii) Other items

	2010 RMB'000	2009 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 8(ii) for each of these types of expenses.

9 Income tax expense

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

	2010 RMB'000	2009 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.

9 Income tax expense (continued)

(a) (continued)

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

10 Directors' remuneration

Details of the directors' remuneration are as follows:

Year ended 31 December 2010

	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	—	83	12	6,120	6,215
Zhu Zhihe	—	85	10	35	130
Zhu Mingyao	—	28	11	—	39
Yan Ronghua	—	86	11	32	129
Non-executive directors					
Thong Kwee Chee	—	—	—	—	—
Independent non-executive directors					
Li Zhengbang	60	—	—	—	60
Gao Xiang	36	—	—	—	36
Lau Siu Fai	41	—	—	—	41
Dannis Lee (appointed on 1 September 2010)	14	—	—	—	14
Total	151	282	44	6,187	6,664

Year ended 31 December 2009

	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	—	71	11	4,120	4,202
Zhu Zhihe	—	65	9	32	106
Zhu Mingyao	—	34	10	—	44
Yan Ronghua	—	68	10	29	107
Non-executive directors					
Thong Kwee Chee	—	—	—	—	—
Independent non-executive directors					
Li Zhengbang	60	—	—	—	60
Gao Xiang	36	—	—	—	36
Lau Siu Fai	96	—	—	—	96
Total	192	238	40	4,181	4,651

11 Individuals with highest emoluments

Of the five individuals with the highest emoluments, one (2009: two) is a director whose emoluments are disclosed in Note 10 above. The aggregate of the emoluments in respect of the other four (2009: three) individuals are as follows:

	2010 RMB'000	2009 RMB'000
Basic salaries, allowances and other benefits	**974**	818
Contributions to retirement benefit schemes	**55**	32
Bonus	**161**	123
	1,190	973

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 during the year ended 31 December 2010.

12 Profit attributable to equity holders of the Company

The consolidated profit attributable to equity holders of the Company includes a loss of RMB11,772,000 (2009: a gain of RMB13,619,000) which has been dealt with in the financial statements of the Company (Note 31(a)).

13 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).

14 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 2009	255,006	550,401	6,307	32,822	524,760	1,369,296
Additions	765	94,526	782	5,233	255,664	356,970
Transfer from construction in progress	37,961	115,210	—	—	(153,171)	—
Transfer to assets held for sale	(32,312)	—	—	—	—	(32,312)
Disposals	—	—	(1,946)	—	—	(1,946)
Balance at 31 December 2009	261,420	760,137	5,143	38,055	627,253	1,692,008
Additions	930	55,743	1,593	6,906	252,484	317,656
Transfer from construction in progress	149,919	599,372	2,879	2,558	(754,728)	—
Disposals	—	(3,375)	(2,889)	(2,372)	—	(8,636)
Balance at 31 December 2010	412,269	1,411,877	6,726	45,147	125,009	2,001,028
Depreciation:						
Balance at 1 January 2009	(53,622)	(197,074)	(2,306)	(22,559)	—	(275,561)
Charge for the year	(11,617)	(50,873)	(658)	(5,983)	—	(69,131)
Written back on disposals	—	—	969	—	—	969
Balance at 31 December 2009	(65,239)	(247,947)	(1,995)	(28,542)	—	(343,723)
Charge for the year	(16,131)	(68,141)	(623)	(3,859)	—	(88,754)
Written back on disposals	—	2,614	942	1	—	3,557
Balance at 31 December 2010	(81,370)	(313,474)	(1,676)	(32,400)	—	(428,920)
Carrying amounts:						
At 31 December 2010	330,899	1,098,403	5,050	12,747	125,009	1,572,108
At 31 December 2009	196,181	512,190	3,148	9,513	627,253	1,348,285

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

(ii) Pursuant to the lease agreements entered into between the Group and Jiangsu Tiangong Group Company Limited ("TG Group") on 6 January 2010, the Group is required to pay RMB600,000 per annum for the lease of office premises from the TG Group effective from 1 January 2010 to 31 December 2012, and to pay RMB400,000 per annum for the lease of amenity facilities from the TG Group effective from 1 January 2010 to 31 December 2010 (see Note 34(a)).

(iii) The property, plant and equipment owned by the Company with carrying amounts of RMB75,000 at 31 December 2010 (2009: RMB107,000) are all office equipment.

15 Lease prepayments

	The Group	
	2010	2009
	RMB'000	RMB'000
Cost:		
Balance at 1 January	**68,517**	102,219
Transfer to assets held for sale	**—**	(33,702)
Balance at 31 December	**68,517**	68,517
Amortisation:		
Balance at 1 January	**(5,878)**	(5,113)
Charge for the year	**(1,327)**	(2,001)
Transfer to assets held for sale	**—**	1,236
Balance at 31 December	**(7,205)**	(5,878)
Carrying amounts:		
At 31 December	**61,312**	62,639
At 1 January	**62,639**	97,106

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

16 Goodwill

	The Group
	RMB'000
Cost:	
At 31 December 2009 and 2010	21,959
Accumulated impairment losses:	
At 31 December 2009 and 2010	—
Carrying amounts:	
At 31 December 2009 and 2010	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 units identified according to the reportable segments as follows:

	2010	2009
	RMB'000	RMB'000
Die steel	**21,959**	21,959

16 Goodwill (continued)

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 extrapolated cash flows for the following eighteen years based on an estimated growth rate of 3%-10% (2009: 3%-8%), a discount rate of 5.7% (2009: 6.6%) and a gross margin of 16%-18% (2009: 16%-18%). 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.

17 Interests in subsidiaries

	The Company	
	2010	2009
	RMB'000	RMB'000
Unlisted shares, at cost	**400**	400
Receivables from subsidiaries	**859,953**	927,727
	860,353	928,127

The receivables from 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 2010 are set out below. The class of shares held is ordinary unless otherwise stated.

17 Interests in subsidiaries (continued)

Name of company	Place and date of incorporation	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Issued and fully paid-up/ registered capital	Principal activities
China Tiangong Company Limited	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
Danyang Tianji Tools Packaging Company Limited ("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%	HKD1/HKD1	Investment holding
TG Titan (iii)	the PRC, 27 January 2010	—	100%	RMB100,000,000/ RMB300,000,000	Manufacture and sales of alloy, steel, cutting and drilling tools and titanium-related products

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 and TG Titan are incorporated in the PRC as domestic companies.

18 Interest in associates

	The Group 2010 RMB'000	The Group 2009 RMB'000	The Company 2010 RMB'000	The Company 2009 RMB'000
Unlisted shares, at cost	**—**	—	**36,021**	—
Share of net assets	**41,281**	—	**—**	—
	41,281	—	**36,021**	—

18 Interest in associates (continued)

In April 2010, the Group invested RMB2,000,000 to become a founding 40% investor in the RMB5,000,000 registered capital of Tianrun Huafa Logistics Company Limited ("Tianrun Huafa") incorporated in the PRC.

In August 2010, the Group invested TWD20,000,000 to become a founding 20% investor in the TWD200,000,000 registered capital of Xinzhenggong Company Limited ("XZG") incorporated in Taiwan.

In December 2010, the Group acquired 20% interest in the USD31,250,000 registered capital of SB Specialty Metals Holdings ("SBSMH") LLP for USD6,250,000.

Details of the Group's interest in associates as at 31 December 2010 which are unlisted corporate entities are set out below:

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
Tianrun Huafa	the PRC, 22 April 2010	—	40%	RMB5,000,000/ RMB5,000,000	Logistics and freight
XZG	Taiwan, 3 August 2010	—	20%	TWD100,000,000/ TWD200,000,000	Sales of special steel related products
SBSMH	the United States, 6 January 2010	20%	—	USD31,250,000/ USD31,250,000	Distribution of special steel related products

Summary financial information on associates:

	Assets RMB'000	Liabilities RMB'000	Equity RMB'000	Revenues RMB'000	Profit/(Loss) RMB'000
2010					
100 per cent	**319,071**	**(116,537)**	**202,534**	**30,406**	**(5,090)**
Group's effective interest	**64,751**	**(23,470)**	**41,281**	**11,297**	**(974)**

19 Interest in a jointly controlled entity

	The Group 2010 RMB'000	2009 RMB'000
Share of net assets	**4,132**	—

In January 2010, the Group entered into a contractual agreement with Taisun International Co., Ltd. to set up a joint venture named TGT Special Steel Company Limited ("TGT") in the Republic of Korea. The registered capital of TGT is USD1,000,000.

Details of the Group's interest in the jointly controlled entity which is an unlisted corporate entity as at 31 December 2010 are set out below.

19 Interest in a jointly controlled entity (continued)

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
TGT	the Republic of Korea, 12 January 2010	70%	—	USD1,000,000/ USD1,000,000	Sales of special steel related products

Summary financial information on jointly controlled entity - (Group's effective interest):

	2010 RMB'000	2009 RMB'000
Non-current assets	565	—
Current assets	28,959	—
Current liabilities	(25,392)	—
Net assets	4,132	—
Income	26,324	—
Expenses	(26,972)	—
Loss for the year	(648)	—

20 Other financial assets

	The Group 2010 RMB'000	2009 RMB'000
Non-current financial assets		
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 financial assets is disclosed in Note 32.

21 Inventories

(i) Inventories in the statement of financial position comprise:

	The Group 2010 RMB'000	2009 RMB'000
Raw materials	84,426	54,349
Work in progress	666,392	629,264
Finished goods	467,514	569,135
	1,218,332	1,252,748
Carrying amount of inventories carried at fair value less cost to sell	391,668	489,750

21 Inventories (continued)

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

	The Group 2010 RMB'000	2009 RMB'000
Carrying amount of inventories sold	**1,883,533**	1,049,071
(Reversal)/Provision for write-down of inventories	**(1,552)**	13,796
	1,881,981	1,062,867

22 Trade and other receivables

	The Group 2010 RMB'000	2009 RMB'000
Trade and bills receivables	**856,843**	624,766
Less: impairment provision for doubtful debts (see Note 22(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.

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 provision for doubtful debts) with the following ageing analysis as of the reporting date:

	The Group 2010 RMB'000	2009 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

22 Trade and other receivables (continued)

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

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

	The Group	
	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:

	The Group	
	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.

23 Pledged deposits

Bank deposits of RMB136,635,000 (2009: RMB119,358,000) have been pledged to banks as security for the Group to issue bank acceptance bills and other banking facilities. The pledge in respect of the bank deposits will be released upon the settlement of the related bills payables by the Group and the termination of related banking facilities.

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

24 Time deposits

Time deposits on the consolidated statement of financial position 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.

25 Cash and cash equivalents

As at 31 December 2009 and 2010, all of the Group's and the Company's cash and cash equivalents in the consolidated statement of financial position and the consolidated cash flow statement represented cash at bank and cash in hand.

	The Group		**The Company**	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand	**315,831**	63,467	**1,083**	1,771

26 Non-current assets held for sale

As at 31 December 2009, a land use right and the vacant building thereon were presented as a disposal group held for sale as the Group had entered into a frame agreement with a local authority and received a refundable deposit of RMB23,000,000 before 31 December 2009. The Group completed the disposal on 16 September 2010 for a consideration of RMB78,000,000 of which RMB28,000,000 is due to be received before 31 December 2011.

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. More information about the Group's and the Company's exposure to interest rate, foreign currency and liquidity risks is disclosed in Note 32.

		The Group 2010 RMB'000	2009 RMB'000
Current			
Unsecured bank loans	(i)	**765,250**	1,229,700
Current portion of non-current unsecured bank loans		**457,000**	150,000
		1,222,250	1,379,700
Non-current			
Unsecured bank loans	(ii)	**1,090,500**	327,000
Less: Current portion of non-current unsecured bank loans	(ii)	**(457,000)**	(150,000)
		633,500	177,000
		1,855,750	1,556,700

(i) Current unsecured bank loans carried interest at annual rates ranging from 2.66% to 5.56% (2009: 2.40% to 5.40%) and were all repayable within one year.

Current unsecured bank loans of RMB100,000,000 (2009:RMB90,000,000) were guaranteed by an entity in the same city. No current unsecured bank loans were guaranteed by any local commercial banks (2009: RMB100,000,000 guaranteed by three local commercial banks).

(ii) Non-current unsecured bank loans carried interest at annual rates ranging from 0.30% to 5.76% (2009: 4.78% to 5.76%).

The current portion and non-current portion of the Group's non-current bank loans were repayable as follows:

	The Group 2010 RMB'000	2009 RMB'000
Within 1 year	**457,000**	150,000
Over 1 year but less than 2 years	**630,500**	177,000
Over 2 years but less than 3 years	**3,000**	—
	633,500	177,000
	1,090,500	327,000

28 Trade and other payables

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade and bills payables	**551,756**	489,636	**—**	—
Non-trade payables and accrued expenses	**98,534**	155,488	**4,997**	3,297
	650,290	645,124	**4,997**	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 reporting date:

	The Group	
	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

29 Deferred income

Deferred income consists of conditional government grants received for completion of certain construction projects. At the end of 2009, the construction projects related to the conditional government grants had been completed and the deferred income had started to be amortised in line with the useful life of the related fixed assets. At 31 December 2010, the carrying amount of the deferred income in respect of government grants after amortisation (Note 6(i)) amounts to RMB8,352,000 of which RMB7,190,000 is classified as non-current.

30 Income tax in the consolidated statement of financial position

(a) Current taxation in the consolidated statement of financial position represents:

	The Group 2010 RMB'000	2009 RMB'000
At the beginning of the year	**14,964**	13,383
Provision for PRC income tax for the year	**34,194**	7,142
PRC income tax paid	**(29,493)**	(5,561)
At the end of the year	**19,665**	14,964

(b) Deferred tax assets recognised

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

	Unrealised profits RMB'000	Impairment provision for doubtful debts RMB'000	Write down of inventories RMB'000	Total RMB'000
At 1 January 2009	—	3,812	1,664	5,476
Recognised in consolidated statement of comprehensive income	—	2,066	2,490	4,556
At 31 December 2009	—	5,878	4,154	10,032
Recognised in consolidated statement of comprehensive income	569	(798)	(158)	(387)
At 31 December 2010	569	5,080	3,996	9,645

30 Income tax in the consolidated statement of financial position (continued)

(c) Deferred tax liabilities recognised and not recognised

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

	Undistributed profits of subsidiaries RMB'000	Deductible capitalised borrowing costs RMB'000	Total RMB'000
At 1 January 2009	3,546	—	3,546
Recognised in consolidated statement of comprehensive income	(1,005)	5,661	4,656
At 31 December 2009	2,541	5,661	8,202
Recognised in consolidated statement of comprehensive income	2,178	6,181	8,359
At 31 December 2010	4,719	11,842	16,561

Pursuant to the income tax law of the PRC, 10% withholding tax is levied on the foreign investor in respect of dividend distributions arising from a foreign investment enterprise's profits earned after 1 January 2008. As at 31 December 2010, deferred tax liabilities of RMB4,719,000 (2009: RMB2,541,000) 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 RMB22,516,000 (2009: RMB7,600,000) have not been recognised, as the Company controls the timing of the reversal of temporary differences associated with undistributed profits 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 period from 1 January 2008 to 31 December 2010 will not be distributed in the foreseeable future.

31 Capital, reserves and dividends

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Share capital RMB'000 Note31(c)	Share premium RMB'000 Note 31(d)(i)	Retained earnings/ (deficit) RMB'000	Total RMB'000
At 1 January 2009	31,806	886,566	17,202	935,574
Dividends approved in respect of the previous year (see Note 31(b)(ii))	—	—	(22,485)	(22,485)
Total comprehensive income for the year	—	—	13,619	13,619
At 31 December 2009	31,806	886,566	8,336	926,708
Dividends approved in respect of the previous year (see Note 31(b)(ii))	—	—	(22,401)	(22,401)
Total comprehensive loss for the year	—	—	(11,772)	(11,772)
At 31 December 2010	31,806	886,566	(25,837)	892,535

(b) Dividends

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

	2010 RMB'000	2009 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 RMB'000	2009 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

31 Capital, reserves and dividends (continued)

(c) Share Capital

Authorised, issued and fully paid share capital:

Authorised:

	2010 No. of Shares ('000)	2010 Amount USD '000	2009 No. of Shares ('000)	2009 Amount USD '000
Ordinary shares of USD0.01 each	**1,000,000**	**10,000**	1,000,000	10,000

Ordinary shares issued and fully paid:

	2010 No. of Shares ('000)	2010 Amount USD '000	2010 RMB equivalent '000	2009 No. of shares ('000)	2009 Amount USD '000	2009 RMB equivalent '000
At 1 January and at 31 December	**419,500**	**4,195**	**31,806**	419,500	4,195	31,806

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.

(d) Nature and purpose of reserves

(i) Share premium

The share premium represents the difference between the par value of the shares of the Company and the proceeds received from the issuance of shares of the Company. Under the Companies Law of the Cayman Islands, share premium account is 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 repay its debts as they fall due in the ordinary course of business.

(ii) Capital reserve

The capital reserve comprises the waived payables due to TG Group in connection with the acquisition of land use rights and plant in 2007. These waivers of liabilities by TG Group were regarded as equity transactions and recorded in the capital reserve account.

(iii) Merger reserve

The merger reserve comprises the excess amount, arising from the Group's reorganisation of Group entities under common control in 2006 and 2007, of its share of the net identifiable assets acquired in these subsidiaries over the consideration paid. The reorganisation transactions were regarded as equity transactions and the excess of the share of the net identifiable assets over the consideration paid was transferred to the merger reserve in the consolidated financial statements.

31 Capital, reserves and dividends (continued)

(d) Nature and purpose of reserves (continued)

(iv) PRC statutory reserves

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 any distribution of dividends to shareholders.

The general reserve fund can be used to make good losses or be converted into share capital by the issuance 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 2010, the aggregate amount of reserves available for distribution to equity holders of the Company was RMB860,729,000 (2009: RMB894,902,000).

(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 non-controlling interest. 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.

31 Capital, reserves and dividends (continued)

(f) Capital management (continued)

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 2010 is 104% (2009: 99%). The gearing ratio is calculated by dividing total borrowings by 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 into account any collateral held is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance.

32 Financial risk management and fair values (continued)

(a) Credit risk (continued)

(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 creditworthiness 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 31 December 2010, 4% (2009: 7%) and 12% (2009: 20%) of the total trade and other receivables were due from the Group's largest customer and the five largest customers respectively.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in Note 22.

(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 2010 no guarantees were outstanding (2009: nil).

(iv) Deposits with bank

Substantially all of the bank deposits are deposited with Chinese state-owned banks and local commercial banks. 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 2010, total banking and borrowing facilities available to the Group amounted to RMB3,853,000,000 (2009: RMB3,230,000,000) of which RMB1,912,450,000 (2009: RMB1,708,664,000) had been utilised.

32 Financial risk management and fair values (continued)

(b) Liquidity risk (continued)

The following table details the remaining contractual maturities at the reporting dates 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 reporting date) and the earliest date the Group and the Company can be required to pay. At the reporting dates, the Group did not have any derivative financial liabilities.

The Group

	2010				
	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	Statement of financial position carrying amount RMB'000
Non-derivative financial liabilities					
Interest-bearing borrowings	**1,249,252**	**669,780**	**3,027**	**1,922,059**	**1,855,750**
Trade and other payables	**650,290**	**—**	**—**	**650,290**	**650,290**
Income tax payables	**19,665**	**—**	**—**	**19,665**	**19,665**
	1,919,207	**669,780**	**3,027**	**2,592,014**	**2,525,705**

	2009				
	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	Statement of financial position carrying amount RMB'000
Non-derivative financial liabilities					
Interest-bearing borrowings	1,414,592	184,197	—	1,598,789	1,556,700
Trade and other payables	645,124	—	—	645,124	645,124
Income tax payables	14,964	—	—	14,964	14,964
	2,074,680	184,197	—	2,258,877	2,216,788

32 Financial risk management and fair values (continued)

(b) Liquidity risk (continued)

The Company

	2010				
	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	Statement of financial position carrying amount RMB'000
Non-derivative financial liabilities					
Trade and other payables	**4,997**	**–**	**–**	**4,997**	**4,997**
	4,997	**–**	**–**	**4,997**	**4,997**

	2009				
	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	Statement of financial position carrying amount RMB'000
Non-derivative financial liabilities					
Trade and other payables	3,297	–	–	3297	3,297
	3,297	–	–	3297	3,297

(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.

The following table details the Group's and the Company's exposure at the reporting 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.

32 Financial risk management and fair values (continued)

(c) Currency risk (continued)

(i) Exposure to currency risk

The Group

	2010 Exposure to foreign currencies (expressed in RMB) USD RMB'000	 EUR RMB'000
Trade and other receivables	**152,977**	**16,544**
Cash and cash equivalents	**29,046**	**2,545**
Trade and other payables	**(1,933)**	**—**
Interest-bearing borrowings	**(89,605)**	**—**
Statement of financial position net exposure	**90,485**	**19,089**

	2009 Exposure to foreign currencies (expressed in RMB) USD RMB'000	 EUR RMB'000
Trade and other receivables	99,070	18,348
Cash and cash equivalents	14,432	3,172
Trade and other payables	(41,456)	—
Statement of financial position net exposure	72,046	21,520

The Company

	2010 Exposure to foreign currencies (expressed in RMB) USD RMB'000	 EUR RMB'000
Cash and cash equivalents	**870**	**—**
Statement of financial position net exposure	**870**	**—**

	2009 Exposure to foreign currencies (expressed in RMB) USD RMB'000	 EUR RMB'000
Cash and cash equivalents	1,674	—
Statement of financial position net exposure	1,674	—

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 reporting date had changed at that date, assuming all other risk variables remained constant.

The Group

	2010		2009	
	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%**	**3,964**	5%	3,165
	(5)%	**(3,964)**	(5)%	(3,165)
EUR	**10%**	**1,672**	5%	942
	(10)%	**(1,672)**	(5)%	(942)

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 reporting 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 reporting date. The analysis is performed on the same basis for 2009.

(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.

32 Financial risk management and fair values (continued)

(d) Interest rate risk (continued)

(i) Interest rate profile

The following table details the interest rate profile of the Group's interest-bearing financial instruments at the reporting date:

The Group

	2010 Effective interest rate %	**2010 RMB'000**	2009 Effective interest rate %	2009 RMB'000
Fixed rate instruments				
Interest-bearing borrowings	**0.3%–5.56%**	**(1,125,250)**	2.4%–5.31%	(816,700)
Pledged deposits	**2.25%**	**136,635**	1.17%	119,358
Time deposits	**–**	**–**	1.98%	192,000
		(988,615)		(505,342)
Variable rate instruments				
Interest-bearing borrowings	**3.51%–5.76%**	**(730,500)**	3.51%–5.76%	(740,000)

(ii) Sensitivity analysis

At 31 December 2010, 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 RMB6,392,000 (2009: RMB6,525,000).

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 reporting 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 reporting 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 reporting 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 2009.

(e) Fair values

Available-for-sale financial assets 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 20.

Except for available-for-sale financial assets, all financial instruments measured at other than fair value are carried at amounts not materially different from their fair values as at 31 December 2010 and 2009 due to either the short maturities of these financial instruments or variable market interest rates for long-term bank borrowings.

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 2010 RMB'000	2009 RMB'000
Contracted for		
— Land and buildings	**12,870**	4,650
— Equipment	**95,191**	61,855
	108,061	66,505
Authorised but not contracted for		
— Land and buildings	**65,130**	—
— Equipment	**219,834**	170,310
	284,964	170,310

(b) Operating leases commitments

At 31 December 2010 and 2009, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Within 1 year	**1,268**	1,069	**116**	—
After 1 year but within 5 years	**1,168**	7	**—**	—
	2,436	1,076	**116**	—

The Group leases certain properties located in the PRC and Hong Kong as the Group's offices under operating leases. The leases run for an initial period of 1–2 years.

34 Related party transactions

The Group has transactions with a company controlled by the ultimate shareholders ("Ultimate shareholders' company"), an associate and a jointly controlled entity. The following is a summary of principal related party transactions carried out by the Group with the above related parties for the periods presented.

(a) Significant related party transactions-recurring

	2010 RMB'000	2009 RMB'000
Sale of goods to:		
Jointly controlled entity	**75,383**	—
Freight expense to:		
Associates	**16,482**	—
Lease expense to:		
Ultimate shareholders' company	**1,000**	1,000
Lease income from:		
Associates	**50**	—

The directors of the Company are of the opinion that the above transactions with related parties were conducted in the ordinary course of business and on normal commercial terms or in accordance with the terms of the agreements governing such transactions.

(b) Trade and other receivables due from related parties

	The Group 2010 RMB'000	 2009 RMB'000
Associates	**15,143**	—
Jointly controlled entity	**35,905**	—
	51,048	—

(c) Trade and other payables due to related parties

	The Group 2010 RMB'000	 2009 RMB'000
Associates	**2,195**	—
Ultimate Shareholder's company	**—**	1,000
	2,195	1,000

34 Related party transactions (continued)

(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 10 and certain of the highest paid employees as disclosed in Note 11, is as follows:

	2010 RMB'000	2009 RMB'000
Short-term employee benefits	**7,892**	5,714
Post-employment benefits	**119**	99
	8,011	5,813

Total remuneration is included in "staff costs" (see Note 8(ii)).

35 Accounting estimates and judgements

Notes 31(b) contains information about the assumptions and risk factors relating to dividends paid and payable. Other judgements made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment are as follows:

(a) Impairment losses on trade and other receivables

As explained in Note 32(a), impairment losses for trade and other receivables are assessed and provided based on the directors' regular review of the ageing analysis and past collection history of each individual customer. A considerable level of judgement is exercised by the directors when assessing the creditworthiness and collectability of each receivable. Any increase or decrease in the impairment losses for bad and doubtful debts would affect the consolidated statement of comprehensive income 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 a similar nature. They could change significantly as a result of competitor actions in response to severe industry cycles or other changes in market condition. Management reassess the estimations at each reporting date.

35 Accounting estimates and judgements (continued)

(d) Income taxes

Determining income tax provisions involves judgement regarding 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 judgement 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 16.

36 Parent and ultimate controlling party

At 31 December 2010, the directors consider the immediate parent and ultimate controlling party of the Company to be Tiangong Holdings Company Limited, which is incorporated in British Virgin Islands. This entity does not produce financial statements available for public use.

37 Non-adjusting subsequent events

(a) Subsequent to 31 December 2010, an aggregate of 32,000,000 warrants have been fully placed and issued to not less than six placees in accordance with the terms of the warrant placing agreement entered by the Company and a placing agent at a placing price of HKD0.02 per warrant. The holders of the warrants shall have the right to subscribe for 32,000,000 Shares at an initial exercise price of HKD4.00 per share (subject to adjustment pursuant to the terms of the Instrument) within 2 years from the date of issue. Each warrant is valued at approximately HKD1.58 by an external appraiser.

(b) Subsequent to 31 December 2010, the Company has granted an aggregate of 4,970,000 share options to employees of the Company to subscribe for ordinary shares of USD0.01 each in the capital of the Company under its share option scheme adopted on 7 July 2007. The holders of the share options shall have the right to subscribe for ordinary shares at an exercise price of HKD5.10 during the period from 1 July 2012 to 30 June 2016. The amount payable on acceptance per grant is HKD1.00. Each share option is valued at approximately HKD2.47 by an external appraiser.

(c) After 31 December 2010, the directors proposed a final dividend of RMB0.1125 per ordinary share on 30 March 2011. Further details are disclosed in Note 31(b)).

FINANCIAL INFORMATION SUMMARY

	Year ended 31 December				
	2010	2009	2008	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**2,348,644**	1,323,752	1,993,269	1,735,763	1,303,987
Profit before income tax	**278,861**	119,320	115,112	181,357	147,111
Income tax expense	**(42,940)**	(7,242)	(2,602)	(437)	(50,507)
Profit for the year	**235,921**	112,078	112,510	180,920	96,604
Attributable to:					
Equity holders of the Company	**235,921**	112,078	114,643	180,172	91,729
Minority interests	**—**	—	(2,133)	748	4,875
Earnings per Share Basic (RMB)	**0.56**	0.27	0.27	0.51	0.31

	Year ended 31 December				
	2010	2009	2008	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets					
Non-current assets	**1,720,437**	1,452,915	1,228,276	834,225	513,368
Current assets	**2,611,423**	2,349,310	2,002,804	1,668,262	1,187,972
Total assets	**4,331,860**	3,802,225	3,231,080	2,502,487	1,701,340
Liabilities					
Non-current liabilities	**657,251**	193,553	203,446	84,900	137,900
Current liabilities	**1,893,367**	2,040,950	1,549,505	1,033,223	957,980
Total liabilities	**2,550,618**	2,234,503	1,752,951	1,118,123	1,095,880
Equity					
Total equity	**1,781,242**	1,567,722	1,478,129	1,384,364	605,460

Note:

The results of the Group for the three financial years ended 31 December 2006, 2007 and 2008 and its assets and liabilities were extracted from the Prospectus and previous annual report, which also set forth the details of the basis of presentation of the combined accounts.

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 Officer)*

Mr. Zhu Mingyao

Mr. Yan Ronghua

Independent Non-executive Directors

Mr. Li Zhengbang

Mr. Gao Xiang

Mr. Lee Cheuk Yin, Dannis

Company Secretary

Ms. Lee Man Yin

Authorized Representatives

Mr. Lee Cheuk Yin, Dannis

Ms. Lee Man Yin

Audit Committee

Mr. Lee Cheuk Yin, Dannis *(Chairman)*

Mr. Gao Xiang

Mr. Li Zhengbang

Remuneration Committee

Mr. Li Zhengbang *(Chairman)*

Mr. Zhu Xiaokun

Mr. Gao Xiang

Mr. Lee Cheuk Yin, Dannis

Nomination Committee

Mr. Gao Xiang *(Chairman)*

Mr. Zhu Xiaokun

Mr. Li Zhengbang

Mr. Lee Cheuk Yin, Dannis

Registered Office in the Cayman Islands

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Grand Cayman, Cayman Islands

Registered Office in Hong Kong

Unit 1303

13/F Jubilee Centre

18 Fenwick Street

Wanchai

Hong Kong

Corporate Information

Principal Place of Business

Houxiang Town
Danyang City
Jiangsu Province
The PRC

Compliance Adviser

BNP Paribas Capital (Asia Pacific) Limited
59th–63rd Floors
Two International Finance Centre
8 Finance Street
Central
Hong Kong

Auditors

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

Hong Kong Legal Adviser

Reed Smith Richards Butler
20th Floor, Alexandra House
18 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