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 2007

*For identification purpose only

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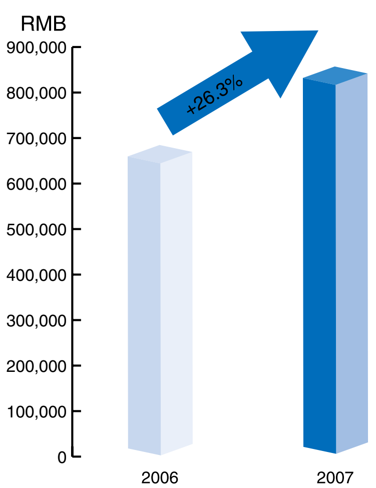
FINANCIAL HIGHLIGHT

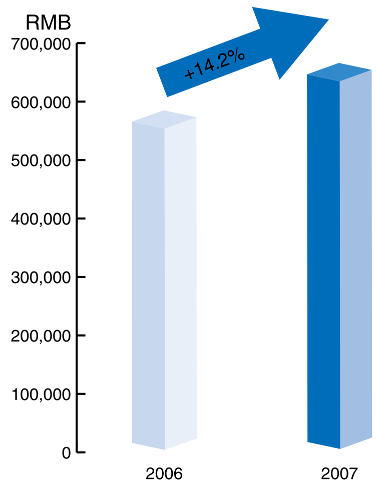
At 31 December 2007

	Audited 2007 RMB'000	2006 RMB'000	Change %
Revenue	**1,735,763**	1,303,987	↑ 33.1%
Net profit attributable to equity holders of the Company	**180,172**	91,729	↑ 96.4%
Earnings per share (RMB)	**0.51**	0.31	↑ 64.5%

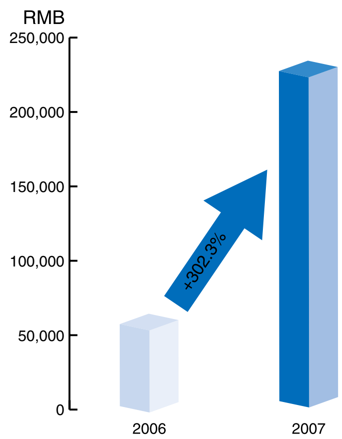
Revenue from Sales of HSS



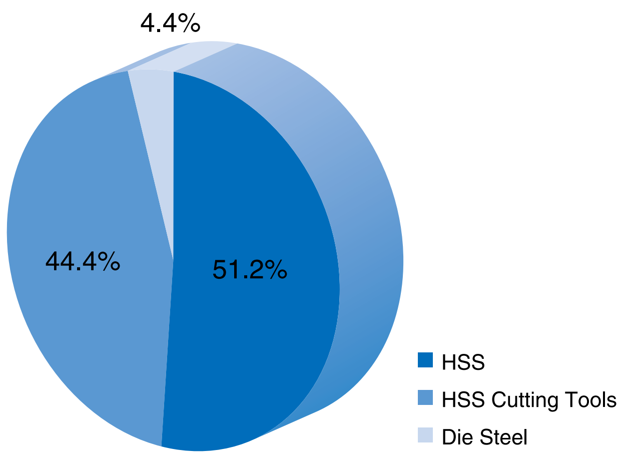
Revenue from Sales of HSS Cutting Tools



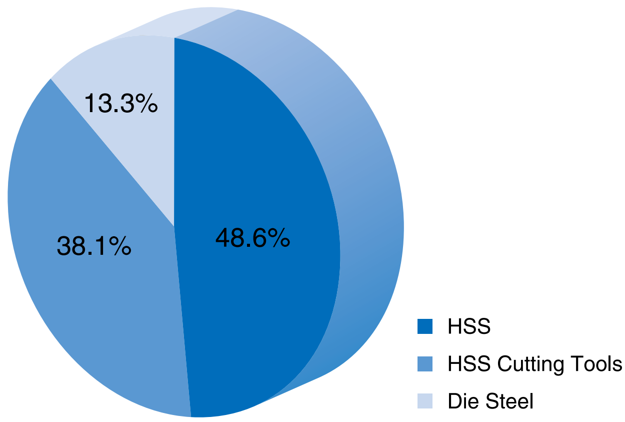
Revenue from Sales of Die Steel



2006 Revenue by Product Mix



2007 Revenue by Product Mix



CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of Directors (the "Board") and with great pleasure, I present to you the first annual report of Tiangong International Company Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2007.

The year of 2007 was significant to the Group in terms of growth and corporate development. The Company's shares were successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 26th July 2007. With the dedication of all our staff and support from other professionals, the Company achieved great success in the Global Offering. The Global Offering was very well received among institutional and public investors, and the Company raised net proceeds of approximately HKD694.6 million (including 15% over-allotment). The successful listing has laid down a new milestone to the Company. It allows the Group to access the international capital market and the Group's corporate profile has also been greatly enhanced. The Directors and the management team of the Group will endeavour to carry out the expansion strategies and create value for the shareholders of the Company.

In 2007, the Group continued to be China's largest integrated manufacturer of High Speed Steel ("HSS") and HSS cutting tools. The Group has been the largest manufacturer of HSS in China by volume for seven consecutive years since 2001 and also the largest HSS cutting tools manufacturer by revenue for 2006 and 2007. During 2007, the Group continued to realize the benefits of its large production scale, vertically integrated operation and established relationship with customers and research institutes in order to achieve a remarkable growth in net profit.

For the year ended 31 December 2007, revenue of the Group has increased by 33.1% to RMB1,735,763,000 from RMB1,303,987,000 for last year. Sales of HSS, HSS cutting tools and die steel recorded growth rates of 26.3%, 14.2% and 302.3%, respectively. Net profit attributable to equity holders of the Company for 2007 was RMB180,172,000 (2006: RMB91,729,000), representing an impressive increase of 96.4% from that of last year. Basic earnings per share for 2007 was RMB0.51 (2006: RMB0.31).

The growing market demand resulting from global and domestic industrial development will continue to provide momentum and opportunities for special steel and cutting tools industry. Looking forward, the Group will leverage on its dominating position in the industry and its strengths in order to further expand its existing core businesses and maximize returns to the shareholders of the Company. The Company will adopt the following strategies to capture opportunities in the market:

- To further enhance research & development and increase production capacity
- To increase domestic & global market penetration of HSS & die steel
- To explore domestic & overseas expansion opportunities
- To further enhance sales growth through brand building

Meanwhile, the Group remains firmly committed to high standard of corporate governance and will continue to promote a strong compliance culture, by upholding the principles of transparency and accountability.

Finally, on behalf of the Board, I would like to take this opportunity to express my sincere gratitude to our shareholders, customers, the management, employees and business partners for their unreserved support to the Group.

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

Hong Kong, 1 April 2008

DIRECTORS & SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. ZHU Xiaokun, aged 51, 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 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 57, is an Executive Director and the Chief Executive Officer (General Manager) of the Group. He is responsible for the daily operations of the Group and has over 20 years of experience in factory management. Prior to joining the Group, he worked for Feida Village in Houxiang Town and Jiangsu Danyang Houxiang Gaoshi Bridge Yumeng Metallic Factory. He joined the Group in 1993. During July 2000 to August 2006, he was an Executive Director and the vice general manager of Jiangsu Tiangong Tools Company Limited. He is now in charge of the production, operation and sales of HSS and die steels for TG Tools and TG Aihe.

Mr. ZHU Mingyao, aged 52, is an Executive Director of the Group. Prior to joining the Group, he worked for Qianxiang Village. In 1995, he joined the Group as the head of the sales division and factory manager of the smelting factory. From July 1997 to August 2006, he acted as an Executive Director and deputy general manager of Jiangsu Tiangong Tools Company Limited. He is currently in charge of the production, operation and management of TG Aihe.

Mr. YAN Ronghua, aged 39, 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 the head of office administration and subsequently general manager assistant of the Group. Mr. Yan is currently in charge of human resources management, external relations, secretarial and office administration of the Group.

NON-EXECUTIVE DIRECTOR

Mr. Thong Kwee Chee, aged 35, was appointed as Non-Executive Director of the Company in September 2006. Mr. Thong is currently Vice President of the AIG Global Investment Corp's (AIGGIG) Greater China direct investment team and actively manages AIGGIG's China investments. Prior to joining AIGGIG (Asia), Mr. Thong is affiliated with Arthur Andersen, Median Asset Management (Malaysia) and China Development Industrial Bank - one of the largest Taiwan based investment bank. Mr. Thong has a BSc (Hons) in Accounting and Financial Analysis from Warwick University and a Chartered Financial Analayst (CFA) qualification, since 2001.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LI Zhengbang, aged 75, joined the Group in June 2007 as an Independent Non-Executive Director. He graduated from Harbin Institute of Technology in 1958 and was elected as the academician of the Chinese Academy of Engineering in 1999. He is a qualified senior engineer in the PRC and is currently a Professor and Supervisor of PhD candidates of the Central Iron & Steel Research Institute. Mr. Li has been engaged in the research and development of electroslag metallurgy for years and has been one of the few pioneers in this area. His achievement was recognized by The Science and Technology Committee of the People's Republic of China as one of the inventors of electroslag metallurgy technology in China. He has been granted special government subsidy by the State Council as a result of such achievement.

Mr. GAO Xiang, aged 64, joined the Group in July 2007 as an Independent Non-Executive Director. In July 1966, he graduated from Wuhan Institute of Mechanics, majoring in production craftsmanship of machines and equipment. He is a senior engineer. Under his leadership, the study of twist drill extrusion technology by Chengdu Tools Research Institute was honoured with Third Class Award of Technical Findings of the Ministry of Mechanics. His achievements are widely recognized in the industry, and he has been granted special government subsidy by the State Council since 1999 as a result of such achievements.

Mr. LAU Siu Fai, aged 50, joined the Group in July 2007 as an Independent Non-Executive Director. He graduated from the Parkhurst University, UK with a PhD in Finance, the Clayton University, USA with a Master's Degree in Business Administration and the Sussex College of Technology with a Master of Arts degree in Accounting. He is a registered financial planner of the Society of Registered Financial Planners, a member of The American Management Association, an associate of The Association of Cost and Executive Accountants, a fellow member of the Institute of Financial Accountants, a member of the British Institute of Management and an affiliated member of the Association of International Accountants. Mr. Lau was previously the Group Financial Controller of Imagination Solutions, the Regional Accounting Manager of the North Asia region of Quaker Oats Asia, Inc. and the Deputy General Manager of the Investment Related Trade Department of Chia Tai Intertrade Company, Limited. In October 2005, he was appointed as the financial adviser of Shantow University.

SENIOR MANAGEMENT

Mr. SHI Guorui, aged 61, is the chief financial officer of the Group. He graduated from the Industrial Accounting Department of University of Suzhou in 1986. He is an accountant. Prior to joining the Group in July 2004, he worked for Jiangsu Province Zhenjiang Casting Factory, Zhenjiang Radio Electronic Factory, Jiangsu Province Zhenjiang Electronics Tube Factory, Zhenjiang Electronics Industry Company, Limited and Zhejiang Wireless Applicances and Materials Factory. He has extensive experience in finance and accounting.

Mr. ZHU Xingyuan, aged 56, 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 49, is an Executive Director and a deputy general manager of TG Aihe. Prior to joining the Group, Mr. Zhu worked for Qianxiang Village and Danyang Machining Tools Factory. He joined the Group in July 1997 and has been in charge of product innovation, technology improvement, investment development and quality inspection. He has over 20 years of experience in the management of tools production.

Mr. WU Suojun, aged 35, is an Executive Director and a deputy general manager of TG Tools, and a deputy general manager of Tianfa Forging. Mr. Wu joined the Group in 1993 as a workshop officer. He is in charge of the production, operation and management of HSS.

Mr. JIANG Rongjun, aged 38, 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 48, is a deputy general manager of TG Tools and an Executive Director of TG Aihe. He joined the Group in 1996. Prior to joining the Group, Mr. Chen worked at the Houxiang branch of Danyang Construction Engineering Company, Jiangsu Feida Tools Company Limited. Mr. Chen is currently in charge of production security and human resources.

Mr. LEUNG Wai Yip, aged 32, is the financial controller and the company secretary of the Company. Mr. Leung joined the Group in June 2007. Prior to joining the Group, Mr. Leung was an internal auditor of the Swire Group and was previously a manager with the assurance and advisory business services department of Ernst & Young Certified Public Accountants. Mr. Leung graduated with a Bachelor of Commerce degree from the University of Alberta in Canada. He is a member of the American Institute of Certified Public Accountants, and an associate member of the Hong Kong Institute of Certified Public Accountants.

CORPORATE GOVERNANCE REPORT

The Group strives to attain and maintain high standards of corporate governance as it believes that good corporate governance practices are fundamental to the Group's development and essential for safeguarding shareholders' interests. To achieve this objective, the Group strengthens its internal policies and procedures, provides continuous training to its staff and increases the transparency of its operation and accountability to all shareholders. The Group is committed to improving this practice and maintaining an ethical corporate culture.

Trading of shares of the Group on the Stock Exchange commenced on 26 July 2007. Since the listing of the Group, the Group had complied with the principles and code provisions set out in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

THE BOARD

The Board's primary role is to secure and enhance long-term shareholder value. It focuses on the Group's overall strategic policy and provides proper supervision to ensure effective management and to achieve sound returns for its shareholders.

The Board has delegated the authority and responsibility for implementing business strategies and management of the daily operations of the Group's business to the management. The Board is mainly responsible for developing long term objectives and strategy of the Group, monitoring operation performance and results, monitoring performance of the management, establishing dividend policy and reviewing significant investment plans and decisions.

The Board meets at least four times a year and additional meetings are held when required to discuss significant events and issues. The company secretary assists the Chairman in preparing the agenda for Board meetings. Board meetings are held with at least 14 days' advance notice, and all Directors would be served with an agenda with supporting papers at least 3 days before the Board meetings, so as to ensure that there is timely access to relevant information. The Group ensures that all the Board members are informed of the Group's latest development and thereby assists them in the discharge of their duties. The Directors may take independent professional advice when appropriate, at the Company's expense.

Five Board meetings were held for the year ended 31 December 2007, with all the Directors attending, except for Mr. Li Zheng Bang who was absent from one meeting as he had other engagement.

Minutes of the Board and Board Committees are taken by the company secretary. Such minutes of the Board and Board Committees, together with supporting papers, are open for inspection following reasonable notice by any Director. Draft and final versions of minutes are sent to all Directors for their comment and records.

COMPOSITION OF THE BOARD

The Board comprises four Executive Directors (Mr. Zhu Xiaokun, Mr. Zhu Zhihe, Mr. Zhu Mingyao and Mr. Yan Ronghua), one Non-Executive Director (Mr. Thong Kwee Chee) and three Independent Non-Executive Directors (Mr. Li Zheng Bang, Mr. Gao Xiang and Mr. Lau Siu Fai). Biographical details of the Directors of the Group as at the date of this report are set out on page 5 to 6 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 annual general meeting immediately following their appointments. All Directors are required to retire by rotation at least once every three years at the annual general meeting, subject to re-election by the shareholders. All Non-Executive Directors (including Independent Non-Executive Directors) are appointed for a term of not more than three years.

BOARD COMMITTEES

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

AUDIT COMMITTEE

The Audit Committee was established in July 2007 in compliance with Rules 3.21 to 3.23 of the Listing Rules. The Audit Committee comprises two Independent Non-Executive Directors, namely, Mr. Lau Sui Fai, Mr. Gao Xiang and a Non-Executive Director, Mr. Thong Kwee Chee. The Chairman of the Audit Committee, Mr. Lau Sui Fai, possesses expertise in accounting, auditing and finance.

Under its terms of reference, the Audit Committee is mainly responsible for overseeing the Company's financial reporting system and internal procedures, reviewing the financial information of the Company and overseeing the relationship with external auditors. These include reviewing and recommending for the Board's approval the interim and the annual financial statements; reviewing the external auditors' independence, objectivity and the effectiveness of the audit process; and reviewing and recommending to the Board for approval the external auditor's remuneration and review of the effectiveness of the internal control system of the Group.

Since the establishment of the Audit Committee in July 2007, the committee met twice with full attendance. The meetings were held in September 2007 and April 2008 together with the external auditors of the Company, the Chief Financial Officer, the Financial Controller and Qualified Accountant of the Company, to discuss auditing, internal control and financial reporting matters which include the review of the interim and annual financial statements.

REMUNERATION COMMITTEE

The Remuneration Committee was established in July 2007 in compliance with the Code. It comprises one Executive Director, one Non-Executive Director and three Independent Non-Executive Directors, namely, Mr. Zhu Xiaokun, Mr. Thong Kwee Chee, Mr. Gao Xiang, Mr. Lau Siu Fai and Mr. Li Zhengbang. Mr. Li Zhengbang is the Chairman of the Remuneration Committee.

The primary role of the Remuneration Committee is to make recommendation to the Board on the Company's policy and structure for remuneration of Directors and senior management. No Director will take part in any discussion on his own remuneration. Details of the fees of the Directors are set out in note 13 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.

Since the Remuneration Committee was established in July 2007, no meeting was held for the year ended 31 December 2007. The remuneration of the Directors and senior management was decided by the Board (except that each Director should not be involved in determining his own remuneration).

A meeting was held in April 2008 to assess the performance of the directors and senior management, discuss and review the overall remuneration policy and structure. Recommendations have been made to the Board.

NOMINATION COMMITTEE

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

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

Since the Nomination Committee was established in July 2007, no meeting was held during the year ended 31 December 2007.

A meeting was held in April 2008 to discuss and review the composition and structure of the Board and senior management.

During 2007, the Executive Directors and Non-Executive Directors were appointed based on their qualification and experience in relation to the Group's business. The Independent Non-Executive Directors were appointed based on their professional qualifications and experience in their respective areas.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

INTERNAL CONTROL

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

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

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

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 2007 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 2007, the remuneration paid or payable to KPMG in respect of statutory audit services and services rendered for the listing of the Company were RMB1,976,000 and RMB5,354,000, respectively.

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 period from the date of listing of the Company until 31 December 2007.

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. Upon listing of the Company on the Stock Exchange on 26 July 2007, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

The following management discussion and analysis should be read in conjunction with our combined financial statements, which were audited by KPMG and reviewed by the audit committee of the Company, as set out in this annual report.

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

HSS

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

HSS CUTTING TOOLS

It involves the production and sales of HSS cutting tools to external customers. Over 80% of its sales was exported to over 30 countries and regions throughout Europe, North America, Africa and the Middle East in 2006 and 2007. The Group produces an extensive range of HSS cutting tools products which can be categorized into four types — twist drill bits, screw taps, end mills and turning tools. This segment has been in operation since 1987, being the longest-established sector of the Group.

DIE STEEL

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

MARKET REVIEW

In 2007, China continued to experience robust growth in its economy with a 11.4% increase in GDP year-on-year. The rapid industrial expansion created enormous market for the production of HSS as it is widely used for various industrial and manufacturing purposes. The HSS production in China grew to 92,816 tonnes in 2007. According to Special Steel Enterprise Association of China, the output of HSS in China grew at a compound annual growth rate ("CAGR") of 15.0% from 2001 to 2007.

The rapid development of China's industrial sector has also contributed to the increase in demand for manufacturing machineries. As cutting tools are used extensively during the production of machineries, demand for cutting tools has continued to grow in recent years. The production of cutting tools has been growing at a CAGR of 11.0% from 2001 to 2007.

The demand for die steel, a major raw material in the production of manufacturing moulds, has also been recording strong growth in recent years. The volume of die steel manufactured in China grew at a CAGR of 24.8% from 2002 to 2007.

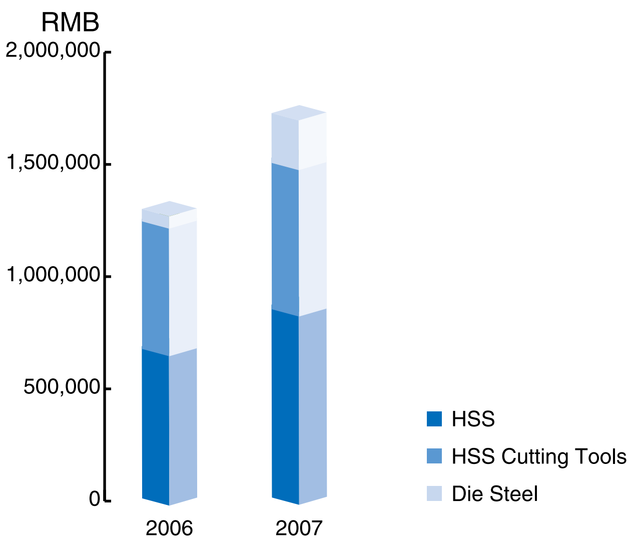
Moreover, China has the world's largest reserves of tungsten, molybdenum and vanadium, representing 62.0%, 38.0% and 38.0% of the total world reserves, respectively. These metals are the major raw materials of HSS. This has provided the Chinese special steel and cutting tools manufacturers with a secure and stable supply of raw material and lowered production cost. As a result, China has become a major manufacturer of special steel and cutting tools in the world.

BUSINESS REVIEW

The Group was the number one integrated HSS and HSS cutting tools manufacturer in China. According to Special Steel Enterprise Association of China and China Machine Tool & Tool Builders' Association, the Group is the largest manufacturer of HSS by volume in China from 2001 to 2007 and the largest HSS cutting tools manufacturer by revenue in China in 2006 and 2007.

In order to maintain the leading position in the market, the Group has increased its production capacity to meet the expanding market demand, and implemented measures to lower the production cost while maintaining the Group's emphasis on safety, higher efficiency and product quality. In addition, the Group actively researches, develops and improves production process and product specification. As a result, the Group has recorded significant growth in profit in 2007. All three product segments of the Group have demonstrated robust growth trends. The revenue of HSS, HSS cutting tools and die steel recorded growth rates of 26.3%, 14.2% and 302.3%, respectively.

Sales Breakdown



	Year ended 31 December **2007** **RMB'000**	2006 RMB'000	Change %
HSS	**843,484**	667,600	26.3
HSS Cutting Tools	**661,445**	579,012	14.2
Die Steel	**230,834**	57,375	302.3
	1,735,763	1,303,987	33.1

HSS

The HSS business has seen continuous growth and remained as the primary revenue driver of the Group for 2007, accounting for approximately 48.6% of the Group's revenue. Benefiting from the increase in demand for HSS as a result of the global industrial expansion, export volume and selling price of HSS increased as compared with that for 2006. As a result, sales of HSS reached RMB843,484,000 (2006: RMB667,600,000), representing an increase of approximately 26.3% over the sales of HSS in 2006. The Group's HSS sales to overseas customers continue to increase since it commenced HSS export sales in 2005. The export sales increased by approximately 155.5% to RMB226,408,000 in 2007, accounting for approximately 26.8% of the total HSS sales in 2007. The reasons for the increase include the continuous development of our HSS export sales, the price advantage over overseas competitors and also the favorable conditions due to PRC government's implementation of policy to control export of rare metals.

Set out below is a geographical breakdown of the sales of HSS for the year ended 31 December 2006 and 31 December 2007:

	Year ended 31 December **2007**		2006		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
HSS						
Domestic	**617,076**	**73.2**	578,987	86.7	38,089	6.6
Export	**226,408**	**26.8**	88,613	13.3	137,795	155.5
	843,484	**100.0**	667,600	100.0	175,884	26.3

HSS cutting tools

Revenues from sales of HSS cutting tools increased by approximately 14.2% to RMB661,445,000 in 2007, accounting for approximately 38.1% of the Group's total revenue in 2007. During 2007, revenues from sales of HSS cutting tools continued to increase, mainly resulted from increase in sales volume of industrial and professional use products as well as the overall increase in the market demand for HSS cutting tools.

Set out below is a geographical breakdown of the sales of HSS cutting tools for the year ended 31 December 2006 and 31 December 2007:

	Year ended 31 December					
	2007		2006		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
HSS cutting tools						
Domestic	**120,204**	**18.2**	107,089	18.5	13,115	12.2
Export	**541,241**	**81.8**	471,923	81.5	69,318	14.7
	661,445	**100.0**	579,012	100.0	82,433	14.2

Die steel

The Group commenced its die steel operation in November 2005. The Group's die steel business has recorded significant growth in 2007. Revenues from sales of die steel increased by approximately 302.3% from RMB57,375,000 in 2006 to RMB230,834,000 in 2007, accounting for approximately 13.3% of the total revenues in 2007. The reasons for the significant increase include the Group's promotion effort on die steel sales and the higher production utilization as compared with last year's. The Group commenced export sales of die steel in the second half of 2006. For 2007, export sales accounted for approximately 76.4% of the total die steel sales.

Set out below is a geographical breakdown of the sales of die steel for the year ended 31 December 2006 and 31 December 2007:

	Year ended 31 December					
	2007		2006		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
Die steel						
Domestic	**54,531**	**23.6**	42,439	74.0	12,092	28.5
Export	**176,303**	**76.4**	14,936	26.0	161,367	1,080.4
	230,834	**100.0**	57,375	100.0	173,459	302.3

FINANCIAL REVIEW

Benefited from its double-digit percentage organic growth, net profit attributable to equity holders of the Company increased by approximately 96.4% to RMB180,172,000 in 2007 from RMB91,729,000 for 2006. All three product segments of the Group have demonstrated robust growth trends.

Revenue

Revenue of the Group for 2007 totalled RMB1,735,763,000, representing an increase of approximately 33.1% when compared with RMB1,303,987,000 in 2006. The increase was mainly attributable to the increase in sales volume and selling prices of HSS and HSS cutting tools as well as die steel of the Group.

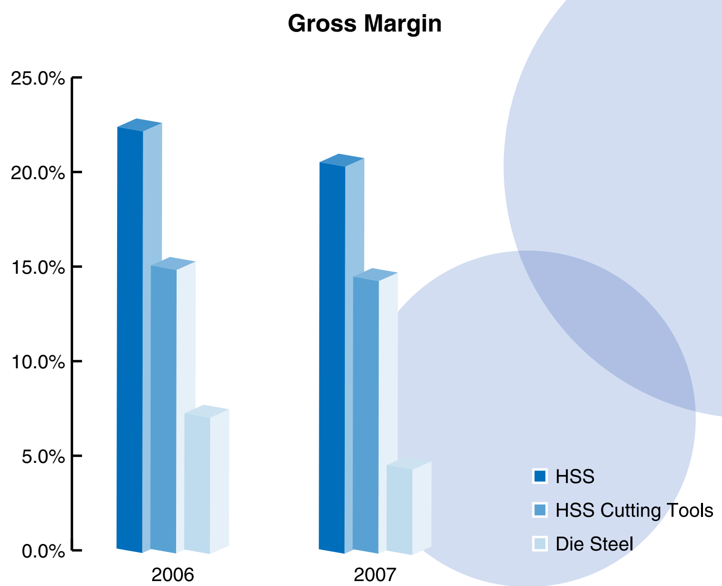
Cost of sales

The Group's cost of sales increased by RMB391,764,000 from RMB1,054,147,000 for 2006 to RMB1,445,911,000 for 2007, representing an increase of approximately 37.2%. The increase was broadly in line with the 33.1% increase in revenue during the year and reflected an increase in sales of die steel and a slight increase in cost of sales for HSS. As a percentage of total revenue, the Group's cost of sales increased slightly from approximately 80.8% in 2006 to approximately 83.3% in 2007.

Gross margin

For 2007, the gross margin, was approximately 16.7% (2006: 19.2%). The decrease was mainly due to the slight decrease in gross margin of HSS and die steel.

Set out below is the gross margin for our three products for 2006 and 2007:



HSS

The slight decrease in HSS gross margin from 23.2% in 2006 to 21.3% in 2007 was mainly due to the increase in the cost of scrap steel and the decrease in tax rebates.

HSS cutting tools

In 2007, the gross margin of HSS cutting tools remained relatively stable as additional production cost was largely passed onto our customers.

Die steel

The gross margin of die steel decreased from 7.5% in 2006 to 4.7% in 2007. The decrease was mainly due to the higher manufacturing overhead cost resulted from the costs associated with the pilot run of the new production equipment installed in the second half of 2007.

Other income

The Group's other income totalled RMB21,817,000 in 2007, representing a decrease of RMB8,249,000 from RMB30,066,000 in 2006. The decrease was attributable to the fact that the Group only received RMB20,992,000 (2006: RMB29,759,000) in unconditional grants from the local government in Danyang to encourage further development of its business in 2007.

Distribution expenses

The Group's distribution expenses was RMB41,428,000 (2006: RMB30,940,000), representing an increase of approximately 33.9%. The increase was mainly attributable to the rise in transportation expenses by RMB7,061,000, resulted from increase in sales volume. For 2007, the distribution expenses as a percentage of revenue was 2.4% (2006: 2.4%).

Administrative expenses

For 2007, the Group's administrative expenses increased by approximately 35.0% to RMB57,578,000 (2006: RMB42,652,000) primarily because depreciation charges and traveling and entertainment expenses increased by RMB3,048,000 and RMB7,848,000, respectively, as a result of business expansion. For 2007, the administrative expenses as a percentage of revenue was 3.3% (2006: 3.3%).

Net finance cost

The Group's net finance cost was RMB27,293,000 for 2007, representing a decrease of 46.2% when compared with the RMB50,707,000 for 2006. Putting aside the effect of the RMB35,983,000 interest received from IPO subscription in July 2007, interest on bank loans decreased by RMB496,000 but the foreign currency exchange losses resulting from appreciation of the value of the Renminbi increased by RMB12,383,000 in 2007.

Income tax expense

The Group's income tax expense decreased by RMB50,070,000 from RMB50,507,000 in 2006 to RMB437,000 in 2007, representing a decrease of approximately 99.1%. Such decrease was due to the fact that TG Tools, being a major subsidiary of the Group, is entitled to a two-year tax holiday starting from 2007.

Profit for the year

As a result of the factors discussed above, the Group's profit increased by approximately 87.3% to RMB180,920,000 for 2007 from RMB96,604,000 for 2006. The Group's net profit margin increased from 7.4% in 2006 to 10.4% in 2007.

Profit attributable to equity holders of the Company

For 2007, profit attributable to equity holders of the Company was RMB180,172,000 (2006: RMB91,729,000), representing an increase of 96.4%. The increase was broadly in line with the 87.3% increase in net profit.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2007, the Group's current assets mainly included cash and cash equivalents of approximately RMB156,688,000, inventories of approximately RMB845,036,000, trade and other receivables of RMB580,241,000 and pledged deposits of RMB86,297,000. As at 31 December 2007, the interest-bearing borrowings of the Group was RMB698,969,000, RMB623,969,000 of which was repayable within one year and RMB75,000,000 of which was repayable over one year. The Group's gearing ratio (calculated based on the total outstanding interest-bearing debt divided by the total assets) was 27.9%, lower than 41.8% as at 31 December 2006. The decrease was mainly attributable to the net proceeds of approximately HKD694.6 million raised from the Global Offering. As at 31 December 2007, USD4,200,000 of the borrowings was denominated in US dollars. The majority of the borrowings of the Group were subject to interests payable at rates ranging from 4.6% to 7.5% rates . The Group did not enter into any interest rate swap to hedge itself against the risks associated with interest rates.

CAPITAL EXPENDITURES AND CAPITAL COMMITMENTS

For 2007, the Group's increase in fixed assets amounted to RMB289,966,000, which were mainly for the production plant and facilities for HSS, HSS cutting tools and die steel. As at 31 December 2007, capital commitments was RMB296,108,000, of which RMB203,264,000 was contracted and RMB92,844,000 was authorised but not contracted for. The majority of the capital commitment was related to acquisition of production equipment.

FOREIGN EXCHANGE EXPOSURE

The Group's revenues were denominated in RMB, US dollars and Euros, with RMB accounting for the largest portion (approximately 45.6%). Approximately 54.4% 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.

EMPLOYEE'S REMUNERATION AND TRAINING

As at 31 December 2007, the Group employed around 5,090 employees (31 December 2006: around 5,156). Total staff costs during the year amounted to RMB97,276,000 (2006: RMB75,861,000). The Group provided employees with remuneration packages comparable to the market rates and employees are further rewarded based on their performance according to the framework of the Group's salary, incentives and bonus scheme.

In order to enhance the Group's productivity, and further improve the quality of the Group's human resources, the Group provides compulsory continuous education and training for all of its staff on a regular basis.

CONTINGENT LIABILITIES

The Company had no material contingent liabilities as at 31 December 2007.

PROSPECTS

The continuously growing market demand resulting from global and PRC industrial development will continue to provide momentum and opportunities for special steel and cutting tools industry. Moreover, the PRC government's new policy in controlling the export of rare metals which are raw material of HSS provided the PRC HSS and HSS cutting tools manufacturer with a competitive advantage over the overseas competitors.

The management is of the view that, cost saving from our size of operation and integrated business model, and our established relationships with customers and leading research institutes are some of the major factors in making the Group the leader in the HSS and HSS cutting tools industry. To further maintain its leading position in the industry, the Group will invest in production facilities that produce higher quality and higher margin products and also invest to increase the production capacity for both HSS, HSS cutting tools and die steel. The investment is to be funded with remainder of proceeds from IPO and bank loans.

HSS

In 2008, a series of production equipment including a new 1,300-tonne forging machine equipment and a new smelting equipment will commence operation. With the new forging machine, the HSS production capacity and the gross margin are expected to be increased as a result of higher production rate. The new smelting equipment will reduce the production cost as its implementation will eliminate part of the electroslag re-melting process. The Group planned to increase HSS annual production capacity by 5,000-tonne to 45,000-tonne in 2008.

HSS cutting tools

The Group has been selling more HSS cutting tools for professional use than for general use in the recent years. The selling price and margin for professional use HSS cutting tools are higher than tools for general use. As a result, it is the Group's objective to continue its production in this direction and place emphasis on improving the grade of HSS cutting tools as well as on production capacity expansion. In 2008, the installation of the advanced cutting tools production line which covers the grinding, heat treatment and slot, surface and edge grinding processes will be completed. The new production line will enable the Group to produce products with higher quality and increase profit margin for both overseas and domestic customers.

Die steel

The market of die steel in China has been growing at an annual rate of over 25%. The Group will continue to develop this high growth industry. In 2008, the Group will invest to install new sets of forging equipment and deep processing and precision forming equipment. These new production equipments will increase the die steel production capacity as well as the production efficiency. The die steel annual production capacity is planned to increase by 10,000-tonne to 22,000-tonne in 2008. Moreover, the Group will continue to promote die steel sales by increasing promotion activities and sales incentives in order to continue the expansion trend of this business.

In order to improve the die steel profit margin, the Group has implemented a number of measures. Firstly, the Group has hiked the selling pricing of all die steel products in February of 2008. Secondly, the Group has installed a set of production equipments which has commenced production in January of 2008. These equipments are expected to increase the production rate as well as the profit margin. Moreover, the Group has set up a committee to closely monitor and examine the production process of die steel in order to improve the efficiency of die steel production. Management expects the effects of these measures will be reflected in higher die steel gross margin in 2008.

REPORT OF THE DIRECTORS

The Board is pleased to submit the annual report together with the combined financial statements for the year ended 31 December 2007 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 21 to the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2007 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 35 to 101.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2007 are set out in the combined income statement on page 35.

The Board did not recommend dividend payment for the financial year ended 31 December 2007.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to RMB1,000,000 (2006: nil).

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 18 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 combined statements of changes in equity, respectively.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2007, calculated in accordance with the Companies Law (Cap. 22) (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to RMB913,272,000.

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 (appointed on 14 August 2006)
Mr. Zhu Zhihe (appointed on 12 April 2007)
Mr. Zhu Mingyao (appointed on 20 June 2007)
Mr. Yan Ronghua (appointed on 20 June 2007)
Madam Yu Yumei (appointed on 14 August 2006 and resigned on 12 April 2007)

Non-Executive Directors

Mr. Lin John Sian-zu (appointed on 8 September 2006 and resigned on 12 October 2007)
Mr. Thong Kwee Chee (appointed on 8 September 2006)

Independent Non-Executive Directors

Mr. Li Zhengbang (appointed on 20 June 2007)
Mr. Gao Xiang (appointed on 20 June 2007)
Mr. Lau Siu Fai (appointed on 20 June 2007)

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

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

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

Shares of the Company commenced trading on the Main Board of the Stock Exchange on 26 July 2007. As at 31 December 2007 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 *(Note 1)*	Corporate interests	210,000,000(L)	50.06

Note:

(1) As at the date of this annual report, these shares were beneficially held by Tiangong Holdings Company Limited ("THCL") which were owned as to 89.02% and 10.98% by Mr. Zhu Xiaokun and Madam Yu, Yumei the spouse of Mr. Zhu Xiaokun, respectively. Mr. Zhu Xiaokun was deemed to be interested in the 210,000,000 Shares held by THCL.

(L) represents long position

(b) Interests in the shares of associated corporation

Name of Director	Name of associated corporation	Nature of interests and capacity	Total Number of Shares	Approximate percentage of interests
Zhu Xiaokun	THCL	Beneficial owner	44,511	89.02%
Yu Yumei	THCL	Beneficial owner	5,489	10.98%

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS

Shares of the Company were traded in the Stock Exchange since 26 July 2007. As at 31 December 2007, save for the Directors or chief executives' interests as disclosed above, the following persons had interests or short positions in the shares or underlying shares of the Company which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under Section 336 of the SFO:

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

Notes:

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

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

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

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

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

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above and in the prospectus 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 5 to 7.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 7 July 2007, but the Company has not granted any share options.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

Save as disclosed under the heading "Connected transactions" below and "Related party transactions" in note 35 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

Since the date of listing and the issue of shares under the over-allotment option granted to the global coordinator of the initial public offering by the Company, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its securities.

CORPORATE GOVERNANCE

Since the date of listing, the Company has, so far when applicable, met the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules.

AUDIT COMMITTEE

The Audit Committee was established on 7 July 2007 to review the Group's financial reporting internal controls and corporate governance issues and make relevant recommendations to the Board. The Audit Committee comprises of three Non-Executive Directors, two of which are independent Non-Executive Directors namely Mr. LAU Siu Fai, Mr. GAO Xiang and Mr. THONG Kwee Chee. As a result of the resignation of Mr. LIN John Sian-zu, Mr. THONG Kwee Chee was appointed as a member of the Audit Committee on 20 March 2008. The Audit Committee held a meeting on 1 April 2008 to consider and review the annual report and annual financial statements of the Group and give their opinion and recommendation to the Board. The Audit Committee considers that the 2007 annual report and annual financial statements of the Company have complied with the applicable accounting standards and the Company has made appropriate disclosure thereof.

APPLICATION OF PROCEEDS FROM INITIAL PUBLIC OFFERING

	Proposed application amount HKD'000	**Amount utilized up to 31 December 2007 HKD'000**	**Unutilized amount as at 31 December 2007 HKD'000**
— repayment of bank loans	316,000	316,000	—
— for capital expenditure	350,000	210,000	140,000
— as general working capital	28,600	28,600	—
Total	694,600	554,600	140,000

The remaining unutilized proceeds are deposited with licensed banks as short-term deposit in China and Hong Kong.

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 2007 is as follows:

	Percentage of the Group's total	
	Sales	**Purchases**
The largest customer/supplier	8.7	15.0
Five largest customers/suppliers in aggregate	23.9	36.2

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

One-off Connected Transactions

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

Continuing Connected Transactions

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

Lease of office premises

Jiangsu Tiangong Tools Company Limited ("TG Tools"), a wholly-owned subsidiary of the Company and Jiangsu Tiangong Group Company Limited ("TG Group"), entered into a lease agreement dated 28 February 2007, by which TG Group leased to TG Tools the office premises at Tiangong building for a term commencing from 1 January 2007 to 31 December 2009 with fixed annual rentals of RMB600,000, which was determined under normal commercial terms and with reference to an independent valuation. The rental is payable on an annual basis. During the year, the Group paid 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 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 7 July 2007, by which TG Group's amenity facilities will be open to employees of TG Tools, TG Aihe, Tianfa Forging and Tianji Packaging for a fixed annual amenity fee of RMB400,000 for a term commencing from 1 July 2007 to 31 December 2009. The fixed annual fee was determined under normal commercial terms and with reference to the depreciation expenses and maintenance costs of facilities. The rental is payable on an annual basis. During the year, the Group paid amenity fee of RMB200,000 to TG Group.

TG Tools, TG Aihe and Tianji Packaging are wholly-owned subsidiaries of the Company and Tianfa Forging is a 75% owned subsidiary 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 Independent Non-executive Directors have reviewed the above non-exempt continuing connected transactions of the Group and have confirmed that these transactions have been entered into:

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

(ii) on normal commercial terms;

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

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

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

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

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

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

FINANCIAL INFORMATION SUMMARY

A financial summary of the Group is set out on page 102 of this annual report.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

MANAGEMENT CONTRACTS

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

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.

INDEPENDENT AUDITORS' REPORT

KPMG

Independent auditors' report to the shareholders of

Tiangong International Company Limited

(Incorporated in the Cayman Islands with limited liability)

We have audited the combined financial statements of Tiangong International Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 35 to 101, which comprise the combined balance sheet of the Group and the balance sheet of the Company as at 31 December 2007, and the combined income statement, the combined statement of changes in equity and the combined cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY

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

AUDITORS' RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance.

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

1 April 2008

COMBINED INCOME STATEMENT

For the year ended 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
Revenue	6	**1,735,763**	1,303,987
Cost of sales		**(1,445,911)**	(1,054,147)
Gross profit		**289,852**	249,840
Other income	9	**21,817**	30,066
Distribution expenses		**(41,428)**	(30,940)
Administrative expenses		**(57,578)**	(42,652)
Other expenses	10	**(4,013)**	(8,496)
Result from operating activities		**208,650**	197,818
Finance income		**41,018**	5,717
Finance expenses		**(68,311)**	(56,424)
Net finance cost	11(i)	**(27,293)**	(50,707)
Profit before income tax	11	**181,357**	147,111
Income tax expense	12	**(437)**	(50,507)
Profit for the year		**180,920**	96,604
Attributable to:			
Equity holders of the Company	31(a)	**180,172**	91,729
Minority interests		**748**	4,875
Profit for the year		**180,920**	96,604
Dividends attributable to the year			
Dividend declared during the year	16	**—**	53,000
Earnings per share			
Basic earnings per share (RMB)	17	**0.51**	0.31

The notes on Page 42 to 101 form part of these financial statements.

COMBINED BALANCE SHEET

As at 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
Non-current assets			
Property, plant and equipment	18	**733,785**	443,819
Lease prepayments	19	**65,291**	56,121
Goodwill	20	**21,959**	—
Other investments	22	**10,000**	10,000
Deferred tax assets	30(ii)	**3,190**	3,428
		834,225	513,368
Current assets			
Inventories	23	**845,036**	646,153
Trade and other receivables	24	**580,241**	408,040
Pledged deposits	25	**86,297**	70,852
Cash and cash equivalents	26	**156,688**	62,927
		1,668,262	1,187,972
Current liabilities			
Interest-bearing borrowings	27	**623,969**	581,909
Trade and other payables	28	**397,037**	344,378
Income tax payables	30(i)	**12,217**	31,693
		1,033,223	957,980
Net current assets		**635,039**	229,992
Total assets less current liabilities		**1,469,264**	743,360
Non-current liabilities			
Interest-bearing borrowings	27	**75,000**	130,000
Deferred income	29	**9,900**	7,900
		84,900	137,900
Net assets		**1,384,364**	605,460

The notes on Page 42 to 101 form part of these financial statements.

COMBINED BALANCE SHEET (CONTINUED)

As at 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
Capital and reserves			
Share capital	31(a),(c)	**31,806**	183,085
Reserves	31(a),(d)	**1,331,680**	360,893
Total equity attributable to equity holders of the Company		**1,363,486**	543,978
Minority interests		**20,878**	61,482
Total equity		**1,384,364**	605,460

Approved and authorised for issue by the board of directors on 1 April 2008.

Zhu Xiao Kun
Director

Yan Rong Hua
Director

The notes on Page 42 to 101 form part of these financial statements.

BALANCE SHEET

As at 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
Non-current assets			
Property, plant and equipment	18	**168**	—
Interests in subsidiaries	21	**939,261**	234,261
		939,429	234,261
Current assets			
Trade and other receivables	24	**4,332**	273
Cash and cash equivalents	26	**4,614**	—
		8,946	273
Current liabilities			
Trade and other payables	28	**3,297**	—
Net current assets		**5,649**	273
Net assets		**945,078**	234,534
Capital and reserves			
Share capital	31(b),(c)	**31,806**	390
Reserves	31(b),(d)	**913,272**	234,144
Total equity		**945,078**	234,534

Approved and authorised for issue by the board of directors on 1 April 2008.

Zhu Xiao Kun
Director

Yan Rong Hua
Director

The notes on Page 42 to 101 form part of these financial statements.

COMBINED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	Attributable to equity holders of the Company								
	Share capital RMB'000 (Note 31(c))	Share premium RMB'000 (Note 31(d))	Capital reserve RMB'000 (Note 31(d))	Merger reserve RMB'000 (Note 31(d))	PRC statutory reserve RMB'000 (Note 31(d))	Retained earnings RMB'000	Total RMB'000	Minority interests RMB'000 (Note 8)	Total equity RMB'000
At 1 January 2006	233,465	16,925	—	—	22,274	102,746	375,410	105,973	481,383
Acquisition of minority interests	10,280	3,425	22,341	—	4,400	—	40,446	(40,446)	—
Increase in share capital by way of capitalisation of profits	61,050	—	—	—	—	(61,050)	—	—	—
Arising from reorganisation	(122,100)	(20,350)	(22,341)	10,730	—	—	(154,061)	—	(154,061)
Capital injection	390	234,144	—	—	—	—	234,534	—	234,534
Profit for the year	—	—	—	—	—	91,729	91,729	4,875	96,604
Transfer to reserve	—	—	—	—	17,237	(17,237)	—	—	—
Dividend to the then equity holders	—	—	—	—	—	(44,080)	(44,080)	(8,920)	(53,000)
At 31 December 2006	183,085	234,144	—	10,730	43,911	72,108	543,978	61,482	605,460
At 1 January 2007	183,085	234,144	—	10,730	43,911	72,108	543,978	61,482	605,460
Capital contribution	—	—	56,998	—	—	—	56,998	—	56,998
Arising from reorganisation	(182,695)	—	—	81,195	—	—	(101,500)	—	(101,500)
Acquisition of minority interests	—	—	—	—	—	—	—	(56,057)	(56,057)
Capital injection	—	—	—	—	—	—	—	14,705	14,705
Issuance of share by placing and public offer	7,579	608,578	—	—	—	—	616,157	—	616,157
Capitalisation issue	22,358	(22,358)	—	—	—	—	—	—	—
Issuance of share under the over-allotment option related to the placement	1,479	118,709	—	—	—	—	120,188	—	120,188
Share issuance expenses	—	(52,507)	—	—	—	—	(52,507)	—	(52,507)
Profit for the year	—	—	—	—	—	180,172	180,172	748	180,920
Transfer to reserve	—	—	—	—	23,174	(23,174)	—	—	—
At 31 December 2007	31,806	886,566	56,998	91,925	67,085	229,106	1,363,486	20,878	1,384,364

The notes on Page 42 to 101 form part of these financial statements.

COMBINED CASH FLOW STATEMENT

For the year ended 31 December 2007

	2007 RMB'000	2006 RMB'000
Operating activities		
Profit before income tax	**181,357**	147,111
Adjustments for:		
Depreciation	**53,569**	42,229
Amortisation of lease prepayments	**1,268**	1,062
Impairment loss for doubtful debts	**2,667**	7,179
Write down for inventories	**399**	662
Interest income	**(41,018)**	(2,125)
Dividends income	**—**	(501)
Net gain on disposal of investments in trading securities	**—**	(3,091)
Interest on bank loans	**46,824**	47,320
Loss/(gain) on disposal of property, plant and equipment	**(113)**	9
Gain on acquisition of minority interests	**(96)**	—
Operating profit before changes in working capital	**244,857**	239,855
Change in inventories	**(199,282)**	(155,291)
Change in trade and other receivables	**(166,933)**	78,757
Change in trade and other payables	**79,449**	(19,015)
Change in deferred income	**2,000**	7,900
Income tax paid	**(19,676)**	(50,837)
Net cash generated from/(used in) operating activities	**(59,585)**	101,369
Investing activities		
Interest received	**5,035**	2,125
Dividends received	**—**	501
Proceeds from sale of property, plant and equipment	**1,396**	986
Proceeds from sale of other investments	**—**	19,392
Payment for property, plant and equipment	**(333,255)**	(135,610)
Payment for lease prepayments	**—**	(9,129)
Payment for acquisition of minority interests	**(77,920)**	—
Net cash used in investing activities	**(404,744)**	(121,735)

The notes on Page 42 to 101 form part of these financial statements.

COMBINED CASH FLOW STATEMENT (CONTINUED)

For the year ended 31 December 2007

	2007 RMB'000	2006 RMB'000
Financing activities		
Proceeds from issuance of shares	**736,345**	—
Interest income received on application funds	**35,983**	—
Share issue expenses	**(52,507)**	—
Capital contribution	**14,978**	234,261
Capital distribution	**(101,500)**	(154,061)
Proceeds from interest-bearing borrowings	**1,494,982**	1,153,159
Repayment of interest-bearing borrowings	**(1,507,922)**	(1,084,700)
Change in pledged deposits	**(15,445)**	(25,837)
Interest paid	**(46,824)**	(47,320)
Dividends paid	**—**	(53,000)
Net cash generated from financing activities	**558,090**	22,502
Net increase in cash and cash equivalents	**93,761**	2,136
Cash and cash equivalents at 1 January	**62,927**	60,791
Cash and cash equivalents at 31 December	**156,688**	62,927

The notes on Page 42 to 101 form part of these financial statements.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

1. REPORTING ENTITY

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

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

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

2. BASIS OF PREPARATION

The Group is regarded as a continuing entity resulting from the Reorganisation of entities under common control. The combined financial statements have been prepared on the basis that the Company was the holding company of the Group for both years presented, rather than from the date when the Company became the holding company of the Group pursuant to the Reorganisation. Accordingly, the combined results of the Group for the years ended 31 December 2006 and 2007 include the results of the Company and its subsidiaries with effect from 1 January 2006 or, if later, since their respective dates of incorporation or at the date that common control was established as if the current group structure had been in existence throughout the two years presented. The combined balance sheets at 31 December 2006 and 31 December 2007 have been prepared on the basis that the current group structure was in place with effective from 1 January 2006. All material intra-group transactions and balances have been eliminated on combination. In the opinion of the directors, the combined financial statements prepared on this basis present fairly the results of operations and the state of affairs of the Group as a whole.

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board ("IASB"). IFRSs include International Accounting Standards and interpretations. These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

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

2. BASIS OF PREPARATION (CONTINUED)

(b) Basis of measurement

These financial statements have been prepared on the historical cost basis except that the investments in trading securities are measured at fair value.

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

These combined financial statements are presented in Renminbi ("RMB"). All financial information presented in RMB has been rounded to the nearest thousand.

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of combination

(i) Subsidiaries

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of combination (continued)

(ii) Acquisitions from entities under common control

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

(iii) Transaction eliminated on combination

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

(iv) Minority interests

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Goodwill

Goodwill arising on the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

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

(c) Foreign currency

(i) Foreign currency transactions

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

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

Non-monetary assets and liabilities denominated in foreign currencies that are measured in terms of historical costs are translated using the foreign exchange rates ruling at the transaction date. Foreign currency differences arising on retranslation are recognised in profit or loss.

(ii) Foreign operations

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for finance income and expense is discussed in Note 3(n).

Available-for-sale financial assets

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial instruments (continued)

(i) Non-derivative financial instruments (continued)

Financial assets at fair value through profit or loss

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Other

Other non-derivative financial instruments include trade and other receivables, trade and other payables and loans and borrowings and are measured at amortised cost using the effective interest method, less any impairment losses (Note 3(h)).

(ii) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

(e) Property, plant and equipment

(i) Recognition and measurement

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Property, plant and equipment (continued)

(i) Recognition and measurement (continued)

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

• Plant and buildings	20 years
• Machinery	5-10 years
• Motor vehicles	8 years
• Office equipment and others	5 years

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

(f) Leased assets

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Inventories

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

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

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

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

(h) Impairment

(i) Financial assets

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

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

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

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

All impairment losses are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Impairment (continued)

(i) Financial assets (continued)

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

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, the recoverable amount is estimated at each reporting date.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Employee benefits

(i) Short term employee benefits

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

(ii) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the combined income statement as incurred.

(j) Provisions and contingent liabilities

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

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

(k) Revenue

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Government grants

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

(m) Lease payments

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

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

(n) Finance income and expenses

Finance income comprises interest income on funds invested, dividend income, changes in the fair value of financial assets at fair value through profit or loss and net foreign currency gains that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance expenses comprise interest expense on borrowings, net foreign currency losses that are recognised in profit or loss, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognised on financial assets. All borrowing costs are recognised in profit or loss using the effective interest method.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Income tax

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

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

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

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

(p) Dividends

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

(q) Earnings per share

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Segment reporting

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

(s) Related parties

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) New standards and interpretations not yet adopted

At the date of this report, the IASB has issued the following IFRSs and interpretations which are not yet effective in respect of the year ended 31 December 2007. The Group has not early adopted these IFRSs and interpretations in the preparation of the financial statements.

	Effective for accounting periods beginning on or after
IFRIC 11, *IFRS2 — Group and treasury share transactions*	1 March 2007
IFRIC 12, *Service concession arrangements*	1 January 2008
IFRIC 14, *IAS 19-The limit on a defined benefit asset, minimum funding requirements and their interaction*	1 January 2008
IFRIC 13, *Customer loyalty programmes*	1 July 2008
IFRS 8, *Operating segments*	1 January 2009
Revised IAS 23, *Borrowing costs*	1 January 2009
Amendment to IFRS 2, *Share-based payment — Vesting conditions and cancellations*	1 January 2009
Amendments to IAS 32, *Financial instruments: Presentation and IAS 1, Presentation of financial statements-Puttable financial instruments and obligations arising on liquidation*	1 January 2009
Revised IFRS 3, *Business combinations*	1 July 2009
Amendments to IAS 27, Consolidated and separate *financial statements*	1 July 2009

The directors have confirmed that the above IFRSs and interpretations do not have a significant impact on how the results of operations and financial position for the year ended 31 December 2007 are prepared and presented. These IFRSs and interpretations may result in changes in the future as to how the results and financial position of the Group are prepared and presented.

4. DETERMINATION OF FAIR VALUES

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

(i) Investments in equity and debt securities

The fair value of investments in trading securities is determined by reference to their quoted bid price at the reporting date.

(ii) Trade and other receivables

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

(iii) Non-derivative financial liabilities

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

5. CHANGES IN ACCOUNTING POLICIES

The IASB has issued a number of new and revised IFRSs and Interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company.

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of IFRS 7, *Financial Instruments: Disclosures* and the amendment to IAS 1, *Presentation of Financial Statements: Capital Disclosures*, there have been some additional disclosures provided as follows:

As a result of the adoption of IFRS 7, the financial statements include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by IAS 32, *Financial Instruments: Presentation*. These disclosures are provided throughout these financial statements, in particular in Note 32.

The amendment to IAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group's and the Company's objectives, policies and processes for managing capital. These new disclosures are set out in Note 31.

5. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

Both IFRS 7 and the amendment to IAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial instruments.

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

6. REVENUE

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

7. SEGMENT REPORTING

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

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

Business segments

The Group comprises the following main business segments

— *HSS*	The HSS segment manufactures and sells high speed steel for steel industry.
— *HSS cutting tools*	The HSS cutting tools segment manufactures and sells HSS cutting tools for tool industry.
— *DS*	The DS segment manufactures and sells die steel for steel industry.

7. SEGMENT REPORTING (CONTINUED)

Business segments (continued)

	2007 **RMB'000**	2006 RMB'000
Revenue		
HSS	**843,484**	667,600
HSS cutting tools	**661,445**	579,012
DS	**230,834**	57,375
Total	**1,735,763**	1,303,987
Segment result		
HSS	**161,728**	142,853
HSS cutting tools	**80,666**	74,204
DS	**6,029**	1,843
Total	**248,423**	218,900
Unallocated operating income and expenses	**(39,773)**	(21,082)
Profit from operations	**208,650**	197,818
Net finance cost	**(27,293)**	(50,707)
Income tax expense	**(437)**	(50,507)
Profit for the year	**180,920**	96,604

7. SEGMENT REPORTING (CONTINUED)

Business segments (continued)

	2007 RMB'000	2006 RMB'000
Segment assets		
HSS	**1,025,237**	681,161
HSS cutting tools	**776,052**	673,374
DS	**433,523**	179,248
Total	**2,234,812**	1,533,783
Unallocated assets	**267,675**	167,557
Total assets	**2,502,487**	1,701,340
Segment liabilities		
HSS	**255,118**	192,208
HSS cutting tools	**81,617**	113,375
DS	**55,123**	35,450
Total	**391,858**	341,033
Unallocated liabilities	**726,265**	754,847
Total liabilities	**1,118,123**	1,095,880

	2007 RMB'000	2006 RMB'000
Capital expenditure		
HSS	**184,336**	70,194
HSS cutting tools	**33,857**	30,802
DS	**137,063**	34,573
Total	**355,256**	135,569
Depreciation and amortisation		
HSS	**26,389**	21,202
HSS cutting tools	**9,692**	9,095
DS	**18,756**	12,994
Total	**54,837**	43,291

7. SEGMENT REPORTING (CONTINUED)

Geographical segments

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

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

	2007 **RMB'000**	2006 RMB'000
Revenue		
The PRC	**791,811**	728,515
North America	**307,868**	231,781
Europe	**405,512**	155,044
Asia (other than the PRC)	**198,672**	169,438
Others	**31,900**	19,209
Total	**1,735,763**	1,303,987

8. ACQUISITIONS OF MINORITY INTERESTS

(a) On 16 August 2006, Jiangsu Tiangong Group Company Limited ("TG Group"), a wholly-owned company of ultimate equity holders of the Company (referred to as "the Controlling Equity Holders"), acquired an additional 16.83% equity interests in Jiangsu Tiangong Tools Company Limited ("TG Tools") from the minority shareholders. As a result of this acquisition, TG Tools became a wholly-owned subsidiary of the Controlling Equity Holders. As the Controlling Equity Holders subsequently transferred their entire equity interests in TG Tools to China Tiangong Company Limited ("CTCL"), a wholly-owned subsidiary of the Company (see Note 31 (d)(iii)) on 21 August 2006, the acquisition of minority interests was reflected in the combined statement of changes in equity as a capital distribution by the minority shareholders and a corresponding capital contribution by the ultimate shareholders, and TG Tools became a wholly-owned subsidiary of the Group.

8. ACQUISITIONS OF MINORITY INTERESTS (CONTINUED)

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

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

(c) On 13 March 2007, TG Tools acquired 75% equity interests in Tiangong Aihe Special Steel Company Limited ("TG Aihe") from TG Group at a cash consideration of RMB100,000,000, while CTCL acquired the remaining 25% equity interests in TG Aihe from a minority shareholder at a cash consideration of USD 10,000,000 (equivalent to RMB77,420,000). As a result, TG Aihe became a wholly-owned subsidiary of the Group.

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

9. OTHER INCOME

	2007 **RMB'000**	2006 RMB'000
Government grants*	**20,992**	29,759
Net gain on disposal of property, plant and equipment	**113**	—
Gain on acquisition of minority interests	**96**	—
Others	**616**	307
	21,817	30,066

* TG Tools received unconditional grants amounting to RMB20,992,000 (2006: RMB29,759,000) from the local government in Danyang concerning the encouragement of its development.

10. OTHER EXPENSES

	2007 RMB'000	2006 RMB'000
Impairment loss for doubtful debts	**2,667**	7,179
Write down for inventories	**399**	662
Net loss on disposal of property, plant and equipment	**—**	9
Others	**947**	646
	4,013	8,496

11. PROFIT BEFORE INCOME TAX

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

(i) Net finance cost

	2007 RMB'000	2006 RMB'000
Interest income*	**(41,018)**	(2,125)
Dividend income on available-for-sale financial assets	**—**	(501)
Net gain on disposal of investments in trading securities	**—**	(3,091)
Finance income	**(41,018)**	(5,717)
Interest on bank loans	**46,824**	47,320
Net foreign exchange loss	**21,487**	9,104
Finance expenses	**68,311**	56,424
Net finance cost	**27,293**	50,707

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

11. PROFIT BEFORE INCOME TAX (CONTINUED)

(ii) Staff costs

	2007 RMB'000	2006 RMB'000
Wages, salaries and other benefits	**95,223**	74,190
Contributions to defined contribution plans	**2,053**	1,671
	97,276	75,861

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

(iii) Other items

	2007 RMB'000	2006 RMB'000
Cost of inventories*	**1,445,911**	1,054,147
Depreciation	**53,569**	42,229
Amortisation of lease prepayments	**1,268**	1,062
Impairment loss for doubtful debts	**2,667**	7,179
Auditor's remuneration	**1,976**	572
Write down for inventories	**399**	662
Operating lease charges	**1,123**	777

* Cost of inventories includes RMB128,871,000 (2006: RMB89,646,000) relating to staff costs and depreciation expenses which amounts are also included in the respective total amounts disclosed separately above for each of these types of expenses.

12. INCOME TAX EXPENSE

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

	2007 RMB'000	2006 RMB'000
Current tax		
Provision for PRC income tax	**200**	51,584
Deferred tax		
Origination and reversal of temporary differences	**237**	(1,077)
	437	50,507

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

(b) The provision for PRC income tax is based on the respective corporate income tax rates applicable to the subsidiaries located in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC. The applicable tax rates of the Group's operating subsidiaries in the PRC range from 27% to 33%.

Pursuant to the income tax rules and regulations of the PRC, the subsidiaries located in the PRC are entitled to a tax holiday of a tax-free period for two years from their first profit-making year of operations and thereafter, they are subject to PRC enterprise income tax at 50% of the applicable income tax rate for the following three years.

The year of 2003 is the first profit making year for Danyang Tianfa Forging Company Limited ("Tianfa Forging"). Due to the above-mentioned tax holiday, Tianfa Forging was subject to PRC enterprise income tax rate at 50% of its applicable tax rate for 3 years from 2005.

The statutory income tax rate applicable to TG Tools was 33%. On 21 August 2006, CTCL acquired the entire equity interests in TG Tools. As a result, TG Tools became a wholly foreign-owned enterprise and is entitled to a reduced income tax rate of 27%. Furthermore, due to the above-mentioned tax holiday, TG Tools was exempted from PRC enterprise income tax for 2007.

As TG Aihe sustained accumulated operating losses for tax purposes during the year 2007, no income tax is provided in the combined income statement.

12. INCOME TAX EXPENSE (CONTINUED)

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

(c) On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China (the "new tax law") which has taken effect on 1 January 2008. As a result of the new tax law, it is expected that the income tax rate applicable to the Group's PRC subsidiaries will be all changed to 25% from 1 January 2008. The new rate was used to measure the Group's deferred tax assets as at 31 December 2007. The enactment of the new tax law is not expected to have any financial effect on the amounts accrued in the combined balance sheet in respect of current tax payable.

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

	2007 RMB'000	2006 RMB'000
Profit before income tax	**181,357**	147,111
Computed tax using the Group's PRC statutory tax rate (33%)	**59,848**	48,547
Rate differential on the PRC operations	**(418)**	(5,941)
Tax exemption	**(67,299)**	—
Non-taxable income	**—**	(165)
Non-deductible expenses	**1,750**	1,538
Unrecognised deferred tax assets in respect of tax losses of a subsidiary	**6,556**	6,528
	437	50,507

13. DIRECTORS' REMUNERATION

Details of the directors' remuneration are as follows:

Year ended 31 December 2007

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

With effect from 12 October 2007, Mr. Lin John Sian-zu has resigned as a Non-Executive Director of the Company and some of its subsidiaries.

13. DIRECTORS' REMUNERATION (CONTINUED)

Year ended 31 December 2006

	Fees RMB'000	Basic salaries, allowance and other benefits RMB'000	Contributions to retirement benefit schemes RMB'000	Bonus RMB'000	Total RMB'000
Executive Directors					
Zhu Xiaokun	—	50	11	3,739	3,800
Zhu Zhihe	—	45	10	10	65
Zhu Mingyao	—	42	9	10	61
Yan Ronghua	—	46	10	6	62
Non-Executive Directors					
Lin John Sian-zu	—	—	—	—	—
Thong Kwee Chee	—	—	—	—	—
Independent					
Non-Executive Directors					
Li Zhengbang	—	—	—	—	—
Gao Xiang	—	—	—	—	—
Lau Siu Fai	—	—	—	—	—
Total	—	183	40	3,765	3,988

14. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, one (2006: four) is a director whose emolument is disclosed in Note 13 above. The aggregate of the emoluments in respect of the other four (2006: one) individuals are as follows:

	2007 RMB'000	2006 RMB'000
Basic salary, allowances and other benefits	**686**	49
Contributions to retirement benefit schemes	**36**	10
Bonus	**129**	29
	851	88

The above individuals' emoluments are within the band of Nil to RMB1,000,000.

14. INDIVIDUALS WITH HIGHEST EMOLUMENTS (CONTINUED)

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

15. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The combined profit attributable to equity holders of the Company includes a profit of RMB26,706,000 (2006: Nil) which has been dealt with in the financial statements of the Company.

16. DIVIDENDS

Pursuant to the resolution passed at the board of directors' meeting on 5 August 2006, dividends of RMB53,000,000 were declared by TG Tools to its then respective shareholders before the Reorganisation.

17. EARNINGS PER SHARE

(i) Basic earnings per share

The calculation of basic earnings per share at 31 December 2007 was based on the profit attributable to ordinary shareholders of RMB180,172,000 (2006: RMB91,729,000) and a weighted average number of ordinary shares outstanding of 352,056,165 (2006: 300,000,000), calculated as follows:

Weighted average number of ordinary shares

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

The weighted average number of shares in issue during the year ended 31 December 2006 represents the 300,000,000 shares in issue before the listing of the Company's shares on the Stock Exchange, as if such shares had been outstanding during the above entire year.

(ii) Diluted earnings per share

No dilutive potential ordinary shares were in issue as at 31 December 2007 (2006: Nil).

18. 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 2006	181,545	303,175	5,774	19,914	3,945	514,353
Additions	—	80,959	2,938	7,781	7,973	99,651
Transfer from construction in progress	312	2,407	—	129	(2,848)	—
Disposals	—	(1,591)	(517)	—	—	(2,108)
Balance at 31 December 2006	181,857	384,950	8,195	27,824	9,070	611,896
Additions	19,770	59,280	353	3,222	262,193	344,818
Transfer from construction in progress	7,726	1,775	—	—	(9,501)	—
Disposals	—	(1,322)	(2,561)	(1,092)	—	(4,975)
Balance at 31 December 2007	209,353	444,683	5,987	29,954	261,762	951,739
Depreciation:						
Balance at 1 January 2006	(24,584)	(93,946)	(2,065)	(6,366)	—	(126,961)
Charge for the year	(8,292)	(26,726)	(654)	(6,557)	—	(42,229)
Written back on disposals	—	928	185	—	—	1,113
Balance at 31 December 2006	(32,876)	(119,744)	(2,534)	(12,923)	—	(168,077)
Charge for the year	(10,030)	(34,126)	(822)	(8,591)	—	(53,569)
Written back on disposals	—	954	1,646	1,092	—	3,692
Balance at 31 December 2007	(42,906)	(152,916)	(1,710)	(20,422)	—	(217,954)
Carrying amounts:						
At 31 December 2007	166,447	291,767	4,277	9,532	261,762	733,785
At 31 December 2006	148,981	265,206	5,661	14,901	9,070	443,819

18. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(i) All plant and buildings are located in the PRC on land under medium term leases.

(ii) As at 31 December 2007, certain property, plant and equipment with the carrying amounts of RMB48,934,000 (2006: RMB51,458,000) were pledged as securities for bank loans (Note 27).

(iii) During the year ended 31 December 2006, the Group occupied certain plants of TG Group free of charge. On 1 January 2007, the Group acquired these plants from TG Group at RMB19,770,000.

(iv) During the year ended 31 December 2006, the Group occupied certain office premises and amenity facilities of TG Group free of charge. Pursuant to the lease agreements entered into between the Group and TG Group on 28 February 2007 and 7 July 2007, the Group is required to pay RMB600,000 per annum for the lease of these office premises from TG Group effective from 1 January 2007 to 31 December 2009, and to pay RMB400,000 per annum for the lease of amenity facilities from TG Group effective from 1 July 2007 to 31 December 2009. (Note 35(a)).

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

19. LEASE PREPAYMENTS

	The Group	
	2007	2006
	RMB'000	RMB'000
Cost:		
Balance at beginning of year	**58,008**	22,090
Additions	**10,438**	35,918
Balance at end of year	**68,446**	58,008
Amortisation:		
Balance at beginning of year	**(1,887)**	(825)
Charge for the year	**(1,268)**	(1,062)
Balance at end of year	**(3,155)**	(1,887)
Carrying amounts:		
At end of year	**65,291**	56,121
At beginning of year	**56,121**	21,265

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

(ii) As at 31 December 2007, certain land use rights with the carrying amounts of RMB20,363,000 (2006: RMB20,866,000) were pledged as securities for bank loans (Note 27).

(iii) During the year ended 31 December 2006, the Group occupied certain land use rights of TG Group free of charge. On 20 February 2006 and 4 January 2007, the Group acquired all these land use rights from TG Group at RMB34,687,000 and RMB10,438,000 respectively.

20. GOODWILL

	The Group RMB'000
Cost:	
At 31 December 2006	—
Additions	21,959
At 31 December 2007	21,959
Accumulated impairment losses:	
At 31 December 2006 and 2007	—
Carrying amounts:	
At 31 December 2007	21,959
At 31 December 2006	—

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

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

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

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

Management determined the budget 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.

21. INTERESTS IN SUBSIDIARIES

	The Company	
	2007	2006
	RMB'000	RMB'000
Unlisted shares, at cost	**400**	400
Loans to subsidiaries	**938,861**	233,861
	939,261	234,261

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

Details of the subsidiaries as at 31 December 2007 are set out below. The class of shares held is ordinary unless otherwise stated.

Name of company	Place and date of incorporation	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Issued and fully paid-up/ registered capital	Principal activities
CTCL	British Virgin Islands, 14 August 2006	100%	—	USD—/ USD 50,000	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%	RMB370,917,687/ RMB401,438,000	Manufacture and sales of die steel
Tianfa Forging (ii)	the PRC, 11 October 2000	—	75%	USD 9,600,000/ USD 9,600,000	Precision forging and sales of high speed steel
Tianji Packaging (iii)	the PRC, 13 May 2002	—	100%	RMB2,000,000/ RMB2,000,000	Manufacture and sales of packaging materials

21. INTERESTS IN SUBSIDIARIES (CONTINUED)

Note:

(i) TG Tools was incorporated in the PRC as a domestic company and became a wholly foreign-owned enterprise from 21 August 2006.

(ii) TG Aihe and Tianfa Forging were incorporated in the PRC as sino-foreign equity joint ventures. TG Aihe became a wholly foreign-owned enterprise from 13 March 2007.

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

22. OTHER INVESTMENTS

	The Group	
	2007	2006
	RMB'000	RMB'000
Non-current investments		
Available-for-sale financial assets	**10,000**	10,000

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

The Group's exposure to credit and interest rate risks related to other investments is disclosed in Note 32.

23. INVENTORIES

	The Group	
	2007	2006
	RMB'000	RMB'000
Raw materials	**53,622**	31,127
Work in progress	**403,923**	282,721
Finished goods	**387,491**	332,305
	845,036	646,153

As at 31 December 2007, provisions of RMB1,379,000 (2006: RMB980,000) were made against those inventories with net realisable value lower than carrying value. Except for the above, none of the inventories as at 31 December 2006 and 2007 was carried at net realisable value.

24. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade and bills receivables	**432,009**	283,235	**—**	—
Prepayments	**136,732**	104,455	**—**	—
Non-trade receivables	**11,500**	20,077	**4,332**	—
Receivables due from related parties 35(c)	**—**	273	**—**	273
	580,241	408,040	**4,332**	273

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

The Group's customers are normally granted credit terms of 0 to 150 days depending on the credit worthiness of individual customers (Note 32(a)(i)).

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

An ageing analysis of trade and bills receivables of the Group is as follows:

	2007	2006
	RMB'000	RMB'000
Within 3 months	**398,205**	254,342
Over 3 months but less than 6 months	**37,490**	34,974
Over 6 months but less than 12 months	**14,550**	7,095
Over 12 months but less than 24 months	**6,374**	7,188
Over 24 months	**908**	2,487
	457,527	306,086
Less: impairment loss for doubtful debts	**(25,518)**	(22,851)
	432,009	283,235

Included in trade and other receivables are the following amounts denominated in currencies other than RMB:

	2007	2006
	'000	'000
USD	**14,751**	12,855
EUR	**11,821**	1,721

25. PLEDGED DEPOSITS

Bank deposits of RMB86,297,000 (2006: RMB70,852,000) had been pledged to banks as securities for the Group to issue bank acceptance bills and other banking facilities. The pledged bank deposits will be released upon the settlement of the relevant bills payables by the Group and the termination of relevant banking facilities.

The Group's exposure to credit risk and currency risk are disclosed in Note 32.

26. CASH AND CASH EQUIVALENTS

All the balances of cash and cash equivalents as at 31 December 2007 are cash at bank and in hand.

Included in cash and cash equivalents are the following amounts denominated in currencies other than RMB:

	The Group		The Company	
	2007	2006	**2007**	2006
	'000	'000	**'000**	'000
USD	**429**	803	**71**	—
EUR	**77**	358	**—**	—
HKD	**6,285**	—	**4,350**	—

Except for the above amounts that are denominated in foreign currencies, all cash and cash equivalents are denominated in RMB, which is not freely convertible currency. Remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

The Group's exposure to credit risk and currency risk are disclosed in Note 32.

27. INTEREST-BEARING BORROWINGS

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

		The Group	
		2007	2006
		RMB'000	RMB'000
Current			
Secured bank loans	(i)	**56,000**	113,000
Unsecured bank loans	(ii)	**447,969**	468,909
Current portion of non-current unsecured bank loans		**120,000**	—
		623,969	581,909
Non-current			
Unsecured bank loans	(iii)	**195,000**	130,000
Less: Current portion of non-current unsecured bank loans	(iii)	**(120,000)**	—
		75,000	130,000
		698,969	711,909

Included in interest-bearing borrowings are the following amounts denominated in currencies other than RMB:

	The Group	
	2007	2006
	'000	'000
USD	**4,200**	1,000

(i) Current secured bank loans of RMB56,000 (2006: RMB113,000) were secured by certain property, plant and equipment, land use rights, details of which refer to Note 18 and 19.

Current secured bank loans carried interest at annual rates ranging from 5.51% to 6.56% (2006: 5.85% to 6.12%) and were all repayable within one year.

27. INTEREST-BEARING BORROWINGS (CONTINUED)

(ii) Current unsecured bank loans carried interest at annual rates ranging from 4.59% to 7.47% (2006: 4.05% to 6.44%) and were all repayable within one year.

Current unsecured bank loans of RMB90,000,000 (2006: RMB453,909,000) were guaranteed by third parties.

(iii) Non-current unsecured bank loans carried interest at annual rates ranging from 6.03% to 7.47% (2006: 4.50% to 6.63%).

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

	The Group	
	2007	2006
	RMB'000	RMB'000
Over 1 year but less than 2 years	**75,000**	130,000
	75,000	130,000

28. TRADE AND OTHER PAYABLES

		The Group		The Company	
		2007	2006	**2007**	2006
		RMB'000	RMB'000	**RMB'000**	RMB'000
Trade and bills payables		**324,911**	277,059	**—**	—
Non-trade payables and accrued expenses		**71,326**	53,791	**3,297**	—
Payables due to related parties	35(d)	**800**	13,528	**—**	—
		397,037	344,378	**3,297**	—

The Group's exposure to liquidity and currency risk related to trade and other payable is disclosed in Note 32.

28. TRADE AND OTHER PAYABLES (CONTINUED)

An ageing analysis of trade and bills payables of the Group is set out below:

	2007 **RMB'000**	2006 RMB'000
Within 3 months	**236,663**	194,151
Over 3 months but less than 6 months	**82,408**	74,261
Over 6 months but less than 12 months	**4,608**	7,337
Over 1 year but less than 2 years	**1,232**	1,310
	324,911	277,059

Included in trade and other payables are the following amounts denominated in currencies other than RMB:

	2007 **'000**	2006 '000
USD	**594**	490
EUR	**—**	152

29. DEFERRED INCOME

Deferred income classified as non-current consists of deferred government grants received in the year of 2006 and 2007 and was conditional upon the completion of certain construction projects.

30. INCOME TAX IN THE COMBINED BALANCE SHEET

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

	The Group	
	2007 **RMB'000**	2006 RMB'000
At the beginning of the year	**31,693**	30,946
Provision for PRC income tax for the year	**200**	51,584
PRC income tax paid	**(19,676)**	(50,837)
At the end of the year	**12,217**	31,693

30. INCOME TAX IN THE COMBINED BALANCE SHEET (CONTINUED)

(ii) Deferred tax assets recognised:

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

	Impairment loss for doubtful debts RMB'000
At 1 January 2006	2,351
Recognised in combined income statement	1,077
At 31 December 2006	3,428
Recognised in combined income statement	333
Reversal as a result of the change of the expected income tax rate	(571)
At 31 December 2007	3,190

(iii) Deferred tax assets not recognised:

In accordance with the accounting policy set out in Note 3(o), the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB45,174,000 (2006: RMB25,309,000) as it is uncertain when future taxable profit will be available against which the Group can utilise the benefits therefrom. The tax losses of RMB4,350,000, RMB20,959,000 and RMB19,865,000 expire in the year of 2010, 2011 and 2012 respectively.

31. CAPITAL AND RESERVES

(a) The Group

	Note	Share capital RMB'000 Note 31(c)	Share premium RMB'000 Note 31(d)(i)	Capital reserve RMB'000 Note 31(d)(ii)	Merger reserve RMB'000 Note 31(d)(iii)	PRC statutory reserve RMB'000 Note 31(d)(iv)	Retained earnings RMB'000	Total RMB'000
At 1 January 2006		233,465	16,925	—	—	22,274	102,746	375,410
Acquisition of minority interests	8	10,280	3,425	22,341	—	4,400	—	40,446
Increase in share capital by way of capitalisation of profits		61,050	—	—	—	—	(61,050)	—
Arising from reorganisation (31(d)(iii))		(122,100)	(20,350)	(22,341)	10,730	—	—	(154,061)
Capital injection (31(d)(i))		390	234,144	—	—	—	—	234,534
Profit for the year		—	—	—	—	—	91,729	91,729
Transfer to reserve		—	—	—	—	17,237	(17,237)	—
Dividend to the then equity holders	16	—	—	—	—	—	(44,080)	(44,080)
At 1 January 2007		183,085	234,144	—	10,730	43,911	72,108	543,978
Capital contribution		—	—	56,998	—	—	—	56,998
Arising from reorganisation (31(d)(iii))		(182,695)	—	—	81,195	—	—	(101,500)
Issuance of share by placing and public offer (31(d)(i))		7,579	608,578	—	—	—	—	616,157
Capitalisation issue (31(d)(i))		22,358	(22,358)	—	—	—	—	—
Issuance of share under the over-allotment option related to the placement (31(d)(i))		1,479	118,709	—	—	—	—	120,188
Share issuance expenses (31(d)(i))		—	(52,507)	—	—	—	—	(52,507)
Profit for the year		—	—	—	—	—	180,172	180,172
Transfer to reserve		—	—	—	—	23,174	(23,174)	—
At 31 December 2007		31,806	886,566	56,998	91,925	67,085	229,106	1,363,486

31. CAPITAL AND RESERVES (CONTINUED)

(b) The Company

	Share capital RMB'000 Note 31(c)	Share premium RMB'000 Note 31(d)(i)	Retained earnings RMB'000	Total RMB'000
At 14 August 2006 (date of incorporation)	390	234,144	—	234,534
At 31 December 2006	390	234,144	—	234,534
Issuance of share by placing and public offer	7,579	608,578	—	616,157
Capitalisation issue	22,358	(22,358)	—	—
Issuance of share under the over-allotment option related to the placement	1,479	118,709	—	120,188
Share issuance expenses	—	(52,507)	—	(52,507)
Profit for the year	—	—	26,706	26,706
At 31 December 2007	31,806	886,566	26,706	945,078

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

31. CAPITAL AND RESERVES (CONTINUED)

(c) Share Capital

Authorised and issued share capital:

Authorsied:

	The Group						The Company			
	2007			2006			**2007**		2006	
	No. of shares '000	**Amount USD '000**	**RMB '000**	No. of shares '000	Amount USD '000	RMB '000	**No. of shares '000**	**Amount USD '000**	No. of shares '000	Amount USD '000
Ordinary shares of USD 1 each (note (i) below)	**—**	**—**	**—**	50	50	—	**—**	**—**	50	50
Ordinary shares of USD 0.01 each (note (ii) below)	**1,000,000**	**10,000**	**—**	—	—	—	**1,000,000**	**10,000**	—	—
Deemed shares (note (vi) below)	**—**	**—**	**—**	—	—	403,438	**—**	**—**	—	—

31. CAPITAL AND RESERVES (CONTINUED)

(c) Share capital (continued)

Authorised and issued share capital: (continued)

Ordinary shares issued and fully paid:

	The Group			The Company		
	No. of shares ('000)	Amount USD '000	Amount RMB equivalent '000	No. of shares '000	Amount USD '000	Amount RMB equivalent '000
Share issued upon incorporation (note (i) below)	50	50	390	50	50	390
Deemed share capital (note (vi) below)	—	—	182,695	—	—	—
At 31 December 2006	50	50	183,085	50	50	390
Arising from reorganisation (31(d)(iii))	—	—	(182,695)	—	—	—
Subdivision of shares (note (ii) below)	4,950	—	—	4,950	—	—
Capitalisation issue (note (iii) below)	295,000	2,950	22,358	295,000	2,950	22,358
Issuance of share by placing and public offering (note (iv) below)	100,000	1,000	7,579	100,000	1,000	7,579
Issuance of share under the over-allotment option related to the placement (note (v) below)	19,500	195	1,479	19,500	195	1,479
At 31 December 2007	419,500	4,195	31,806	419,500	4,195	31,806

(i) The Company was incorporated in the Cayman Islands on 14 August 2006 with an authorised share capital of USD 50,000 divided into 50,000 ordinary shares of par value USD 1 each.

31. CAPITAL AND RESERVES (CONTINUED)

(c) Share capital (continued)

Pursuant to a board of directors' resolution dated on 15 August 2006, the Company issued 35,000 shares of the Company at the par value of USD 1 per share and 15,000 shares of the Company at a price of USD 2,000 per share to Tiangong Holding Company Limited ("THCL") in consideration of the issuance of two promissory notes for a total sum of USD 30,035,000 (equivalent to RMB234,534,000) by THCL to the Company.

(ii) Pursuant to the resolutions in writing of the shareholders of the Company passed on 7 July 2007, each share of USD 1 each in the authorised share capital and the issued share capital of the Company was subdivided into 100 shares of USD 0.01 each; as a result of the subdivision of shares, the authorised share capital and issued share capital of the Company were USD 50,000 divided into 5,000,000 shares of USD 0.01 each; and the authorised share capital of the Company was increased from USD 50,000 divided into 5,000,000 shares of USD 0.01 each to USD 10,000,000 divided into 1,000,000,000 shares of USD 0.01 each by the creation of an additional 995,000,000 shares of USD 0.01 each.

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

(iii) On 7 July 2007, the Company authorised the issue of 295,000,000 shares of USD 0.01 each to the then shareholders of the Company in the proportion of their respective shareholdings in the Company by way of capitalisation of USD 2,950,000 (equivalent to RMB22,358,000) from the share premium account upon the listing of the Company's share on the Stock Exchange. The above shares were issued on 26 July 2007.

(iv) On 26 July 2007, 100,000,000 ordinary shares of USD 0.01 each were issued at a price of HKD 6.36 per share under the Offering and the Placement. The proceeds of USD 1,000,000 (equivalent to RMB7,579,000) representing the par value, were credited to the Company's share capital. The remaining proceeds (equivalent to RMB 608,578,000), before the share issue expenses, were credited to the share premium account.

31. CAPITAL AND RESERVES (CONTINUED)

(c) Share capital (continued)

(v) On 26 July 2007, the underwriters of the Placement exercised the over-allotment option for the issuance of 19,500,000 ordinary shares of USD 0.01 each at HKD 6.36 per share. The proceeds of USD 195,000 (equivalent to RMB1,479,000) representing the par value, were credited to the Company's share capital. The remaining proceeds (equivalent to RMB118,709,000), before the share issue expenses, were credited to the share premium account.

(vi) The Company was incorporated on 14 August 2006 and the Reorganisation was completed in March 2007. Deemed shares and deemed share capital reflected in the combined financial statements as at 31 December 2006 represented the aggregate amount of registered capital and paid-in capital of the companies comprising the Group apart from the Company at that day, after elimination of investment in subsidiaries.

(d) Nature and purpose of reserves

(i) Share premium

Pursuant to a board of directors' resolution dated on 15 August 2006, the Company issued 35,000 shares of the Company at the par value of USD 1 per share and 15,000 shares of the Company at a price of USD 2,000 per share to THCL in consideration of the issuance of two promissory notes for a total sum of USD 30,035,000 (equivalent to RMB234,534,000) by THCL to the Company. The excess of the proceeds over the nominal value of the total number of ordinary shares issued, totaling USD 29,985,000 (equivalent to RMB234,144,000), was credited to the share premium account of the Company.

100,000,000 ordinary shares of USD 0.01 each in the Company were issued at a price of HKD 6.36 per share under the Offering and the Placement on 26 July 2007. An additional 19,500,000 ordinary shares of USD 0.01 each in the Company were issued at HKD 6.36 per share on 26 July 2007 pursuant to the over-allotment option related to the Placement. The excess of the proceeds totaling HKD 760,020,000 (equivalent to RMB 736,345,000) over the nominal value of the total number of ordinary shares issued, less certain listing costs of HKD 54,187,000 (equivalent to RMB 52,507,000) incurred in connection with the issue of shares, amounting to RMB 674,780,000, was credited to the share premium account of the Company.

Pursuant to the resolutions in writing of shareholders of the Company passed on 7 July 2007, 295,000,000 shares of USD 0.01 each in the Company were issued at par value on 26 July 2007 by way of capitalisation of USD 2,950,000 (equivalent to RMB22,358,000) from the share premium account.

31. CAPITAL AND RESERVES (CONTINUED)

(d) Nature and purpose of reserves (continued)

(ii) Capital reserve

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

(iii) Merger reserve

On 21 August 2006, CTCL acquired 0.2% and 99.8% equity interests in TG Tools from the Controlling Equity Holders and TG Group respectively, at an aggregate cash consideration of USD 20,000,000 (equivalent to RMB154,061,000). As a result, TG Tools became a wholly-owned subsidiary of the Group.

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

On 13 March 2007, TG Tools acquired 75% equity interests in TG Aihe from TG Group at a cash consideration of RMB100,000,000, while CTCL acquired the remaining 25% equity interests in TG Aihe from a minority shareholder at a cash consideration of USD 10,000,000 (equivalent to RMB77,420,000). As a result, TG Aihe became a wholly-owned subsidiary of the Group.

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

31. CAPITAL AND RESERVES (CONTINUED)

(d) Nature and purpose of reserves (continued)

(iv) PRC statutory reserve

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

General reserve fund

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

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

Enterprise expansion fund

The transfers from retained earnings to the enterprise expansion fund were made in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiaries and were approved by the respective boards of directors.

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

(e) Distributability of reserves

At 31 December 2007, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB913,272,000.

(f) Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

31. CAPITAL AND RESERVES (CONTINUED)

(f) Capital management (continued)

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

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

The gearing ratio for the year ended 31 December 2007 is 50% (2006: 118%). The gearing ratio is calculated by dividing total borrowings with total equity.

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

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

32. FINANCIAL INSTRUMENTS

The Group's business strategies, tolerance of risk and general risk management philosophy are determined by management in accordance with prevailing economic and operating conditions.

The Group's financial assets comprise mainly cash and cash equivalents, pledged deposits, trade and other receivables and available-for-sale financial assets. The Group's financial liabilities comprise interest-bearing borrowings and trade and other payables.

The Group had no derivative instruments that are designated and qualified as hedging instruments for the year ended 31 December 2007. Exposure to credit, liquidity, interest rate and currency risk arises in the normal course of the Group's business.

(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.

32. FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (continued)

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

The Company has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. Customers are normally granted credit terms of 0 to 150 days depending on the creditworthiness of individual customers. The Group does not require collateral in respect of trade and other receivables.

Based on the past experience and the general industry environment, the Group makes specific allowance when a customer shows poor financial status, or when transactions with certain customers go in-active; and the Group also makes general provision based on ageing analysis of remaining trade receivables.

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

	Carrying amount	
	2007	2006
	RMB'000	RMB'000
HSS	**259,047**	141,204
HSS cutting tools	**114,946**	118,756
DS	**58,016**	23,275
	432,009	283,235

(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.

32. FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (continued)

(iii) Guarantees

The Group's policy is to provide financial guarantees only to wholly-owned subsidiaries. At 31 December 2007 no guarantees were outstanding.

(iv) Deposits with bank

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

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the combined balance sheet.

(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 approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

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.

32. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Liquidity risk (continued)

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

31 December 2007

Non-derivative financial liabilities	Carrying amount	Contractual cash flows	1 year or less	1-2 years
Interest-bearing borrowings	698,969	(723,326)	(644,923)	(78,403)
Trade and bills payables	324,911	(324,911)	(324,911)	—
	1,023,880	(1,048,237)	(969,834)	(78,403)

31 December 2006

Non-derivative financial liabilities	Carrying amount	Contractual cash flows	1 year or less	1-2 years
Interest-bearing borrowings	711,909	(738,086)	(604,098)	(133,988)
Trade and bills payables	277,059	(277,059)	(277,059)	—
	988,968	(1,015,145)	(881,157)	(133,988)

(c) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the U.S. Dollars (USD), but also euro (EUR) and HK Dollar (HKD). The currencies in which these transactions primarily are denominated are USD, EUR and HKD.

32. FINANCIAL INSTRUMENTS (CONTINUED)

(c) Currency risk (continued)

(i) Exposure to currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

31 December 2007

	USD '000	EUR '000	HKD '000
Trade and other receivables	14,751	11,821	—
Cash and cash equivalents	429	77	6,285
Pledged deposits	—	39	—
Trade and other payables	(594)	—	—
Interest-bearing borrowings	(4,200)	—	—
Balance sheet exposure	10,386	11,937	6,285

31 December 2006

	USD '000	EUR '000	HKD '000
Trade and other receivables	12,855	1,721	—
Cash and cash equivalents	803	358	—
Pledged deposits	—	—	—
Trade and other payables	(490)	(152)	—
Interest-bearing borrowings	(1,000)	—	—
Balance sheet exposure	12,168	1,927	—

The following significant exchange rates applied during the year:

	Average rate		Balance sheet date spot rate	
RMB	2007	2006	2007	2006
USD 1	7.5869	7.9591	7.3046	7.8087
EUR 1	10.4464	10.0529	10.6669	10.2665
HKD 1	0.9728	1.0248	0.9364	1.0047

32. FINANCIAL INSTRUMENTS (CONTINUED)

(c) Currency risk (continued)

(ii) Sensitivity analysis

A 5 percent strengthening of RMB against the following currencies at 31 December would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2006.

	Profit or loss
31 December 2007	RMB'000
USD	(3,793)
EUR	(6,367)
HKD	(294)

	Profit or loss
31 December 2006	RMB'000
USD	(4,751)
EUR	(989)
HKD	—

A 5 percent weakening of RMB against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(d) Interest rate risk

The Group's exposure to interest rate risk relates to interest-bearing financial assets and liabilities.

Interest-bearing financial assets

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.

Investments in equity securities and short-term receivables are not exposed to interest rate risk.

32. FINANCIAL INSTRUMENTS (CONTINUED)

(d) Interest rate risk (continued)

Interest-bearing financial liabilities

Interest-bearing financial liabilities include bank borrowings. The Group's variable-rate borrowings are exposed to a risk of change in cash flows due to changes of interest rates. The interest rates and terms of repayment of the interest-bearing borrowings of the Group are disclosed in Note 27.

Short-term payables are not exposed to interest rate risk.

At the balance sheet date the interest rate profile of the Group's interest-bearing financial instruments was:

	Carrying amount	
	2007	2006
	RMB'000	RMB'000
Fixed rate instruments		
Financial liabilities	**(95,000)**	(229,000)
Variable rate instruments		
Financial liabilities	**(603,969)**	(482,909)

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the balance sheet date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2006.

Effect in RMB'000	**Profit or loss**		**Equity**	
31 December 2007	**100bp increase**	**100bp decrease**	**100bp increase**	**100bp decrease**
Variable rate instrument				
Cash flow sensitivity	(6,785)	6,785	(6,785)	6,785

Effect in RMB'000	**Profit or loss**		**Equity**	
31 December 2006	**100bp increase**	**100bp decrease**	**100bp increase**	**100bp decrease**
Variable rate instrument				
Cash flow sensitivity	(5,244)	5,244	(5,244)	5,244

32. FINANCIAL INSTRUMENTS (CONTINUED)

(e) Fair values

The carrying amounts of significant financial assets and liabilities approximate their respective fair values as at 31 December 2007.

The following methods and assumptions were used to estimate the fair value for each class of financial instruments:

(i) Cash and cash equivalents, pledged deposits, trade and other receivables, and trade and other payables

The carrying values of these financial assets and liabilities approximate fair value because of the short maturities of these instruments.

(ii) Interest-bearing borrowings

The carrying amounts of interest-bearing borrowings approximate their fair value based on the borrowing rates currently available for bank loans with similar terms and maturities.

33. COMMITMENTS

(a) Capital commitments

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

	The Group	
	2007 **RMB'000**	2006 RMB'000
Contracted for		
— Land and buildings	**81,463**	15,384
— Equipment	**121,801**	115,125
	203,264	130,509
Authorised but not contracted for		
— Equipment	**92,844**	47,980

33. COMMITMENTS (CONTINUED)

(b) Operating leases commitments

At 31 December 2007, the total future minimum lease payments under non-cancellable operating leases are payables as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**1,468**	777	**291**	—
After 1 year but within 5 years	**1,357**	1,429	**145**	—
	2,825	2,206	**436**	—

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

34. CONTINGENT LIABILITIES

	2007	2006
	RMB'000	RMB'000
Guarantees given to financial institutions		
in respect of facilities utilised by independent third parties:		
Worldgroup Company Limited and its subsidiaries	—	199,630
	—	199,630

Prior to the listing of the Company's share on the Stock Exchange, the Group issued guarantees to certain banks as security for bank loans borrowed by Worldgroup Company Limited and its subsidiaries. The above guarantees given were released upon the repayment of the related loans by Worldgroup Company Limited and its subsidiaries and the listing of the Company's shares on the Stock Exchange during the year ended 31 December 2007.

35. RELATED PARTY TRANSACTIONS

The Group has transactions with TG Group, the ultimate shareholders and THCL. The following is a summary of principal related party transactions carried out by the Group with the above related parties.

Particulars of significant transactions between the Group and the above related parties are as follows:

(a) Significant Related Party Transactions-Recurring

	2007 **RMB'000**	2006 RMB'000
Lease expense to:		
TG Group	**800**	—

During the year ended 31 December 2006, the Group occupied certain office premises and amenity facilities of TG Group free of charge. Pursuant to two lease agreements entered into between the Group and TG Group on 28 February 2007 and 7 July 2007, the Group is required to pay RMB600,000 per annum for the lease of these office premises from TG Group effective from 1 January 2007 to 31 December 2009, and to pay RMB400,000 per annum for the lease of amenity facilities from TG Group effective from 1 July 2007 to 31 December 2009.

(b) Significant Related Party Transactions-Non-recurring

	2007 **RMB'000**	2006 RMB'000
Sales of goods to:		
TG Group	—	3,272
Purchases of goods from:		
TG Group	—	30,052
Purchases of fixed assets from:		
TG Group	**19,770**	8,604
Purchases of land use rights from:		
TG Group	**10,438**	26,790
Repayment of non-interest bearing loans from:		
TG Group	—	128,163
Payments on behalf of:		
TG Group	**280**	2,484

35. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Significant Related Party Transactions-Non-recurring (continued)

	2007 **RMB'000**	2006 RMB'000
Acquisition of equity interests in subsidiaries from:		
TG Group	**101,500**	153,753
Ultimate shareholders	**—**	308
Maintenance service received from:		
TG Group	**—**	15,567
Capital contribution from:		
THCL	**—**	234,534
Unsecured bank loans guaranteed by:		
TG Group	**—**	50,000
Waiver of liabilities by:		
TG Group	**56,998**	—

The directors have confirmed that the above transactions will not continue after the listing of the Company's share on the Stock Exchange on 26 July 2007.

(c) Amounts due from related parties

	2007 **RMB'000**	2006 RMB'000
THCL	**—**	273

(d) Amounts due to related parties

	2007 **RMB'000**	2006 RMB'000
TG Group	**800**	13,528

35. RELATED PARTY TRANSACTIONS (CONTINUED)

(e) 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 13 and certain of the highest paid employees as disclosed in Note 14, is as follows:

	2007 **RMB'000**	2006 RMB'000
Short-term employees benefits	**5,408**	4,393
Contributions to retirement benefit schemes	**94**	83
	5,502	4,476

Total remuneration is included in "staff costs" (Note 11(ii)).

36. ACCOUNTING ESTIMATES AND JUDGMENTS

Key sources of estimation uncertainty are as follow:

(a) Impairment losses on trade and other receivables

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

(b) Depreciation

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

36. ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(c) Net realisable value of inventories

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

(d) Income taxes

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

(e) Estimated carrying amounts of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. Details of the recoverable amount calculation are disclosed in Note 20.

37. PARENT AND ULTIMATE CONTROLLING PARTY

At 31 December 2007, the directors consider the immediate parent and ultimate controlling party of the Group to be Tiangong Holdings Company Limited, which is incorporated in British Virgin Islands. This entity does not produce financial statements available for public use.

FINANCIAL INFORMATION SUMMARY

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

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

Note:

The results of the Group for the three financial years ended 31 December 2004, 2005 and 2006 and its assets and liabilities were extracted from the Prospectus, which also set forth the details of the basis of presentation of the combined accounts. The result of the Group for the financial year ended 31 December 2007 and its assets and liabilities as at 31 December 2007 are set forth on pages 35 to 37, and are presented on the basis set out in note 2 to the combined financial statements

CORPORATE INFORMATION

REGISTERED NAME

Tiangong International Company Limited

CHINESE NAME

天工國際有限公司

STOCK CODE

Hong Kong Stock Exchange 826

BOARD OF DIRECTORS

Executive Directors

Mr. Zhu Xiaokun *(Chairman)*

Mr. Zhu Zhihe *(Chief Executive Officier)*

Mr. Zhu Mingyao

Mr. Yan Ronghua

Non-executive Director

Mr. Thong Kwee Chee

Independent Non-executive Directors

Mr. Li Zhengbang

Mr. Gao Xiang

Mr. Lau Siu Fai

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Leung Wai Yip, AHKICPA

AUTHORIZED REPRESENTATIVES

Mr. Lau Siu Fai

Mr. Leung Wai Yip, AHKICPA

AUDIT COMMITTEE

Mr. Lau Siu Fai *(Chairman)*

Mr. Gao Xiang

Mr. Thong Kwee Chee

REMUNERATION COMMITTEE

Li Zhengbang *(Chairman)*

Zhu Xiaokun

Gao Xiang

Lau Siu Fai

Mr. Thong Kwee Chee

NOMINATION COMMITTEE

Gao Xiang *(Chairman)*

Zhu Xiaokun

Li Zhengbang

Lau Siu Fai

Mr. Thong Kwee Chee

REGISTERED OFFICE

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Wanchai

Hong Kong

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Danyang City

Jiangsu Province

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AUDITORS

KPMG
Certified Public Accountants
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Central
Hong Kong

HONG KONG LEGAL ADVISER

Richards Butler
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Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Computershare Hong Kong Investor Services Limited
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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