SELECTED COMBINED FINANCIAL AND OPERATING DATA

The Group's selected combined financial data set forth below has been extracted from the combined financial information of the Group as of 31 December 2004, 2005 and 2006 and 31 March 2007, and for the three years ended 31 December 2004, 2005 and 2006 and for the three months ended 31 March 2006 and 2007, all of which is set forth in the Accountants' Report included as Appendix I to this prospectus (the "Financial Information"). As more fully described in Appendix I, the Financial Information was prepared in accordance with accounting policies in conformity with International Financial Reporting Standards and in compliance with the disclosure requirements of the Listing Rules.

Investors should read these selected combined financial data together with Appendix I to this prospectus and the discussion under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" below.

Selected Combined Income Statements data

	Year ended 31 December			Three months ended 31 March	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Revenue	841,913	1,094,711	1,303,987	248,880	384,035
Cost of sales	(689,728)	(900,321)	(1,054,147)	(197,772)	(309,377)
Gross profit	152,185	194,390	249,840	51,108	74,658
Other income	374	1,327	30,066	174	8,606
Distribution expenses	(21,843)	(26,749)	(30,940)	(4,768)	(8,739)
Administrative expenses	(25,061)	(29,614)	(42,652)	(8,276)	(14,168)
Other expenses	(3,716)	(6,176)	(8,496)	(2,723)	(682)
Result from operating activities	101,939	133,178	197,818	35,515	59,675
Finance income	2,675	3,551	5,717	1,445	563
Finance expenses	(27,932)	(39,748)	(56,424)	(12,532)	(14,864)
Net finance cost	(25,257)	(36,197)	(50,707)	(11,087)	(14,301)
Share of loss of an associate	(1,537)	(4,841)	—	—	—
Profit before income tax	75,145	92,140	147,111	24,428	45,374
Income tax expense	(25,449)	(33,255)	(50,507)	(9,614)	(584)
Profit for the year/period	49,696	58,885	96,604	14,814	44,790
Attributable to:					
Equity holders of the company	40,861	47,940	91,729	12,326	44,495
Minority interests	8,835	10,945	4,875	2,488	295
Profit for the year/period	**49,696**	**58,885**	**96,604**	**14,814**	**44,790**

Selected Combined Balance Sheets data

	31 December			31 March
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current Assets				
Property, plant and equipment	189,654	387,392	443,819	477,807
Lease prepayments	—	21,265	56,121	66,228
Goodwill	—	—	—	21,959
Interests in an associate	47,604	—	—	—
Other investments	10,000	10,000	10,000	10,000
Deferred tax assets	1,503	2,351	3,428	2,886
Total non-current assets	248,761	421,008	513,368	578,880
Current assets				
Inventories	274,336	491,524	646,153	691,166
Trade and other receivables	290,259	456,139	408,040	449,068
Pledged deposits	83,470	45,015	70,852	66,473
Other investments	17,003	16,301	—	—
Cash and cash equivalents	84,155	60,791	62,927	88,667
Total current assets	749,223	1,069,770	1,187,972	1,295,374
Current liabilities				
Interest-bearing borrowings	405,850	643,450	581,909	587,170
Trade and other payables	324,866	334,999	344,378	410,121
Income tax payables	27,096	30,946	31,693	23,567
Total current liabilities	757,812	1,009,395	957,980	1,020,858
Net current (liabilities)/assets	(8,589)	60,375	229,992	274,516
Total assets less current liabilities	240,172	481,383	743,360	853,396
Non-current liabilities				
Interest-bearing borrowings	10,000	—	130,000	280,000
Deferred income	—	—	7,900	9,000
Net assets	230,172	481,383	605,460	564,396
Equity attributable to equity holders of the Company	195,417	375,410	543,978	543,971
Minority interests	34,755	105,973	61,482	20,425
Total equity	230,172	481,383	605,460	564,396

Selected Combined Cash Flows Statements data

	Year ended 31 December			Three months ended 31 March	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Net cash generated from /(used in) operating activities	41,655	(250,891)	101,369	(42,899)	(14,198)
Net cash used in investing activities	(40,598)	(2,834)	(121,735)	(5,154)	(121,154)
Net cash (used in)/generated from financing activities	(47,475)	230,361	22,502	97,136	161,092

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Investors should read the following discussion and analysis in conjunction with the combined financial information of the Group as of 31 December 2004, 2005 and 2006 and as at 31 March 2007 and for the years ended 31 December 2004, 2005 and 2006, and for the three months ended 31 March 2006 and 2007, all of which is set forth in the Accountants' Report included as Appendix I to this prospectus (the "Financial Information"). Except for the Financial Information, the remainder of the Group's financial information presented in this section has been extracted or derived from the Group's unaudited management accounts or other records. Investors should read the whole of the Accountants' Report and not rely merely on the information contained in this section.

The following discussion contains certain forward-looking statements that involve risks and uncertainties. The Group's actual future results could differ materially from those discussed below. Factors that could cause or contribute to such differences include, without limitation, those discussed in "Risk Factors", "Business" and elsewhere in this prospectus.

OVERVIEW

The Group is engaged in the manufacture and sale of high speed steel, HSS cutting tools and die steel. The Group has been the largest manufacturer of HSS in China by volume for six consecutive years since 2001 and the largest exporter of HSS in China in 2005 and 2006. According to 中國特鋼企業協會 (Special Steel Enterprise Association of China), in 2006, the Group produced more than twice as much HSS than its nearest Chinese competitor. According to the 中國機床工具工業協會 (China Machine Tool & Tool Builders' Association), in 2006, the Group was the largest HSS cutting tools manufacturer by revenue and one of the largest exporters of HSS cutting tools by revenue. Based upon the above, the Directors believe that the Group was the number one integrated HSS and HSS cutting tools manufacturer by volume in China in 2006.

The Group's financial results over the Track Record Period have been most significantly impacted by the following factors:

Composition of Revenue

The Group generates its revenue primarily from sales of: (i) HSS and die steel, primarily domestically, and (ii) HSS cutting tools, primarily for export. Contribution to total revenue from each of these revenue streams has fluctuated in recent years, with revenue from sales of HSS and die steel increasing significantly in 2006, while revenue from sales of HSS cutting tools has increased from 2004 to 2005 and was consistent from 2005 to 2006. The following table sets forth total revenue derived from sales of each of these product categories, for each of domestic and export sales, their percentage contribution to the Group's total revenues and gross profit margin for each main product category for the periods indicated:

	Year ended 31 December 2004			Year ended 31 December 2005			Year ended 31 December 2006			Three months ended 31 March 2006 (unaudited)			Three months ended 31 March 2007		
	RMB'000	%	gross profit margin%	RMB'000	%	gross profit margin%	RMB'000	%	gross profit margin%	RMB'000	%	gross profit margin%	RMB'000	%	gross profit margin%
HSS	**408,889**	**48.6**	**21.6**	**522,730**	**47.7**	**22.5**	**667,600**	**51.2**	**23.2**	**156,063**	**62.7**	**23.3**	**185,130**	**48.2**	**25.0**
Domestic	408,889	48.6		504,203	46.0		578,987	44.4		140,809	56.6		150,040	39.1	
Export	—	—		18,527	1.7		88,613	6.8		15,254	6.1		35,090	9.1	
HSS cutting tools	**433,024**	**51.4**	**14.8**	**564,688**	**51.6**	**13.5**	**579,012**	**44.4**	**15.6**	**87,418**	**35.1**	**16.4**	**149,099**	**38.8**	**16.6**
Domestic	91,717	10.9		104,450	9.6		107,089	8.2		16,616	6.7		24,298	6.3	
Export	341,307	40.5		460,238	42.0		471,923	36.2		70,802	28.4		124,801	32.5	
Die steel	**—**	**—**	**n/a**	**7,293**	**0.7**	**5.5**	**57,375**	**4.4**	**7.5**	**5,399**	**2.2**	**7.2**	**49,806**	**13.0**	**7.2**
Domestic	—	—		7,293	0.7		42,439	3.3		5,399	2.2		15,475	4.0	
Export	—	—		—	—		14,936	1.1		—	—		34,331	9.0	
TOTAL	**841,913**	**100**	**18.1**	**1,094,711**	**100**	**17.8**	**1,303,987**	**100**	**19.2**	**248,880**	**100**	**20.5**	**384,035**	**100**	**19.4**

Any change in the percentage of the Group's total revenue derived from each of these two main product categories may have a direct impact on the Group's results of operations, particularly its cost of sales and gross margin. The gross profit margins for HSS were 21.6%, 22.5% and 23.2% in the years ended 31 December 2004, 2005 and 2006, respectively, and were 25.0% for the three months ended 31 March 2007. The Gross profit margins for HSS cutting tools, 14.8%, 13.5%, 15.6% and 16.6% during those same periods, respectively. The gross profit margins for HSS were higher than those for HSS cutting tools during these periods primarily because HSS is still a niche product in China, and, according to 中國特鋼企業協會 (Special Steel Enterprise Association of China), the top three Chinese manufacturers thereof (including the Group) manufactured 77.1% by volume (with the Group being the single largest manufacturer at 44.7%) of all HSS manufactured in China in 2006. This leading position gave the Group greater pricing power than it has in its HSS cutting tools business. In contrast, there are many companies in China capable of making HSS cutting tools, which has resulted in intense price competition among these Chinese manufacturers. Additionally, over the Track Record Period the Group has primarily manufactured relatively lower margin HSS cutting tools (primarily drill bits for non-industrial uses), for which it was able to command only lower prices (and, consequently, realised lower margins). However, the Group has increasingly begun to shift the focus of its product mix toward higher quality, higher margin HSS cutting tools.

Gross profit margins on each category of products remained relatively stable over the Track Record Period. The Group's gross profit margins on sales of HSS remained relatively stable because it was able to pass on to customers a substantial portion of the increased raw materials costs, particularly those of non-ferrous metals. The reason for that was that, according to 中國特鋼企業協會 (Special Steel Enterprise Association of China), the Group was one of the three manufacturers in China which manufactured 77.1% of all HSS manufactured in China by volume in 2006, which in turn enabled the Group to have greater pricing power. The Group's gross profit margins on sales of its HSS cutting tools remained relatively stable, even trending upwards from 2005 to 2006, despite the fact that intense, price-based competition prevented the Group from passing on entirely the increased costs of raw materials over the Track Record Period (particularly non-ferrous metals) to its customers, because over the Track Record Period, the Group was able to mitigate or, as in 2006 overcome, the negative financial impact on its margins because of its ability to reduce its costs, in part through the installation of more modern manufacturing equipment (like the Group's grinding and lathe machines imported from the United States) and its adoption of a recycling-grinding production technique, along with a shift in product mix increasingly toward higher quality (and therefore higher price and higher margin) HSS cutting tools products.

Growth of demand for HSS and die steel in China, as well as export sales thereof

While HSS and die steel are each still niche special steel products in China, the demand for, and volume of manufacture of, each of these products in China has grown in recent years. According to the Special Steel Enterprise Association of China, the volume of HSS manufactured in China grew at a CAGR of 17% from 2001 to 2006, and the volume of die steel manufactured in China grew at a CAGR of 38% from 2002 to 2005. As an increasing percentage (and a majority starting in the year ended 31 December 2006) of the Group's total revenues are derived from sales of HSS and die steel, the significant majority of which sales are made to customers in China, the growth of demand for HSS and die steel in China has had a material impact on the Group's financial results. To the extent that the Group's existing sale mix does not change materially in the future, the Company's revenues growth will depend on, among other things, any future growth in China's industrial output and in its GDP, the macro economic trends over which the Group has little or no control.

The volume of HSS exported from China also rose from 1,260 tons in 2005 to 3,100 tons in 2006. The Group's revenues derived from export sales of each of HSS and die steel increased in each year from 2004 to 2006, primarily due to the fact that the HSS that the Group exported was commonly more customised or further processed than HSS sold domestically, thereby allowing the Group to charge relatively higher prices for its HSS and die steel to its overseas customers than those which it charged its domestic customers in China. As a result, the Group's profit margins thereon were relatively higher. Hence, foreign demand for the Group's HSS and die steel have already had, to a certain extent, and is expected to continue to have an impact on the Group's financial results.

Increases in prices and consumption of the non-ferrous metals, tungsten, molybdenum, chromium and vanadium

The primary raw materials used to make HSS and die steel include metals such as tungsten, molybdenum, chromium and vanadium. The proportion of these metals contained in any individual type of HSS or die steel varies depending upon the specifications of the individual product. In each of the years ended 31 December 2004, 2005 and 2006 and the three months ended 31 March 2007, the aggregate cost of these non-ferrous metals represented 52.0%, 53.5%, 53.6% and 50.5%, respectively, of the Group's total cost of sales for those periods. The cost of scrap steel and other auxiliary materials represented a further 16.8%, 17.2%, 17.6% and 21.5%, respectively, of the Group's total cost of sales during the same periods. Market prices in China for these non-ferrous metals have fluctuated but generally trended upwards over the Track Record Period due to local demand and the more stringent restrictions on the export of non-ferrous metals imposed by the PRC government in January 2007. While over the Track Record Period, the Group was able to pass on these increased costs to purchasers of its HSS, intense price-based competition prevented the Group from passing on entirely these increased costs to purchasers of its HSS cutting tools. As a result, changes in prices and consumption volume of these non-ferrous metals (as well as, to a lesser extent, scrap steel) had a significant impact on the Group's profitability over the Track Record Period and is expected to continue to do so in the future.

The Group's PRC export tax rebates are declining

As an enterprise engaged in the export of HSS, the Group was granted a tax benefit whereby the Group enjoyed a tax rebate of 15% prior to January 2004 for HSS exported by the Group. As from January 2004, this tax rebate rate was decreased to 13%; from May 2005, this tax rebate rate was further decreased to 11%; and, according to the "Circular on Adjusting the Tax Refund Rate of Some Export Commodities and Supplementing the Catalogue for Commodities Prohibited from Processing Trade" [Cai Sui (2006) No. 139] jointly promulgated by Ministry of Finance, National Development and Reform Commission, Ministry of Commerce, General Administration of Customs and State Administration of Taxation on 14 September 2006 (中國財政部、中國發展改革委員會、中國商務部、海關總署、國家稅務總局 2006年9月14日 聯合發布的《關於調整部分商品出口退稅率和增補加工貿易禁止類商品 目錄的通知》[財稅(2006)139 號]), the rate of such tax rebate was further decreased to 8% as from December 2006. According to the "Circular on Adjusting the Tax Refund Rate of Export Steel" issued by the Ministry of Finance and State Administration of Taxation on 10 April 2007 [Cai Sui (2007) No. 64] (中國財政部及國家稅務總局2007年4月10日發布的《關於調整鋼材出口退稅率的通知》[財稅(2007)64號]), the Group's tax rebate rate has been further decreased to 5% as from 15 April 2007. This reduction in the tax rebate from 8% to 5% for HSS will negatively impact the Group's financial results subsequent to the Track Record Period. The tax rebates received by the Group for the years ended 31 December 2004, 31 December 2005, 31 December 2006 and for the three months ended 31 March 2007 are RMB43.6 million, RMB60.3 million, RMB71.7 million and RMB21.4 million respectively.

In respect of the Group's HSS cutting tools business, the Group was granted a tax benefit whereby the Group enjoyed a tax rebate of 15% prior to January 2004 for HSS cutting tools exported by the Group. As from January 2004, this tax rebate rate was decreased to 13%. According to the "Circular on Adjusting the Tax Refund Rate of Certain Goods" issued by the Ministry of Finance and State Administration of Taxation on 19 June 2007 [Cai Sui (2007) No.90] (中國財政部及國家稅務總局2007年6月19日發布的《關於調整部分商品出口退稅率的通知》[財稅(2007)90號]), the Group's tax rebate rate has been further decreased to 5% as from 1 July 2007. The reduction in the tax rebate from 13% to 5% for HSS cutting tools will negatively impact the Group's financial results.

Any decision in the future by the relevant Chinese authorities to further reduce or revoke entirely these export tax rebates or other tax benefits applicable to the Group may further adversely affect the Group's financial position.

The applicable tax rate and tax holiday during Track Record Period

The subsidiaries of the Group are, in general, subject to an income tax rate of 33% in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC during the Track Record Period, save and except that

(i) The income tax rate applicable to Tianfa Forging and TG Aihe is 27%. Nevertheless, pursuant to the Income Tax Law of the People's Republic of China for Enterprises with

Foreign Investment, Tianfa Forging and TG Aihe can enjoy a preferential tax treatment whereby each of them is entitled to an exemption from the PRC income tax for two consecutive years from the first year when they records assessable profits and then to a 50% reduction of their standard tax rate for the following three years. Accordingly, Tianfa Forging has since, its first profit-making year, started to enjoy the preferential tax treatment whereby it was entitled to an exemption from PRC income tax for 2003 and 2004 and to a 50% reduction in the applicable statutory rate for the following three years. TG Aihe, however, has not enjoyed the abovementioned preferential tax treatment since it has been making a loss since its inception.

(ii) On 21 August 2006, CTCL acquired the entire equity interests in TG Tools and since then TG Tools became a wholly foreign-owned enterprise and is subject to a reduced income tax rate of 27%. Pursuant to the Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment, TG Tools can also enjoy a preferential tax treatment whereby it is entitled to an exemption from the PRC income tax for two consecutive years from the first year when it records assessable profits and then to a 50% reduction of its standard tax rate for the following three years.

The Group will incur additional lease and depreciation charges in 2007 and thereafter because of changes related to the Reorganisation

Over the Track Record Period, the Group occupied certain of its premises, owned by the TG Group, free of charge. In connection with the Reorganisation, pursuant to a lease agreement between the Group and the TG Group dated 28 February 2007, the Group will be required to pay an annual rental fee for these premises of RMB0.6 million, effective as of 1 January 2007. In addition to these lease charges, but as a direct result of this new lease arrangement, as of 2007, the Group will also incur higher depreciation charges related to the related property, plant and equipment. These higher charges will reduce the Group's profitability and, perhaps, profit margin in 2007 and thereafter.

The Group's die steel manufacturing business, TG Aihe, only began commercial operations in November 2005 and was loss-making in 2005 and 2006

TG Aihe commenced commercial production of die steel in November 2005. As a result, in 2005 and 2006, it was scaling up its operations and was not during this period as efficient as the Group intends it to become. The die steel business was also loss-making in 2004, 2005 and 2006. Revenues from both the export and, separately, domestic sales of die steel each increased from 2005 to 2006.

Government grants

The Group has received government grants of approximately RMB29.8 million and RMB8.0 million for the year ended 31 December 2006 and the three months ended 31 March 2007 from the local government of Danyang. Such government grants are provided for in the budget of the local government of Danyang, which it sets pursuant to 中華人民共和國預算法 (Budget Law of the People's Republic of China) and 中華人民共和國預算法實施條例 (國務院令第186號) (Regulation for the Implementation of the Budget Law of the People's Republic of China (State Council Order Number 186)). Such government grants are given by the local government of Danyang mainly as a gesture to encourage well-performing local enterprises or enterprises with a high potential based on a set of criteria including considerations relating to the scale of the enterprise, sales revenue, foreign exchange and import/export qualification status, brand name development and contribution to the development of the local economy. The Directors believe that such government grants, the amounts of which are variable, are generally available to other companies in Danyang which reach a particular enterprise scale, upon application to the local government of Danyang.

Financial Presentation

The Group's combined statements of income, cash flow and equity included elsewhere in this prospectus and the related financial information included in this section present the results of operations of the companies comprising the Group as if the current group structure had been in existence and remained unchanged throughout the period from 1 January 2004 through 31 March 2007 (or since the date of such companies' incorporation where this is a shorter period).

The Group's combined balance sheets as at 31 December 2004, 2005 and 2006 and as at 31 March 2007 have been prepared to present the assets and liabilities of the Group as if the current group structure had been in existence as at those dates. All significant intra-group transactions and balances have been eliminated on combination.

Description of Certain Income Statement Items

Revenue

The Group generates its revenue from three broad categories: the manufacture and sale of (i) HSS (ii) HSS cutting tools and (iii) die steel.

The following table shows a breakdown of the Group's revenue by product category, export and domestic sales thereof, percentage contribution to total revenue and gross profit margin for each of the three years ended 31 December 2004, 2005 and 2006 and for the three months ended 31 March 2006 and 2007:

	Year ended 31 December 2004			Year ended 31 December 2005			Year ended 31 December 2006			Three months ended 31 March 2006 (unaudited)			Three months ended 31 March 2007		
	RMB'000	%	gross profit margin%	RMB'000	%	gross profit margin%	RMB'000	%	gross profit margin%	RMB'000	%	gross profit margin%	RMB'000	%	gross profit margin%
HSS	**408,889**	**48.6**	**21.6**	**522,730**	**47.7**	**22.5**	**667,600**	**51.2**	**23.2**	**156,063**	**62.7**	**23.3**	**185,130**	**48.2**	**25.0**
Domestic	408,889	48.6		504,203	46.0		578,987	44.4		140,809	56.6		150,040	39.1	
Export	—	—		18,527	1.7		88,613	6.8		15,254	6.1		35,090	9.1	
HSS cutting tools	**433,024**	**51.4**	**14.8**	**564,688**	**51.6**	**13.5**	**579,012**	**44.4**	**15.6**	**87,418**	**35.1**	**16.4**	**149,099**	**38.8**	**16.6**
Domestic	91,717	10.9		104,450	9.6		107,089	8.2		16,616	6.7		24,298	6.3	
Export	341,307	40.5		460,238	42.0		471,923	36.2		70,802	28.4		124,801	32.5	
Die steel	**—**	**—**	**n/a**	**7,293**	**0.7**	**5.5**	**57,375**	**4.4**	**7.5**	**5,399**	**2.2**	**7.2**	**49,806**	**13.0**	**7.2**
Domestic	—	—		7,293	0.7		42,439	3.3		5,399	2.2		15,475	4.0	
Export	—	—		—	—		14,936	1.1		—	—		34,331	9.0	
TOTAL	**841,913**	**100**	**18.1**	**1,094,711**	**100**	**17.8**	**1,303,987**	**100**	**19.2**	**248,880**	**100**	**20.5**	**384,035**	**100**	**19.4**

Cost of sales

During the three years ended 31 December 2004, 2005 and 2006 and the three months ended 31 March 2006 and 2007, the Group's cost of sales accounted for 81.9%, 82.2%, 80.8%, 79.5% and 80.6%, respectively, of the Group's total revenue.

During the Track Record Period the Group's cost of sales consisted primarily of non-ferrous metals, scrap steel and other auxiliary materials, as reflected in the following table which shows a breakdown of the Group's cost of sales by major expense item for each of the three years ended 31 December 2004, 2005 and 2006 and for the three months ended 31 March 2006 and 2007.

	Year ended 31 December						Three months ended 31 March			
	2004		2005		2006		2006		2007	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
Non-ferrous metals	358,422	52.0	481,831	53.5	564,542	53.6	103,324	52.2	156,117	50.5
Scrap steel and other auxiliary materials	115,606	16.8	155,003	17.2	185,100	17.6	33,820	17.1	66,522	21.5
Low cost consumables	80,496	11.7	102,769	11.4	108,953	10.3	23,741	12.0	39,802	12.9
Wages	44,786	6.5	58,241	6.5	58,772	5.6	10,394	5.3	16,267	5.2
Depreciation	18,961	2.7	20,234	2.3	30,874	2.9	7,267	3.7	7,596	2.5
Utilities	70,351	10.2	81,223	9.0	104,813	9.9	19,042	9.6	22,960	7.4
Others	1,106	0.1	1,020	0.1	1,093	0.1	184	0.1	113	0.0
TOTAL	689,728	100.0	900,321	100.0	1,054,147	100.0	197,772	100.0	309,377	100.0

Distribution expenses

Over the Track Record Period, the Group's distribution expenses consisted primarily of selling commissions and transportation expenses. During the three years ended 31 December 2004, 2005 and 2006 and during the three months ended 31 March 2006 and 2007, the Group's distribution expenses accounted for 2.6%, 2.4%, 2.4%, 1.9% and 2.2%, respectively of the Group's total revenue.

Administrative expenses

Over the Track Record Period, the Group's administrative expenses consisted primarily of its administrative staff's wages, travel expenses, and fixed asset depreciation. During the three years ended 31 December 2004, 2005 and 2006 and the three months ended 31 March 2006 and 2007, the Group's administration expenses accounted for 3.0%, 2.7%, 3.3%, 3.3% and 3.7%, respectively of the Group's total revenue.

Net finance cost

Over the Track Record Period, the Group's net finance cost consisted primarily of interest expenses associated with the Group's loans. During the three years ended 31 December 2004, 2005 and 2006 and the three months ended 31 March 2006 and 2007, the Group's net finance costs accounted for 3.0%,3.3%, 3.9%, 4.5%, and 3.7%, respectively of the Group's total revenue.

Critical Accounting Policies and Practices

The discussion and analysis of the Group's financial condition and results of operations is based on the combined financial statements of the Group. The Group's significant accounting policies are set forth in Note 1 of section C to the Group's combined financial statements. The Group's reported financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the Group's combined financial statements. The Group bases its estimates on historical experience, the experience of other companies in the industry and on various other assumptions that it believes to be reasonable, the results of which form the basis for making judgments about the carrying amounts of assets and liabilities and the Group's financial results. The Group's management evaluates its estimates on an ongoing basis. Actual results may differ from these estimates under different assumptions and conditions.

The selection of critical accounting policies, the judgment and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the Group's combined financial statements. The Group believes that the following critical accounting policies involve the most significant judgments and estimates used in the preparation of its combined financial statements.

Revenue

(i) *Goods sold*

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, 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, and there is no continuing management involvement with the goods.

(ii) *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.

Valuation of Inventories

The inventories are stated at the lower of cost or net realisable value. The Group routinely evaluates quantities and value of inventories in light of current market conditions and market trends, and records a write-down against the cost of inventories for a decline in net realisable value. The evaluation takes into consideration historic usage, expected demand, anticipated sales price, new product development schedules, the effect that new products might have on the sale of existing products, product obsolescence, customer concentrations, product merchantability and other factors. Market conditions are subject to change and actual consumption of inventories could differ from forecasted demand. Furthermore, the prices of the metals tungsten, molybdenum, chromium and vanadium, the primary raw materials, are subject to fluctuations based on global supply and demand. The Group's management continually monitors the changes in the purchase prices paid for the metals tungsten, molybdenum, chromium and vanadium, including prepayments to suppliers, and the impact of such change on the Group's ability to recover the cost of inventory and our prepayments to suppliers. The Group's products have a long life cycle and obsolescence has not historically been a significant factor in the valuation of inventories. For the years ended 31 December 2004, 2005 and 2006, and the three months ended 31 March 2007, the Group recognised an impairment loss to inventories of RMB102,000, RMB216,000, RMB662,000 and RMB126,000, respectively. As of 31 December 2004, 2005 and 2006 and 31 March 2007, the accumulated allowance for impairment loss was RMB102,000, RMB318,000, RMB980,000 and RMB1,106,000, respectively.

Allowance for Doubtful Accounts

The Group establishes an allowance for doubtful accounts for the estimated loss on receivables when collection may no longer be reasonably assured, and assesses collectibility of receivables based on a number of factors including the customer's financial condition and creditworthiness. To reduce credit risks, the Group's management requires advance payments from certain customers and also requires some overseas customers to pay a major portion of the purchase price by letters of credit. The Group recognised an impairment loss to trade receivables of RMB2,828,000, RMB5,652,000, RMB7,179,000 and RMB239,000 for each of the years ended 31 December 2004, 2005 and 2006, and the three months ended 31 March 2007, respectively. The accumulated allowance for impairment loss was RMB10,020,000, RMB15,672,000, RMB22,851,000 and RMB23,090,000 as of those same periods, respectively.

RESULTS OF OPERATIONS

The following table shows the line items of the Group's income statement expressed as a percentage of revenue for the three years ended 31 December 2004, 2005 and 2006 and for the three months ended 31 March 2006 and 2007:

	Year ended 31 December			Three months ended 31 March	
	2004	2005	2006	2006	2007
Revenue	100.0	100.0	100.0	100.0	100.0
Cost of sales	81.9	82.2	80.8	79.5	80.6
Gross profit	18.1	17.8	19.2	20.5	19.4
Other income	0.0	0.0	2.3	0.1	2.2
Distribution expenses	2.6	2.4	2.4	1.9	2.2
Administrative expenses	3.0	2.7	3.3	3.3	3.7
Other expenses	0.4	0.6	0.6	1.1	0.2
Result from operating activities	12.1	12.1	15.2	14.3	15.5
Net finance cost	3.0	3.3	3.9	4.5	3.7
Share of loss of an associate	0.2	0.4	—	—	—
Profit before income tax	8.9	8.4	11.3	9.8	11.8
Income tax expense	3.0	3.0	3.9	3.9	0.1
Profit for the year/period	5.9	5.4	7.4	5.9	11.7

Three months ended 31 March 2007 compared to the three months ended 31 March 2006 (unaudited)

Revenue

From the three months ended 31 March 2006 to the three months ended 31 March 2007, the Group's total revenue for those respective three-month periods increased by RMB135.1 million, or 54.3 %, from RMB248.9 million to RMB384.0 million. This increase was due to the increase in revenue between these periods from sales of: (i) HSS of RMB29.1 million, or about 18.6%, (ii) die steel of RMB44.4 million, or 822.5%, and (iii) HSS cutting tools of about RMB61.7 million, or 70.6%.

The increase in revenue from sales of HSS was due primarily to the RMB19.8 million increase in revenue from export sales, due to larger orders placed by existing customers and also orders from new customers.

The increase in revenue from sales of die steel was due primarily to the RMB34.3 million increase in export sales, primarily due to the fact that the Group's commercial die steel manufacturing operations began in late November 2005, so revenues derived from sales of die steel for the first quarter of 2006 were still minimal.

The increase in revenue as from sales of HSS cutting tools was due to an RMB54.0 million increase in revenues from export sales thereof, driven by increased unit sales and increased selling prices of drill bits, revenue from sales of which made up 93% of the Group's total revenues from sales of HSS cutting tools in the three months ended 31 March 2007. These selling prices increased primarily because the Group shifted its product mix somewhat toward cutting tools made from more expensive, high performance high alloy steel, leaving the Group's gross profit margins on sales thereon unchanged between these periods despite these increases in average selling prices.

Cost of sales

The Group's cost of sales increased by RMB111.6 million, or 56.4 %, from RMB197.8 million in the three months ended 31 March 2006 to RMB309.4 million in the three months ended 31 March 2007. This increase was broadly in line with the 54.3% increase in revenue between these periods and reflected increased costs of raw materials associated with increased unit production and sales (as well as an increase in scrap steel prices). As a percentage of total revenues, the Group's cost of sales increased slightly from 79.5% in the three months ended 31 March 2006 to 80.6% in the three months ended 31 March 2007.

Gross profit

As a result of the factors discussed above, the Group's gross profit increased by RMB23.6 million, or 46.1%, from RMB51.1 million in the three months ended 31 March 2006 to RMB74.7 million the three months ended 31 March 2007, but the Group's gross profit margin decreased from 20.5% in the three months ended 31 March 2006 to 19.4% in the three months ended 31 March 2007.

Other income

The Group's other income increased by RMB8.4 million, or 4,846%, from RMB0.2 million in the three months ended 31 March 2006 to RMB8.6 million in the three months ended 31 March 2007. This is because in the three months ended 31 March 2007, the Group received RMB8 million in grants from the local government in Danyang to encourage further development of its business.

Distribution expenses

The Group's distribution expenses increased by RMB3.9 million, or 83.3%, from RMB4.8 million in the three months ended 31 March 2006 to RMB8.7 million in the three months ended 31 March 2007. This is because commissions to the Group's overseas sales agent increased by RMB 1.6 million and transportation expenses increased by RMB 1.4 million between these periods. Each type of these expenses increased by over 74%, while revenues increased by 54% between these periods. It is a result of the fact that these expenses are higher for export sales than for domestic sales, and export sales increased significantly between these periods.

Administrative expenses

The Group's administrative expenses increased by RMB5.9 million, or 71.2%, from RMB8.3 million in the three months ended 31 March 2006 to RMB14.2 million in the three months ended 31 March 2007. It is mainly due to the expansion of business which caused personnel costs to increase by RMB2.0 million and travelling and entertainment expenses to increase by RMB1.7 million.

Other expenses

The Group's other expenses decreased by RMB2.0 million, or 75.0%, from RMB2.7 million in the three months ended 31 March 2006 to RMB0.7 million in the three months ended 31 March 2007. It is because the Group recorded impairment loss for doubtful debts of RMB0.2 million during the period in 2007, whereas in the three months ended 31 March 2006 it recorded such a loss of RMB2.4 million.

Result from operating activities

As a result of the factors discussed above, the Group's result from operating activities increased by RMB24.2 million, or 68.0%, from RMB35.5 million in the three months ended 31 March 2006 to RMB59.7 million in the three months ended 31 March 2007, and the Group's operating margin (result from operating activities expressed as a percentage of total revenue) increased from 14.3% in the three months ended 31 March 2006 to 15.5% in the three months ended 31 March 2007.

Net finance cost

The Group's net finance cost increased by RMB3.2 million, or 29.0%, from RMB11.1 million in the three months ended 31 March 2006 to RMB14.3 million in the three months ended 31 March 2007. It is primarily because interest on bank loans increased by RMB1.9 million between these periods, as well as an increase in foreign currency exchange losses related to the appreciation of the value of the Renminbi between these periods.

Profit before income tax

As a result of the factors discussed above, the Group's profit before income tax increased by RMB21.0 million, or 85.7%, from RMB24.4 million in the three months ended 31 March 2006 to RMB45.4 million in the three months ended 31 March 2007.

Income tax expense

The Group's income tax expense decreased by RMB9.0 million, or 93.9%, from RMB9.6 million in the three months ended 31 March 2006 to RMB0.6 million in the three months ended 31 March 2007, and the Group's effective tax rate decreased from 39.4% to 1.3% between these periods, because starting in 2007 TG Tools is entitled to a two year tax holiday.

Minority interests

The Group's minority interests decreased by RMB2.2 million, or 88.1%, from RMB2.5 million in the three months ended 31 March 2006 to RMB0.3 million in the three months ended

31 March 2007, due to the acquisition of the remaining 25% interest of Tiangong Aihe and Tianji Packaging in 2007. Acquisition accounting was adopted for this acquisition.

Profit for the period

As a result of the factors discussed above, the Group's profit for the period increased by RMB30.0 million, or 202.3%, from RMB14.8 million in the three months ended 31 March 2006 to RMB44.8 million in the three months ended 31 March 2007, and the Group's net profit margin increased from 5.9% in the three months ended 31 March 2006 to 11.7% in the three months ended 31 March 2007.

Year ended 31 December 2006 compared to year ended 31 December 2005

Revenue

From 2005 to 2006, the Group's total annual revenue increased by RMB209.3 million, or 19.1%, from RMB1,094.7 million to RMB1,304.0 million. This increase was due to an increase in total revenue derived between these years from sales of: (i) HSS and die steel of RMB195.0 million, and (ii) HSS cutting tools of RMB14.3 million.

The increase in revenue from sales of HSS and die steel was driven primarily by: (i) a RMB74.8 million increase in revenue from domestic sales of HSS, (ii) a RMB70.1 million increase in revenue from export sales of HSS, and (iii) a RMB50.1 million increase in revenue from sales (domestic and export combined) of die steel.

The increase in revenue from domestic sales of HSS was because of increased orders from existing customers as well as orders from new customers in 2006.

The increase in revenue from export sales of HSS was primarily due to the fact that the Group received larger orders from existing customers in 2006 and received orders from new customers. This is mainly due to the fact that the HSS (and, indeed die steel as well) that the Group exported was commonly more customised or further processed than the HSS sold domestically, the selling prices that the Group charged overseas customers for its HSS (and die steel) were higher than those which it charged its domestic customers in China. As a result, the Group's profit margin thereon were higher.

Sales of die steel also increased significantly from 2005 to 2006. This substantial increase was exclusively due to the fact that the plant at which this die steel is manufactured only began commercial operations in late November 2005. As a result, revenue from sales of die steel in 2005 was minimal. Domestic sales of die steel represented 74.0% of the Group's total annual revenues from sales of die steel in 2006. Export sales were primarily made to Taiwan, Italy, India and Germany.

Revenue from sales of HSS cutting tools was virtually flat in 2006, primarily because while the average selling price of its drill bits for non-industrial uses declined from 2005 to 2006, sales of which made up of substantial majority of the Group's total annual revenues from sales of HSS cutting tools in 2005 and 2006, the Group's unit sales thereof remained relatively stable from 2005 to 2006. In addition, in 2006, the Group undertook a strategic shift in product mix by increasing sales of other higher price and higher margin HSS cutting tools products.

Cost of sales

The Group's cost of sales increased by RMB153.8 million, or 17.1%, from RMB900.3 million in 2005 to RMB1,054.1 million in 2006, broadly in line with, but slightly lower than, the 19.1% increase in the Group's total annual revenue between these years. This increase was mainly driven by the following raw material increases: a RMB82.7 million, or 17.2%, increase in costs of non-ferrous metals, a RMB30.1 million, or 19.4%, increase in costs of scrap steel and other auxiliary materials, and a RMB6.2 million, or 6%, increase in costs of other low-cost consumables. The Group's direct labour costs as a percentage of cost of sales decreased from 6.5% in 2005 to 5.6% in 2006.

The Group's cost of sales increased at a rate slightly lower than the increase in its total annual revenues between these years primarily because: (i) a higher portion of its revenues between these years was derived from sales of higher margin HSS than lower margin HSS cutting tools, and (ii) of the Group's ability to reduce its costs, in part through the installation of more modern manufacturing equipment and the adoption by the Group of a recycling-grinding technique, which contributed, along with the shift in product mix, to the increase in the Group's gross profit margin on sales of HSS cutting tools from 13.5% in 2005 to 15.6% in 2006. As a result, the Group's cost of sales as a percentage of total revenue decreased from 82.2% for the year ended 31 December 2005 to 80.8% for the year ended 31 December 2006.

Gross profit

As a result of the factors discussed above, including but not limited to the fact that a higher portion of the Group's total annual revenues in 2006 were derived from sales of HSS and die steel with a higher gross profit margin than HSS cutting tools, and the fact that its gross profit margin on sales of HSS cutting tools increased from 13.5% in 2005 to 15.6% in 2006, the Group's gross profit increased by RMB55.4 million, or 28.5%, from RMB194.4 million in 2005 to RMB249.8 million 2006, and the Group's gross profit margin increased from 17.8% in 2005 to 19.2% in 2006.

Other income

The Group's other income increased by RMB28.8 million, or 2,165.7% from RMB1.3 million in 2005 to RMB30.1 million in 2006. This increase was due to the fact that in 2006 the Group received government grants of RMB29.8 million, made to encourage further development of its business.

Distribution expenses

The Group's distribution expenses increased by RMB4.2 million, or 15.7%, from RMB26.7 million in 2005 to RMB30.9 million in 2006, primarily because transportation costs increased by RMB1.9 million and wages increased by RMB0.5 million, as a result of the expansion of its export sales of HSS.

Administrative expenses

The Group's administrative expenses increased by RMB13.1 million, or 44.0%, from RMB29.6 million in 2005 to RMB42.7 million in 2006, primarily because: (i) depreciation charges were RMB2.3 million higher in 2006 (related to significant additions to property, plant and equipment in 2005 and 2006), (ii) travelling and entertainment expenses increased by RMB3.8 million, and (iii) wages increased by RMB2.6 million.

Other expenses

The Group's other expenses increased by RMB2.3 million, or 37.6%, from RMB6.2 million in 2005 to RMB8.5 million in 2006, primarily because of the increase in impairment loss for doubtful debts as a result of the increase in its sales, which resulted in a higher general provision.

Result from operating activities

As a result of the factors discussed above, the Group's result from operating activities increased by RMB64.6 million, or 48.5%, from RMB133.2 million in 2005 to RMB197.8 million in 2006, and the Group's operating margin (result from operating activities expressed as a percentage of total revenue) increased from 12.1% in 2005 to 15.2% in 2006.

Net finance cost

The Group's net finance cost increased by RMB14.5 million, or 40.1%, from RMB36.2 million in 2005 to RMB50.7 million in 2006, primarily related to increased exchange losses due to appreciation of RMB as well as increased interest expense on bank loans in 2006, related primarily to higher interest rates applicable to its outstanding bank loans and also, to a lesser extent, increased borrowings.

Share of loss of an associate

The Group's share of loss of an associate was RMB 4.8 million in 2005 and nil in 2006. The loss was related to TG Aihe, which manufactures die steel. TG Aihe began as a joint venture between the parent of the Group and the French company Erasteel. The Group's equity interest in TG Aihe increased from 40% to 75% on 20 November 2005. TG Aihe's losses was consolidated into the Group and hence the share of loss of an associate is nil in 2006.

Profit before income tax

As a result of the factors discussed above, the Group's profit before income tax increased by RMB55.0 million, or 59.7%, from RMB92.1 million in 2005 to RMB147.1 million 2006.

Income tax expense

The Group's income tax expense increased by RMB17.2 million, or 51.9%, from RMB33.3 million in 2005 to RMB50.5 million in 2006, broadly in line with the increase in the Group's profit before income tax. The Group's effective tax rate decreased slightly from 36.1% in 2005 to 34.3% in 2006, in part because a reduced tax rate applied to TG Tools since August 2006.

Minority interests

The Group's minority interests decreased by RMB6 million, or 55.5%, from RMB10.9 million in 2005 to RMB4.9 million in 2006. This was mainly due to the acquisition of minority interests in TG Tools in August 2006.

Profit for the year

As a result of the factors discussed above, the Group's profit for the year increased by RMB37.7 million, or 64.1%, from RMB58.9 million in 2005 to RMB96.6 million in 2006, and the Group's profit margin increased from 5.4% in 2005 to 7.4% in 2006.

Year ended 31 December 2005 compared to year ended 31 December 2004

Revenue

From 2004 to 2005, the Group's total annual revenue increased by RMB252.8 million, or 30.0%, from RMB841.9 million to RMB1,094.7 million. This increase was due to an increase in total revenue between these years derived from sales of: (i) HSS cutting tools of RMB131.7 million and, (ii) HSS and die steel (almost exclusively HSS in 2004 and 2005) of RMB121.1 million. The percentage of the Group's total annual revenues derived from sales of HSS and, separately, HSS cutting tools, remained almost unchanged between these years.

The RMB131.7 million increase in revenue from sales of HSS cutting tools was driven primarily by the RMB118.9 million increase in revenue from export sales of drill bits. This was resulted from an increase in orders from overseas manufacturers of power tools. As such, the increase in unit sales in 2005 offset the impact of declining average selling prices on its drill bits for non industrial uses (due to ongoing price competition) on the Group's total sales revenues.

The RMB121.1 million increase in revenue from sales of HSS was driven almost entirely by the RMB95.3 million increase between these years in revenue from domestic sales of HSS. This increase was primarily due to increases in 2005 in raw materials costs, particularly those of non-ferrous metals, the key raw materials in the production of HSS and the largest cost component of the manufacture of these products. The Group was able to pass on a portion of these increased costs to its customers, which resulted in higher per-unit selling prices for the Group's HSS.

The Group also began export sales of its HSS in 2005, from which the Group derived RMB18.5 million in revenue, as compared to nil in 2004. The Group began exporting its HSS in 2005 because overseas customers provide another source of demand for the Group's HSS, beyond the domestic market in China, which is dominated by three HSS manufacturers (one of which is the Group) and the annual production of HSS in China grew at a CAGR of 17% from 2001 to 2006.

Cost of sales

The Group's cost of sales increased by RMB210.6 million, or 30.5%, from RMB689.7 million in 2004 to RMB900.3 million in 2005, in line with the 30.0% increase in the Group's total annual revenue between these years. This increase was mainly driven by the following raw material increases: an RMB123.4 million, or 34.4%, increase in costs of non-ferrous metals, an RMB39.4 million, or 34.1%, increase in costs of scrap steel and other auxiliary materials, and an RMB22.3 million, or 27.7%, increase in costs of other, low-cost consumables. As a result, the Group's cost of sales as a percentage of total annual revenues remained almost unchanged at 81.9% for the year ended 31 December 2004 and 82.2% for the year ended 31 December 2005.

Gross profit

As a result of the factors discussed above, the Group's gross profit increased by RMB42.2 million, or 27.7%, from RMB152.2 million in 2004 to RMB194.4 million in 2005, but the Group's gross profit margin decreased slightly from 18.1% in 2004 to 17.8% in 2005.

Other income

The Group's other income increased by RMB0.9 million, or 254.8% from RMB0.4 million in 2004 to RMB1.3 million in 2005, primarily because of a one time net gain on disposal of property, plant and equipment of RMB0.6 million in 2005.

Distribution expenses

The Group's distribution expenses increased by RMB4.9 million, or 22.5%, from RMB21.8 million in 2004 to RMB26.7 million in 2005, primarily because commissions increased by RMB3.2 million and transportation costs increased by RMB1.3 million, as a result of the start of export sales of HSS in 2005 and the increase in export sales of cutting tools.

Administrative expenses

The Group's administrative expenses increased by RMB4.5 million, or 18.2%, from RMB25.1 million in 2004 to RMB29.6 million in 2005, primarily because travelling and entertainment expenses increased by RMB2.1 million, as a result of the growth of its business generally between these years.

Other expenses

The Group's other expenses increased by RMB2.5 million, or 66.2%, from RMB3.7 million in 2004 to RMB6.2 million in 2005. This increase in other expenses was largely a result of the increase in impairment loss for doubtful debts, as a result of the increase in its sales, which resulted in a higher general provision.

Result of operating activities

As a result of the factors discussed above, the Group's result of operating activities increased by RMB31.3 million, or 30.6%, from RMB101.9 million in 2004 to RMB133.2 million in 2005, but the Group's operating margin (result of operating activities expressed as a percentage of total revenue) remained almost unchanged at 12.1% in 2004 and 2005.

Net finance cost

The Group's net finance cost increased by RMB10.9 million, or 43.3%, from RMB25.3 million in 2004 to RMB36.2 million in 2005, primarily related to increased borrowings in 2005, and to a lesser extent increased exchange losses due to appreciation of RMB.

Share of loss of an associate

The Group's share of loss of an associate increased by RMB3.3 million, or 215.0%, from RMB1.5 million in 2004 to RMB4.8 million in 2005, related to the loss-making joint venture TG Aihe, which began producing die steel in 2005 after over two years of preparation by the joint venture parties.

Profit before income tax

As a result of the factors discussed above, the Group's profit before income tax increased by RMB17.0 million, or 22.6%, from RMB75.1 million in 2004 to RMB92.1 million 2005.

Income tax expense

The Group's income tax expense increased by RMB7.8 million, or 30.7%, from RMB25.5 million in 2004 to RMB33.3 million in 2005 and the Group's effective tax rate increased slightly from 33.9% in 2004 to 36.1% in 2005. This increase was mainly due to the increased non-deductible expenses in respect of TG Tools and the loss incurred by TG Aihe which is non-deductible for income tax purpose in 2005.

Minority interests

The Group's minority interests increased by RMB2.1 million, or 23.9%, from RMB8.8 million in 2004 to RMB10.9 million in 2005. This increase in minority interests was roughly proportional to the increase in the Group's profit for the year between these years.

Profit for the year

As a result of the factors discussed above, the Group's profit for the year increased by RMB9.2 million, or 18.5%, from RMB49.7 million in 2004 to RMB58.9 million in 2005, but the Group's profit margin moderately decreased from 5.9% in 2004 to 5.4% in 2005.

LIQUIDITY AND CAPITAL RESOURCES

Overview

The Group's principal sources of liquidity and capital resources have been, and are expected to continue to be, cash flow from operations, the issuance of new shares and debt financing from banks. The Group's principal uses of cash have been, and are expected to continue to be, operational costs and capital expenditures associated with increasing the capacity of its manufacturing facilities or with purchasing more advanced equipment for these plants.

Net current assets

As at 31 May 2007, the Group had net current assets of approximately RMB231.0 million. The Group's current assets were mainly comprised of trade and other receivables of RMB644.5 million and inventories of RMB738.5 million. The Group's current liabilities were mainly comprised of interest bearing borrowings of RMB857.3 million, and trade and other payables of RMB493.7 million. Although the Group has historically been able to satisfy its working capital needs from cash flow from operations, its ability to expand its manufacturing facilities in the PRC may depend on its ability to finance these activities through the issuance of equity securities, long-term borrowings and the issuance of convertible and other debt securities.

If adequate funds are not available, whether on satisfactory terms or at all, the Group may be forced to curtail its expansion plans. The Group's ability to meet its working capital needs from cash flow from operations will be affected by cutting tools manufacturers in China for HSS and, to a lesser extent, die steel, as well as, among other things, the worldwide demand for power tools, which in turn may be affected by several factors. Many of these factors are outside of its control, such as, among other things, China's rate of industrialization and growth in its GDP, worldwide economic downturns or dramatic changes in consumer preferences for the products, such as automobiles, manufactured using, in part, the Group's products,. To the extent that the Group does not generate sufficient cash flow from operations to meet its cash requirements, it may rely on external borrowings and securities offerings.

Cash Flows

Selected Combined Cash Flows Statements data

	Year ended 31 December			Three months ended 31 March	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Net cash generated from /(used in) operating activities	41,655	(250,891)	101,369	(42,899)	(14,198)
Net cash (used in) investing activities	(40,598)	(2,834)	(121,735)	(5,154)	(121,154)
Net cash (used in)/generated from financing activities	(47,475)	230,361	22,502	97,136	161,092

Net cash generated from /(used in) operating activities

The Group's net cash used in operating activities decreased from RMB(42.9) million for the three months ended 31 March 2006 to RMB(14.2) million for the three months ended 31 March 2007. This decrease was principally due to the fact that change in trade and other receivables was RMB(67.4) million for the period in 2006 and was RMB(26.2) million for the period in 2007, as well as greater profit before tax. The Group's net cash used in operating activities was RMB(250.9) million for the year ended 31 December 2005, and its net cash generated from operating activities was RMB101.4 million for the year ended 31 December 2006. This change was principally due to a higher profit before tax in 2006 (of RMB147.1 million) and from a change in trade and other receivables of RMB(167.6) million for the year ended 31 December 2005 to a change of RMB78.7 million for the year ended 31 December 2006. The Group's net cash generated from operating activities was RMB41.7 million for the year ended 31 December 2004 and was RMB (250.9) million for the year ended 31 December 2005. This change was principally due to the fact that the debits for change in inventories and change in trade and other receivables were each higher for the year ended 31 December 2005 than for the year ended 31 December 2004.

Net cash used in investing activities

The Group's net cash used in investing activities increased from RMB(5.2) million for the three months ended 31 March 2006 to RMB(121.2) million for the three months ended 31 March 2007. This increase was principally due to a payment of RMB77.9 million for acquisition of minority interests during the period in 2007. The Group's net cash used in investing activities increased from RMB2.8 million for the year ended 31 December 2005 to RMB121.7 million for the year ended 31 December 2006. This increase was principally due to a greater payment for property, plant and equipment for the year ended 31 December 2006 than during the comparable period in 2005. The Group's net cash used in investing activities decreased from RMB40.6 million for the year ended 31 December 2004 to RMB2.8 million for the year ended 31 December 2005. This decrease was principally due to a net cash inflow from turning an associate into a subsidiary for the year ended 31 December 2005.

Net cash (used in)/ generated from financing activities

The Group's net cash generated from financing activities increased from RMB97.1 million for the three months ended 31 March 2006 to RMB161.1 million for the three months ended 31 March 2007. This increase was principally due to an increase in proceeds from interest bearing borrowings during the period in 2007, partially offset by a higher repayment of interest bearing borrowings. The Group's net cash generated from financing activities decreased from RMB230.4 million for the year ended 31 December 2005 to RMB 22.5 million for the year ended 31 December 2006. This decrease was principally due to the fact that repayment of interest bearing borrowings was higher for the year ended 31 December 2006 than for the year ended 31 December 2005. The Group's net cash used in financing activities was RMB(47.5) million for the year ended 31 December 2004. The Group's net cash generated from financing activities was RMB230.4 million for the year ended 31 December 2005. This change was principally due to higher proceeds from interest bearing borrowings for the year ended 31 December 2006 than for the year ended 31 December 2005.

Capital Expenditures

Throughout the Track Record Period, the Group has made capital expenditures, typically in connection with the expansion of its die steel manufacturing and HSS cutting tools business in Danyang in the PRC. These capital expenditures amounted to RMB24.9 million as at 31 December 2004, RMB174.2 million as at 31 December 2005, RMB135.6 million as at 31 December 2006, and RMB57.8 million as at 31 March 2007.

Capital Commitments

Throughout the Track Record Period, the Group has made commitments to future capital expenditures, typically in connection with the expansion of its die steel manufacturing and HSS cutting tools business in Danyang in the PRC.

Capital commitments outstanding at respective balance sheet dates not provided for therein were as follows:

	As at 31 December			As at 31 March
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted for	2,544	7,687	130,509	220,172
Authorised but not contracted for	2,068	30,205	47,980	61,982

Operating lease commitments

At the balance sheet date, the Group's total future minimum lease payments under non-cancellable operating leases were payable as follows:

	As at 31 December			As at 31 March
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	177	117	777	777
After 1 year but within 5 years	117	468	1,429	1,235
	294	585	2,206	2,012

Inventories

The Group's inventories increased slightly from RMB646.2 million as at 31 December 2006 to RMB691.2 million as at 31 March 2007, primarily because of an increase in the value of work-in-progress, consistent with the growth of its business between these dates. The Group's inventories increased from RMB491.5 million as at 31 December 2005, to RMB646.2 million as at 31 December 2006, primarily because (i) the Group's manufacturing and sales increased between these dates (as indicated by the 19.1% increase in its total annual revenues from 2005 to 2006); (ii) the Group's die steel manufacturing business commenced operations in November 2005; (iii) operational bottlenecks related to the growth of its HSS and HSS cutting tools businesses generally and; (iv) the Group's efforts to further integrate them, which resulted in increased inventories. The Group's inventories increased from RMB274.3 million as at 31 December 2004, to RMB491.5 million as at 31 December 2005, primarily because (i) the Group's manufacturing and sales increased between these dates (as indicated by the 30.0% increase in its total annual revenues from 2004 to 2005); (ii) the Group's die steel manufacturing business commenced operations in November 2005, which required significant additional investment in raw materials in 2005, and (iii) operational bottlenecks related to the growth of its HSS and HSS cutting tools businesses generally and (iv) the Group's efforts to further integrate them, which resulted in increased inventories.

	As at 31 December			As at 31 March
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	25,054	27,923	31,127	44,868
Work in progress	44,644	161,273	282,721	332,403
Finished goods	204,638	302,328	332,305	313,895
	274,336	491,524	646,153	691,166

Trade and other receivables

The Group's total trade and other receivables increased from RMB408.0 million as at 31 December 2006 to RMB449.1 million as at 31 March 2007, consistent with the growth in its business between these dates. The Group's trade and other receivables decreased from RMB456.1 million as at 31 December 2005 to RMB408.0 million as at 31 December 2006, primarily because of the receipt in 2006 of the approximately RMB140 million non-interest bearing borrowings due from TG Group. Excluding this factor, trade and other receivables increased by 27.8% mainly due to expansion of business. The Group's trade and other receivables increased from RMB290.3 million as at 31 December 2004, to RMB456.1 million as at 31 December 2005, primarily because of the new non-interest bearing borrowings established in 2005 for an amount of RMB148 million. Excluding this factor, the increase in trade and other receivables is mainly due to business expansion.

	As at 31 December			As at 31 March
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills receivables	169,798	221,685	283,235	302,317
Prepayments *(Note 1)*	99,348	55,251	104,455	129,516
Non-trade receivables *(Note 2)*	21,113	39,561	20,077	17,235
Receivables due from related parties *(Note 3)*	—	139,642	273	—
	290,259	456,139	408,040	449,068

Notes:

(1) Prepayments consist of advances to suppliers by the Group for goods and equipments towards each year/period end.

(2) Non-trade receivables consist of value added tax recoverable, deposits and staff advances.

(3) Receivables due from related parties has been fully settled as at 31 March 2007.

As of 31 May 2007, the Group's total trade and other receivables were RMB644.5 million.

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

Customers are normally granted credit terms of 0 to 150 days depending on the credit worthiness of individual customers.

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

	As at 31 December			As at 31 March
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months	144,798	207,280	254,342	258,026
Over 3 months but less than 6 months	31,771	19,518	34,974	53,754
Over 6 months but less than 12 months	2,647	7,684	7,095	4,315
Over 12 months but less than 24 months	528	2,357	7,188	7,873
Over 24 months	74	518	2,487	1,439
	179,818	237,357	306,086	325,407
Less: impairment loss for doubtful debts	(10,020)	(15,672)	(22,851)	(23,090)
	169,798	221,685	283,235	302,317

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

	As at 31 December			As at 31 March
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
USD	5,234	8,309	12,855	13,032
EUR	846	1,898	1,721	1,835

Trade and other payables

The Group's total trade and other payables increased from RMB344.4 million as at 31 December 2006 to RMB410.1 million as at 31 March 2007 primarily because payables to related parties increased by RMB50.5 million between these dates, as a result of the acquisition of 75% share interest of TG Aihe from TG Group in March 2007, though the related loan balance was subsequently settled in full in March 2007. The Group's trade and other payables increased from RMB335.0 million as at 31 December 2005 to RMB344.4 million as at 31 December 2006 primarily because a general increase in its business between these years. The Group's trade and other payables increased slightly from RMB324.9 million as at 31 December 2004 to RMB335.0 million as at 31 December 2005 primarily because of a general increase in its business between these years. The Group's major suppliers generally offer the Group 30 to 90 days of trade credit.

	As at 31 December			As at 31 March
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payable	262,290	249,802	277,059	282,002
Non-trade payables and accrued expenses	51,268	85,197	53,791	64,116
Payables due to related parties	11,308	—	13,528	64,003
	324,866	334,999	344,378	410,121

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

	As at 31 December			As at 31 March
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months	168,086	215,421	194,151	192,683
Over 3 months but less than 6 months	73,279	22,382	74,261	84,695
Over 6 months but less than 12 months	20,157	11,497	7,337	3,570
Over 1 year but less than 2 years	768	502	1,310	1,054
	262,290	249,802	277,059	282,002

Financial ratios

	As at 31 December			As at 31 March
	2004	2005	2006	2007
Inventory turnover days (days) *(Note 1)*	145.2	155.2	197.0	197.2
Trade receivables turnover days (days) *(Note 2)*	73.6	65.3	70.7	69.6
Trade payables turnover days (days) *(Note 3)*	138.8	103.8	91.2	82.4
Gearing ratios (%) *(Note 4)*	41.7	43.2	41.8	46.3

Notes:

Save and except for the year 2004, all other years' turnover ratios are calculated as follows:

(1) Inventory turnover days is calculated based on the average of the beginning and ending balance of the inventory divided by the cost of sales for the year, multiplied by 365 days.

(2) Trade receivables turnover days is calculated based on the average of the beginning and ending balance of the trade and bill receivables divided by the sales for the year, multiplied by 365 days.

(3) Trade payables turnover days is calculated based on the average of the beginning and ending balance of the trade and bills payable divided by the cost of sales for the year, multiplied by 365 days.

(4) Gearing ratio is calculated based on the total outstanding interest-bearing debt divided by the total assets at the end of the year.

(5) For the year ended 2004, turnover ratios are calculated using the same formulas as stated above, except that 2004's inventory, trade receivables and trade payables balances are used instead of an average balance of current year and previous year's to calculate the ratios respectively.

HSS differs from regular steel as HSS typically is comparatively more wear resistant and has higher pressure and temperature tolerance than regular steel. In addition, the production process for HSS is longer than that of regular steel. The inventory turnover days increased from 145.2 days for the year ended 31 December 2004 to 155.2 days for the year ended 31 December 2005. This was mainly due to the increase in the work-in-progress and finished goods as a result of the expansion of the Group's product ranges during the year while the growth in sales was not at the same rate. The increase of the inventory turnover days from 155.2 days for the year ended 31 December 2005 to 197.0 days for the year ended 31 December 2006 was mainly due to (i) the commencement and expansion of the die steel business; (ii) the increase in complexity and quality of the Group's products which resulted in the production process becoming more complicated and in turn caused the increase in work-in-progress; and (iii) further expansion of the Group's product ranges while the growth in sales was not at the same rate during that year. The inventory turnover days remained relatively steady at 197.2 days for the period ended 31 March 2007.

The trade receivable turnover days decreased from 73.6 days for the year ended 31 December 2004 to 65.3 days for the year ended 31 December 2005. This was primarily due to the fact that the Group has strengthened its debt collection procedures. The increase from 65.3 days for the year ended 31 December 2005 to 70.7 days for the year ended 31 December 2006 was due to the increase in export sales, which generally have relatively longer credit terms. The trade receivable turnover days remained relatively steady at 69.6 days for the period ended 31 March 2007.

The trade payable turnover days decreased from 138.8 days and 103.8 days for the years ended 31 December 2004 and 2005 to 91.2 days and 82.4 days for the year ended 31 December 2006 and for the three months ended 31 March 2007 respectively. This was primarily due to the fact that in order to secure a more stable supply of raw materials and to negotiate for a better purchase price from these raw materials suppliers, the Group has reduced the period in which it settled its payment to such suppliers.

The Group's gearing ratio as at 31 December 2004, 2005, 2006 and 31 March 2007 was 41.7%, 43.2%, 41.8% and 46.3%. The Group's gearing ratio has been at a stable level of 41.7% to 43.2% in each of the three years ended 31 December 2006. For the three months ended 31 March 2007, the gearing ratio increased to about 46.3% mainly due to the increase in long term borrowings to finance the payment for the acquisition of 25% of Tianji Packaging and 25% of TG Aihe.

Market Risks

Interest Rate Risk

The Group is exposed to limited interest rate risk in connection with its outstanding short-term bank loans, which, if it were to roll over rather than fully repay when due, may result in the Group having to accept new loans at higher interest rates.

Foreign Currency Exchange Rate Risk

The Group is subject to certain foreign currency exchange risk, which it does not currently hedge, because over the Track Record Period the Group's costs of sales and operating expenses have been denominated primarily in Renminbi, while a substantial majority of its revenues has been derived from sales transacted in US dollars and other foreign currencies.

For the year ended 31 December 2004, the Group recorded a gain of RMB0.9 million. For each of the years ended 31 December 2005 and 2006 and the three months ended 31 March 2007 the Group recorded a loss of RMB4.1 million, RMB9.1 million and RMB2.8 million respectively.

Off-Balance Sheet Arrangements

Save and except for the lease transaction as disclosed under the paragraph headed "Operating lease commitment" above, the Group has no off balance sheet transactions.

INDEBTEDNESS

	As at 31 December			As at 31 March
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Current				
Secured bank loans (*Note 1*)	—	—	113,000	143,420
Unsecured bank loans (*Note 2*)	355,850	533,450	468,909	443,750
Current portion of non-current unsecured bank loans	50,000	110,000	—	—
	405,850	643,450	581,909	587,170
Non- Current				
Unsecured bank loans (*Note 3*)	60,000	110,000	130,000	280,000
Less: Current portion of non-current unsecured bank loans (*Note 3*)	(50,000)	(110,000)	—	—
	10,000	—	130,000	280,000
	415,850	643,450	711,909	867,170

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

	As at 31 December			As at 31 March
	2004	2005	2006	2007
	'000	'000	'000	'000
USD	—	—	1,000	10,000

Notes:

(1) Current secured bank loans as at 31 March 2007 were secured by certain property, plant and equipments, land use rights.

In addition, the Group's bank loan of US$10,000,000 as at 31 March 2007 was secured by the Group's 4.9% equity interests in TG Tools.

Current secured bank loans as at 31 March 2007 carried interest rates ranging from 5.35% to 5.85% per annum and were all repayable within one year.

(2) Current unsecured bank loans as at 31 March 2007 carried interest rates ranging from 4.05% to 6.44% per annum and were all repayable within one year.

Current unsecured bank loans of RMB3 million, RMB107 million and RMB15 million as at 31 December 2004, 2005 and 2006 respectively were guaranteed by the TG Group. Current unsecured bank loans of RMB403 million, RMB536 million, RMB454 million and RMB200 million as at 31 December 2004, 2005, 2006 and 31 March 2007, respectively were guaranteed by Independent Third Parties. Such Independent Third Parties include Jiangsu Fengyu Tools Company Limited and Worldgroup Company Limited. Jiangsu Fengyu Tools Company Limited is, a customer of the Group, engaged in the manufacturing of tools and is owned by Independent Third Parties. Worldgroup Company Limited is engaged in the manufacturing of machineries and is owned by Independent Third Parties and, save for the mutual provision of guarantees, has no direct relationship with the Group. Such guarantees have been terminated.

(3) Non-current unsecured bank loans as at 31 March 2007 carried interest rates ranging from 6.03% to 6.63% per annum.

Non-current unsecured bank loans of RMB35 million as at 31 December 2006 were guaranteed by TG Group. Non-current unsecured bank loans of RMB10 million and RMB95 million as at 31 December 2004 and 2006, respectively were guaranteed by Independent Third Parties. Such guarantees have been terminated.

(4) The Group has also provided guarantees to Independent Third Parties including, the two parties mentioned in Note (2) above. As at 31 December 2004, 2005 and 2006 and the three months ended 31 March 2007 such guarantees amounted to nil, RMB206.2 million, RMB199.6 million, and nil, respectively. Such mutual guarantee arrangements were provided mainly to maintain the business relationship between the parties and to secure guarantees for the benefit of the business of the parties. The Directors consider that such business practice is not uncommon in its industry. As at the Latest Practicable Date, the Group did not provide any guarantee to any third parties.

(5) In the opinion of the Directors, the fair values of the financial guarantee contracts of the Group are insignificant at initial recognition and the Directors consider that the possibility of default by the parties involved is remote. Accordingly, no value has been recognised in the balance sheet as at 31 December 2004, 2005, 2006 and 31 March 2007.

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

	As at 31 December			As at 31 March
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	(50,000)	(110,000)	—	—
Over 1 year but less than 2 years	(10,000)	—	(130,000)	(280,000)
	(60,000)	(110,000)	(130,000)	(280,000)

Borrowings and bank facilities

Pursuant to the loan agreement dated 28 February 2007 signed between the Company and BNP Paribas Hong Kong Branch, the Company has obtained a US$10.0 million facility from BNP Paribas Hong Kong Branch which shall be exclusively applied to finance the Company's acquisition of a 25% equity interest in TG Aihe ("**BNP Loan Agreement**").

As at 31 May 2007, the Group had outstanding borrowings of RMB1,092.3 million, of which RMB76.5 million was outstanding under the BNP Loan Agreement. Over the Track Record Period, the Group's short term debt repayable within one year increased from RMB405.9 million as at 31 December 2004, to RMB643.5 million as at 31 December 2005, to RMB581.9 million as at 31 December 2006 and to RMB857.3 million as at 31 May 2007.

As at 31 May 2007, the Group had total banking facilities of approximately RMB1,393.7 million for loan financing, utilised banking facilities amounted to RMB577.8 million at that day.

The total debt to total assets ratio was 76.9%, 67.7%, 64.4% and 72.6% for the three years ended 31 December 2004, 2005 and 2006 and the five months ended 31 May 2007.

Contingent liabilities

The Group had no material contingent liabilities as at 31 May 2007.

Disclaimer

Save as disclosed under the paragraph headed "Indebtedness" above, as at the close of business on 31 May 2007, the Group did not have any outstanding mortgages, charges, pledges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, acceptance liabilities or acceptance credits, any guarantees or other material contingent liabilities.

Foreign exchange

During the three years ended 31 December 2006 and the three months ended 31 March 2007, 29%, 33%, 32% and 35%, respectively, of the Group's total revenues were denominated in US dollars whereas 11%, 11%, 12% and 16%, respectively, of the Group's total revenues were denominated in Euros for the same period. The majority of the Group's cost of sales and capital expenditures were denominated in RMB. Accordingly, the Directors are of the view that, to a certain extent, the Group has been and will continue to be exposed to foreign currency exchange risk. For the year ended 31 December 2004, the Group recorded a gain of RMB0.9 million. For each of the years ended 31 December 2005 and 2006 and the three months ended 31 March 2007 the Group recorded a loss of RMB4.1 million, RMB9.1 million and RMB2.8 million respectively. The Group has not implemented any formal policies regarding its foreign exchange exposure, however. During the Track Record Period, the Group did not enter into any arrangements to hedge its foreign exchange exposure.

No material changes

Save for as described in the paragraph headed "Indebtedness — Borrowings and bank facilities", the Directors have confirmed that there has been no material change in the indebtedness, commitments and contingent liabilities of the Group since 31 May 2007.

DISCLOSURE UNDER CHAPTER 13 OF THE LISTING RULES

The Directors have confirmed that as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to the disclosure requirements under Rules 13.13 to 13.19 of the Listing Rules had the Shares been listed on the Stock Exchange on that date.

DIVIDENDS, WORKING CAPITAL AND DISTRIBUTABLE RESERVES

Dividends

The Directors are of the view that the amount of any dividends to be declared in the future will depend on, among other things, the Group's results of operations, cash flows and financial condition, operating and capital requirements, the amount of distributable profits based on the generally accepted accounting principles in Hong Kong, the applicable laws and regulations and all other relevant factors.

The Directors intend to declare and recommend dividends which would amount in total to not less than 30.0% of the net profit from ordinary activities attributable to equity holders of the Company for full financial years subsequent to the Global Offering. Such intention does not amount to any guarantee or representation or indication that the Company must or will declare and pay dividend in such manner or declare and pay any dividend at all. Cash dividends on the Shares, if any, will be paid in Hong Kong dollars.

Working capital

The Directors are of the opinion that, taking into account the present available banking facilities and internal resources of the Group and the estimated net proceeds of the Global Offering, the Group has sufficient working capital for its requirements in the next 12 months commencing from the date of this prospectus.

Distributable reserves

The Company was incorporated on 14 August 2006 and has not carried out any business since the date of its incorporation save for the transactions related to the Reorganisation. Accordingly, there was no reserve available for distribution to shareholders as at 31 December 2006.

PROPERTY

Particulars of the property interests of the Group are set out in Appendix IV to this prospectus. American Appraisal China Limited has valued the property interests of the Group as at 31 May 2007. A summary of values and valuation certificates issued by American Appraisal China Limited are included in Appendix IV to this prospectus.

The table below sets forth (i) the reconciliation of the net book value of the Group's property interests as at 31 March 2007 with such interests as at 31 May 2007; and (ii) the reconciliation of the net book value of the Group's property interests and the valuation of such property interest as at 31 May 2007:

	(RMB'000)
Net book value of property interests of the Group as at 31 March 2007	
—Plant and buildings and lease prepayments	240,244
Movements for the two months ended 31 May 2007	
—Depreciation/Amortization	(1,965)
Net book value as at 31 May 2007	238,279
Valuation surplus as at 31 May 2007	68,701
Valuation as at 31 May 2007 *(Note)*	306,980

Note: The property interests of the Group as indicated are comprised of the properties valued by American Appraisal China Limited and contained in Appendix IV to this prospectus.

PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2007

Forecast combined profit attributable to equity holders of the Company *(Notes 1 and 2)*	not less than RMB162.0 million (approximately HK$166.3 million)
Unaudited pro forma forecast earnings per Share *(Note 3)*	not less than RMB0.405 (approximately HK$0.416)

Notes:

(1) The bases and assumptions on which the above profit forecast for the year ending 31 December 2007 have been prepared are summarised in Appendix III to this prospectus.

(2) The forecast combined profit attributable to equity holders of the Company for the year ending 31 December 2007 prepared by the Directors is based on the audited combined results of the Group for the three months ended 31 March 2007, the Group's unaudited combined management accounts for the two months ended 31 May 2007 and a forecast of the combined results of the Group for the seven months ending 31 December 2007 on the basis that the current Group structure had been in existence throughout the whole financial year ending 31 December 2007. The forecast has been prepared on the basis of the accounting policies being consistent in all material aspects with those currently adopted by the Group as set out in Note 1 of section C of the Accountants' Report, contained in Appendix I to this prospectus.

(3) The unaudited pro forma forecast earnings per Share is calculated by dividing the forecast combined profit attributable to equity holders of the Company for the year ending 31 December 2007 and a total of 400,000,000 Shares in issue, assuming that the Global Offering has been completed on 1 January 2007 (without taking into account the Over-allotment Option).

(4) In preparing the profit forecast for the year ending 31 December 2007, the Directors have taken into account, among others, the historical trend of customers' orders, confirmed orders on hand, possibility of increases of principal raw materials costs, production cost, production capacity and the latest market conditions. Based on these factors and on the bases and assumptions as set out in Appendix III to this prospectus, the Directors consider that the profit forecast for the year ending 31 December 2007 has been prepared after due and careful consideration.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative statement of unaudited pro forma adjusted net tangible assets of the Group attributable to the equity holders of the Company which has been prepared for the purpose of illustrating the effect of the Global Offering as if it had been taken place on 31 March 2007 and based on the audited combined net assets of the Group as at 31 March 2007 as shown in the accountants' report set forth in Appendix I to this prospectus and is adjusted as follows:

	Audited combined net tangible assets attributable to the equity holders of the Company as at 31 March 2007	Estimated net proceeds from the Global Offering (excluding the International Placing in relation to the Sale Shares)	Unaudited pro forma adjusted net tangible assets	Unaudited pro forma adjusted net tangible assets per Share	
	RMB'000 *(Note 1)*	RMB'000 *(Note 2)*	RMB'000	RMB *(Note 3)*	HK$ *(Note 4)*
Based on the Offer Price of HK$5.40 per Share (being the lowest)	522,012	469,985	991,997	2.48	2.55
Based on the Offer Price of HK$6.36 per Share (being the highest)	522,012	560,245	1,082,257	2.71	2.78

This statement is presented for illustrative purpose only and because of its nature, it may not give a true and fair picture of the financial position of the Group following the Global Offering.

Notes:

1. The audited combined net tangible assets attributable to the equity holders of the Company as at 31 March 2007 is based on the audited combined net assets attributable to equity holders of the Company of RMB 543,971,000 as at 31 March 2007 extracted from the Accountants' Report set out in Appendix I to this prospectus with an adjustment for the goodwill of RMB 21,959,000 as at 31 March 2007.

2. The estimated net proceeds from the Global Offering (excluding International Placing in relation to the Sale Shares) are based on the Offer Price of HK$5.40 per Share and HK$6.36 per Share, after deduction of the underwriting fees and other related expenses payable by the Company and taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option.

3. The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in the above paragraph and on the assumption that a total of 400,000,000 Shares are in issue as at 31 March 2007, but takes no account of any Shares which may be issued upon exercise of the Over-allotment Option, or which may be issued or repurchased by the Company pursuant to the mandates as set out in the paragraph headed "Resolutions in writing of shareholders of the Company passed on 7 July 2007" in Appendix VI to this prospectus.

4. The unaudited pro forma adjusted net tangible assets per Share as at 31 March 2007 are translated into HK$ at the exchange rate of RMB0.9744 to HK$1. No representation is made that the Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

5. The Group's property interests as at 31 May 2007 have been valued by American Appraisal China Limited, an independent property valuer. The details of such valuation are set out in Appendix IV to this prospectus. The Group will not incorporate the revaluation surplus in its financial statements for the year ending 31 December 2007. It is the Group's accounting policy to state its lease prepayments for land at cost less accumulated amortisation and property, plant and equipment at cost less accumulated depreciation and any impairment loss in accordance with International Accounting Standard 17 and 16, respectively, rather than at revalued amounts. The impairment review performed by the Group as at 31 May 2007 did not indicate the need to recognise any impairment loss for its lease prepayments for land and properties. The unaudited net book value of the Group's lease prepayments for land and properties as at 31 May 2007 were approximately RMB 66.0 million and RMB 172.3 million, respectively. With reference to the valuation of the Group's property interests as set out in Appendix IV to this prospectus, there was a revaluation surplus of the Group's relevant assets of approximately RMB68.7 million, which has not been included in the above net tangible assets of the Group. If such revaluation surplus was incorporated in the Group's financial statements for the year ending 31 December 2007, an additional depreciation charge of approximately RMB2.9 million per annum would be incurred.