The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from KPMG, Certified Public Accountants, Hong Kong, the reporting accountants to the Company.

KPMG

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

13 July 2007

The Directors
Tiangong International Company Limited
BNP Paribas Capital (Asia Pacific) Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to Tiangong International Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") including the combined income statements, combined statements of changes in equity and combined cash flow statements of the Group for each of the three years ended 31 December 2006 and the three months ended 31 March 2007 (the "Relevant Period") and the combined balance sheets of the Group as at 31 December 2004, 2005 and 2006 and 31 March 2007 and the balance sheet of the Company as at 31 March 2007, together with the notes thereto (the "Financial Information") for inclusion in the prospectus of the Company dated 13 July 2007 (the "Prospectus").

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 for the purpose of acting as a holding company of the subsidiaries set out in section A below.

The Company has not carried on any business since the date of its incorporation save for the acquisitions on 14 August 2006 of the entire issued share capital of China Tiangong Company Limited ("CTCL"), a company incorporated in the British Virgin Islands, which is, at the date of this report, the intermediate holding company of other subsidiaries, as part of the reorganisation (the "Reorganisation") as detailed in paragraph headed "The Reorganisation" in Appendix VI to the Prospectus.

The statutory financial statements of the following subsidiaries, which were established in the People's Republic of China ("PRC"), were prepared in accordance with the relevant accounting rules and regulations applicable to enterprises in the PRC and audited during the Relevant Period by the respective statutory auditors as indicated below.

Name of company	Financial period	Auditors
Jiangsu Tiangong Tools Company Limited ("TG Tools")	Year ended 31 December 2006	Jiangsu Dahua Certified Public Accountants Registered in the PRC
	Years ended 31 December 2004 and 2005	Nanjing Yonghua Certified Public Accountants Registered in the PRC
Tiangong Aihe Special Steel Company Limited ("TG Aihe")	Year ended 31 December 2006	Jiangsu Dahua Certified Public Accountants Registered in the PRC
	Year ended 31 December 2005	Jiangsu Hengxin Certified Public Accountants Registered in the PRC
	From the date of incorporation to 31 December 2004	Jiangsu Dahua Certified Public Accountants Registered in the PRC
Danyang Tianfa Forging Company Limited ("Tianfa Forging")	Year ended 31 December 2006	Jiangsu Dahua Certified Public Accountants Registered in the PRC
	Year ended 31 December 2005	Nanjing Yonghua Certified Public Accountants Registered in the PRC
	Year ended 31 December 2004	Jiangsu Hengxin Certified Public Accountants Registered in the PRC
Danyang Tianji Tools Packaging Company Limited ("Tianji Packaging")	Years ended 31 December 2004, 2005 and 2006	Jiangsu Dahua Certified Public Accountants Registered in the PRC

As at the date of this report, no audited financial statements have been prepared for the Company and CTCL, as they were incorporated shortly before 31 March 2007, are investment holding companies and have not carried on any business since their respective dates of incorporation. We have, however, reviewed all significant transactions undertaken by these companies from their respective dates of incorporation to 31 March 2007 for the purpose of this report.

BASIS OF PREPARATION

The Financial Information has been prepared by the directors of the Company based on the audited financial statements or, where appropriate unaudited management accounts of the companies now comprising the Group (as reflected in Section A of this report) for the Relevant Period (or where the companies were incorporated at a date later than 1 January 2004, for the period from their respective dates of incorporation to 31 March 2007) and on the basis set out in Section A, after making such adjustments as are appropriate. Adjustments have been made, for the purpose of this report, to restate these financial statements in accordance with the accounting policies as stated in Section C1 to conform with International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board and in compliance with the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). IFRSs include International Accounting Standards and interpretations.

RESPECTIVE RESPONSIBILITIES OF MANAGEMENT AND REPORTING ACCOUNTANTS

The directors of the Company are responsible for the preparation of the Financial Information as set out in Sections B to G below which gives a true and fair view. The directors of the respective companies of the Group are responsible for the preparation of the respective financial statements which give a true and fair view. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of Financial Information 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.

It is our responsibility to form an independent opinion, based on our audit, on the Financial Information.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have carried out appropriate audit procedures in respect of the Financial Information in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Information are free from material misstatement. In addition, we have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the HKICPA.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Information. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Financial Information, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the Financial Information 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 Information.

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

We have not audited any financial statements of the companies now comprising the Group in respect of any period subsequent to 31 March 2007.

OPINION

In our opinion, for the purpose of this report, and on the basis of presentation set out in Section A below, all adjustments considered necessary have been made and the Financial Information gives a true and fair view of the Group's combined results, combined changes in equity and combined cash flows for the Relevant Period, the Group's combined state of affairs as at 31 December 2004, 2005 and 2006 and 31 March 2007 and the Company's state of affairs as at 31 March 2007.

COMPARATIVE FINANCIAL INFORMATION

For the purpose of this report, we have also reviewed the unaudited financial information of the Group including the combined income statement, combined statement of changes in equity and combined cash flow statement for the three months ended 31 March 2006, together with the notes thereon (the "31 March 2006 Corresponding Information"), for which the directors are responsible, in accordance with Statement of Auditing Standard 700 "Engagements to review interim financial reports" issued by the HKICPA. A review consists principally of making enquiries of group management and applying analytical procedures to the 31 March 2006 Corresponding Information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the 31 March 2006 Corresponding Information.

On the basis of our review of the 31 March 2006 Corresponding Information which does not constitute an audit, for the purpose of this report, and on the basis of presentation set out in Section A, we are not aware of any material modifications that should be made to the unaudited financial information presented for the three months ended 31 March 2006.

A. BASIS OF PRESENTATION

As the companies that took part in the Reorganisation were controlled by the same group of ultimate equity holders (referred to as "the Controlling Equity Holders") before and after the Reorganisation and, consequently there was a continuation of the risks and benefits to the Controlling Equity Holders, the Financial Information has been prepared using the merger basis of accounting as if the Group has always been in existence. The net assets of the combining companies are consolidated using the existing book values from the Controlling Equity Holders' perspective. Accordingly, the interests of equity holders other than the Controlling Equity Holders in the combining companies have been presented as minority interests in the Group's Financial Information.

The combined income statements, combined statements of changes in equity and the combined cash flow statements of the Group for the Relevant Period include the results of operations of the companies now comprising the Group as if the current group structure had been in existence and remained unchanged throughout the entire periods referred to in this report, or since the dates of their incorporation where this is a shorter period. The combined balance sheets of the Group as at 31 December 2004, 2005 and 2006 and 31 March 2007 have been prepared to present the state of affairs of the companies now comprising the Group as at the respective dates as if the current group structure had been in existence as at the respective dates. All material intra-group transactions and balances have been eliminated on combination.

At the date of this report, the Company has direct and indirect interests in the following subsidiaries. The particulars of these subsidiaries are set out below:

Name of company		Place and date of incorporation	Percentage of equity attributable to the Company Direct	Indirect	Issued and fully paid-up/ registered capital	Principal activities
CTCL		British Virgin Islands, 14 August 2006	100%	—	USD —/ USD 50,000	Investment holding
TG Tools	(i)	the PRC, 7 July 1997	—	100%	RMB 202,300,000/ RMB 202,300,000	Manufacture and sales of high speed steel and cutting and drilling tools
TG Aihe	(ii)	the PRC, 5 December 2003	—	100%	RMB 248,725,593/ RMB 401,438,000	Manufacture and sales of die steel
Tianfa Forging	(ii)	the PRC, 11 October 2000	—	75%	USD 3,900,000/ USD 9,600,000	Precision forging and sales of high speed steel
Tianji Packaging	(iii)	the PRC, 13 May 2002	—	100%	RMB 2,000,000/ RMB 2,000,000	Manufacture and sales of packaging materials

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.

B. FINANCIAL INFORMATION

1. Combined income statements

	Section C Note	Year ended 31 December 2004 RMB'000	2005 RMB'000	2006 RMB'000	Three months ended 31 March 2006 RMB'000 (unaudited)	2007 RMB'000
Revenue	3	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	6	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	7	(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	8(i)	(25,257)	(36,197)	(50,707)	(11,087)	(14,301)
Share of loss of an associate	17	(1,537)	(4,841)	—	—	—
Profit before income tax	8	75,145	92,140	147,111	24,428	45,374
Income tax expense	9	(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
Dividends attributable to the year/period						
Dividend declared during the year/period	12	—	—	53,000	—	—
Earnings per share						
Basic earnings per share	13	0.14	0.16	0.31	0.04	0.15

The accompanying notes form part of this Financial Information.

2. Combined balance sheets

	Section C Note	At 31 December 2004 RMB'000	2005 RMB'000	2006 RMB'000	At 31 March 2007 RMB'000
Non-current assets					
Property, plant and equipment	14	189,654	387,392	443,819	477,807
Lease prepayments	15	—	21,265	56,121	66,228
Goodwill	16	—	—	—	21,959
Interests in an associate	17	47,604	—	—	—
Other investments	18	10,000	10,000	10,000	10,000
Deferred tax assets	26(ii)	1,503	2,351	3,428	2,886
		248,761	421,008	513,368	578,880
Current assets					
Inventories	19	274,336	491,524	646,153	691,166
Trade and other receivables	20	290,259	456,139	408,040	449,068
Pledged deposits	21	83,470	45,015	70,852	66,473
Other investments	18	17,003	16,301	—	—
Cash and cash equivalents	22	84,155	60,791	62,927	88,667
		749,223	1,069,770	1,187,972	1,295,374
Current liabilities					
Interest-bearing borrowings	23	405,850	643,450	581,909	587,170
Trade and other payables	24	324,866	334,999	344,378	410,121
Income tax payables	26(i)	27,096	30,946	31,693	23,567
		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	23	10,000	—	130,000	280,000
Deferred income	25	—	—	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

The accompanying notes form part of this Financial Information.

3. Combined statements of changes in equity

		Year ended 31 December			Three months ended 31 March	
	Section C Note	2004 RMB'000	2005 RMB'000	2006 RMB'000	2006 RMB'000 (unaudited)	2007 RMB'000
Equity attributable to equity holders of the Company:						
Balance at 1 January		105,415	195,417	375,410	375,410	543,978
Capital contribution	5(e)	49,141	132,053	234,534	—	56,998
Capital distribution	5(b),(c),(d)	—	—	(154,061)	—	(101,500)
Profit for the year/period		40,861	47,940	91,729	12,326	44,495
Acquisition of minority interests	5(a)	—	—	40,446	—	—
Dividends	12	—	—	(44,080)	—	—
Balance at 31 December/March		195,417	375,410	543,978	387,736	543,971
Minority interests						
Balance at 1 January		25,920	34,755	105,973	105,973	61,482
Capital contribution		—	—	—	—	14,705
Profit for the year/period		8,835	10,945	4,875	2,488	295
Turn an associate into a subsidiary	17	—	60,273	—	—	—
Acquisition of minority interests	5(a),(c),(d)	—	—	(40,446)	—	(56,057)
Dividends	12	—	—	(8,920)	—	—
Balance at 31 December/March		34,755	105,973	61,482	108,461	20,425
Total equity:		230,172	481,383	605,460	496,197	564,396

The accompanying notes form part of this Financial Information.

4. Combined cash flows statements

	Year ended 31 December			Three months ended 31 March	
	2004 RMB'000	2005 RMB'000	2006 RMB'000	2006 RMB'000 (unaudited)	2007 RMB'000
Operating activities					
Profit before tax	75,145	92,140	147,111	24,428	45,374
Adjustments for:					
Depreciation	22,399	26,018	42,229	10,466	13,142
Amortisation of lease prepayments	—	75	1,062	216	331
Impairment loss for doubtful debts	2,828	5,652	7,179	2,388	239
Write down for inventories	102	216	662	96	126
Interest income	(1,288)	(3,331)	(2,125)	(464)	(563)
Net change in fair value of investments in trading securities	877	(198)	—	—	—
Dividend income	(501)	—	(501)	(501)	—
Net gain on disposal of investments in trading securities	—	(22)	(3,091)	(480)	—
Interest on bank loans	27,055	35,694	47,320	10,108	12,026
Share of loss of an associate	1,537	4,841	—	—	—
Loss/(gain) on disposal of property, plant and equipment	30	(619)	9	(74)	34
Gain on acquisition of minority interests	—	—	—	—	(96)
Operating profit before changes in working capital	128,184	160,466	239,855	46,183	70,613
Change in inventories	(126,475)	(217,285)	(155,291)	(49,189)	(45,139)
Change in trade and other receivables	(79,071)	(167,616)	78,757	(67,438)	(26,220)
Change in trade and other payables	120,819	3,797	(19,015)	29,690	(6,384)
Change in deferred income	—	—	7,900	6,000	1,100
Income tax paid	(1,802)	(30,253)	(50,837)	(8,145)	(8,168)
Net cash generated from / (used in) operating activities	41,655	(250,891)	101,369	(42,899)	(14,198)
Investing activities					
Interest received	1,288	3,331	2,125	464	563
Dividend received	501	—	501	501	—
Proceeds from sale of property, plant and equipment	540	5,227	986	620	234
Proceeds from sale of other investments	—	922	19,392	10,480	—
Net cash inflow from turning an associate into a subsidiary	—	31,709	—	—	—
Payment for property, plant and equipment	(25,047)	(44,023)	(135,610)	(8,090)	(44,031)
Payment for lease prepayments	—	—	(9,129)	(9,129)	—
Payment for acquisition of minority interests	—	—	—	—	(77,920)
Payment for purchase of other investments	(17,880)	—	—	—	—
Net cash used in investing activities	(40,598)	(2,834)	(121,735)	(5,154)	(121,154)
Financing activities					
Capital contribution	—	—	234,261	—	14,978
Capital distribution	—	—	(154,061)	—	(1,500)
Proceeds from interest-bearing borrowings	585,830	991,650	1,153,159	209,050	599,420
Repayment of interest-bearing borrowings	(530,696)	(764,050)	(1,084,700)	(100,700)	(444,159)
Change in pledged deposits	(75,554)	38,455	(25,837)	(1,106)	4,379
Interest expenses paid	(27,055)	(35,694)	(47,320)	(10,108)	(12,026)
Dividend paid	—	—	(53,000)	—	—
Net cash (used in)/generated from financing activities	(47,475)	230,361	22,502	97,136	161,092
Net (decrease)/increase in cash and cash equivalents	(46,418)	(23,364)	2,136	49,083	25,740
Cash and cash equivalents at 1 January	130,573	84,155	60,791	60,791	62,927
Cash and cash equivalents at 31 December/ March	84,155	60,791	62,927	109,874	88,667

C. NOTES TO THE FINANCIAL INFORMATION

1. Summary of significant accounting policies

(a) Statement of compliance

The Financial Information set out in this report has been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which include International Accounting Standards ("IAS") and related Interpretations, promulgated by the International Accounting Standards Board ("IASB").

During the Relevant Period, the IASB issued a number of new and revised IFRSs. For the purpose of preparing this Financial Information, the Group has adopted all these new and revised IFRSs to the Relevant Period, except for any new standards or interpretations that are not yet effective for the accounting periods beginning on or after 1 March 2007. The revised and new accounting standards and interpretations issued but not yet effective for the accounting periods beginning on or after 1 March 2007 are set out in Section C1(t).

The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(b) Basis of measurement

The Financial Information is presented in Renminbi ("RMB"), rounded to the nearest thousand. It is 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 2.

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information, and have been applied consistently by the Group entities.

(c) Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

(d) 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 presently 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.

(ii) *Acquisition 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. Any cash paid for the acquisition is recognised directly in equity.

(iii) *Associates*

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method. The Financial Information includes the Group's share of the income and expenses of associates, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(iv) *Transaction eliminated on combination*

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the Financial Information. Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the Group's interest in the associates. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(e) 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 stated at cost less accumulated impairment losses (see accounting policy (k)).

(f) Foreign currency

(i) *Foreign currency transactions*

Transactions in foreign currencies are translated to the respective functional currencies of the 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 the 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. 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.

Foreign currency differences are recognised directly in 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.

(g) 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, except as described below. 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 accounting policy (p).

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 (see accounting policy (k)).

Investments 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. 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 and trade and other payables and are measured at amortised cost using the effective interest method, less any impairment losses.

(h) Property, plant and equipment

(i) *Recognition and measurement*

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are 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.

(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 life and residual value are reassessed at the reporting date.

(i) 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.

(j) 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 and 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.

(k) Impairment of assets

(i) *Financial assets*

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.

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

All impairment losses are recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

(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.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. 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.

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.

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.

(l) Employee benefits

Obligations for contribution to defined contribution pension plans are recognised as an expense in profit or loss when they are due.

(m) Provisions

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.

(n) 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.

(o) 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.

(p) 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 foreign currency gains. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised 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, foreign currency losses, 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.

(q) Income tax expense

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 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 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.

(r) Earning 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.

(s) 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 rewards that are different from those of other segments. The Group's primary format for segment reporting is based on business segments.

(t) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective in respective of the financial periods included in the Relevant Period, and have not been applied in preparing the Financial Information:

- IFRS 8 *Operating Segments* sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. IFRS 8, which becomes mandatory for the Group's 2009 financial statements and replaces IAS 14 *Segment Reporting*, is not expected to have any material impact on the combined financial statements.

- IAS 23 (March 2007) *Borrowing Costs* requires capitalisation of borrowing costs, which is directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. IAS 23 (March 2007), which becomes mandatory for the Group's 2009 financial statements, is not expected to have any material impact on the combined financial statements.

- IFRIC 11 *IFRS 2 Group and Treasury Share Transactions* deals with how certain types agreements on securities related payments shall be recognised in the financial statement of a company and its subsidiaries, which applies for accounting periods beginning on or after 1 March 2007, is not expected to have any material impact on the combined financial statements.

- IFRIC 12 *Service Concession Arrangements* sets out general principles on recognising and measuring the obligations and related rights in service concession arrangements, which applies for accounting periods beginning on or after 1 January 2008, is not expected to have any material impact on the combined financial statements.

2. 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. Where 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.

3. Revenue

Revenue represents the sales value of high alloy steel ("HAS"), including high speed steel ("HSS") and die steel, 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.

4. 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 and expense.

Business segments

The Group comprises the following main business segments

- *HAS* The HAS segment manufactures and sales high speed steel and die steel for steel industry.

- *HSS cutting tools* The HSS cutting tools segment manufactures and sales HSS cutting tools for tool industry.

	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					
HAS	408,889	530,023	724,975	161,462	234,936
HSS cutting tools	433,024	564,688	579,012	87,418	149,099
Total	841,913	1,094,711	1,303,987	248,880	384,035
Segment result					
HAS	78,761	107,110	144,696	31,426	45,579
HSS cutting tools	51,581	60,531	74,204	10,914	20,340
Total	130,342	167,641	218,900	42,340	65,919
Unallocated operating income and expenses	(28,403)	(34,463)	(21,082)	(6,825)	(6,244)
Profit from operations	101,939	133,178	197,818	35,515	59,675
Net finance cost	(25,257)	(36,197)	(50,707)	(11,087)	(14,301)
Share of loss of an associate	(1,537)	(4,841)	—	—	—
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

	Year ended 31 December			At 31 March
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets				
HAS	323,833	592,712	860,409	979,783
HSS cutting tools	409,303	584,405	673,374	709,449
Total	733,136	1,177,117	1,533,783	1,689,232
Unallocated assets	264,848	313,661	167,557	185,022
Total assets	997,984	1,490,778	1,701,340	1,874,254
Segment liabilities				
HAS	169,613	173,741	227,658	254,159
HSS cutting tools	144,697	128,807	113,375	154,912
Total	314,310	302,548	341,033	409,071
Unallocated liabilities	453,502	706,847	754,847	900,787
Total liabilities	767,812	1,009,395	1,095,880	1,309,858

	Year ended 31 December			At 31 March
	2004 RMB'000	2005 RMB'000	2006 RMB'000	2007 RMB'000
Capital expenditure				
HAS	14,465	106,800	104,767	31,231
HSS cutting tools	10,475	67,420	30,802	26,605
Total	24,940	174,220	135,569	57,836
Depreciation and amortisation				
HAS	13,351	19,048	34,196	7,275
HSS cutting tools	9,048	7,045	9,095	6,198
Total	22,399	26,093	43,291	13,473

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.

	Year ended 31 December			Three months ended 31 March	
	2004 RMB'000	2005 RMB'000	2006 RMB'000	2006 RMB'000 (unaudited)	2007 RMB'000
Revenue					
The PRC	500,606	615,946	728,515	162,824	189,813
North America	173,774	219,941	231,781	28,728	72,491
Europe	94,794	122,439	155,044	21,736	60,242
Asia (other than the PRC)	56,410	115,676	169,438	31,025	51,408
Others	16,329	20,709	19,209	4,567	10,081
Total	841,913	1,094,711	1,303,987	248,880	384,035

5. Capital contribution and distribution

(a) On 16 August 2006, Jiangsu Tiangong Group Company Limited ("TG Group"), a wholly-owned company of the Controlling Equity Holders, acquired an additional 16.83% equity interests in 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 CTCL (see note(b) below) on 21 August 2006, the acquisition of minority interests was reflected in the combined statements of changes in equity as a capital distribution by the minority shareholders and a corresponding capital contribution by the ultimate shareholders.

(b) 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 thousand (equivalent to RMB 154,061 thousand). On the basis as set out in Section A, the acquisition of subsidiary was reflected in the combined statements of changes in equity as a capital distribution to the Controlling Equity Holders.

(c) 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 RMB 1,500 thousand and RMB 500 thousand respectively. As a result, Tianji Packaging became a wholly-owned subsidiary of the Group. On the basis set out in Section A, the acquisition of 75% equity interests in Tianji Packaging from TG Group was reflected in the combined statements of changes in equity as a capital distribution to the Controlling Equity Holders.

The carrying amount of the minority shareholder's net assets in the combined financial statements on the date of acquisition was RMB 596 thousand. The Group recognised a decrease in minority interests of RMB 596 thousand and a gain on acquisition of RMB 96 thousand in the combined income statements.

(d) On 13 March 2007, TG Tools acquired 75% equity interests in TG Aihe from TG Group at a cash consideration of RMB 100,000 thousand, while CTCL acquired the remaining 25% equity interests in TG Aihe from a minority shareholder at a cash consideration of USD 10,000 thousand (equivalent to RMB 77,420 thousand). As a result, TG Aihe became a wholly-owned subsidiary of the Group. On the basis set out in Section A, the acquisition of 75% equity interests in TG Aihe from TG Group was reflected in the combined statements of changes in equity as a capital distribution to the Controlling Equity Holders.

The carrying amount of the minority shareholder's net assets in the combined financial statements on the date of acquisition was RMB 55,461 thousand. The Group recognised a decrease in minority interests of RMB 55,461 thousand and goodwill of RMB 21,959 thousand.

(e) Pursuant to a board of directors' resolution dated 15 August 2006, the Company issued 34,999 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 issurance of 2 promissory notes for a total sum of USD 30,035 thousand (equivalent to RMB 234,534 thousand) by THCL to the Company. These two promissory notes, which were repayable on demand, were settled by THCL on 11 September 2006 and 30 March 2007 with cash of USD 30,000 thousand (equivalent to RMB 234,261 thousand) and USD 35 thousand (equivalent to RMB 273 thousand) received by the Company respectively.

On 26 March 2007 and 31 March 2007, TG Group waived its remaining receivables amounting to RMB 37,228 thousand and RMB 19,770 thousand due from the Group in connection with the acquisitions of land use rights and plants respectively (see Notes 15 and 14). These waivers of liabilities by TG Group were accounted for as equity transactions and reflected in the combined statements of changes in equity as capital contributions.

6. Other income

	Year ended 31 December			Three months ended 31 March	
	2004 RMB'000	2005 RMB'000	2006 RMB'000	2006 RMB'000 (unaudited)	2007 RMB'000
Government grants	—	—	29,759	—	8,000
Net gain on disposal of property, plant and equipment	—	619	—	74	—
Others	374	708	307	100	606
	374	1,327	30,066	174	8,606

TG Tools received unconditional grants amounting to RMB 29,759 thousand and RMB 8,000 thousand for the year ended 31 December 2006 and the three months ended 31 March 2007 respectively from the local government in Danyang concerning the encouragement of its development.

7. Other expenses

	Year ended 31 December			Three months ended 31 March	
	2004 RMB'000	2005 RMB'000	2006 RMB'000	2006 RMB'000 (unaudited)	2007 RMB'000
Impairment loss for doubtful debts	2,828	5,652	7,179	2,388	239
Write down for inventories	102	216	662	96	126
Net loss on disposal of property, plant and equipment	30	—	9	—	34
Others	756	308	646	239	283
	3,716	6,176	8,496	2,723	682

8. Profit before tax

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

(i) Net finance cost

	Year ended 31 December			Three months ended 31 March	
	2004 RMB'000	2005 RMB'000	2006 RMB'000	2006 RMB'000 (unaudited)	2007 RMB'000
Interest income	(1,288)	(3,331)	(2,125)	(464)	(563)
Net change in fair value of investments in trading securities	—	(198)	—	—	—
Dividend income on available-for-sale financial assets	(501)	—	(501)	(501)	—
Net gain on disposal of investments in trading securities	—	(22)	(3,091)	(480)	—
Net foreign exchange gain	(886)	—	—	—	—
Finance Income	(2,675)	(3,551)	(5,717)	(1,445)	(563)
Interest on bank loans	27,055	35,694	47,320	10,108	12,026
Net change in fair value of investments in trading securities	877	—	—	—	—
Net foreign exchange loss	—	4,054	9,104	2,424	2,838
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

(ii) Staff costs

	Year ended 31 December			Three months ended 31 March	
	2004 RMB'000	2005 RMB'000	2006 RMB'000	2006 RMB'000 (unaudited)	2007 RMB'000
Wages, salaries and other benefits	65,034	70,988	74,190	17,092	21,245
Contributions to defined contribution plan	1,499	1,528	1,671	398	427
	66,533	72,516	75,861	17,490	21,672

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 during the Relevant Period. 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

	Year ended 31 December			Three months ended 31 March	
	2004 RMB'000	2005 RMB'000	2006 RMB'000	2006 RMB'000 (unaudited)	2007 RMB'000
Cost of inventories*	689,728	900,321	1,054,147	197,772	309,377
Depreciation	22,399	26,018	42,229	10,466	13,142
Amortisation of lease prepayments	—	75	1,062	216	331
Impairment loss for doubtful debts	2,828	5,652	7,179	2,388	239
Auditor's remuneration	30	240	572	—	—
Write down for inventories	102	216	662	96	126

* Cost of inventories includes RMB 63,747 thousand, RMB 78,475 thousand, RMB 89,646 thousand, RMB 17,661 thousand and RMB 23,863 thousand relating to staff costs and depreciation expenses, for the three years ended 31 December 2006 and the three months ended 31 March 2006 and 2007 respectively, which amounts are also included in the respective total amounts disclosed separately above for each of these types of expenses.

9. Income tax expense

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

	Year ended 31 December			Three months ended 31 March	
	2004 RMB'000	2005 RMB'000	2006 RMB'000	2006 RMB'000 (unaudited)	2007 RMB'000
Current tax					
Provision for PRC income tax	25,873	34,103	51,584	9,972	42
Deferred tax					
Origination and reversal of temporary differences	(424)	(848)	(1,077)	(358)	542
	25,449	33,255	50,507	9,614	584

(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 a statutory rate of 33% of the assessable profits of subsidiaries in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC during the Relevant Period, except that

* The statutory income tax rate applicable to Tianfa Forging and TG Aihe is 27%. Pursuant to the Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment, Tianfa Forging and TG Aihe are entitled to an exemption from the PRC income tax for two consecutive years from the first year when they record assessable profits and then to a 50% reduction of their statutory tax rate for the following three years.

As 2003 was the first year when Tianfa Forging recorded assessable profits, Tianfa Forging 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.

As TG Aihe sustained accumulated operating losses for tax purposes during the Relevant Period, no income tax is provided in the combined income statements.

** 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 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 is also 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 statutory tax rate for the following three years.

(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 ("new tax law") which will take 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 March 2007. The enactment of the new tax law is not expected to have any financial effect on the amounts accrued in the combined balance sheets in the respect of current tax payable.

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

	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
Profit before tax	75,145	92,140	147,111	24,428	45,374
Computed tax using the Group's PRC statutory tax rate (33%)	24,798	30,406	48,547	8,061	14,973
Rate differential on the PRC operations	—	(343)	(5,941)	(180)	(33)
Tax exemption	(369)	—	—	—	(15,132)
Non-taxable income	(165)	—	(165)	(165)	—
Non-deductible expenses	678	1,356	1,538	646	1,446
Unrecognised deferred tax assets in respect of tax losses of a subsidiary	507	1,836	6,528	1,252	(670)
	25,449	33,255	50,507	9,614	584

10. Directors' remuneration

Details of the directors' remuneration are as follows:

Year ended 31 December 2004

	Fees	Basic salaries, allowance and other benefits	Contributions to retirement benefit schemes	Bonus	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Zhu Xiaokun	—	43	9	3,620	3,672
Zhu Zhihe	—	41	9	4	54
Zhu Mingyao	—	42	9	5	56
Yan Ronghua	—	37	8	—	45
Non-executive directors					
Lin John Sian-zu	—	—	—	—	—
Thong Kwee Chee	—	—	—	—	—
Independent non-executive directors					
Li Zhengbang	—	—	—	—	—
Gao Xiang	—	—	—	—	—
Lau Siu Fai	—	—	—	—	—
Total	—	163	35	3,629	3,827

Year ended 31 December 2005

	Fees	Basic salaries, allowance and other benefits	Contributions to retirement benefit schemes	Bonus	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Zhu Xiaokun	—	46	10	3,624	3,680
Zhu Zhihe	—	40	8	4	52
Zhu Mingyao	—	42	9	5	56
Yan Ronghua	—	41	9	3	53
Non-executive directors					
Lin John Sian-zu	—	—	—	—	—
Thong Kwee Chee	—	—	—	—	—
Independent non-executive directors					
Li Zhengbang	—	—	—	—	—
Gao Xiang	—	—	—	—	—
Lau Siu Fai	—	—	—	—	—
Total	—	169	36	3,636	3,841

Year ended 31 December 2006

	Fees	Basic salaries, allowance and other benefits	Contributions to retirement benefit schemes	Bonus	Total
	RMB'000	RMB'000	RMB'000	RMB'000	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

Period ended 31 March 2007

	Fees	Basic salaries, allowance and other benefits	Contributions to retirement benefit schemes	Bonus	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Zhu Xiaokun	—	16	2	—	18
Zhu Zhihe	—	15	1	—	16
Zhu Mingyao	—	15	1	—	16
Yan Ronghua	—	15	1	—	16
Non-executive directors					
Lin John Sian-zu	—	—	—	—	—
Thong Kwee Chee	—	—	—	—	—
Independent non-executive directors					
Li Zhengbang	—	—	—		
Gao Xiang	—	—	—	—	—
Lau Siu Fai	—	—	—	—	—
Total	—	61	5	—	66

Period ended 31 March 2006 (Unaudited)

	Fees	Basic salaries, allowance and other benefits	Contributions to retirement benefit schemes	Bonus	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Zhu Xiaokun	—	15	1	—	16
Zhu Zhihe	—	15	1	—	16
Zhu Mingyao	—	14	1	—	15
Yan Ronghua	—	14	1	—	15
Non-executive directors					
Lin John Sian-zu	—	—	—	—	—
Thong Kwee Chee	—	—	—	—	—
Independent non-executive directors					
Li Zhengbang	—	—	—	—	—
Gao Xiang	—	—	—	—	—
Lau Siu Fai	—	—	—	—	—
Total	—	58	4	—	62

An analysis of directors' remuneration by the number of directors and remuneration range is as follows:

	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
Nil to RMB 1,000,000	8	8	8	9	9
RMB 1,000,000 to RMB 5,000,000	1	1	1	—	—

Save as disclosed above, no directors' remuneration has been paid or is payable by the Group during the Relevant Period. There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Period.

11. Senior management remuneration

The five highest paid individuals of the Group during the Relevant Period include four directors of the Company, whose remuneration are reflected in the analysis presented above. Details of remuneration paid to the remaining highest paid individual of the Group are as follows:

	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
Basic salary, allowances and other benefits	44	46	49	13	15
Contributions to retirement benefit schemes	8	9	10	1	1
Bonus	14	18	29	—	—
	66	73	88	14	16
Number of senior management	1	1	1	1	1

The above individual's emoluments are within the band of Nil to RMB 1,000,000.

During the Relevant Period, 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.

12. Dividends

Pursuant to the resolution passed at the board of directors' meeting on 5 August 2006, dividends of RMB 53,000,000 were declared by TG Tools to its then respective shareholders.

13. Earnings per share

The calculation of basic earnings per share for the Relevant Period is based on the profit attributable to equity holders of the Company during the Relevant Period and the 300,000,000 shares in issue and issuable, comprising 5,000,000 shares in issue as at the date of the Prospectus and 295,000,000 shares to be issued pursuant to the capitalisation issue as detailed in the paragraph headed "Resolutions in writing of shareholders of the Company passed on 7 July 2007" set out in Appendix VI to the Prospectus, as if the shares were outstanding throughout the entire Relevant Period.

There were no dilutive potential ordinary shares during the Relevant Period and, therefore, diluted earnings per share are not presented.

14. Property, plant and equipment

	Plant and buildings	Machinery	Motor vehicles	Office equipment and others	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:						
Balance as at 1 January 2004	72,057	178,562	5,109	7,728	—	263,456
Additions	—	13,878	—	3,808	7,254	24,940
Transfer from construction in progress	6,654	—	—	600	(7,254)	—
Disposals	—	(654)	(544)	—	—	(1,198)
Balance as at 31 December 2004	78,711	191,786	4,565	12,136	—	287,198
Additions	73,364	94,142	1,421	5,293	—	174,220
Through turning an associate into a subsidiary	29,470	19,687	712	3,204	6,495	59,568
Transfer from construction in progress	—	2,550	—	—	(2,550)	—
Disposals	—	(4,990)	(924)	(719)	—	(6,633)
Balance as at 31 December 2005	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 as at 31 December 2006	181,857	384,950	8,195	27,824	9,070	611,896
Additions	19,770	2,753	212	1,304	23,359	47,398
Transfer from construction in progress	7,726	1,750	—	—	(9,476)	—
Disposals	—	(104)	(448)	—	—	(552)
Balance as at 31 March 2007	209,353	389,349	7,959	29,128	22,953	658,742

	Plant and buildings	Machinery	Motor vehicles	Office equipment and others	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Depreciation:						
Balance as at 1 January 2004	(15,637)	(56,999)	(1,264)	(1,873)	—	(75,773)
Charge for the year	(3,111)	(17,199)	(557)	(1,532)	—	(22,399)
Written back on disposals	—	399	229	—	—	628
Balance as at 31 December 2004	(18,748)	(73,799)	(1,592)	(3,405)	—	(97,544)
Through turning an associate into a subsidiary	(1,920)	(3,281)	(13)	(210)	—	(5,424)
Charge for the year	(3,916)	(18,501)	(837)	(2,764)	—	(26,018)
Written back on disposals	—	1,635	377	13	—	2,025
Balance as at 31 December 2005	(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 as at 31 December 2006	(32,876)	(119,744)	(2,534)	(12,923)	—	(168,077)
Charge for the period	(2,461)	(9,261)	(219)	(1,201)	—	(13,142)
Written back on disposals	—	45	239	—	—	284
Balance as at 31 March 2007	(35,337)	(128,960)	(2,514)	(14,124)	—	(180,935)
Carrying amounts:						
As at 31 March 2007	174,016	260,389	5,445	15,004	22,953	477,807
As at 31 December 2006	148,981	265,206	5,661	14,901	9,070	443,819
As at 31 December 2005	156,961	209,229	3,709	13,548	3,945	387,392
As at 31 December 2004	59,963	117,987	2,973	8,731	—	189,654

(i) All of the property, plant and equipment owned by the Group are located in the PRC.

(ii) Certain property, plant and equipment with the net book value of RMB 51,458 thousand and RMB 50,827 thousand were pledged as securities for bank loans at 31 December 2006 and 31 March 2007 respectively (see Notes 23).

(iii) During the three years 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 RMB 19,770 thousand.

(iv) During the three years ended 31 December 2006, the Group occupied certain office premises of TG Group free of charge. Pursuant to a lease agreement entered into between the Group and TG Group on 28 February 2007, the Group is required to pay RMB 600 thousand per annum for the lease of these office premises from TG Group effective from 1 January 2007 to 31 December 2009 (see Notes 28(a)).

15. Lease prepayments

	RMB'000
Cost:	
Balance as at 1 January and 31 December 2004	—
Through turning an associate into a subsidiary	22,090
Balance as at 31 December 2005	22,090
Additions	35,918
Balance as at 31 December 2006	58,008
Additions	10,438
Balance as at 31 March 2007	68,446
Amortisation:	
Balance as at 1 January and 31 December 2004	—
Through turning an associate into a subsidiary	(750)
Charge for the year	(75)
Balance as at 31 December 2005	(825)
Charge for the year	(1,062)
Balance as at 31 December 2006	(1,887)
Charge for the period	(331)
Balance as at 31 March 2007	(2,218)
Net book value:	
As at 31 March 2007	66,228
As at 31 December 2006	56,121
As at 31 December 2005	21,265
As at 31 December 2004	—

(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) Certain land use rights with the net book value of RMB 20,866 thousand and RMB 20,767 thousand were pledged as securities for bank loans at 31 December 2006 and 31 March 2007 respectively (see Notes 23).

(iii) During the three years 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 RMB 34,687 thousand and RMB 10,438 thousand respectively.

16. Goodwill

	RMB'000
Cost:	
At 31 December 2004, 2005 and 2006	—
Addition	21,959
At 31 March 2007	21,959
Accumulated impairment losses:	
At 31 December 2004, 2005 and 2006 and 31 March 2007	—
Carrying amounts:	
At 31 March 2007	21,959
At 31 December 2004, 2005 and 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 units identified according to the business segment as follows:

	At 31 March 2007
	RMB'000
HAS — die steel	21,959

The recoverable amounts of the cash-generating units are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rate and growth rate. The Group prepared cash flow forecasts derived from the two-year financial budgets and extrapolates cash flows for the following eight years based on an estimated growth rate of 10% and a discount rate of 6%. The growth rate used does not exceed the average long-term growth rate for the relevant markets.

17. Interests in an associate

	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
TG Aihe	47,604	—	—	—	—

Summary financial information on associate — 100 per cent:

31 December 2004	**Ownership**	**Assets** RMB'000	**Liabilities** RMB'000	**Equity** RMB'000	**Revenue** RMB'000	**Loss** RMB'000
TG Aihe	40%	122,085	3,075	119,010	—	3,843

On 20 November 2005, the original controlling shareholder of TG Aihe waived a part of its rights and obligations to further invest in TG Aihe, and therefore the Group contributed the required capitals. As a result, the Group's equity interests in TG Aihe increased from 40% to 75%, and TG Aihe became a subsidiary of the Company. The assets and liabilities of TG Aihe as at 20 November 2005 and its cash flow effects are as follows:

	RMB'000
Property, plant and equipment	54,144
Lease prepayments	21,340
Inventories	119
Trade and other receivables	35
Trade and other payables	(4,311)
Net identifiable assets and liabilities, except for cash and cash equivalents	71,327
Cash and cash equivalents	31,709
	103,036

18. Other investments

	At 31 December			At 31 March
	2004 RMB'000	2005 RMB'000	2006 RMB'000	2007 RMB'000
Current investments				
Investments in trading securities	17,003	16,301	—	—

Investments in trading securities are measured at fair value.

	2004 RMB'000	2005 RMB'000	2006 RMB'000	2007 RMB'000
Non-current investments				
Available-for-sale financial assets	10,000	10,000	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.

19. Inventories

	At 31 December			At 31 March
	2004 RMB'000	2005 RMB'000	2006 RMB'000	2007 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

(i) Provisions of RMB 102 thousand, RMB 318 thousand, RMB 980 thousand and RMB 1,106 thousand were made against those inventories with net realisable value lower than carrying value as at 31 December 2004, 2005 and 2006 and 31 March

2007 respectively. Except for the above, none of the inventories as at 31 December 2004, 2005 and 2006 and 31 March 2007 was carried at net realisable value.

(ii) Inventories with an aggregated carrying value of RMB 144,106 thousand as at 31 December 2006 had been pledged to banks as securities for the Group's bank loans (see Notes 23).

20. Trade and other receivables

		At 31 December			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		99,348	55,251	104,455	129,516
Non-trade receivables		21,113	39,561	20,077	17,235
Receivables due from related parties	28(c)	—	139,642	273	—
		290,259	456,139	408,040	449,068

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 bills receivables of the Group is as follows:

	At 31 December			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:

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

21. Pledged deposits

Bank deposits of RMB 83,470 thousand, RMB 45,015 thousand, RMB 70,852 thousand, and RMB 66,473 thousand as at 31 December 2004, 2005 and 2006 and 31 March 2007 respectively 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.

Included in pledged deposits in the combined balance sheets are the following amounts denominated in currencies other than RMB:

	At 31 December			At 31 March
	2004 '000	2005 '000	2006 '000	2007 '000
USD	—	—	—	380
EUR	—	—	—	39

22. Cash and cash equivalents

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

	At 31 December			At 31 March
	2004 '000	2005 '000	2006 '000	2007 '000
USD	62	531	803	1,641
EUR	10	1,821	358	137

23. Interest-bearing borrowings

		At 31 December			At 31 March
		2004 RMB'000	2005 RMB'000	2006 RMB'000	2007 RMB'000
Current					
Secured bank loans	(i)	—	—	113,000	143,420
Unsecured bank loans	(ii)	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	(iii)	60,000	110,000	130,000	280,000
Less: Current portion of non-current unsecured bank loans	(iii)	(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:

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

(i) Current secured bank loans as at 31 December 2006 and 31 March 2007 were secured by certain property, plant and equipment, land use rights and inventories, details of which refer to Notes 14, 15 and 19.

In addition, the Group's bank loan of USD 10,000 thousand 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 December 2006 and 31 March 2007 carried interest rates ranging from 5.85% to 6.12% per annum, and 5.35% to 5.85% per annum respectively and were all repayable within one year.

(ii) Current unsecured bank loans as at 31 December 2004, 2005 and 2006 and 31 March 2007 carried interest rates ranging from 5.04% to 6.89% per annum, 4.5% to 6.89% per annum, 4.05% to 6.44% per annum and 4.05% to 6.44% per annum respectively and were all repayable within one year.

Current unsecured bank loans of RMB 3,000 thousand, RMB 107,000 thousand and RMB 15,000 thousand as at 31 December 2004, 2005 and 2006 respectively were guaranteed by a related party (see Notes 28(b)). Current unsecured bank loans of RMB 402,850 thousand, RMB 536,450 thousand, RMB 453,909 thousand and RMB 200,000 thousand as at 31 December 2004, 2005 and 2006 and 31 March 2007 respectively were guaranteed by third parties.

(iii) Non-current unsecured bank loans as at 31 December 2004 and 2006 and 31 March 2007 carried interest rates ranging from 5.03% to 6.04% per annum, 4.5% to 6.63% per annum and 6.03% to 6.63% per annum respectively.

Non-current unsecured bank loans of RMB 35,000 thousand as at 31 December 2006 were guaranteed by a related party (see Notes 28(b)). Non-current unsecured bank loans of RMB 10,000 thousand and RMB 95,000 thousand as at 31 December 2004 and 2006 respectively were guaranteed by third parties.

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

	At 31 December			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)

24. Trade and other payables

		At 31 December			At 31 March
		2004	2005	2006	2007
		RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables		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	28(d)	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:

	At 31 December			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

25. Deferred income

Deferred income represents government grants received in 2006 and 2007 and was conditional upon the completion of certain construction projects.

26. Income tax in the combined balance sheets

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

	At 31 December			At 31 March
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
At the beginning of the year/period	3,025	27,096	30,946	31,693
Provision for PRC income tax for the year/period	25,873	34,103	51,584	42
PRC income tax paid	(1,802)	(30,253)	(50,837)	(8,168)
At the end of the year/period	27,096	30,946	31,693	23,567

(ii) Deferred tax assets recognised:

The components of deferred tax assets recognised in the combined balance sheets and the movements during the Relevant Period are as follows:

	Impairment loss for doubtful debts
	RMB'000
As at 1 January 2004	1,079
Recognised in combined income statements	424
As at 31 December 2004	1,503
Recognised in combined income statements	848
As at 31 December 2005	2,351
Recognised in combined income statements	1,077
As at 31 December 2006	3,428
Recognised in combined income statements	29
Reversal as a result of the change of the expected income tax rate	(571)
As at 31 March 2007	2,886

27. Distributable reserves of the Company

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 March 2007.

28. Related party transactions

The Group has transactions with TG Group, the ultimate shareholders and Tiangong Holdings Company Limited (the "ultimate holding company"). The following is a summary of principal related party transactions carried out by the Group with the above related parties for the Relevant Period.

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

(a) Significant Related Party Transactions-Recurring

	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
Lease expense to:					
TG Group	—	—	—	—	150

During the three years ended 31 December 2006, the Group occupied certain office premises of TG Group free of charge. Pursuant to a lease agreement entered into between the Group and TG Group on 28 February 2007, the Group is required to pay RMB 600 thousand per annum for the lease of these office premises from TG Group effective from 1 January 2007 to 31 December 2009.

(b) Significant Related Party Transactions-Non-recurring

	Year ended 31 December			Three months ended 31 March	
	2004 RMB'000	2005 RMB'000	2006 RMB'000	2006 RMB'000 (unaudited)	2007 RMB'000
Sales of goods to:					
TG Group	5,142	14,788	3,272	1,491	—
Purchases of goods from:					
TG Group	839	1,571	30,052	6,425	—
Purchases of fixed assets from:					
TG Group	—	—	8,604	—	19,770
Sales of fixed assets to:					
TG Group	—	4,666	—	—	—
Purchases of land use rights from:					
TG Group	—	—	26,790	26,790	10,438
Non-interest bearing loans to:					
TG Group	8,516	147,747	—	—	—
Repayment of non-interest bearing loans from:					
TG Group	—	—	128,163	—	—
Payments on behalf of:					
TG Group	3,333	4,059	2,484	1,143	280
Acquisition of equity interests in subsidiaries from:					
TG Group	—	—	153,753	—	101,500
Ultimate shareholders	—	—	308	—	—
Maintenance service received from:					
TG Group	—	—	15,567	1,361	—
Capital contribution from:					
TG Group	49,141	132,053	—	—	—
Ultimate holding company	—	—	234,534	—	—
Unsecured bank loans guaranteed by:					
TG Group	3,000	107,000	50,000	85,750	—
Free use of plants of:					
TG Group	—	—	—	—	—
Free use of land use rights of:					
TG Group	—	—	—	—	—
Waiver of liabilities by:					
TG Group	—	—	—	—	56,998

The directors have confirmed that the above transactions will not continue in the future after the listing of the Company's share on The Stock Exchange of Hong Kong Limited.

(c) Amounts due from related parties

	At 31 December			At 31 March
	2004 RMB'000	2005 RMB'000	2006 RMB'000	2007 RMB'000
TG Group	—	139,642	—	—
Ultimate holding company	—	—	273	—

(d) Amounts due to related parties

	At 31 December			At 31 March
	2004 RMB'000	2005 RMB'000	2006 RMB'000	2007 RMB'000
TG Group	11,308	—	13,528	64,003

As at the date of this report, the balance of amounts due to related parties as at 31 March 2007 has been settled in full.

29. Commitments

(i) Capital commitments

Capital commitments outstanding at respective balance sheet dates not provided for in the Financial Information were as follows:

	At 31 December			At 31 March
	2004 RMB'000	2005 RMB'000	2006 RMB'000	2007 RMB'000
Contracted for				
- Land and buildings	—	—	15,384	12,994
- Equipment	2,544	7,687	115,125	207,178
	2,544	7,687	130,509	220,172
Authorised but not contracted for - Equipment	2,068	30,205	47,980	61,982

(ii) Operating lease commitments

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

	At 31 December			At 31 March
	2004 RMB'000	2005 RMB'000	2006 RMB'000	2007 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

30. Financial Instruments

Exposure to credit, interest rate and currency risks arise in the normal course of the Group's business.

(a) Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group does not require collateral in respect of financial assets.

Investments are allowed only in liquid securities and 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.

At the reporting 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 balance sheet.

(b) Interest rate risk

The Group's variable-rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates. Investments in equity securities and short-term receivables and payables are not exposed to interest rate risk.

(c) Foreign currency risk

The Group incurs foreign currency risk on sales that are denominated in a currency other than RMB. The currencies giving rise to this risk are primarily United States Dollars.

A substantially majority of turnover of the Group is transacted in United States Dollars and all the other operations of the Group are transacted in RMB, which is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place either through the People's Bank of China or other institutions authorised to buy and sell foreign currencies. The exchange rates adopted for the foreign exchange transactions are the rates of exchange quoted by the People's Bank of China that are determined largely by supply and demand. Changes in exchange rate affect the RMB value of sales proceeds of products that are denominated in foreign currencies. In addition, an appreciation of RMB against United States Dollars or Euro may have the effect of rendering exports from the Group in China more expensive and less competitive than products from other countries.

(d) Fair value

The carrying amounts of significant financial assets and liabilities approximate their respective fair values as at 31 December 2004, 2005 and 2006 and 31 March 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 maturity.

(iii) Investments in trading securities

The carrying amounts of investments in trading securities are determined by reference to their quoted bid price at the reporting date.

31. Contingent liabilities

	At 31 December			At 31 March
	2004 RMB'000	2005 RMB'000	2006 RMB'000	2007 RMB'000
Guarantees given to financial institutions in respect of facilities utilised by independent third parties:				
Jiangsu Fengyu Tools Company Limited	—	6,000	—	—
Worldgroup Company Limited and its subsidiaries	—	200,200	199,630	—
	—	206,200	199,630	—

32. Ultimate holding company

The directors consider the ultimate holding company of the Company as at 31 March 2007 to be Tiangong Holdings Company Limited in the British Virgin Islands.

D. SUBSEQUENT EVENTS

The following significant events took place subsequent to 31 March 2007:

1. Valuation of properties

For the purpose of the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited, the properties of the Group were revalued at 31 May 2007 by American Appraisal China Limited.

The valuation gave rise to a revaluation surplus of approximately RMB 68.7 million from the carrying amount of the relevant assets at that date. Such revaluation surplus will not be incorporated in the financial statements subsequently prepared for the year ending 31 December 2007. Details of the valuation are set out in Appendix IV to the Prospectus.

2. Authorised share capital

Pursuant to the resolutions in writing of shareholders of the Company passed on 7 July 2007, the shareholders approved the increase of the authorised share capital of the Company to 1,000,000,000 shares with a par value of USD 0.01 each.

E. BALANCE SHEET OF THE COMPANY

	At 31 March 2007
	RMB'000
Non-current assets	
Investments in subsidiaries	311,681
Current assets	
Cash and cash equivalents	349
Current liabilities	
Interest-bearing borrowings	(77,420)
Trade and other payables	(647)
	(78,067)
Net current liabilities	(77,718)
NET ASSETS	233,963
SHARE CAPITAL	390
CAPITAL PREMIUM	234,144
ACCUMULATED LOSS	(571)
	233,963

The Company was incorporated on 14 August 2006 and has not carried out any business since the date of its incorporation save for the acquisitions on 14 August 2006 of the entire issued share capital of CTCL.

F. DIRECTORS' REMUNERATION

Save as disclosed in Section C 10 above, no remuneration has been paid or is payable in respect of the Relevant Period by the Group to the directors of the Company. Under the arrangement presently in force, the estimated aggregate amount of the Company's directors and senior management's emoluments payable for the year ending 31 December 2007 will be approximately RMB 4,863 thousand and RMB 83 thousand respectively.

G. SUBSEQUENT ACCOUNTS

No audited financial statements have been prepared by the Company in respect of any period subsequent to 31 March 2007.