Interim Report 2011

天工國際有限公司*

TIANGONG INTERNATIONAL COMPANY LIMITED

(incorporated in the Cayman Islands with limited liability)

Stock Code : 826

* For identification purpose only

CONTENTS

Corporate Information

Registered Name
Tiangong International Company Limited

Chinese Name
天工國際有限公司

Stock Code
Hong Kong Stock Exchange 826

Board Of Directors
Executive Directors
Mr. Zhu Xiaokun *(Chairman)*
Mr. Zhu Zhihe *(Chief Executive Officer)*
Mr. Wu Suojun
Mr. Yan Ronghua

Independent Non-executive Directors
Mr. Li Zhengbang
Mr. Gao Xiang
Mr. Lee Cheuk Yin, Dannis

Company Secretary
Ms. Lee Man Yin

Authorized Representatives
Mr. Lee Cheuk Yin, Dannis
Ms. Lee Man Yin

Audit Committee
Mr. Lee Cheuk Yin, Dannis *(Chairman)*
Mr. Gao Xiang
Mr. Li Zhengbang

Remuneration Committee
Mr. Li Zhengbang *(Chairman)*
Mr. Zhu Xiaokun
Mr. Gao Xiang
Mr. Lee Cheuk Yin, Dannis

Nomination Committee
Mr. Gao Xiang *(Chairman)*
Mr. Zhu Xiaokun
Mr. Li Zhengbang
Mr. Lee Cheuk Yin, Dannis

Registered Office in the Cayman Islands
P.O. Box 309
G.T. Ugland House
South Church Street, George Town
Grand Cayman, Cayman Islands

Registered Office in Hong Kong
Unit 1303
13/F Jubilee Centre
18 Fenwick Street
Wanchai
Hong Kong

Principal Place of Business
Houxiang Town
Danyang City
Jiangsu Province
The PRC

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

Hong Kong Legal Adviser
Reed Smith Richards Butler
20th Floor, Alexandra House
18 Chater Road
Central
Hong Kong

Corporate Information

Principal Share Registrar and Transfer Office

Butterfield Fund Services (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 705
Grand Cayman KY1-1107
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office in Hong Kong

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Center
183 Queen's Road East
Wanchai
Hong Kong

Principal Bankers

China Construction Bank Corporation
Industrial and Commercial Bank of China Limited
Bank of China Limited
Agricultural Bank of China

Management Discussion and Analysis

Business Highlights

In the six months ended 30 June, 2011 (the "Period"), Tiangong International Company Limited ("Tiangong International" or the "Company", together with its subsidiaries, collectively the "Group") continued to excel in the industry by achieving record high revenue of RMB1,553,550,000. All our core product segments, including HSS, HSS cutting tools and die steel recorded strong growth.

Our operations are classified into the following product segments:

HSS

High Speed Steel (HSS) accounted for approximately 37% of the Group's revenue in the Period (1H2010: 30%). Its production involves various rare metals, such as tungsten, molybdenum, chromium, vanadium, and several raw materials. Approximately 17% of HSS output was consumed internally by the Group's HSS cutting tools production; and 83% was sold to external customers. Because of its high wear resistant, high temperature and pressure tolerances, HSS is produced for more specific industrial applications such as automotive, machinery manufacture, aviation, chemical processing and electronics. The Group commenced its HSS production in 1992.

HSS Cutting Tools

HSS cutting tools accounted for approximately 19% of the Group's revenue in the Period (1H2010: 20%). This segment involves the production and sales of HSS cutting tools to both domestic and international customers. About 63% of its sales were from the export to over 30 regions and countries throughout Europe, North America, Africa and the Middle East in the Period. This segment has been in operation since 1987. Being the longest-established segment of the Group, our HSS cutting tool products can be categorized into four major types — twist drill bits, screw taps, end mills, and turning tools.

Die Steel

Die steel accounted for approximately 32% of the Group's revenue in the Period (1H2010: 36%). This segment involves the purchase of various rare metals and other raw materials, production and sale of die steel to customers. It is suitable for application in dies and moulds for die casting and machining processes, being applied in various sectors such as automotive industry, high-speed railway construction, aviation and plastic materials. The Group commenced its production of die steel in 2005.

Chemical Goods

Chemical goods accounted for approximately 13% of the Group's revenue in the Period (1H2010: 14%). This segment involves the trading of chemicals which mainly comprises purified terepthatic acid. Purified terepthatic acid is mainly used for production of household building materials such as blinds and covers.

Market Review

2011 is the beginning of China's "Twelfth Five-Year Plan", which brings, amongst others, the nationwide urbanization and livelihood improvement projects to another platform higher, with speed. According to the National Bureau of Statistic of China, investment on fixed assets, such as infrastructure, both on national and municipal levels, and railway network rose some 26% year-on-year to RMB12.5 trillion in the Period. Boosted by the rapid urbanization and heavy fixed asset investments, construction equipment and machinery experienced strong surge in demand. This in turns led to correspondingly strong sales growth in HSS, HSS cutting tools and die steel. At the other end, the consistent improvement in national disposable income led to the rapid rise in demand for consumables, primarily automotive and electronics. This further drove the demand growth for die steel.

Management Discussion and Analysis

Despite all uncertainties in global economy during the Period, the Group's export business still performed well with demand continued to come from the ongoing investment plans implemented by local governments since early 2010. All of our product categories recorded significant growth in export sales. Emerging markets such as, India continued their economic growth, and that has translated into strong demand for machineries and consumables. The enormous potentials from these markets, fueled the growth of the global special steel industry thus providing the Group with opportunities to further diversify our footprint globally.

Business Review

In the first half of 2011, the Group achieved a significant revenue growth to RMB1,553,550,000, representing a surge of 44% year-on-year. Our core product segments, including HSS, HSS cutting tools and die steel recorded an encouraging year-on-year growth of 76%, 36% and 25% respectively.

The breakdown of revenue by product is listed as follows:

	For the period ended 30 June					
	2011		2010		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
HSS	**573,672**	**36.9%**	326,657	30.2%	247,015	75.6%
HSS cutting tools	**293,215**	**18.9%**	216,464	20.0%	76,751	35.5%
Die steel	**489,990**	**31.5%**	390,981	36.2%	99,009	25.3%
Chemical goods	**196,673**	**12.7%**	147,191	13.6%	49,482	33.6%
	1,553,550	**100.0%**	1,081,293	100.0%	472,257	43.7%

Tiangong International has been the largest manufacturer of HSS and HSS cutting tools by volume in China. In 2010, for the first time, the Group ranked as the third largest die steel producer in the world, elevated five places from the eighth in just two years, according to the Steel & Metal Market Research. In 2011, the Group's die steel annual capacity has exceeded 60,000 tons.

According to China's "Twelfth Five-year Plan", the new material sector is encouraged to produce more high-value products, meeting demands arising from the nation's rapid urbanization and infrastructure development. To capture these opportunities, the Group struck alliances with top research institutes across China on technical enhancement as well as research projects aiming to improve product quality and production efficiency. This strategic and important move served to diversify our product mix, moving it into higher-value items whilst developing alternatives to substitute imported industrial materials.

In spite of the continuously rising material and labor costs, the Group's cost-plus strategy on pricing has successfully minimized the pressure on our margins. In addition, with vertically integrated HSS and HSS cutting tool production give the Group further cost advantages over our competitors. This sustains our competitiveness, as well as profitability.

HSS — accounting for 37% of the Group's revenue in 1H2011

HSS has become the greatest revenue contributor during the Period with a rapid growth of 76% to RMB573,672,000 (1H2010: RMB326,657,000). With our vigorous effort to capture the opportunities arisen from China's rapid urbanization, domestic sales rose by 70% year-on-year, accounting for 91% of HSS sales. Although export only accounted for 9% of HSS sales, the impressive 184% growth reflected well of the Group's effort in expanding our client base in oversea markets.

Management Discussion and Analysis

	For the period ended 30 June					
	2011		2010		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
HSS						
Domestic	**524,512**	**91.4%**	309,368	94.7%	215,144	69.5%
Export	**49,160**	**8.6%**	17,289	5.3%	31,871	184.3%
	573,672	**100.0%**	326,657	100.0%	247,015	75.6%

HSS cutting tools—accounting for 19% of the Group's revenue in 1H2011

During the Period, revenue generated from HSS cutting tools increased to RMB293,215,000 (1H2010: RMB216,464,000), representing a 36% year-on-year growth. Exports accounted for 63% of segment sales, is a major revenue contribution to HSS cutting tools traditionally. However, China's vigorous economic activities have been driving domestic demand that grew even stronger at 56% versus that of export's 26%.

	For the period ended 30 June					
	2011		2010		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
HSS cutting tools						
Domestic	**108,617**	**37.0%**	69,866	32.3%	38,751	55.5%
Export	**184,598**	**63.0%**	146,598	67.7%	38,000	25.9%
	293,215	**100.0%**	216,464	100.0%	76,751	35.5%

Die steel—accounting for 32% of the Group's revenue in 1H2011

In the first half of 2011, revenue generated from die steel increased by 25% from the corresponding period in 2010 to RMB489,990,000 (1H2010: RMBD390,981,000). The distribution of domestic sales and exports was relatively even, accounting for 53% and 47% of die steel sales respectively. In particular, export sales recorded a strong growth of 56%, which was mainly attributable to our ability to consistently deliver quality products with competitive selling prices in the export market.

	For the period ended 30 June					
	2011		2010		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
Die steel						
Domestic	**257,415**	**52.5%**	241,875	61.9%	15,540	6.4%
Export	**232,575**	**47.5%**	149,106	38.1%	83,469	56.0%
	489,990	**100.0%**	390,981	100.0%	99,009	25.3%

Chemical goods—accounting for 13% of the Group's revenue in 1H2011

Chemical goods were included in our product segment in the second half of 2009. Sales of chemical goods increased significantly by 33.6% compare to the same period in 2010, amounting to RMB196,673,000.

Management Discussion and Analysis

Financial Review

As a result of the rise in market demand of the Group's products, revenue of the Group's all main businesses increased significantly and the net profit attributable to equity holders of the Company increased by approximately 36.4% to RMB150,473,000 in the first half of 2011 from RMB110,294,000 for the first half of 2010.

Revenue

Revenue of the Group for the first half of 2011 totalled RMB1,553,550,000, representing an increase of approximately 43.7% when compared with RMB1,081,293,000 in first half of 2010. The increase was mainly attributable to the increase in sales volume and selling prices of the products of the Group.

Cost of sales

The Group's cost of sales increased by RMB383,666,000 from RMB864,910,000 for the first half of 2010 to RMB1,248,576,000 for the first half of 2011, representing an increase of approximately 44.4%. The increase was in line with the 43.7% increase in revenue during the period. As a percentage of total revenue, the Group's cost of sales increased from approximately 80.0% in the first half of 2010 to approximately 80.4% in the first half of 2011.

Gross margin

For the first half of 2011, the gross margin was approximately 19.6% (2010: 20.0%). There is no significant fluctuation on the overall gross margin. Set out below is the gross margin for our four products for the first half of 2010 and 2011:

	For the period ended 30 June	
	2011	2010
HSS	**21.3%**	20.5%
HSS cutting tools	**16.2%**	17.3%
Die steel	**26.8%**	28.2%
Chemical goods	**1.8%**	1.1%

HSS

The HSS gross margin increased slightly from 20.5% in the first half of 2010 to 21.3% in the same period in 2011 was mainly due to the increase in the export sales which had a higher gross profit margin.

HSS cutting tools

In the first half of 2011, the gross margin of HSS cutting tools decreased slightly to 16.2% (2010: 17.3%) as a result of the increase in cost of sales in the first half of 2011.

Die steel

The gross margin of die steel decreased slightly from 28.2% in the first half of 2010 to 26.8% in the first half of 2011. The decrease was mainly due to the increase in sales of hot die steel which had a lower gross profit margin as compared with cold die steel.

Other income

The Group's other income totalled RMB6,103,000 in the first half of 2011, representing an increase of RMB2,752,000 from RMB3,351,000 in the first half of 2010. The increase was mainly attributable to increase of RMB4,243,000 in grants received from local government.

Distribution expenses

The Group's distribution expenses was RMB17,867,000 (2010: RMB19,372,000), representing a decrease of approximately 7.8%. The decrease was mainly attributable to the decrease in transportation expenses as a result of a decrease in shipping charges. For the first half of 2011, the distribution expenses as a percentage of revenue was 1.2% (2010: 1.8%).

Administrative expenses

For the first half of 2011, the Group's administrative expenses decreased by RMB2,384,000 to RMB30,696,000 (2010: RMB33,080,000) primarily due to the decrease in professional fees and travelling expenses for the first half of 2011, the administrative expenses as a percentage of revenue was 2.0% (2010: 3.1%).

Net finance cost

The Group's finance income was RMB7,488,000 for the first half of 2011, representing an increase of RMB6,141,000 when compared with the RMB1,347,000 for the first half of 2010. The increase was mainly due to the higher bank deposit rate as well as foreign exchange gain generated in the first half of 2011. The Group's finance expenses were RMB75,904,000 for the first half of 2011, representing an increase of 155.7% when compared with the RMB29,681,000 for the first half of 2010. The increase was attributable to the fair value of warrants of RMB37,188,000 during the period and the increase in loan interest rate.

Income tax expense

The Group's income tax expense increased by RMB7,861,000 from RMB22,938,000 in the first half of 2010 to RMB30,799,000 in the first half of 2011. Such increase was mainly due to the increase in sales and net profits.

Profit for the period

As a result of the factors discussed above, the Group's profit increased by approximately 36.4% to RMB150,473,000 for the first half of 2011 from RMB110,294,000 for the first half of 2010. The Group's net profit margin decreased slightly from 10.2% in the first half of 2010 to 9.7% in the same period of 2011.

Profit attributable to equity holders of the Company

For the first half of 2011, profit attributable to equity holders of the Company was RMB150,473,000 (2010: RMB110,294,000), representing an increase of 36.4%.

Outlook

During the Period, the Group sustained the growth momentum despite the unstable global economic environment. Going forward into the second half of 2011, the Group will strive to capture opportunities in emerging markets such as India diversifying our customer portfolio, and that in turns expands our revenue base.

According to the "Twelfth Five-Year Plan", China is estimated to invest as much as RMB7 trillion on urban and rural infrastructure development between 2011 and 2015. With the investment already underway, industries such as construction machinery as well as transportation are expected to grow rapidly in the foreseeable future. This provides enormous opportunities for the Group to achieve higher revenue and to expand market share further.

In August 2011, our titanium and titanium alloy production lines had commenced production in the Nanjing plant, signaling the Group's further expansion into the high-value metal market. As compared to special steel and aluminum alloy, titanium is lighter, non-magnetic and harder with higher corrosion resistance. Therefore, titanium is widely applied in the aviation, marine engineering and medical industry and it's expected to be the key new material in the future. We believed that these new products, along with our diversified product mix will further improve our profitability and creating long-term value for our shareholders.

Management Discussion and Analysis

Liquidity and Financial Resources

As at 30 June 2011, the Group's current assets mainly included cash and cash equivalents of approximately RMB207,495,000, inventories of approximately RMB1,139,434,000, trade and other receivables of RMB1,392,655,000 and pledged deposits of RMB309,401,000. As at 30 June 2011, the interest bearing borrowings of the Group was RMB1,739,185,000, RMB1,450,185,000 of which was repayable within one year and RMB289,000,000 of which was repayable over one year. The Group's gearing ratio (calculated based on the total outstanding interest-bearing debt divided by the total assets) was 36.2%, lower than 42.8% as at 31 December 2010. The decrease was mainly attributable to the repayment of interest-bearing debt during the period. As at 30 June 2011, borrowings of RMB1,669,200,000 were in RMB and USD10,650,000 were in USD. The majority of the borrowings of the Group were subject to interests payable at rates ranging from 0.03% to 6.94% rates. The Group did not enter into any interest rate swap to hedge itself against the risks associated with interest rates.

Capital Expenditures and Capital Commitments

For the first half of 2011, the Group's net increase in fixed assets amounted to RMB30,155,000, which were mainly for the production plant and facilities for titanium plant. As at 30 June 2011, capital commitments was RMB444,647,000, of which RMB99,614,000 was contracted and RMB345,033,000 was authorised but not contracted for. The majority of the capital commitment was related to acquisition of production equipment.

Foreign Exchange Exposure

The Group's revenues were denominated in RMB, US dollars and Euros, with RMB accounting for the largest portion (approximately 57.3%). Approximately 42.7% of total sales and the Group's costs and operating profit were subject to exchange rate fluctuations. The Group did not enter into any financial instrument to hedge against foreign exchange risk. The Group has put in place measures such as monthly review of product pricing in light of foreign exchange fluctuation and incentivising overseas customers to settle balances on a more timely basis to minimize the financial impact from exchange rate exposure.

Pledge of Assets

As at 30 June 2011, the Group pledged certain bank deposits amounting to approximately RMB309,401,000 (31 December 2010: RMB136,635,000). Details are set out in the notes to the financial statements.

Employee's Remuneration and Training

As at 30 June 2011, the Group employed around 3,848 employees (31 December 2010: around 3,826). The Group provided employees with remuneration packages comparable to the market rates and employees are further rewarded based on their performance according to the framework of the Group's salary, incentives and bonus scheme. In order to enhance the Group's productivity, and further improve the quality of the Group's human resources, the Group provides compulsory continuous education and training for all of its staff on a regular basis.

Contingent Liabilities

The Company had no material contingent liabilities as at 30 June 2011.

Report of the Directors

Report of the Directors

The Board is pleased to submit the interim report together with the consolidated financial statements for the six months ended 30 June 2011 which have been reviewed by the Company's auditor KPMG, and the Audit Committee of the Company.

Interim Dividend

The Directors do not recommend payment of an interim dividend for the period (no interim dividend for the six months period ended 30 June 2010).

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2011, the interests, long positions or short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were recorded in the register required to be kept under Section 352 of the SFO, or which were notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

(a) Interests in the Company

Director's name	Interests	Ordinary shares held	Approximate attributable interests (%)
Mr. Zhu Xiaokun[1 and 2]	Corporate interests	880,732,000(L)	52.49
	Beneficial owner[3]	400,000(L)	0.02
			52.51
Wu Suojun	Beneficial owner[3]	400,000(L)	0.02
Yan Ronghua	Beneficial owner[3]	400,000(L)	0.02
Zhu Zhihe	Beneficial owner[3]	400,000(L)	0.02

Notes:

As at 30 June 2011,

(1) Tiangong Holdings Company Limited ("THCL") held 840,000,000 Ordinary shares. THCL was held as to 89.02% and 10.98% by Zhu Xiaokun and Yu Yumei, the spouse of Zhu Xiaokun, respectively. Zhu Xiaokun is deemed to be interested in the 840,000,000 Shares held by THCL.

(2) Silver Power (HK) Limited, which was wholly-owned by Zhu Xiaokun, held 40,732,000 Ordinary shares.

(3) Options granted under Share Option Scheme of the Company.

(L) Represents long position.

(b) Interests in the shares of associated corporation

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

(L) Represents long position.

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

Substantial Shareholders' Interests

As at 30 June 2011, save for the Company's Directors or chief executives as disclosed above, the following persons have an interest or short position in the shares or the underlying shares of the Company which are required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, which were recorded in the register required to be kept under Section 336 of the SFO:

Substantial shareholders' name	Ordinary shares	Approximate Attributable interest (%)
Yu Yumei (Note 1)	840,000,000 (L)	50.06
THCL (Note 1)	840,000,000 (L)	50.06

Notes:

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

Share Options Scheme

The Company adopted a share options scheme (the "Scheme") in July 2007. On 28 January 2011, options entitled holders to subscribe for a total of 4,970,000 shares of USD0.01 each were granted to certain of the directors and employees of the Company in respect of their services to the Group in the forthcoming year. These share options will vest on 1 July 2012 and have an initial exercise price of HKD5.10 per share of USD0.01 each and an exercise period ranging from 1 July 2012 to 30 June 2016. The closing price of the Company's shares at the date of grant was HKD5.10 per share of USD0.01 each. Due to the implementation of Share Subdivision on 23 May 2011, the maximum aggregate number of shares which may be issued under the share option scheme was adjusted to 19,880,000 shares of USD0.0025 each at an exercise price of HKD1.275.

Purchase, Sales or Redemption of Shares

During the six months ended 30 June 2011, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities.

Corporate Governance

During the six months ended 30 June 2011, the Company has, so far where applicable, complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

Audit Committee

The Audit Committee comprises three independent non-executive directors. The Audit Committee held a meeting on 25 August 2011 to consider and review the interim report and interim financial statements of the Group and to give their opinion and recommendation to the Board.

The Audit Committee considers that the 2011 interim report and interim financial statements of the Company have complied with the applicable accounting standards and the Company has made appropriate disclosure thereof.

The Model Code for Securities Transactions by Directors of Listed Issuers

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

Pledge of Assets

As at 30 June 2011, the Group pledged certain bank deposits amounting to approximately RMB309,401,000 (31 December 2010: RMB136,635,000).

By order of the Board

26 August 2011

Independent Review Report

TO THE BOARD OF DIRECTORS OF
TIANGONG INTERNATIONAL COMPANY LIMITED
For the six months ended 30 June 2011
(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial report set out on pages 14 to 36 which comprises the consolidated statement of financial position of Tiangong International Company Limited as at 30 June 2011 and the related consolidated statement of comprehensive income and statement of changes in equity and condensed consolidated statement of cash flows for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2011 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

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

26 August 2011

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2011 (unaudited)

	Note	Six months ended 30 June 2011 RMB'000	2010 RMB'000
Revenue	4	**1,553,550**	1,081,293
Cost of sales		**(1,248,576)**	(864,910)
Gross profit		**304,974**	216,383
Other income	5	**6,103**	3,351
Distribution expenses		**(17,867)**	(19,372)
Administrative expenses		**(30,696)**	(33,080)
Other expenses	6	**(13,858)**	(4,871)
Result from operations		**248,656**	162,411
Finance income		**7,488**	1,347
Finance expenses		**(75,904)**	(29,681)
Net finance costs	7(a)	**(68,416)**	(28,334)
Share of profits of associates	12	**270**	14
Share of profit/(loss) of a jointly controlled entity	13	**762**	(859)
Profit before income tax	7	**181,272**	133,232
Income tax expense	8	**(30,799)**	(22,938)
Profit and total comprehensive income for the period attributable to the equity shareholders of the Company		**150,473**	110,294
Earnings per share (RMB)	9		
Basic		**0.090**	0.066
Diluted		**0.087**	0.066

The notes on pages 19 to 36 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in Note 22.

Consolidated Statement of Financial Position

At 30 June 2011 (unaudited)

	Note	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000
Non-current assets			
Property, plant and equipment	10	**1,602,263**	1,572,108
Lease prepayments		**60,649**	61,312
Goodwill		**21,959**	21,959
Interest in associates	12	**41,551**	41,281
Interest in a jointly controlled entity	13	**4,894**	4,132
Other financial assets		**10,000**	10,000
Deferred tax assets		**10,606**	9,645
		1,751,922	1,720,437
Current assets			
Inventories	14	**1,139,434**	1,218,332
Trade and other receivables	15	**1,392,655**	940,625
Pledged deposits	16	**309,401**	136,635
Cash and cash equivalents	17	**207,495**	315,831
		3,048,985	2,611,423
Current liabilities			
Interest-bearing borrowings	18	**1,450,185**	1,222,250
Trade and other payables	19	**1,091,125**	650,290
Income tax payables		**19,152**	19,665
Deferred income		**1,162**	1,162
		2,561,624	1,893,367
Net current assets		**487,361**	718,056
Total assets less current liabilities		**2,239,283**	2,438,493
Non-current liabilities			
Interest-bearing borrowings	18	**289,000**	633,500
Deferred income		**6,609**	7,190
Deferred tax liabilities		**19,028**	16,561
		314,637	657,251
Net assets		**1,924,646**	1,781,242

The notes on pages 19 to 36 form part of this interim financial report.

Consolidated Statement of Financial Position

At 30 June 2011 (unaudited)

	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000
Capital and reserves		
Share capital	**31,806**	31,806
Reserves	**1,892,840**	1,749,436
Total equity	**1,924,646**	1,781,242

Approved and authorised for issue by the board of directors on 26 August 2011.

Zhu Xiao Kun
Director

Yan Rong Hua
Director

The notes on pages 19 to 36 form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2011 (unaudited)

	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Merger reserve RMB'000	PRC statutory reserve RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2010	31,806	886,566	56,998	91,925	107,682	392,745	1,567,722
Dividends approved in respect of previous year (Note 22)	–	–	–	–	–	(22,401)	(22,401)
Total comprehensive income for the period	–	–	–	–	–	110,294	110,294
Balance at 30 June 2010 and 1 July 2010	31,806	886,566	56,998	91,925	107,682	480,638	1,655,615
Total comprehensive income for the period	–	–	–	–	–	125,627	125,627
Transfer to reserve	–	–	–	–	47,752	(47,752)	–
Balance at 31 December 2010 and 1 January 2011	**31,806**	**886,566**	**56,998**	**91,925**	**155,434**	**558,513**	**1,781,242**
Dividends approved in respect of previous year (Note 22)	**–**	**–**	**–**	**–**	**–**	**(47,194)**	**(47,194)**
Derecognition of derivative financial liability in respect of warrants (Note 20)	**–**	**–**	**37,188**	**–**	**–**	**–**	**37,188**
Equity settled share-based payment (Note 21)	**–**	**–**	**2,937**	**–**	**–**	**–**	**2,937**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**150,473**	**150,473**
Balance at 30 June 2011	**31,806**	**886,566**	**97,123**	**91,925**	**155,434**	**661,792**	**1,924,646**

The notes on pages 19 to 36 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2011 (unaudited)

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
Net cash generated from/(used in) operating activities	**298,950**	(28,520)
Net cash used in investing activities	**(243,292)**	(169,470)
Net cash (used in)/generated from financing activities	**(163,994)**	294,558
Net (decrease)/increase in cash and cash equivalents	**(108,336)**	51,568
Cash and cash equivalents at 1 January	**315,831**	63,467
Cash and cash equivalents at 30 June	**207,495**	115,035

The notes on pages 19 to 36 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

1. Basis of Preparation

This interim financial report of Tiangong International Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("IAS") 34, *Interim financial reporting*, issued by the International Accounting Standards Board ("IASB"). It was authorised for issue on 26 August 2011.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2010 annual financial statements, except for the accounting policy changes and adoptions that are expected to be reflected in the 2011 annual financial statements. Details of these changes and adoptions of accounting policies are set out in Note 2 and Note 3.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and report amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2010 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. KPMG's independent review report to the Board of Directors is included on page 13.

The financial information relating to the financial year ended 31 December 2010 that is included in the interim financial report as being previously reported information does not constitute the Company's annual financial statements for that financial year but is derived from those financial statements. Annual financial statements for the year ended 31 December 2010 are available from the Company's registered office. The auditor has expressed an unqualified opinion on those financial statements in the report dated 30 March 2011.

2. Changes in Accounting Policies

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

- IAS 24 (revised 2009), *Related party disclosures*
- Improvements to IFRSs (2010)
- IFRIC 19, *Extinguishing financial liabilities with equity instruments*

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

2. Changes in Accounting Policies (Continued)

IFRIC 19 has not yet had a material impact on the Group's financial statements as these changes will first be effective as and when the group enters a relevant transaction (for example, a debt for equity swap).

The remaining developments related primarily to clarification of certain disclosure requirements applicable to the Group's financial statements. These developments have had no material impact on the contents of this interim financial report.

3. Accounting Policies for New Transactions and Events

(a) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. The Group derecognises the derivative financial instruments when the liabilities arising from their contractual obligations are discharged, cancelled or expire.

(b) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

4. Segment Reporting

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

— *High speed steel ("HSS")*	The HSS segment manufactures and sells high speed steel for the steel industry.
— *HSS cutting tools*	The HSS cutting tools segment manufactures and sells HSS cutting tools for the tool industry.
— *Die steel ("DS")*	The DS segment manufactures and sells die steel for the steel industry.
— *Chemical goods*	The chemical goods segment sells purified terepthatic acid and other chemicals.

Notes to the Unaudited Interim Financial Report

4. Segment Reporting (Continued)

(a) Segment results, assets and liabilities

	Six months ended and as at 30 June 2011				
	HSS RMB'000	HSS cutting tools RMB'000	DS RMB'000	Chemical goods RMB'000	Total RMB'000
Revenue from external customers	573,672	293,215	489,990	196,673	1,553,550
Inter-segment revenue	121,992	—	—	—	121,992
Reportable segment revenue	695,664	293,215	489,990	196,673	1,675,542
Reportable segment profit (adjusted EBIT)	117,335	43,493	122,706	3,573	287,107
Reportable segment assets	1,195,114	916,869	2,077,159	119	4,189,261
Reportable segment liabilities	285,595	150,671	600,676	6	1,036,948

	Six months ended 30 June 2010				
	HSS RMB'000	HSS cutting tools RMB'000	DS RMB'000	Chemical goods RMB'000	Total RMB'000
Revenue from external customers	326,657	216,464	390,981	147,191	1,081,293
Inter-segment revenue	119,051	—	—	—	119,051
Reportable segment revenue	445,708	216,464	390,981	147,191	1,200,344
Reportable segment profit (adjusted EBIT)	62,775	32,573	100,114	1,549	197,011

	At 31 December 2010				
	HSS RMB'000	HSS cutting tools RMB'000	DS RMB'000	Chemical goods RMB'000	Total RMB'000
Reportable segment assets	953,025	879,940	1,939,191	21,052	3,793,208
Reportable segment liabilities	208,383	115,836	293,358	20,954	638,531

4. Segment Reporting (Continued)

(b) Reconciliations of reportable segment revenue, profit or loss, assets and liabilities

	Six months ended 30 June	
	2011	2010
Revenue	**RMB'000**	RMB'000
Reportable segment revenue	**1,675,542**	1,200,344
Elimination of inter-segment revenue	**(121,992)**	(119,051)
Consolidated revenue	**1,553,550**	1,081,293

	Six months ended 30 June	
	2011	2010
Profit	**RMB'000**	RMB'000
Reportable segment profit	**287,107**	197,011
Net finance costs	**(68,416)**	(28,334)
Share of profits of associates	**270**	14
Share of profit/(loss) of a jointly controlled entity	**762**	(859)
Other unallocated head office and corporate expenses	**(38,451)**	(34,600)
Consolidated profit before income tax	**181,272**	133,232

	At	At
	30 June	31 December
	2011	2010
Assets	**RMB'000**	RMB'000
Reportable segment assets	**4,189,261**	3,793,208
Interest in associates	**41,551**	41,281
Interest in a jointly controlled entity	**4,894**	4,132
Other financial assets	**10,000**	10,000
Deferred tax assets	**10,606**	9,645
Pledged deposits	**309,401**	136,635
Cash and cash equivalents	**207,495**	315,831
Other unallocated head office and corporate assets	**27,699**	21,128
Consolidated total assets	**4,800,907**	4,331,860

4. Segment Reporting (Continued)

(b) Reconciliations of reportable segment revenue, profit or loss, assets and liabilities (continued)

Liabilities	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000
Reportable segment liabilities	**1,036,948**	638,531
Interest-bearing borrowings	**1,739,185**	1,855,750
Income tax payables	**19,152**	19,665
Deferred tax liabilities	**19,028**	16,561
Other unallocated head office and corporate liabilities	**61,948**	20,111
Consolidated total liabilities	**2,876,261**	2,550,618

5. Other Income

Revenue		Six months ended 30 June 2011 RMB'000	2010 RMB'000
Government grants	(i)	**5,968**	1,725
Dividend income from unlisted securities		**—**	1,600
Others		**135**	26
		6,103	3,351

(i) Jiangsu Tiangong Tools Company Limited ("TG Tools"), a wholly-owned subsidiary of the Company located in People's Republic of China (the "PRC"), received unconditional grants amounting to RMB5,387,000 (six months ended 30 June 2010: RMB1,144,000) from the local government in Danyang mainly to reward its contribution to local economy and encourage its innovation of technology and recognised amortisation of government grants related to assets of RMB581,000 (six months ended 30 June 2010: RMB581,000) during the six months ended 30 June 2011.

6. Other Expenses

Revenue	Six months ended 30 June 2011 RMB'000	2010 RMB'000
Provision of impairment losses for doubtful trade receivables	**12,972**	3,088
Net loss on disposal of property, plant and equipment	**337**	390
Others	**549**	1,393
	13,858	4,871

7. Profit Before Income Tax

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

(a) Net finance costs

	Note	Six months ended 30 June 2011 RMB'000	2010 RMB'000
Interest income		**(1,523)**	(1,347)
Net foreign exchange gain		**(5,965)**	—
Finance income		**(7,488)**	(1,347)
Interest on bank loans		**49,575**	45,716
Fair value recognised upon issuance	20	**42,754**	—
Change in fair value	20	**(5,566)**	—
Less: interest expense capitalised into property, plant and equipment under construction	10	**(10,859)**	(25,492)
Net foreign exchange loss		**—**	9,457
Finance expenses		**75,904**	29,681
Net finance costs		**68,416**	28,334

(b) Other items

	Note	Six months ended 30 June 2011 RMB'000	2010 RMB'000
Cost of inventories*		**1,248,576**	864,910
Depreciation		**55,927**	38,402
Amortisation of lease prepayments		**663**	663
Impairment loss for doubtful debts		**12,972**	3,088
Write (back)/down for inventories	14	**(5,052)**	10,870
Equity settled share-based transactions	21	**2,937**	—

* Cost of inventories includes RMB39,952,000 (six months ended 30 June 2010: RMB41,637,000) relating to depreciation expenses and write (back)/down for inventories which amounts are also included in the respective total amounts disclosed separately above for each of these types of expenses.

8. Income Tax Expense

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
Current tax		
Provision for PRC income tax	**29,293**	16,827
Deferred tax		
Origination and reversal of temporary differences	**1,506**	6,111
	30,799	22,938

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

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

The statutory corporate income tax rate of the Group's operating subsidiaries in the PRC is 25% (2010: 25%).

Pursuant to the income tax rules and regulations of the PRC, foreign-invested enterprises located in the PRC are entitled to a tax holiday of a tax-free period for two years from their first profit-making year of operations and thereafter, they are subject to PRC corporate income tax at 50% of the applicable income tax rate for the following three years. For the enterprises that do not benefit from such tax holiday due to their non-profit making status, the period of time for which such tax holiday apply shall be calculated commencing from the year of 2008.

Due to the above-mentioned tax holiday, TG Tools is subject to the PRC corporate income tax rate at 50% of its applicable tax rate for 3 years from 2009. Tiangong Aihe Special Steel Company Limited ("TG Aihe") is subject to the PRC corporate income tax rate at 50% of its applicable tax rate for 3 years from 2010.

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

Danyang Tianji Tools Packaging Company Limited ("Tianji Packaging") is subject to the income tax rate 20% as it meets the criteria for a small low-profit enterprise.

9. Earnings Per Share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB150,473,000 during the period presented (six months ended 30 June 2010: RMB110,294,000) and the weighted average number of ordinary shares outstanding of 1,678,000,000 (six months ended 30 June 2010: 1,678,000,000).

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of RMB150,473,000 during the period presented and the weighted average number of potential ordinary shares outstanding of 1,721,317,781 for the six months ended 30 June 2011 after taking into account the potential dilutive effect of the warrants and equity settled share-based transactions described in note 20 and note 21 respectively. No dilutive potential ordinary shares were in issue as at 30 June 2010.

On 23 May 2011, the annual general meeting approved the share subdivision of issued and unissued shares with par value of USD0.01 each into shares with par value of USD0.0025 each in the share capital of the Company (the "Share Subdivision"). The comparative figures for the six months ended 30 June 2010 have also been restated to reflect the Share Subdivision.

10. Property, Plant and Equipment

During the six months ended 30 June 2011, the Group acquired items of plant and machinery with a cost of RMB76,085,000 (six months ended 30 June 2010: RMB165,314,000), excluding capitalised borrowing costs of RMB10,859,000 (six months ended 30 June 2010: RMB25,492,000). Items of plant and machinery with a net book value of RMB862,000 were disposed of during the six months ended 30 June 2011 (six months ended 30 June 2010: RMB2,645,000), resulting in a net loss on disposal of RMB337,000 (six months ended 30 June 2010: RMB390,000).

Notes to the Unaudited Interim Financial Report

11. Interests in Subsidiaries

Details of the subsidiaries as at 30 June 2011 are set out below. The class of shares held is ordinary unless otherwise stated.

Name of company	Place and date of incorporation	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Issued and paid-up/ registered capital	Principal activities
China Tiangong Company Limited	British Virgin Islands, 14 August 2006	100%	–	USD-/USD50,000	Investment holding
TG Tools	the PRC, 7 July 1997	–	100%	RMB844,300,000/ RMB844,300,000	Manufacture and sales of high speed steel and cutting and drilling tools, and trading of chemical goods
TG Aihe	the PRC, 5 December 2003	–	100%	RMB401,438,000/ RMB401,438,000	Manufacture and sales of die steel
Tianfa Forging	the PRC, 11 October 2000	–	100%	USD18,600,000/ USD18,600,000	Precision forging and sales of high speed steel
Tianji Packaging	the PRC, 13 May 2002	–	100%	RMB2,000,000/ RMB2,000,000	Manufacture and sales of packaging materials
China Tiangong (Hong Kong) Company Limited	Hong Kong, 13 June 2008	–	100%	HKD1/HKD1	Investment holding
TG Titan	the PRC, 27 January 2010	–	100%	RMB100,000,000/ RMB300,000,000	Manufacture and sales of alloy, steel, cutting and drilling tools and titanium-related products

Notes to the Unaudited Interim Financial Report

12. Interest in Associates

Details of the Group's interest in the associates which are all unlisted corporate entities as at 30 June 2011 are set out below:

Name of company	Place and date of incorporation	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Issued and fully paid-up/ registered capital	Principal activities
Tianrun Huafa Logistics Company Limited ("Tianrun Huafa")	the PRC, 22 April 2010	–	40%	RMB5,000,000/ RMB5,000,000	Logistics and freight
Xinzhenggong Company Limited ("XZG")	Taiwan, 3 August 2010	–	20%	TWD100,000,000/ TWD200,000,000	Sales of special steel related products
SB Specialty Metals Holding ("SBSMH")	the United States, 6 January 2010	20%	–	USD31,250,000/ USD31,250,000	Distribution of special steel related products

Summary financial information on associates:

	At 30 June 2011			Six months ended 30 June 2011	
	Assets RMB'000	**Liabilities RMB'000**	**Equity RMB'000**	**Revenues RMB'000**	**Profit RMB'000**
100 per cent	**376,579**	**(174,144)**	**202,435**	**45,085**	**1,249**
Group's effective interest	**46,319**	**(4,768)**	**41,551**	**12,698**	**270**

	At 31 December 2010			Six months ended 30 June 2010	
	Assets RMB'000	Liabilities RMB'000	Equity RMB'000	Revenues RMB'000	Profit RMB'000
100 per cent	319,071	(116,537)	202,534	3,618	35
Group's effective interest	64,751	(23,470)	41,281	1,447	14

13. Interest in a Jointly Controlled Entity

Details of the Group's interest in the jointly controlled entity which is an unlisted corporate entity as at 30 June 2011 are set out below.

Name of company	Place and date of incorporation	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Issued and fully paid-up/ registered capital	Principal activities
TGT Special Steel Company Limited ("TGT")	the Republic of Korea, 12 January 2010	–	70%	USD1,000,000/ USD1,000,000	Sales of special steel related products

13. Interest in a Jointly Controlled Entity (Continued)

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

	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000
Non-current assets	**551**	565
Current assets	**28,916**	28,959
Current liabilities	**(24,573)**	(25,392)
Net assets	**4,894**	4,132

	Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
Income	**25,895**	9,444
Expenses	**(25,133)**	(10,303)
Profit/(loss) for the period	**762**	(859)

14. Inventories

	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000
Raw materials	**66,103**	84,426
Work in progress	**717,680**	666,392
Finished goods	**355,651**	467,514
	1,139,434	1,218,332

During the six months ended 30 June 2011, the Group recognised a write-back of RMB5,052,000 (six months ended 30 June 2010: a write-down of RMB10,870,000) against those inventories with net realisable value lower than carrying value. The write-back/write-down is included in cost of sales in the consolidated statement of comprehensive income.

15. Trade and Other Receivables

	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000
Trade receivables	**973,201**	540,549
Bills receivable	**233,320**	316,294
Less: impairment provision for doubtful debts	**(53,085)**	(40,113)
Net trade and bills receivable	**1,153,436**	816,730
Prepayments	**211,364**	75,700
Non-trade receivables	**27,855**	48,195
	1,392,655	940,625

Included in trade and other receivables are debtors and bills receivable (net of allowance for doubtful debts) with the following ageing analysis:

	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000
Current	**695,190**	623,308
Less than 3 months past due	**319,981**	160,276
More than 3 months but less than 6 months past due	**36,395**	10,182
More than 6 months but less than 12 months past due	**91,945**	15,597
More than 12 months but less than 24 months past due	**9,925**	7,367
Trade debtors and bills receivable, net of allowance for doubtful debts	**1,153,436**	816,730

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and taking into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group's customers are normally granted credit terms of 0 to 150 days depending on the creditworthiness of individual customers. Normally, the Group does not obtain collateral from customers.

16. Pledged Deposits

Bank deposits of RMB309,401,000 (2010: RMB136,635,000) have been pledged to banks as security for the Group to issue bank acceptance bills and other banking facilities. The pledge in respect of the bank deposits will be released upon the settlement of the relevant bills payable by the Group and the termination of related banking facilities.

17. Cash and Cash Equivalents

All the balances of cash and cash equivalents as at 30 June 2011 are cash at bank and in hand.

Notes to the Unaudited Interim Financial Report

18. Interest-bearing Borrowings

		At 30 June 2011 RMB'000	At 31 December 2010 RMB'000
Current			
Unsecured bank loans	(i)	**747,185**	765,250
Current portion of non-current unsecured bank loans		**703,000**	457,000
		1,450,185	1,222,250
Non-current			
Unsecured bank loans	(ii)	**992,000**	1,090,500
Less: Current portion of non-current unsecured bank loans	(ii)	**(703,000)**	(457,000)
		289,000	633,500
		1,739,185	1,855,750

(i) Current unsecured bank loans carry interest at annual rates ranging from 2.66% to 6.94% (2010: 2.66% to 5.56%) and were all repayable within one year.

Current unsecured bank loans of RMB100,000,000 were guaranteed by a third party in the same city (2010: RMB100,000,000 guaranteed by a third party in the same city).

(ii) Non-current unsecured bank loans carried interest at annual rates ranging from 0.3% to 5.76% (2010: 0.3% to 5.76%).

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

	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000
Within 1 year	**703,000**	457,000
Over 1 year but less than 2 years	**286,000**	630,500
Over 2 years but less than 3 years	**3,000**	3,000
	289,000	633,500
	992,000	1,090,500

19. Trade and Other Payables

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis as at the date of the consolidated statement of financial position.

	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000
Due within 3 months	**824,950**	502,529
Due after 3 months but within 6 months	**92,515**	36,092
Due after 6 months but within 12 months	**5,006**	4,867
Due over 1 year but within 2 years	**4,582**	6,954
Due over 2 years	**2,165**	1,314
Total trade creditors and bills payables	**929,218**	551,756
Non-trade payables and accrued expenses	**114,713**	98,534
Dividends payable	**47,194**	—
	1,091,125	650,290

20. Financial Instruments

	Note	**Derivative liabilities — warrants** RMB'000
At 31 December 2010		—
Fair value recognised upon issuance	7(a)/20(a)	42,754
Change in fair value	7(a)/20(b)	(5,566)
Derecognised to capital reserve	20(b)	(37,188)
At 30 June 2011		—

(a) On 26 January 2011, an aggregate of 32,000,000 warrants were fully placed and issued to six placees in accordance with the terms of a warrant placing agreement entered by the Company and a placing agent at a placing price of HKD0.02 per warrant. The holders of the warrants shall have the right to subscribe for 32,000,000 the Company's ordinary shares at an initial exercise price of HKD4.00 per share (subject to adjustment pursuant to the terms of the warrants) within 2 years from their date of issue. Each warrant has been valued at approximately HKD1.58 by an external appraiser. The warrants were recognised as derivative financial liabilities in the consolidated financial statements.

The implementation of the Share Subdivision on 23 May 2011 led to pro rata adjustment to the subscription prices and number of subdivided shares which may be subscribed upon exercise of the subscription rights attached to the unlisted warrants of the Company. As a result, the warrants entitled the holders to subscribe for up to 128,000,000 subdivided shares at HKD1.00 each.

20. Financial Instruments (Continued)

(b) Subsequently, the Company reached agreements with its warrant holders to revise the exercise price of the warrants with effect from 20 June 2011 to RMB0.845 per share at the fixed exchange rate of RMB1: HKD1.18282, which was equivalent to HKD1.00 per share. Each warrant has been revalued at approximately HKD1.40 by an external appraiser.

Upon this revision of the warrant terms, the derivative financial liabilities were extinguished and therefore the warrants have been recognised in equity since then.

(c) Fair value of the warrants and assumptions

The estimate of the fair value of the warrants is measured based on the binomial lattice model.

	At 26 January 2011	At 20 June 2011
Fair value	HKD1.58 per warrant	HKD1.40 per warrant
Share price	HKD1.195 per share	HKD1.23 per share
Exercise price	HKD1.00 per share	RMB0.845 per share
Expected volatility	49.60%	45.00%
Option life	2 years	1.6 years
Expected dividend yield	1.30%	2.73%
Risk-free interest rate (based on Hongkong Government Bond)	0.556%	0.249%

The expected volatility is based on the historic price volatility of the Company's common shares commensurate with the option life.

The expected dividend yield is based on historic dividend yield. Changes in the subjective input assumptions could materially affect the fair value estimate.

No warrants have been exercised since the date of issue. Exercise in full of such warrants would result in the issue of 128,000,000 additional ordinary shares of USD0.0025 each in the Company.

21. Equity Settled Share-based Transactions

On 28 January 2011, the Company granted an aggregate of 4,970,000 share options to employees of the Company to subscribe for ordinary shares of USD0.01 each in the capital of the Company under its share option scheme adopted on 7 July 2007. The holders of the share options shall have the right to subscribe for ordinary shares during the period from 1 July 2012 to 30 June 2016 at an exercise price of HKD5.10, which was equal to the market price of the ordinary shares on the date of grant. The amount payable on acceptance per grant is HKD1.00. Each share option has been valued at approximately HKD2.47 by an external appraiser.

Due to the implementation of Share Subdivision on 23 May 2011, the maximum aggregate number of shares which may be issued under the share option scheme was adjusted to 19,880,000 shares at an exercise price of HKD1.275.

21. Equity Settled Share-based Transactions (Continued)

(a) The terms and conditions of the grants are as follows, whereby all options are to be settled by physical delivery of shares:

	Number of instruments	Vesting conditions	Contractual life of options
Options granted to directors: — on 28 January 2011	380,000	The audited net profit of 2011 should be no less than 120% audited net profit of 2010	5.4 years
Options granted to employees: — on 28 January 2011	4,590,000	The audited net profit of 2011 should be no less than 120% audited net profit of 2010	5.4 years
Total share options granted	4,970,000		

(b) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial lattice model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

	Granted on 28 January 2011
Fair value at grant date	HKD2.47 per share option
Share price	HKD1.275 per share
Exercise price	HKD1.275 per share
Expected volatility	62.10%
Option life	5.4 years
Expected dividend yield	1.20%
Risk-free interest rate (based on Hongkong Government Bond)	1.876%

The expected volatility is based on the historic volatility of the comparable companies which are listed and publicly traded over the most recent period. These companies were used for comparative purposes because the Company only had a listing history of approximately 3.5 years which is materially less than the life of the share options at 5.4 years.

Expected dividend yield is based on historic dividend yield. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under service conditions. The conditions have not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

Notes to the Unaudited Interim Financial Report

22. Dividends

Dividends payable to equity shareholders attributable to the previous financial year, approved but not paid during the interim period:

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
Dividend in respect of the previous financial year, approved but not paid during the interim period, of RMB0.028125 per share (six months ended 30 June 2010: RMB0.01335 per share)	**47,194**	22,401

23. Related Party Transactions

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

(a) Significant Related Party Transactions-Recurring

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
Lease expense to:		
Ultimate shareholders' company	**500**	500
Sale of goods to:		
Jointly controlled entity	**41,544**	32,393
Associates	**19,923**	—
Freight expense to:		
Associates	**14,426**	2,089
Lease income from:		
Associates	**13**	13

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

23. Related Party Transactions (Continued)

(b) Amounts due from related parties

	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000
Associates	**11,003**	15,143
Jointly controlled entity	**35,361**	35,905
	46,364	51,048

(c) Amounts due to related parties

	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000
Associates	**1,389**	2,195
Ultimate Shareholder's company	**500**	—
	1,889	2,195

24. Commitments

(a) Capital commitments outstanding not provided for in the interim financial report

	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000
Contracted for	**99,614**	108,061
Authorised but not contracted for	**345,033**	284,964
	444,647	393,025

(b) Operating leases commitments

At the date of the consolidated statement of financial position, the Group's total future minimum lease payments under non-cancellable operating leases were payable as follows:

	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000
Within 1 year	**1,268**	1,268
After 1 year but within 5 years	**1,168**	1,168
	2,436	2,436