Tiangong International Company Limited
天工國際有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 826)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

FINANCIAL HIGHLIGHTS

- Revenue of the Group for the year ended 31 December 2011 totaled RMB3,112 million representing an increase of approximately 32.5% when compared with RMB2,349 million for the year of 2010.
- Gross profit margin increased from 19.9% in 2010 to 22.7% in 2011.
- Thanks to operating leverage and effective cost control, profit attributable to equity holders of the Company increased by 55% to RMB365 million (2010: RMB236 million).
- Net cash generated from operations increased by 231% to RMB652 million (2010: RMB197 million), a testimony to our strong cash flow generating capability.
- Basic earnings per share was RMB0.218 (2010: RMB0.141).
- The Board proposed a final dividend of RMB0.048 per share for the year ended 31 December 2011. This represented a total distribution for the year of RMB81 million.

The Board of Directors (the "Board") of Tiangong International Company Limited (the "Company") is pleased to announce the audited consolidated statement of comprehensive income of the Company and its subsidiaries (the "Group") for the year ended 31 December 2011 and the consolidated statement of financial position of the Group as at 31 December 2011, together with the comparative figures for the same period of 2010 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Note	2011 RMB'000	2010 RMB'000
Revenue	4	**3,111,763**	2,348,644
Cost of sales		**(2,405,000)**	(1,881,981)
Gross profit		**706,763**	466,663
Other income		**12,701**	23,015
Distribution expenses		**(36,890)**	(40,759)
Administrative expenses		**(85,924)**	(78,918)
Other expenses		**(34,057)**	(29,400)
Profit from operations		**562,593**	340,601
Finance income		**4,087**	2,806
Finance expenses		**(133,030)**	(62,924)
Net finance costs	5(a)	**(128,943)**	(60,118)
Share of losses of associates		**(221)**	(974)
Share of profit/(loss) of a jointly controlled entity		**1,703**	(648)
Profit before income tax	5	**435,132**	278,861
Income tax expense	6	**(69,805)**	(42,940)
Profit for the year attributable to the equity shareholders of the Company		**365,327**	235,921
Other comprehensive loss for the year			
Foreign currency translation differences — equity-accounted investees		**(3,715)**	—
Total comprehensive income for the year attributable to the equity shareholders of the Company		**361,612**	235,921
Earnings per share (RMB)	7		
Basic		**0.218**	0.141
Diluted		**0.212**	0.141

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Note	2011 RMB'000	2010 RMB'000
Non-current assets			
Property, plant and equipment		**1,793,278**	1,572,108
Lease prepayments		**72,555**	61,312
Goodwill		**21,959**	21,959
Interest in associates		**37,345**	41,281
Interest in a jointly controlled entity		**5,835**	4,132
Other financial assets		**10,000**	10,000
Deferred tax assets		**12,721**	9,645
		1,953,693	1,720,437
Current assets			
Inventories		**1,177,805**	1,218,332
Trade and other receivables	*8*	**1,271,413**	940,625
Pledged deposits		**149,894**	136,635
Time deposits		**474,000**	—
Cash and cash equivalents		**103,089**	315,831
		3,176,201	2,611,423
Current liabilities			
Interest-bearing borrowings		**1,516,203**	1,222,250
Trade and other payables	*9*	**986,897**	650,290
Income tax payables		**31,403**	19,665
Deferred income		**1,162**	1,162
		2,535,665	1,893,367
Net current assets		**640,536**	718,056
Total assets less current liabilities		**2,594,229**	2,438,493
Non-current liabilities			
Interest-bearing borrowings		**427,000**	633,500
Deferred income		**6,028**	7,190
Deferred tax liabilities		**21,884**	16,561
		454,912	657,251
Net assets		**2,139,317**	1,781,242
Capital and reserves			
Share capital		**31,806**	31,806
Reserves		**2,107,511**	1,749,436
Total equity		**2,139,317**	1,781,242

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 REPORTING ENTITY

Tiangong International Company Limited (the "Company") was incorporated in the Cayman Islands on 14 August 2006 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961 as consolidated and revised) of the Cayman Islands. The consolidated financial statements of the Company as at and for the year ended 31 December 2011 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in associates and a jointly controlled entity. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 26 July 2007.

2 BASIS OF PREPARATION

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB"). These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of measurement

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

— derivative financial instruments;

— share-based payments.

These consolidated financial statements are presented in Renminbi ("RMB"). Except for per share data, financial information presented in RMB has been rounded to the nearest thousand.

(c) Accounting estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

3 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 and the Company. 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.

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 impacts of other developments are discussed below:

- IAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous period. IAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because the Group is not a government-related entity.
- Improvements to IFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in IFRS 7, Financial instruments: Disclosures. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

4 REVENUE AND SEGMENT REPORTING

Revenue represents mainly the sales value of high alloy steel, including high speed steel ("HSS") and die steel ("DS"), and HSS cutting tools after eliminating intercompany transactions.

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

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

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Chairman (the chief operating decision maker) monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of other investments, pledged deposits, time deposits, cash and cash equivalents, deferred tax assets and other corporate assets. Segment liabilities include trade and bills payables, non-trade payables and accrued expenses attributable to the manufacturing and sales activities of the individual segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is "adjusted EBIT", i.e. "adjusted earnings before interest and taxes", where "interest" is regarded as net finance costs. To arrive at adjusted EBIT the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as share of profits less losses of associates and jointly controlled entity and other head office and corporate expenses.

In addition to receiving segment information concerning adjusted EBIT, management is provided with segment information concerning revenue (including inter segment sales), interest income and expense from cash balances and borrowings, depreciation and amortisation used by the segments in their operations.

Information regarding the Group's reportable segments as provided to the Chairman (the chief operating decision maker) for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2011 and 2010 is set out below.

	Year ended and as at 31 December 2011				
	HSS *RMB'000*	**HSS cutting tools** *RMB'000*	**DS** *RMB'000*	**Chemical goods** *RMB'000*	**Total** *RMB'000*
Revenue from external customers	**1,158,264**	**609,675**	**985,733**	**358,091**	**3,111,763**
Inter-segment revenue	**213,322**	**—**	**—**	**—**	**213,322**
Reportable segment revenue	**1,371,586**	**609,675**	**985,733**	**358,091**	**3,325,085**
Reportable segment profit *(adjusted EBIT)*	**266,700**	**88,696**	**308,671**	**5,806**	**669,873**
Reportable segment assets	**1,306,754**	**837,763**	**2,151,307**	**28,742**	**4,324,566**
Reportable segment liabilities	**305,063**	**160,100**	**506,202**	**12**	**971,377**

	Year ended and as at 31 December 2010				
	HSS *RMB'000*	HSS cutting tools *RMB'000*	DS *RMB'000*	Chemical goods *RMB'000*	Total *RMB'000*
Revenue from external customers	687,459	508,852	830,656	321,677	2,348,644
Inter-segment revenue	197,154	—	—	—	197,154
Reportable segment revenue	884,613	508,852	830,656	321,677	2,545,798
Reportable segment profit *(adjusted EBIT)*	127,824	72,287	222,290	3,503	425,904
Reportable segment assets	953,025	879,940	1,939,191	21,052	3,793,208
Reportable segment liabilities	208,383	115,836	293,358	20,954	638,531

(b) Reconciliations of reportable segment revenue, comprehensive income, assets and liabilities

	2011 *RMB'000*	2010 *RMB'000*
Revenue		
Reportable segment revenue	**3,325,085**	2,545,798
Elimination of inter-segment revenue	**(213,322)**	(197,154)
Consolidated revenue	**3,111,763**	2,348,644

	2011 *RMB'000*	2010 *RMB'000*
Profit		
Reportable segment profit	**669,873**	425,904
Net finance costs	**(128,943)**	(60,118)
Share of losses of associates	**(221)**	(974)
Share of gain/(loss) of a jointly controlled entity	**1,703**	(648)
Other unallocated head office and corporate expenses	**(107,280)**	(85,303)
Consolidated profit before income tax	**435,132**	278,861

	2011 *RMB'000*	2010 *RMB'000*
Assets		
Reportable segment assets	**4,324,566**	3,793,208
Interest in associates	**37,345**	41,281
Interest in a jointly controlled entity	**5,835**	4,132
Other financial assets	**10,000**	10,000
Deferred tax assets	**12,721**	9,645
Pledged deposits	**149,894**	136,635
Time deposits	**474,000**	—
Cash and cash equivalents	**103,089**	315,831
Other unallocated head office and corporate assets	**12,444**	21,128
Consolidated total assets	**5,129,894**	4,331,860

	2011 *RMB'000*	2010 *RMB'000*
Liabilities		
Reportable segment liabilities	**971,377**	638,531
Interest-bearing borrowings	**1,943,203**	1,855,750
Income tax payables	**31,403**	19,665
Deferred tax liabilities	**21,884**	16,561
Other unallocated head office and corporate liabilities	**22,710**	20,111
Consolidated total liabilities	**2,990,577**	2,550,618

(c) Geographical information

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

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

	2011	2010
	RMB'000	*RMB'000*
Revenue		
The PRC	**1,681,064**	1,235,018
North America	**410,634**	335,914
Europe	**367,143**	249,886
Asia (other than the PRC)	**633,610**	510,118
Others	**19,312**	17,708
Total	**3,111,763**	2,348,644

5. PROFIT BEFORE INCOME TAX

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

(a) Net finance costs

	2011	2010
	RMB'000	*RMB'000*
Interest income	**(4,087)**	(2,806)
Finance income	**(4,087)**	(2,806)
Interest on bank loans	**107,305**	90,786
Less: interest expense capitalised into property, plant and equipment under construction*	**(11,463)**	(27,862)
Fair value recognised upon warrants issuance	**42,754**	—
Change in fair value of warrants	**(5,566)**	—
Finance expenses	**133,030**	62,924
Net finance costs	**128,943**	60,118

* The borrowing costs have been capitalised at a rate of 0.30%–9.80% per annum (2010: 0.30%–5.76%).

(b) Staff costs

	2011	2010
	RMB'000	*RMB'000*
Wages, salaries and other benefits	**149,048**	119,926
Contributions to defined contribution plans	**7,102**	4,128
Equity-settled share-based payment expenses	**6,469**	—
	162,619	124,054

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

(c) Other items

	2011	2010
	RMB'000	*RMB'000*
Cost of inventories*	**2,405,000**	1,881,981
Depreciation	**113,386**	88,754
Amortisation of lease prepayments	**1,627**	1,327
Provision/(Reversal) for impairment of doubtful debts	**11,081**	(3,408)
Auditor's remuneration	**2,200**	2,200
Reversal for write-down of inventories	**(2,941)**	(1,552)
Operating lease charges	**1,274**	1,251

* Cost of inventories includes RMB195,144,000 (2010: RMB177,817,000) relating to staff costs, depreciation expenses and write-down of inventories which are also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

6. INCOME TAX EXPENSE

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

	2011	2010
	RMB'000	*RMB'000*
Current tax		
Provision for PRC income tax	**67,558**	34,194
Deferred tax		
Origination and reversal of temporary differences	**2,247**	8,746
	69,805	42,940

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

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

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

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 were previously entitled to a tax holiday of a tax-free period for two years from their first profit-making year of operations and thereafter, they are subject to PRC corporate income tax at 50% of the applicable income tax rate for the following three years. Under the grandfathering rules introduced from 1 January 2008, enterprises that had not started to benefit from such tax holidays because they had not yet generated taxable profits, started the tax holiday from 1 January 2008. In accordance with these regulations, TG Tools is subject to the PRC corporate income tax rate at 50% of its applicable tax rate for 3 years from 2009 and Tiangong Aihe Special Steel Company Limited ("TG Aihe") is subject to the PRC corporate income tax rate at 50% of its applicable tax rate for 3 years from 2010. In 2011, the applicable income tax rate of TG Tools and TG Aihe is 12.5% (2010: 12.5%).

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

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.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2011	2010
	RMB'000	*RMB'000*
Profit before income tax	**435,132**	278,861
Notional tax on profit before income tax, calculated using the PRC statutory tax rate of 25% (2010: 25%)	**108,783**	69,715
Effect of preferential tax rates	**(53,090)**	(35,109)
Effect of different tax rates	**9,948**	2,953
Tax effect of non-deductible expenses	**1,937**	3,203
Withholding tax on profits of subsidiaries	**3,332**	2,178
Tax refund	**(1,105)**	—
	69,805	42,940

7. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share at 31 December 2011 was based on the profit attributable to ordinary shareholders of RMB365,327,000 (2010: RMB235,921,000) and a weighted average number of ordinary shares outstanding of 1,678,000,000 (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 RMB365,327,000 during the year presented and the weighted average number of potential ordinary shares outstanding of 1,720,505,706 for the year ended 31 December 2011 after taking into account the potential dilutive effects of the warrants and equity settled share-based transactions calculated as follows:

Weighted average number of ordinary shares (diluted)

	2011	2010
Weighted average number of ordinary shares at 31 December	**1,678,000,000**	1,678,000,000
Effect of warrants	**39,744,292**	—
Effect of equity settled share-based transactions	**2,761,414**	—
Weighted average number of ordinary shares (diluted) at 31 December	**1,720,505,706**	1,678,000,000

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 year ended 31 December 2010 have also been restated to reflect the Share Subdivision.

8. TRADE AND OTHER RECEIVABLES

	The Group	
	2011	2010
	RMB'000	*RMB'000*
Trade receivables	**858,750**	540,549
Bills receivable	**273,752**	316,294
Less: impairment provision for doubtful debts *(Note 8(b))*	**(51,194)**	(40,113)
Net trade and bills receivables	**1,081,308**	816,730
Prepayments	**173,768**	75,700
Non-trade receivables	**16,337**	48,195
	1,271,413	940,625

Substantially all of the trade receivables are expected to be recovered within one year.

(a) Ageing analysis

Included in trade and other receivables are trade and bills receivables (net of impairment provision for doubtful debts) with the following ageing analysis as of the reporting date:

	The Group	
	2011	2010
	RMB'000	*RMB'000*
Current	**809,438**	623,308
Less than 3 months past due	**169,559**	160,276
More than 3 months but less than 6 months past due	**88,579**	10,182
More than 6 months but less than 12 months past due	**8,040**	15,597
More than 12 months but less than 24 months past due	**5,692**	7,367
Amounts past due	**271,870**	193,422
	1,081,308	816,730

(b) Impairment of trade and bills receivables

Impairment losses in respect of trade and bills receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivables directly.

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

	The Group	
	2011	2010
	RMB'000	*RMB'000*
At 1 January	**40,113**	43,521
Provision/(Reversal) for impairment loss recognised	**11,081**	(3,408)
At 31 December	**51,194**	40,113

(c) Trade and bills receivables that are not impaired

The ageing analysis of trade and bills receivables that are neither individually nor collectively considered to be impaired are as follows:

	The Group	
	2011	2010
	RMB'000	*RMB'000*
Neither past due nor impaired	**809,438**	623,308
Less than 3 month past due	**19,256**	56,815
More than 3 months but less than 6 months past due	**54,268**	2,740
More than 6 month past due	**1,561**	1,678
Amounts past due but not impaired	**75,085**	61,233
	884,523	684,541

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

9. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade and bills payables	**850,283**	551,756	**—**	—
Non-trade payables and accrued expenses	**136,614**	98,534	**3,497**	4,997
	986,897	650,290	**3,497**	4,997

Included in trade and other payables are trade and bills payables with the following ageing analysis as of the reporting date:

	The Group	
	2011	2010
	RMB'000	*RMB'000*
Due within 3 months	**653,175**	502,529
Due over 3 months but within 6 months	**185,580**	36,092
Due over 6 months but within 12 months	**6,066**	4,867
Due over 1 year but within 2 years	**3,424**	6,954
Due over 2 years	**2,038**	1,314
	850,283	551,756

10 DIVIDENDS

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

	2011	2010
	RMB'000	*RMB'000*
Dividend proposed after the reporting date of RMB0.0480 per share (2010: RMB0.028125)	**80,544**	47,194

(ii) Dividends payable to equity holders of the Company attributable to the previous financial year, approved and paid during the year:

	2011	2010
	RMB'000	***RMB'000***
Dividend in respect of the previous financial year, approved and paid during the year of RMB0.028125 per share (2010: RMB0.013350)	**47,194**	22,401

MANAGEMENT DISCUSSION AND ANALYSIS

The following management discussion and analysis should be read in conjunction with our consolidated financial statements which were audited by KPMG and reviewed by the audit committee of the Company.

Market Review

2011 was a challenging year for the global economy. The developed world was plagued by the slow recovery in the US as well as the European debt crisis. On the domestic front, inflationary pressure in China led to tightened monetary and credit conditions. Worse still, the volume steel manufacturers in China suffered severely from the anti-dumping measures imposed by the US and various other countries.

Yet, against such a difficult macro environment, the Group managed to deliver a set of impressive results with a significant increase in cash inflows from operations. The main reasons for our remarkable success are as follows:

(1) ***Immune to anti-dumping policies.*** Unlike other volume steel manufacturers, our products are immune to the anti-dumping measures imposed by the US and other countries. This is because the Group's products are essentially high value-added alloys with high metallurgical contents of rare metals such as tungsten, molybdenum and vanadium.

(2) ***Foreign competitors are disadvantaged not just by higher labor costs, but also substantially higher material costs due to China's hefty levies on "direct" exports of rare metals.*** Rare metals such as tungsten, molybdenum and vanadium are essential raw materials in the production of high grade HSS and die steel. Currently, China has the world's largest reserves of these rare metals. In recent years, China has imposed strict quotas as well as hefty levies on the "direct" exports of these rare metals. Therefore, foreign competitors are disadvantaged not just by higher labor costs, but also significantly higher material costs.

(3) ***Tight credit environment squeezes out peripheral domestic players.*** Due to the tight credit environment, peripheral players in China lacking economies of scale have been forced to close down. This market consolidation actually led to an increased market share for the Group. Interestingly, this consolidation has also served to increase our bargaining power vis-à-vis our suppliers. As a result, our gross margin actually went up during the year.

(4) ***Benefited from state-owned banks' support for efficient privately owned enterprises with strong cash flows.*** Notwithstanding the overall tight credit conditions, the Group, with its industry leadership position in China and strong cash inflows, as well as being one of the largest enterprises in the local municipality of Danyang, has not encountered any problem in renewing its standby credit facility with the local banks. As at 31 December 2011, the Group's available standby credit line was RMB4 billion, of which only approximately RMB1.9 billion was utilized.

Notwithstanding the adverse macro backdrop, the tremendous results of the Group for the year under review vividly reflects the Group's undoubted industry leadership position as well as the competitiveness and high quality of its products. Going forward, it is our view that we will continue to increase our market share at the expense of our foreign and domestic competitors.

Business Review

In 2011, the Group continued to be the largest manufacturer of HSS and the leading manufacturer of HSS cutting tools and die steels in China. During the year, all product segments achieved outstanding performance, boosting total revenue to a record high of RMB3,111,763,000, representing a year-on-year increase of approximately 32.5%.

	For the year ended 31 December					
	2011		2010		Change	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
HSS	**1,158,264**	**37.2**	687,459	29.2	470,805	68.5
HSS cutting tools	**609,675**	**19.6**	508,852	21.7	100,823	19.8
Die Steel	**985,733**	**31.7**	830,656	35.4	155,077	18.7
Chemical	**358,091**	**11.5**	321,677	13.7	36,414	11.3
	3,111,763		2,348,644		763,119	32.5

HSS — accounted for 37% of the Group's revenue in FY2011

HSS is a widely used alloy in specific industrial applications including automotive, machinery manufacturing, aviation, and the electronics industries. Its production involves various rare metals, such as tungsten, molybdenum, chromium and vanadium.

According to China Special Steel Enterprise Association (the "CSSEA"), the Group continued to be the largest manufacturer of HSS by volume in China in 2011.

HSS was the greatest revenue contributor for the Group during the year under review. Revenue from HSS grew by 68.5% to RMB1,158,264,000 (2010: RMB687,459,000). Despite the growth slowdown of China's industrial output, HSS sales to the domestic market increased by 50.8%, reflecting the Group's increase in market share as a result of the closures of uncompetitive peripheral players. Exports of HSS also saw a spectacular growth of 248.2%. This was in part due to our effort in expanding overseas market presence beyond the US and Europe.

	For the year ended 31 December					
	2011		2010		Change	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Domestic	**944,118**	**81.5**	625,952	91.1	318,166	50.8
Export	**214,146**	**18.5**	61,507	8.9	152,639	248.2
	1,158,264		687,459		470,805	68.5

HSS Cutting Tools — accounted for 20% of the Group's revenue in FY 2011

HSS cutting tool products can be categorized into four major types — twist drill bits, screw taps, end mills and turning tools, all of which are used in industrial manufacturing. The Group's vertical integration from upstream HSS production to downstream HSS cutting tool production brought us a significant cost advantage over our peers.

In 2011, revenue generated from HSS cutting tools increased by approximately 20% to RMB609,675,000 (2010: RMB508,852,000). With a limited life span, HSS cutting tools are effectively "consumables" in industrial production and hence their demand is relatively inelastic even during market downturns. Export sales accounting for 66% of segment revenue, recorded a stable growth of 13%. For the domestic market, the Group has established alliances with top research institutes across the country in order to achieve the best quality. The above initiative resulted in domestic sales rising by 35%.

	For the year ended 31 December					
	2011		2010		Change	
	RMB'000	**%**	*RMB'000*	*%*	*RMB'000*	*%*
Domestic	**205,842**	**33.8**	152,150	29.9	53,692	35.3
Export	**403,833**	**66.2**	356,702	70.1	47,131	13.2
	609,675		508,852		100,823	19.8

Die Steel — accounted for 32% of the Group's revenue in FY 2011

Die steel is mainly used in die and mould casting as well as machining processing. Industries that require die steel include the automotive industry, high-speed railway construction, aviation and plastic product manufacturing. Similar to HSS, its production involves the addition of various rare metals such as molybdenum, vanadium and chromium.

Revenue generated from die steel rose by 19% to RMB985,733,000 (2010: RMB830,656,000). 54% of its revenue was derived from the domestic market while export sales accounted for the remaining 46%. During the year, the Group entered into a 5-year Purchase Plan with a German steel manufacturer, pursuant to which a total of 91,000 tons of die steel of various specifications would be purchased over 5 years. The total revenue is estimated to be approximately RMB2.4 billion over 5 years.

	For the year ended 31 December					
	2011		2010		Change	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Domestic	**531,103**	**53.9**	456,916	55.0	74,187	16.2
Export	**454,630**	**46.1**	373,740	45.0	80,890	21.6
	985,733		830,656		155,077	18.7

Titanium Alloy

Titanium alloy is lighter, stronger and has a higher corrosion resistance compared to aluminum alloy. Thus, it finds applications in aviation, marine engineering and the medical industries. Its production involves sponge titanium as well as various other rare metals.

The Group's titanium alloy production lines are located in Nanjing. Trial production started towards the end of 2011 and contribution to the bottom-line should begin in 2012. With an initial production capacity of 2,000-3,000 tons, the Group will start producing titanium ingots and rods in the first phase, and will then extend to higher margin products such as titanium pipes and flat sheets in due course.

The production of titanium and titanium alloy is both capital and technology intensive. Thus, it is an industry with high entry barrier. Currently, only a limited number of companies in China are engaged in titanium production.

Going forward, it is expected that titanium will become another pillar revenue source for the Group.

Financial Review

Net profit attributable to equity holders of the Company increased significantly by approximately 53% from RMB235,921,000 in 2010 to RMB361,612,000 in 2011. The significant increase was mainly attributable to the Group's success in capturing market share, both from domestic and overseas competitors. During the year, all three major business segments of the Group recorded a satisfactory growth.

Revenue

Revenue for the Group for 2011 totaled RMB3,111,763,000, representing a substantial increase of approximately 32.5% as compared with RMB2,348,644,000 in the previous year. The increase was mainly due to the Group's success in capturing market share, both from overseas and domestic competitors.

Cost of sales

The Group's cost of sales was RMB2,405,000,000 in 2011, as compared with RMB1,881,981,000 in 2010, representing an increase of approximately 28% mainly to support the increase of revenue. As a percentage of total revenue, the Group's cost of sales decreased slightly to 77.3% during the period (2010: 80.1%).

Gross margin

For 2011, the overall gross margin was approximately 22.7% (2010: 19.9%). Set out below is the gross margin of our four products in 2011 and 2010:

	2011	2010
HSS	**23.1%**	19.9%
Die steels	**34.1%**	29.2%
HSS cutting tools	**16.0%**	16.4%
Chemical goods	**1.6%**	1.1%

HSS

Gross margin of HSS increased from 19.9% in 2010 to 23.1% in 2011. The increase was mainly due to the decrease in raw material costs such as rare metals and scrap steel in the second half of the year. This was in part due to the market consolidation whereby small peripheral players have been squeezed out, leading to our increased bargaining power vis-à-vis our suppliers.

HSS cutting tools

In 2011, the gross margin of HSS cutting tools remained stable at 16.0% (2010: 16.4%).

Die steel

The gross margin of die steel increased from 29.2% in 2010 to 34.1% in 2011 as a result of improved economies of scale following increased production levels this year. In addition, the decrease in raw material costs such as rare metals and scrap steel in the second half also contributed to the improved margin.

Chemical Goods

This segment involves the purchase and sales of chemicals which mainly comprises purified terephthalic acid. Purified terephthalic acid is mainly used for the production of household building materials such as blinds and covers. In 2011, chemical goods accounted for approximately 12% (2010: 14%) of the Group's income.

Other income

Other income totaled RMB12,701,000 in 2011, representing a decrease of RMB10,314,000 from RMB23,015,000 in 2010. In 2010, there were gains on disposal of property, plant and equipment amounting to RMB9,430,000 and reversal of impairment loss for doubtful debts amounting to RMB3,408,000. There was no such income during 2011.

Distribution expenses

Distribution expenses in 2011 were RMB36,890,000 (2010: RMB40,759,000), representing a decrease of approximately 9.5%. The decrease was mainly attributable to the decrease in commission and transportation charges. For 2011, the distribution expenses as a percentage of revenue was 1.2% (2010: 1.7%).

Administrative expenses

Administrative expenses increased from RMB78,918,000 in 2010 to RMB85,924,000 this year. The increase was mainly due to the increase of the staff cost and professional fees. For 2011, administrative expenses as a percentage of revenue was 2.8% (2010: 3.4%).

Net finance cost

The Group's finance income was RMB4,087,000 for 2011, representing an increase of RMB1,281,000 primarily due to interest rate adjustments in 2011. The Group's finance expense was RMB133,030,000 in 2011, representing an increase of 111.4% from RMB62,924,000 in 2010. The increase was in part due to the notional (non-cash and non-operating) fair value loss amounting to RMB37,188,000 pursuant to the issuance of some warrants last year, and in part due to increased bank borrowings as compared with last year.

Income tax expense

The Group's income tax expense increased by over 63% from RMB42,940,000 in 2010 to RMB69,805,000 in 2011. The increase was mainly due to the increase in profits tax as operating profit increased.

Profit for the year

As a result of the factors discussed above, the Group's profit significantly increased by approximately 55% from RMB235,921,000 in 2010 to RMB365,327,000 in 2011. Thanks to operating efficiency, the net profit margin increased from 10.0% in 2010 to 11.7%.

Total comprehensive income attributable to equity holders of the Company

For 2011, total comprehensive profit attributable to equity holders of the Company was RMB361,612,000 (2010: RMB235,921,000) after taking into account foreign currency translation losses.

Outlook

The outlook for the Group has never been rosier. Our strong financial performance in 2011 amidst an adverse macro backdrop is a testimony to our unrivalled leadership position in the industry and our ability to capture market share from both overseas and domestic competitors.

In order to stay competitive, the Group will continue to contain costs and improve efficiency. We believe cost reduction in the long term could only be accomplished by increasing automation. We have already started to install automated production lines for our HSS and die steel plants in 2011. We will soon commence installation of automated production lines for HSS tools. We also plan to increase our production capacity of HSS tools by 20% to 500 million pieces per annum.

In addition to the strong growth potential offered by our existing businesses of HSS, HSS cutting tools and die steel, our recent investment in titanium and titanium alloy production will provide us with yet another growth engine. Titanium, being named as one of the key 'new materials' for national development purposes in the nation's 12th 5-year Plan, is expected to enjoy a rapid and sustainable growth.

Last but not the least, we wish to re-affirm that maximization of shareholder value, whilst adhering to the highest standards of corporate governance, will always remain our top priority.

Liquidity and Financial Resources

As at 31 December 2011, the Group's current assets mainly included cash and cash equivalents of approximately RMB103,089,000, inventories of approximately RMB1,177,805,000, trade and other receivables of RMB1,271,413,000, pledged deposits of RMB149,894,000 and time deposits of RMB474,000,000. During the year, the net cash generated from operating activities was RMB652,157,000 (2010: RMB197,080,000). As at 31 December 2011, the interest bearing borrowings of the Group were RMB1,943,203,000, RMB1,516,203,000 of which were repayable within one year and RMB427,000,000 of which were repayable after more than one year. The Group's gearing ratio (calculated based on the total outstanding interest-bearing debt divided by the total equity) was 91%, lower than the 104% as at 31 December 2010.

The increase in borrowing was mainly attributable to the increase in investment in production equipment. As at 31 December 2011, borrowing of RMB1,833,000,000 were in RMB and USD13,490,000 were in USD. The borrowings of the Group were subject to interest payable at rates ranging from 0.30% to 9.80%. The Group did not enter into any interest rate swaps to hedge itself against the risks associated with interest rates.

Capital Expenditure and Capital Commitments

For 2011, the Group's net increase in fixed assets amounted to RMB221,170,000, which were mainly for the production plant and facilities for die steel and were financed by a combination of our internal cash resources and operating cash flows and bank borrowing. As at 31 December 2011, capital commitments were RMB487,493,000, of which RMB96,579,000 were contracted and RMB390,914,000 were authorised but not contracted for. The majority of the capital commitments were related to investment to completion production equipment installation and will also be financed by a combination of our internal cash resources and operating cash flows and bank borrowing.

Foreign Exchange Exposure

The Group's revenues were denominated in RMB, US dollars and Euros, with RMB accounting for the largest portion (approximately 54.0%). Approximately 46.0% of total sales and the Group's costs and operating profit were subject to exchange rate fluctuations. The Group has put in place measures such as monthly review of product pricing in light of foreign exchange fluctuation and incentivising overseas customers to settle balances on a more timely basis to minimize the financial impact from exchange rate exposure.

Pledge of Assets

As at 31 December 2011, the Group pledged certain bank deposits amounting to approximately RMB149,894,000 (2010: RMB136,635,000).

Employees' Remuneration and Training

As at 31 December 2011, the Group employed around 3,910 employees (31 December 2010: around 3,826). Total staff costs during the year amounted to RMB162,619,000 (2010: RMB124,054,000). The Group provided employees with remuneration packages comparable to the market rates and employees are further rewarded based on their performance according to the framework of the Group's salary, incentives and bonus scheme. In order to enhance the Group's productivity, and further improve the quality of the Group's human resources, the Group provides compulsory continuous training for all of its staff on a regular basis.

Contingent Liabilities

The Company had no material contingent liabilities as at 31 December 2011.

FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 18 May 2012 to 23 May 2012 (both days inclusive), for the purpose of determining shareholders' entitlement to attend and vote at the forthcoming annual general meeting of the Company (the "Annual General Meeting"), during which period no transfer of shares of the Company will be registered. In order to qualify for attending and voting at the Annual General Meeting, shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, No.183 Queen's Road East, Hong Kong, for registration by no later than 4:30 p.m. on 17 May 2012.

The Board has resolved to recommend the payment of a final dividend of RMB0.048 per share for the year ended 31 December 2011 (2010: RMB0.028125) to shareholders of the Company whose names appear on the Register of Members of the Company as at 4:30 p.m. on 1 June 2012. The Register of Members will be closed from 29 May 2012 to 1 June 2012, both days inclusive, and the proposed final dividend is expected to be paid on or before 30 July 2012. The payment of dividends shall be subject to the approval of the shareholders of the Company at the Annual General Meeting expected to be held on 23 May 2012. In order to qualify for the proposed dividend, shareholders of the Company should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration by no later than 4:30 p.m. on 28 May 2012.

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. 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 the 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

On 26 January 2011, an aggregate of 32,000,000 warrants were created and issued to six individual investors. Each warrant entitles the holder thereof to subscribe for one ordinary share of USD0.01 of the Company at a subscription price of HKD4.00 per share, payable in cash and subject to adjustment, from the date of issue to 25 January 2013. Due to the implementation of the Share Subdivision on 23 May 2011, the maximum aggregate number of shares which may be issued under the warrants was adjusted to 128,000,000 shares of USD0.0025 each at an adjusted subscription price of HKD1.00. Subsequently, the Company reached agreements with its warrants holders to revise the initial subscription price of the warrants to be denominated in RMB (the functional currency of the accounts of the Group). The revised subscription price of the warrant was RMB0.845 per share with a par value of USD0.0025 each (at the fixed exchange rate of RMB1:HKD1.18282, which was equivalent to the adjusted initial subscription price of HKD1.00 per share with par value of USD0.0025 each (as adjusted by the Share Subdivision)).

Most of the proceeds from the warrant subscription, being HKD640,000, have been used for payment of the costs and expenses in connection with the warrant subscription. Assuming the full exercise of the subscription rights attaching to the warrants at the initial subscription price, the total funds to be raised is approximately HKD128,000,000. It is intended that the funds so raised be applied as general working capital and as funds for future development of the Group.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities during the year ended 31 December 2011 and up to the date of this annual report.

Corporate Governance

During the year ended 31 December 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 26 March 2012 to consider and review the 2011 annual report and the annual financial statements of the Group and to give their opinion and recommendation to the Board. The Audit Committee considers that the 2011 annual report and annual financial statements of the Company have complied with the applicable accounting standards and the Company has made appropriate disclosure thereof.

Model Code for Securities Transactions

The Group has adopted a code of conduct governing securities transactions by Directors in compliance with the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code"). Following a specific enquiry, each of the Directors confirmed that he complied with the required standard set out in the Model Code and the Group's code of conduct governing securities transactions by Directors during the year ended 31 December 2011.

The Group has also adopted a code of conduct governing securities transactions by employees who may possess or have access to price sensitive information.

PUBLICATION OF ANNUAL REPORT ON THE STOCK EXCHANGE WEBSITE

The Company's 2011 annual report will be submitted to the Stock Exchange for uploading onto the Stock Exchange's website (www.hkexnews.hk) as well as the Company's website (www.tggj.cn) in due course.

APPRECIATION

The board of Directors would like to take this opportunity to express gratitude to our shareholders, customers, the management and employees for their unreserved support to the Group.

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

Hong Kong, 26 March 2012

As at the date of this announcement, the directors of the Company are:

Executive Directors: ZHU Xiaokun, ZHU Zhihe, YAN Ronghua and WU Suojun

Independent non-executive Directors: LI Zhengbang, GAO Xiang and LEE Cheuk Yin, Dannis

* *For identification purpose*