Annual Report 2011

天工國際有限公司*

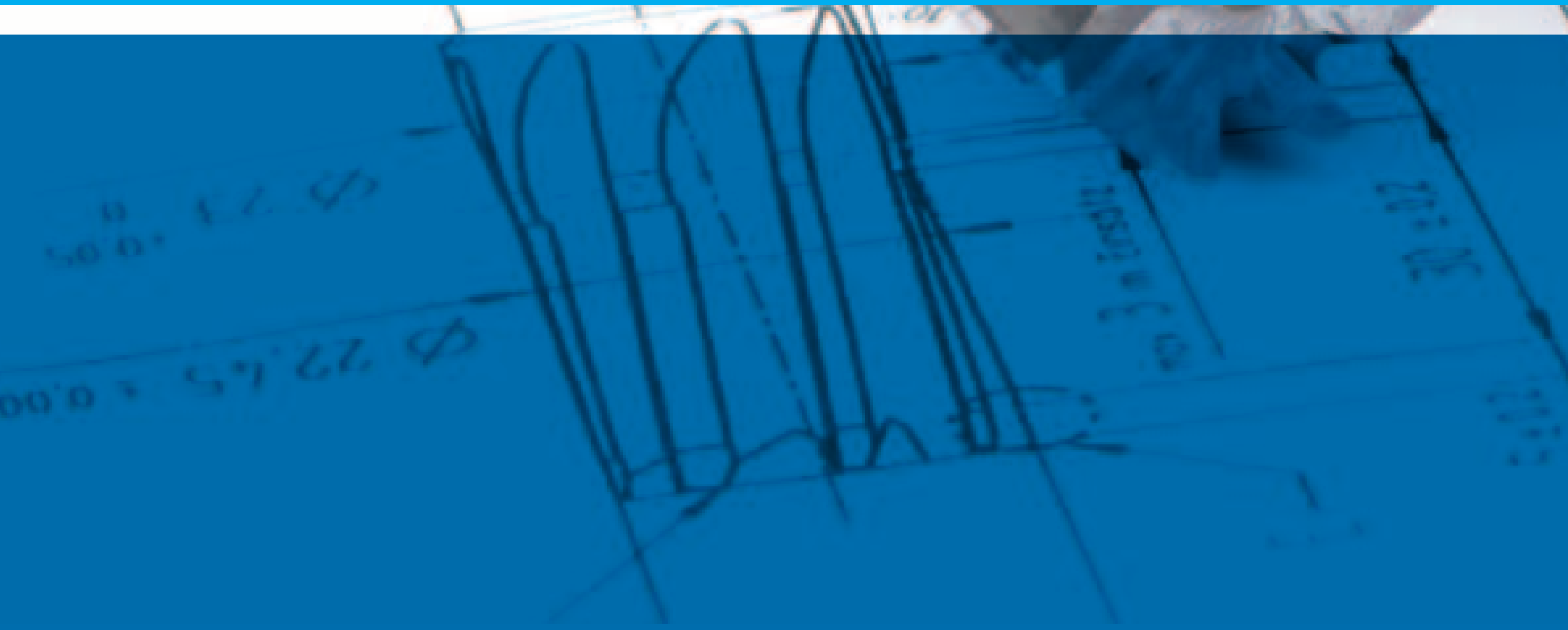
TIANGONG INTERNATIONAL COMPANY LIMITED

(incorporated in the Cayman Islands with limited liability)

Stock Code : 826

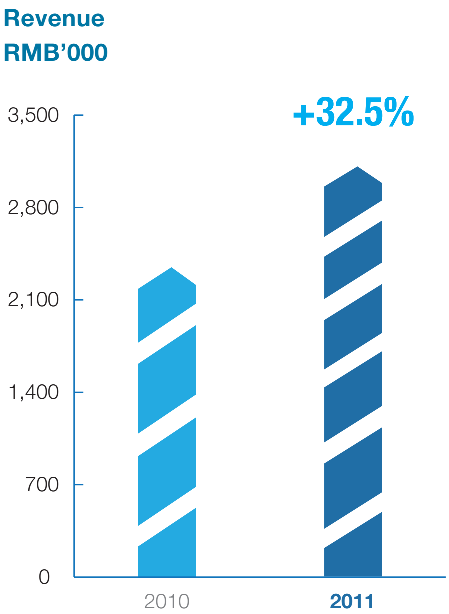
* For identification purpose only

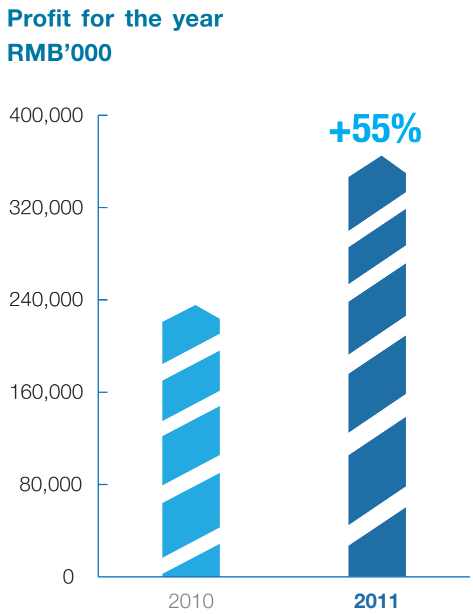
Contents



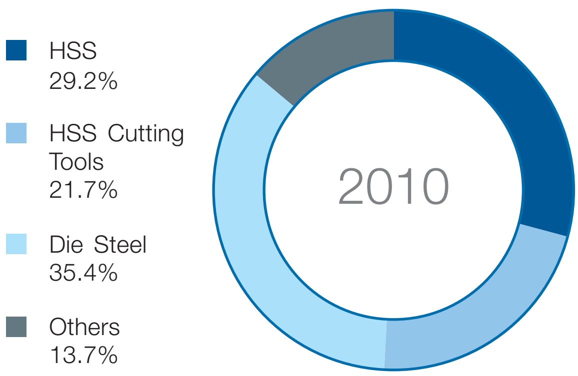
Financial Highlights

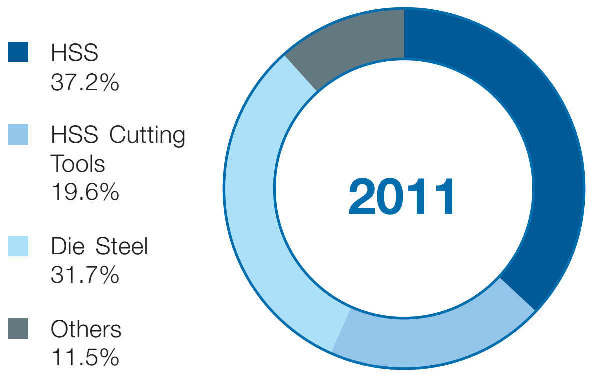
	2011 RMB'000	2010 RMB'000
Revenue	3,111,763	2,348,644
Net profit attributable to equity holders of the Company	365,327	235,921
Earnings per share (RMB)	0.218	0.141
Proposed final dividend per share (RMB)	0.048	0.028





Revenue by Product Mix





Chairman's Statement

Leveraging on our dominating position in the market and our advantage in costing and product range, we will strive to maintain growth and maximize returns to the shareholders of the Company.

Zhu Xiaokun
Chairman

Dear Shareholders,

On behalf of the board of directors (the "Board") of Tiangong International Company Limited ("Tiangong International" or the "Company", together with its subsidiaries, collectively the "Group"), I am pleased to present to you the annual results for the year ended 31 December 2011.

Notwithstanding a gloomy macro backdrop in 2011, the Group managed to deliver an impressive set of results and strong financial position as at the end of the year. Our turnover increased by a remarkable 32.5% to RMB3,112 million (2010: RMB2,349 million) with gross margin improved to 22.7% (2010:19.9%). Thanks to operating efficiency and effective cost control, net profit after tax increased by a staggering 55% to RMB365 million (2010: RMB236 million). More importantly, our net cash generated from operations increased by an amazing 231% to RMB652 million (2010: RMB197 million), a testimony to our strong cash generating capability.

The key reason for our resounding success is that unlike other volume steel manufacturers in China, our products are immuned 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 etc.

During the year, the Group also managed to capture an increasing market share at the expense of both our foreign and domestic competitors.

China boasts the world's largest reserves of rare metals such as tungsten, molybdenum and vanadium. Since these rare metals are essential raw materials in the production of high grade HSS and die steel, foreign competitors are disadvantaged not just by higher labor costs, but also substantially higher materials costs due to China's hefty levies on "direct" exports of these rare metals.

During the year, as a result of the tight credit environment in China, peripheral players lacking economies of scale have been forced to close down. This market consolidation actually led to an increased market share for the Group.

Chairman's Statement

The Group also enjoys strong support from the banks. 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", had no 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.

In addition to the strong growth potential offered by our existing businesses of HSS, HSS cutting tools and die steel, our recent foray into titanium and titanium alloy 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. The first phase of the production plant was completed and has entered trial production. The second phase will be completed in 2013. With a total annual production capacity of 4,000 tons, Tiangong International is expected to become one of the largest titanium alloy manufacturers in China by 2013.

Finally, on behalf of the Board, I would like to extend my heartfelt appreciation to our shareholders and our customers for their unrelenting support. As to our management and staff, their outstanding performance during the year was undoubtedly key to the Group's success.

Tiangong International Company Limited
Zhu Xiaokun
Chairman

Hong Kong, 26 March 2012

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 55% from RMB235,921,000 in 2010 to RMB365,327,000 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 employees). 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.

Directors & Senior Management

Executive Directors

Mr. ZHU Xiaokun, aged 55, is an Executive Director and the Chairman of the Group. He is responsible for the overall business development strategy of the Group and has over 25 years of experience in HSS and cutting tools industry. Mr. Zhu graduated from the Economic and Management Department of Jiangsu Radio and TV University. In 1984. he joined Danyang Houxiang Television Antenna Factory (the predecessor of TG Group) as the general manager. He led the factory to transform from a television antenna factory to an enterprise of HSS cutting tools in 1987 and also subsequently to expand to include the production of HSS in 1992 and the production of die steels in 2005. He has been acting as the Chairman of the Group since July 1997. In 1998, he was awarded as a National Township Factory Manager, named as a National Township Entrepreneur in 2004 by Ministry of Agriculture, awarded as Model of Work Force in the Jiangsu Province in 2006, Model of the National Steel Industry Work Force in 2008, Top Ten Annual Jiangsu Businessman in 2010 and Most Benevolent Model on Charitable Donations in Jiangsu Province in 2011.

Mr. ZHU Zhihe, aged 61, is an Executive Director and the Chief Executive Officer (General Manager) of the Group. He is responsible for the daily operations of HSS of the Group and has over 20 years of experience in factory management. Prior to joining the Group, he worked for Feida Village in Houxiang Town and Jiangsu Danyang Houxiang Gaoshi Bridge Yuming Metallic Factory. He joined the Group in 1993. During July 2000 to August 2006, he was an executive director and the vice general manager of Jiangsu Tiangong Tools Company Limited. He is now in charge of the production, operation and sales of HSS.

Mr. YAN Ronghua, aged 43, is an Executive Director of the Group. He graduated from the Economic and Management Department of Jiangsu Radio and TV University. He joined the Group in 1994. He was appointed as the head of office administration and subsequently the assistant general manager of the Group. Mr. Yan is currently in charge of human resources management, external relations, secretarial and office administration of the Group.

Mr. WU Suojun, aged 39, is an Executive Director of the Group and a deputy general manager of TG Tools, and a deputy general manager of Tianfa Forging. Mr. Wu joined the Group in 1993 as a workshop officer. He is in charge of the production, operation management and purchase of die steels.

Independent Non-Executive Directors

Mr. LI Zhengbang, aged 79, joined the Group in 2007 as an Independent Non-Executive Director. He graduated from Harbin Institute of Technology in 1958 and was elected as the academician of the Chinese Academy of Engineering in 1999. He is a qualified senior engineer in the PRC and is currently a Professor and Supervisor of PhD candidates of the Central Iron & Steel Research Institute. Mr. Li has been engaged in the research and development of electroslag metallurgy for years and has been one of the few pioneers in this area. His achievement was recognized by The Science and Technology Committee of the People's Republic of China as one of the inventors of electroslag metallurgy technology in China. He has been granted special government subsidy by the State Council as a result of such achievement.

Mr. GAO Xiang, aged 68, joined the Group in 2007 as an Independent Non-Executive Director. In July 1966, he graduated from Wuhan Institute of Mechanics, majoring in production craftsmanship of machines and equipment. He is a senior engineer. Under his leadership, the study of twist drill extrusion technology by Chengdu Tools Research Institute was honoured with Third Class Award of Technical Findings of the Ministry of Mechanics. His achievements are widely recognized in the industry, and he has been granted special government subsidy by the State Council since 1999 as a result of such achievements.

Mr. LEE Cheuk Yin, Dannis, aged 41, joined the Group in 2010 as an Independent Non-Executive Director. He is a graduate of Bachelor of Business Administration from Texas A&M University in the United States and is an associate member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. Mr. Lee worked in an international accounting firm and an international cigarette manufacturer. Mr. Lee is an independent non-executive director of Geely Automobile Holdings Limited (stock code: 175) which is a listed company in Hong Kong. Mr. Lee was a non-executive director of Norstar Founders Group Limited (10 October 2003 to 15 January 2009), an executive director of AMVIG Holdings Limited (26 March 2004 to 1 March 2010) and a non-executive director of Kam Hing International Holdings Limited (16 September 2009 to 15 September 2011).

Senior Management

Mr. SHI Guorui, aged 65, is the chief financial officer of the Group. He graduated from the Industrial Accounting Department of the Soochow University in 1986. He is an accountant. Prior to joining the Group in July 2004, he worked for Jiangsu Province Zhenjiang Casting Factory, Zhenjiang Radio Electronic Factory, Jiangsu Province Zhenjiang Electronics Tube Factory, Zhenjiang Electronics Industry Company Limited and Zhejiang Wireless Applicances and Materials Factory. He has extensive experience in finance and accounting.

Mr. ZHU Xingyuan, aged 60, is an executive director and a deputy general manager of TG Tools and Tianji Packaging. In 1984, he joined the Group as the vice manager of Danyang Houxiang Television Antenna Factory. He is currently in charge of the production, operation and management of HSS tools of the Group. He has over 25 years of experience in the management of tools production.

Mr. ZHU Wanglong, aged 53, is an executive director and a deputy general manager of TG Aihe. Prior to joining the Group, Mr. Zhu worked for Qianxiang Village and Danyang Machining Tools Factory. He joined the Group in July 1997 and has been in charge of product innovation, technology improvement, investment development and quality inspection. He has over 20 years of experience in the management of tools production, HSS and die steels.

Mr. JIANG Rongjun, aged 43, is an executive director and a deputy general manager of TG Tools and a deputy manager of Tianji Packaging. He joined the Group in 1985 as a workshop officer. Mr. Jiang is currently in charge of the production, sales and management of titanium alloy plant.

Mr. CHEN Jianguo, aged 52, is an assistant general manager of TG Tools and an executive director of TG Aihe. He joined the Group in 1996. Prior to joining the Group, Mr. Chen worked at the Houxiang branch of Danyang Construction Engineering Company, Jiangsu Feida Tools Company Limited. Mr. Chen is currently in charge of the department of production security, corporate management and human resources.

Mr. CHEUNG Wah Lung, Warren, aged 32, is the financial controller of the Company. Mr. Cheung joined the Group in November 2010. Prior to joining the Group, Mr. Cheung was a manager with the assurance and advisory business services department of Ernst & Young Certified Public Accountants. Mr. Cheung graduated with a Bachelor of Business and Administration degree from the Simon Fraser University in Canada. He is a member of the American Institute of Certified Public Accountants.

Corporate Governance Report

The Group strives to attain and maintain high standards of corporate governance as it believes that good corporate governance practices are fundamental to the Group's development and essential for safeguarding shareholders' interests. To achieve this objective, the Group strengthens its internal policies and procedures, provides continuous training to its staff and increases the transparency of its operation and accountability to all shareholders. The Group is committed to improving this practice and maintaining an ethical corporate culture. During the year, the Group had complied with the principles and code provisions set out in the Code on Corporate Governance Practices (the "Code") under Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Board

The Board's primary role is to secure and enhance long-term shareholder value. It focuses on the Group's overall strategic policy and provides proper supervision to ensure effective management and to achieve sound returns for its shareholders. The Board has delegated the authority and responsibility for implementing business strategies and management of the daily operations of the Group's business to the management. The Board is mainly responsible for developing long term objectives and strategy of the Group, monitoring operation performance and results, monitoring performance of the management, establishing dividend policy and reviewing significant investment plans and decisions. The Board meets at least four times a year and additional meetings are held when required to discuss significant events and issues. The company secretary assists the Chairman in preparing the agenda for Board meetings and all Directors shall have access to the advice and services of the company secretary with a view to ensuring that board procedures, and all applicable rules and regulations are followed. Regular board meetings are held with at least 14 days' advance notice, and all Directors would be served with an agenda with supporting papers at least 3 days before the Board meetings, so as to ensure that there is timely access to relevant information. The Group ensures that all the Board members are informed of the Group's latest development and thereby assists them in the discharge of their duties. The Directors may take independent professional advice when appropriate, at the Company's expense. Four Board meetings were held for the year ended 31 December 2011, with all the Directors attending except for Mr. Li Zheng Bang who had attended two out of the four meetings. Minutes of the Board and Board Committees which record in sufficient detail the matters considered by the Board and decisions reached, including any concerns raised by Directors or dissenting views expressed are taken by the company secretary. Such minutes of the Board and Board Committees, together with supporting papers, are open for inspection following reasonable notice by any Director. Draft and final versions of minutes were sent to all Directors for their comment and records within a reasonable time after the relevant meeting was held. In respect of matters which a substantial shareholder of the Company or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter was not dealt with by way of circulation or by a committee but a board meeting was held.

Composition of the Board

The Board comprises four Executive Directors (Mr. Zhu Xiaokun, Mr. Zhu Zhihe, Mr. Yan Ronghua and Mr. Wu Suojun), and three Independent Non-Executive Directors (Mr. Li Zheng Bang, Mr. Gao Xiang and Mr. Lee Cheuk Yin, Dannis). Biographical details of the Directors as at the date of this report are set out on page 12 to 13 of this annual report.

Independent Non-Executive Directors account for more than one-third of the members of the Board. The Independent Non-Executive Directors come either from the steel industry or have related professional background, bringing valuable expertise and experience that promotes the best interests of the Company and its shareholders. The role of the Independent Non-Executive Directors is to provide independent and objective opinions to the Board for its consideration, take the lead where potential conflicts of interests arise, serve on the audit, remuneration and nomination committees and scrutinise the Company's performance in achieving agreed corporate goals and objectives, and monitor the reporting of performance. The Company has received confirmation from each Independent Non-Executive Director about his independence as required under Rule 3.13 of the Listing Rules and continues to consider each of them to be independent.

Chairman and Chief Executive Officer

The Chairman of the Board is Mr. Zhu Xiaokun, and the chief executive officer is Mr. Zhu Zhihe. The Chairman's and the chief executive officer's roles are clearly defined to ensure their independence. The Chairman of the Board is responsible for the overall management of the Board and monitoring the Group's business strategies, while the chief executive officer is responsible for managing the daily operations of the Group.

Appointment and Re-election of Directors

While there were no new appointment this year, a person may be appointed as a member of the Board at any time either by shareholders' resolutions in general meetings or by resolutions of the Board upon recommendation by the Nominations Committee of the Company. New Directors appointed by the Board during the year are required to retire and submit themselves for re-election at the first general meeting immediately following their appointments.

All Directors are required to retire by rotation at least once every three years at the annual general meeting, subject to re-election by the shareholders. All Non-Executive Directors (including Independent Non-Executive Directors) are appointed for a term of not more than three years.

Board Committees

The Board has established three Board Committees to oversee different aspects of the Company's affairs. These Board Committees include the Audit Committee, the Remuneration Committee and the Nomination Committee. The Board Committees have been structured to include a majority of Independent Non-Executive Directors as members in order to ensure that all relevant issues are reviewed independently and objectively. These Board Committees will report back to the Board on their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so. The terms of reference of the respective Board Committees have complied with the Code provisions and are available on the Company's website http://www.tggj.cn and the Stock Exchange's website http://www.hkexnews.hk.

Audit Committee

The Audit Committee comprises three Independent Non-Executive Directors, namely, Mr. Lee Cheuk Yin, Dannis, Mr. Gao Xiang and Mr. Li Zhengbang. The Chairman of the Audit Committee, Mr. Lee Cheuk Yin, Dannis, possesses expertise in accounting, auditing and finance. Under its terms of reference, the Audit Committee is mainly responsible for overseeing the Company's financial reporting system and internal procedures, reviewing the financial information of the Company and overseeing the relationship with external auditors. These include reviewing and recommending for the Board's approval the interim and the annual financial statements; reviewing the external auditors' independence, objectivity and the effectiveness of the audit process; and reviewing and recommending to the Board for approval the external auditor's remuneration and review of the effectiveness of the internal control system and risk management systems of the Group. The audit committee has been provided with sufficient resources to discharge its duties.

The committee had held two meetings in 2011 and one meeting to date in 2012 with full attendance except for Mr. Li Zheng Bang who had attended two out of the three meetings. The meetings were held together with the external auditors of the Company, the Chief Financial Officer, and the Financial Controller of the Company, to discuss auditing, internal control and financial reporting matters which include the review of the interim and annual financial statements. Full minutes of the Audit Committee meetings were kept by the Company Secretary of the Company. Draft and final versions of such minutes were sent to all members of the Audit Committee for their comment and records respectively, in both cases within a reasonable time after the meeting.

Remuneration Committee

The Remuneration Committee comprises one Executive Director, and three Independent Non-Executive Directors, namely, Mr. Zhu Xiaokun, Mr. Gao Xiang, Mr. Lee Cheuk Yin, Dannis and Mr. Li Zhengbang. Mr. Li Zhengbang is the Chairman of the Remuneration Committee.

The primary role of the Remuneration Committee is to make recommendation to the Board on the Company's policy and structure for remuneration of Directors and senior management and to ensure that their compensation arrangements are determined in accordance with relevant contractual terms. No Director and any of his associates has taken part in any discussion on his own remuneration. Details of the fees of the Directors are set out in note 10 to the financial statements. The Company's remuneration policy is to maintain fair and competitive remuneration packages based on business needs and market practice. Factors such as market rate, an individual's qualification, experience, performance and expected workload are taken into account during the remuneration package determination process. The Remuneration Committee has consulted the Chairman of the Board, Mr. Zhu Xiaokun or the chief executive officer, Mr. Zhu Zhihe, about their proposals relating to the remuneration of other executive directors and have access to professional advice if considered necessary. The remuneration committee was provided with sufficient resources to discharge its duties.

Remuneration Committee had held two meetings in 2011 and one meeting to date in 2012, with full attendance except for Mr. Li Zheng Bang who had attended two out of the three meetings.

The meetings were held to assess the performance of the directors and senior management, discuss and review the overall remuneration policy and structure. Recommendations have been made to the Board.

Nomination Committee

It comprises one Executive Director and three Independent Non-Executive Directors, namely, Mr. Zhu Xiaokun, Mr. Gao Xiang, Mr. Li Zhengbang and Mr. Lee Cheuk Yin, Dannis. Mr. Gao Xiang is the Chairman of the Nomination Committee.

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

The Nomination Committee had held two meeting in 2011 and one meeting to date in 2012, with full attendance except for Mr. Li Zheng Beng who had attended two out of the three meetings. The meetings were held to discuss and review the composition and structure of the Board and senior management. The Executive Directors were appointed based on their qualification and experience in relation to the Group's business. The Independent Non-Executive Directors were appointed based on their professional qualifications and experience in their respective areas.

Directors' Responsibility for the Financial Statements

The Directors are responsible for overseeing the preparation of financial statements for each financial period with a view to ensuring that such financial statements give a true and fair view of the state of affairs of the Group and of the results and cash flow for that financial period. Management of the Company has provided such explanation and information to the Board to enable the Board to make an informed assessment of the financial and other information put before the Board for approval. The Company's accounts are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Company has selected appropriate accounting policies and has applied them consistently based on prudent and reasonable judgments and estimates.

Internal Control

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

The Board and the Group's management hold meetings on a regular basis to review and evaluate the Group's business operations, production processes and financial reporting processes, adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, their training programmes and budget in order to achieve reasonable assurance of the following:

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

To maintain an effective internal control system that helps the Group to achieve its business objectives and safeguard its assets, the Group has implemented measures including: (i) establishing written policies and work flow for major operations and production cycles; (ii) having in place appropriate segregation of duties; and (iii) setting proper authorization levels.

The Board, through the Audit Committee, reviewed the internal control system of the Group for the year ended 31 December 2011 and considered that the system of internal control of the Group had been in place and had been functioning effectively.

External Auditors

The Group's external auditors are KPMG. In order to maintain their independence, objectivity and effectiveness in performing the audit services, the Audit Committee pre-approved all audit services and discussed with KPMG the nature and scope of the audit services.

During 2011, the remuneration paid or payable to KPMG in respect of statutory audit services was RMB2,200,000.

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.

Investor Relationship and Communication

The Board and senior management recognize the importance of communication with shareholders and accountability to shareholders. Annual and interim reports offer comprehensive operational and financial performance information to shareholders and the annual general meetings provide a forum for shareholders to make comments and raise concerns to the Board directly. The Group's senior management also maintains close communication with investors, analysts and the media by other channels including roadshows, briefings and individual meetings. The Group has set up its own website http://www.tggj.cn, which is updated on a regular basis, as a means to provide updated information on the Company to investors. Shareholders are encouraged to attend the forthcoming annual general meeting of the Company for which at least 20 clear business days' notice is given. At the meeting, the Chairman of the Board, the chairman of the Board Committees (or their respective committee members) and the Directors are available to answer questions on the Group's business.

Report of the Directors

The Board is pleased to submit the annual report together with the consolidated financial statements for the year ended 31 December 2011 which have been audited by the Company's auditor KPMG and reviewed by the audit committee of the Company.

Principal Activities

The principal activities of the Company are the production and sales of HSS, HSS cutting tools and die steel. The principal activities and other particulars of the subsidiaries are set out in note 17 to the financial statements.

Financial Statements

The profit of the Group for the year ended 31 December 2011 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 26 to 86.

Results and Appropriations

The results of the Group for the year ended 31 December 2011 are set out in the consolidated statement of comprehensive income on page 26.

The Board proposed a final dividend payment of RMB0.0480 per share for the financial year ended 31 December 2011 (2010: RMB0.028125).

Charitable Donations

Charitable donations made by the Group during the year amounted to RMB650,000 (2010: RMB1,330,000).

Property, Plant and Equipment

Details of the movements in the property, plant and equipment of the Group and the Company during the year are set out in note 14 to the financial statements.

Reserves

Details of movements in the reserves of the Company and of the Group during the year are set out in note 32 to the financial statements and in the consolidated statements of changes in equity, respectively.

Distributable Reserves

Distributable reserves of the Company as at 31 December 2011, calculated in accordance with the Companies Law (Cap. 22) (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to RMB813,711,000.

Pre-emptive Rights

There is no provision for pre-emptive rights under the Company's articles of association and there is no restriction against such rights under the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Share Capital

Details of the movements in share capital of the Company during the year are set out in note 32 to the financial statements.

Directors

The Directors during the financial year were:

Executive Directors

Mr. Zhu Xiaokun
Mr. Zhu Zhihe
Mr. Yan Ronghua
Mr. Wu Suojun

Non-Executive Directors

Mr. Thong Kwee Chee (Resigned on 4 January 2011)

Independent Non-Executive Directors

Mr. Li Zhengbang
Mr. Gao Xiang
Mr. Lee Cheuk Yin, Dannis

Directors will retire by rotation in accordance with the requirement of the Listing Rules in the annual general meetings.

The Non-Executive Directors and Independent Non-Executive Directors are appointed for periods of three years. The Company considers that Mr. Li Zhengbang, Mr. Gao Xiang and Mr. Lee Cheuk Yin, Dannis are independent pursuant to the criteria set out in the Listing Rules and that a confirmation of independence has been received from each of them.

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

As at 31 December 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 for Securities Transactions by Directors of Listed Issuers (the "Model Code") (set out in Appendix 10 of the Listing Rules) were as follows:

(a) Interests in the Company

Director's name	Interests	Ordinary shares held	Approximate attributable 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)	320,000(L)	0.02
Zhu Zhihe	Beneficial owner(3)	400,000(L)	0.02

Notes:

As at 31 December 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 this 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 31 December 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.

Arrangements to Acquire Shares or Debentures

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries, holding companies or fellow subsidiaries a party to any arrangements to enable a Director of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Biographical Details of Directors and Senior Management

Brief biographical details of the Directors and the senior management are set out on pages 12 to 13.

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 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.

Directors' and Controlling Shareholders' Interests in Contracts

Save as disclosed under the heading "Connected transactions" below and "Related party transactions" in note 35 to the financial statements, no Director or controlling shareholder or any of their respective subsidiaries had a material interest, either directly or indirectly, in any contract of significance to the business of the Group, to which the Company, or any of its holding companies, subsidiaries or fellow subsidiaries was a part, during the year. During the year, no contract of significance for the provision of services to the Group by a controlling shareholder or any of its subsidiaries was made.

Directors' Service Contracts

No Director of the Company proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries, which is not determinable by the employing company within one year without payment of compensation (other than statutory compensation).

Purchase, Sales or Redemption of Shares

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, had 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 Listing Rules.

Audit Committee

The Audit Committee comprises three independent non-executive Directors. The Audit Committee had held a meeting on 26 March 2012 to consider and review the 2011 annual report and annual financial statements of the Group and to give their opinion and recommendation to the Board. The Audit Committee considered 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.

Major Customers and Suppliers

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers during the financial year ended 31 December 2011 is as follows:

	Percentage of the Group's total	
	Sales	Purchases
The largest customer/supplier	11.5%	10.0%
Five largest customers/suppliers in aggregate	29.8%	37.9%

At no time during the year had the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

Connected Transactions

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

One-off Connected Transactions

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

Continuing Connected Transactions

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

Lease of office premises

Jiangsu Tiangong Tools Company Limited ("TG Tools"), a wholly-owned subsidiary of the Company and Jiangsu Tiangong Group Company Limited ("TG Group"), entered into a lease agreement dated 6 January 2010, by which TG Group leased to TG Tools the office premises at Tiangong building for a term commencing from 1 January 2010 to 31 December 2012 with fixed annual rentals of RMB600,000, which was determined under normal commercial terms and with reference to an independent valuation. The rental is payable on an annual basis. During the year, the Group incurred rentals of office premises to TG Group which amounted to RMB600,000. TG Group, a collective enterprise established under the laws of PRC, is wholly owned by Mr. Zhu Xiaokun and Madam Yu Yumei. Given that Mr. Zhu Xiaokun is an Executive Director of the Company and Mr. Zhu Xiaokun and Madam Yu Yumei are the controlling shareholders of the Company, TG Group, an associate under the Listing Rules, is a connected person by virtue of Rule 14A.11 (4) of the Listing Rules.

Amenity Facilities Provision Agreement

TG Tools, Tiangong Aihe Special Steel Company Limited ("TG Aihe"), Danyang Tianfa Forging Company Limited ("Tianfa Forging"), Danyang Tianji Tools Packaging Company Limited ("Tianji Packaging") and TG Group, entered into an agreement dated 6 January 2010, by which TG Group's amenity facilities will be open to employees of TG Tools, TG Aihe, Tianfa Forging and Tianji Packaging for a fixed annual amenity fee of RMB400,000 for a term commencing from 1 January 2010 to 31 December 2012. The fixed annual fee was determined under normal commercial terms and with reference to an independent Valuer. The rental is payable on an annual basis. During the year, the Group incurred amenity fee of RMB400,000 to TG Group. TG Tools, TG Aihe, Tianfa Forging and Tianji Packaging are all wholly-owned subsidiaries of the Company. TG Group, as defined above, is an associate under the Listing Rules and is a connected person by virtue of Rule 14A.11 (4) of the Listing Rules. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules with regard to the above Continuing Connected Transactions.

The Independent Non-executive Directors have reviewed the non-exempt continuing connected transactions of the Group and have confirmed that these transactions have been entered into:

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

(ii) on normal commercial terms;

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

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

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

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

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

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

Pledge of Assets

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

Financial Information Summary

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 87. This summary does not form part of the audited financial statements.

Directors' Interests in Competing Business

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

Management Contracts

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

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company as at the date of this annual report, the Company has maintained sufficient public float as required under the Listing Rules.

Auditors

The financial statements for the year were audited by KPMG who will retire at the conclusion of the forthcoming annual general meeting and, being eligible, will offer themselves for re-appointment. There has been no change in the Company's auditors in any of the preceding three years.

On behalf of the Board of Directors

Tiangong International Company Limited
Zhu Xiaokun
Chairman

Hong Kong, 26 March 2012

Independent Auditor's Report

For the year ended 31 December 2011

Independent auditor's report to the shareholders of
Tiangong International Company Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Tiangong International Company Limited (the "Company") set out on pages 26 to 86, which comprise the consolidated and company statements of financial position as at 31 December 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

26 March 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Note	2011 RMB'000	2010 RMB'000
Revenue	5	**3,111,763**	2,348,644
Cost of sales		**(2,405,000)**	(1,881,981)
Gross profit		**706,763**	466,663
Other income	6	**12,701**	23,015
Distribution expenses		**(36,890)**	(40,759)
Administrative expenses		**(85,924)**	(78,918)
Other expenses	7	**(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	8(a)	**(128,943)**	(60,118)
Share of losses of associates	18	**(221)**	(974)
Share of profit/(loss) of a jointly controlled entity	19	**1,703**	(648)
Profit before income tax	8	**435,132**	278,861
Income tax expense	9	**(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	18	**(3,715)**	—
Total comprehensive income for the year attributable to the equity shareholders of the Company		**361,612**	235,921
Earnings per share (RMB)	13		
Basic		**0.218**	0.141
Diluted		**0.212**	0.141

The notes on Page 32 to 86 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 32(b).

Consolidated Statement of Financial Position

As at 31 December 2011

	Note	2011 RMB'000	2010 RMB'000
Non-current assets			
Property, plant and equipment	14	**1,793,278**	1,572,108
Lease prepayments	15	**72,555**	61,312
Goodwill	16	**21,959**	21,959
Interest in associates	18	**37,345**	41,281
Interest in a jointly controlled entity	19	**5,835**	4,132
Other financial assets	20	**10,000**	10,000
Deferred tax assets	31(b)	**12,721**	9,645
		1,953,693	1,720,437
Current assets			
Inventories	21	**1,177,805**	1,218,332
Trade and other receivables	22	**1,271,413**	940,625
Pledged deposits	23	**149,894**	136,635
Time deposits	24	**474,000**	—
Cash and cash equivalents	25	**103,089**	315,831
		3,176,201	2,611,423
Current liabilities			
Interest-bearing borrowings	26	**1,516,203**	1,222,250
Trade and other payables	27	**986,897**	650,290
Income tax payables	31(a)	**31,403**	19,665
Deferred income	28	**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	26	**427,000**	633,500
Deferred income	28	**6,028**	7,190
Deferred tax liabilities	31(c)	**21,884**	16,561
		454,912	657,251
Net assets		**2,139,317**	1,781,242
Capital and reserves			
Share capital	32(a)/(c)	**31,806**	31,806
Reserves	32(d)	**2,107,511**	1,749,436
Total equity		**2,139,317**	1,781,242

Approved and authorised for issue by the board of directors on 26 March 2012.

Zhu Xiao Kun
Directors

Yan Rong Hua
Directors

The notes on Page 32 to 86 form part of these financial statements.

Statement of Financial Position

As at 31 December 2011

	Note	2011 RMB'000	2010 RMB'000
Non-current assets			
Property, plant and equipment	14	**43**	75
Interest in subsidiaries	17	**814,065**	860,353
Interest in associates	18	**32,306**	36,021
		846,414	896,449
Current assets			
Cash and cash equivalents	25	**2,600**	1,083
		2,600	1,083
Current liabilities			
Trade and other payables	27	**3,497**	4,997
		3,497	4,997
Net current liabilities		**(897)**	(3,914)
Net assets		**845,517**	892,535
Capital and reserves			
Share capital	32(a)/(c)	**31,806**	31,806
Reserves	32(a)/(d)	**813,711**	860,729
Total equity		**845,517**	892,535

Approved and authorised for issue by the board of directors on 26 March 2012.

Zhu Xiao Kun
Directors

Yan Rong Hua
Directors

The notes on Page 32 to 86 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Share capital RMB'000 (Note 32(c))	Share premium RMB'000 (Note 32(d))	Capital reserve RMB'000 (Note 32(d))	Merger reserve RMB'000 (Note 32(d))	Exchange reserve RMB'000 (Note 32(d))	PRC statutory reserve RMB'000 (Note 32(d))	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
Total comprehensive income for the year	–	–	–	–	–	–	235,921	235,921
Dividends approved in respect of previous year (Note 32(b))	–	–	–	–	–	–	(22,401)	(22,401)
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
Profit for the year	–	–	–	–	–	–	365,327	365,327
Other comprehensive loss	–	–	–	–	(3,715)	–	–	(3,715)
Total comprehensive income for the year	–	–	–	–	(3,715)	–	365,327	361,612
Dividends approved in respect of previous year (Note 32(b))	–	–	–	–	–	–	(47,194)	(47,194)
Derecognition of derivative financial liability in respect of warrants (Note 29)	–	–	37,188	–	–	–	–	37,188
Equity settled share–based transactions (Note 30)	–	–	6,469	–	–	–	–	6,469
Transfer to reserve	–	–	–	–	–	79,878	(79,878)	–
Balance at 31 December 2011	31,806	886,566	100,655	91,925	(3,715)	235,312	796,768	2,139,317

The notes on Page 32 to 86 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2011

	2011 RMB'000	2010 RMB'000
Operating activities		
Profit before income tax	**435,132**	278,861
Adjustments for:		
Depreciation	**113,386**	88,754
Amortisation of lease prepayments	**1,627**	1,327
Interest income	**(4,087)**	(2,806)
Interest on bank loans	**95,842**	62,924
Loss/(Gain) on disposal of property, plant and equipment	**629**	(9,430)
Dividends received from unlisted securities	**(800)**	(1,600)
Share of losses of associates	**221**	974
Impairment of goodwill arising from acquisition of interest in associate	**—**	5,627
Share of (gain)/loss of a jointly controlled entity	**(1,703)**	648
Derecognition of derivative financial liability in respect of warrants	**37,188**	—
Equity-settled share-based payment expenses	**6,469**	—
Operating profit before changes in working capital	**683,904**	425,279
Change in inventories	**40,527**	34,416
Change in trade and other receivables	**(340,749)**	(260,398)
Change in trade and other payables	**325,457**	28,438
Change in deferred income	**(1,162)**	(1,162)
Income tax paid	**(56,925)**	(29,493)
Income tax refund	**1,105**	—
Net cash generated from operating activities	**652,157**	197,080

The notes on Page 32 to 86 form part of these financial statements.

	2011 RMB'000	2010 RMB'000
Investing activities		
Interest received	**4,087**	2,806
Proceeds from disposal of property, plant and equipment and lease prepayments	**32,136**	28,287
Payment for the purchase of property, plant and equipment	**(348,453)**	(285,062)
Net (payment)/proceeds for/from (acquisition)/maturity of time deposits	**(474,000)**	192,000
Net payment for acquisition of pledged deposits	**(13,259)**	(17,277)
Dividends received from unlisted securities	**800**	1,600
Payment for acquisition of interests in associates	**—**	(47,882)
Payment for acquisition of interest in a jointly controlled entity	**—**	(4,780)
Net cash used in investing activities	**(798,689)**	(130,308)
Financing activities		
Proceeds from new interest-bearing borrowings	**1,905,668**	2,096,839
Repayment of interest-bearing borrowings	**(1,818,215)**	(1,797,789)
Interest paid	**(106,469)**	(91,057)
Dividends paid to equity shareholders of the Company	**(47,194)**	(22,401)
Net cash generated from financing activities	**(66,210)**	185,592
Net (decrease)/increase in cash and cash equivalents	**(212,742)**	252,364
Cash and cash equivalents at 1 January	**315,831**	63,467
Cash and cash equivalents at 31 December	**103,089**	315,831

The notes on Page 32 to 86 form part of these financial statements.

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. A summary of the significant accounting policies adopted by the Group is set out in note 3.

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 4 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 (see note 3(e));

— share-based payments (see note 3(n)(iii)).

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.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 36.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Group entities, except as explained in note 4, which addresses changes in accounting policies.

(a) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 3(d)) or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity (see Note 3(b)).

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

(b) Associates and jointly controlled entities

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale).

Under the equity method, the investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Notes 3(c) and (h)). The Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

3 Significant accounting policies (continued)

(b) Associates and jointly controlled entities (continued)

When the Group's share of losses exceeds its interest in the associate or the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have significant influence over an associate or joint control over a jointly controlled entity, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 3(d)) or, when appropriate, the cost on initial recognition of an investment in an associate (see Note 3(b)).

In the Company's statement of financial position, investments in associates and jointly controlled entities are stated at cost less impairment losses (see Note 3(h)), unless classified as held for sale (or included in a disposal group that is classified as held for sale)).

(c) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 3(h)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

3 Significant accounting policies (continued)

(d) Other investments in equity securities

The Group's and the Company's policies for investments in equity securities, other than investments in subsidiaries, associates and jointly controlled entities, are as follows:

Investments in equity securities are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs.

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

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(e) 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.

(f) Property, plant and equipment

(i) Recognition and measurement

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

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

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

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the net disposal proceeds and the carrying amount of property, plant and equipment and are recognised net in the consolidated statement of comprehensive income on the date of retirement or disposal.

(ii) Subsequent costs

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

3 Significant accounting policies (continued)

(f) Property, plant and equipment (continued)

(iii) Depreciation

Depreciation of an asset begins when it is available to use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in the consolidated statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

- Plant and buildings — 20 years
- Machinery — 5–20 years
- Motor vehicles — 8 years
- Office equipment and others — 5 years

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

(g) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases and the leased assets are not recognised in the Group's consolidated statement of financial position.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

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

3 Significant accounting policies (continued)

(h) Impairment

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence of impairment includes observable data that comes to the attention of the Group about the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For investments in subsidiaries, associates and jointly controlled entities (including those recognised using the equity method (see Note 3(b))), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 3(h)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 3(h)(ii).

— For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

— For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

3 Significant accounting policies (continued)

(h) Impairment (continued)

(i) Impairment of investments in equity securities and other receivables (continued)

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed.

Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each reporting date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment (other than properties carried at revalued amounts);

— intangible assets;

— prepayments for leasehold land classified as being held under an operating lease; and

— goodwill.

3 Significant accounting policies (continued)

(h) Impairment (continued)

(ii) Impairment of other assets (continued)

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment:

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see Notes 3(h)(i) and 3(h)(ii)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

3 Significant accounting policies (continued)

(i) Inventories

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

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

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

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

(j) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see Note 3(h)), except for the Company's receivables from its subsidiaries without any fixed repayment term or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(k) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in the consolidated statement of comprehensive income over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(l) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

3 Significant accounting policies (continued)

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(n) Employee benefits

(i) Short term employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the consolidated statement of comprehensive income when they are due, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(iii) 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).

(o) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

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

3 Significant accounting policies (continued)

(o) Income tax (continued)

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

3 Significant accounting policies (continued)

(o) Income tax (continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the company or the group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the company or the group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(p) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

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

(q) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sales of goods

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, value added tax, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

3 Significant accounting policies (continued)

(q) Revenue recognition (continued)

(ii) Government grants

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

(iii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iv) Dividends income

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(v) Finance income

Finance income represents interest income from deposits placed with banks, which is recognised as it accrues in the consolidated statement of comprehensive income, using the effective interest method.

(r) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in the consolidated statement of comprehensive income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Renminbi ("RMB") at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

3 Significant accounting policies (continued)

(s) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(t) Dividends distributed

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

(u) Earnings per share

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

(v) Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:

(a) has control or joint control over the Group;

(b) has significant influence over the Group; or

(c) is a member of the key management personnel of the Group or the Group's parent.

(ii) An entity is related to the Group if any of the following conditions applies:

(a) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(b) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(c) Both entities are joint ventures of the same third party.

(d) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(e) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(f) The entity is controlled or jointly controlled by a person identified in (i).

(g) A person identified in (i)(a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

3 Significant accounting policies (continued)

(w) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Chairman (the chief operating decision maker) for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

4 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. The disclosures about the Group's financial instruments in note 29 and note 33 have been conformed to the amended disclosure requirements. 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.

5 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 terepthatic 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.

5 Revenue and segment reporting (continued)

(a) Segment results, assets and liabilities (continued)

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

5 Revenue and segment reporting (continued)

(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

5 Revenue and segment reporting (continued)

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

	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 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 RMB'000	2010 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

6 Other income

		2011 RMB'000	2010 RMB'000
Government grants	(i)	**8,257**	7,555
Net gain on disposal of property, plant and equipment		**—**	9,430
Dividend income from unlisted securities	(ii)	**800**	1,600
Reversal of impairment loss for doubtful debts		**—**	3,408
Others		**3,644**	1,022
		12,701	23,015

6 Other income (continued)

(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 RMB7,095,000 (2010: RMB6,393,000) 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 RMB1,162,000 (2010: RMB1,162,000) during the year ended 31 December 2011 (see Note 28).

(ii) The Group received dividends totalling to RMB800,000 (2010: RMB1,600,000) from its unlisted equity investments (see Note 20) during the year ended 31 December 2011.

7 Other expenses

	2011 RMB'000	2010 RMB'000
Net foreign exchange loss	**21,315**	21,118
Provision of impairment losses for doubtful debts	**11,081**	—
Provision of impairment losses for goodwill arising from acquisition of interest in associates (Note 18)	**—**	5,627
Net loss on disposal of property, plant and equipment	**629**	—
Others	**1,032**	2,655
	34,057	29,400

8 Profit before income tax

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

(a) Net finance costs

	2011 RMB'000	2010 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 (Note 29)	**42,754**	—
Change in fair value of warrants (Note 29)	**(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%).

8 Profit before income tax (continued)

(b) Staff costs

	2011 RMB'000	2010 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 (Note 30)	**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 RMB'000	2010 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 8(b) for each of these types of expenses.

9 Income tax expense

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

	2011 RMB'000	2010 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.

9 Income tax expense (continued)

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

	2011 RMB'000	2010 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

10 Directors' remuneration

Details of the directors' remuneration are as follows:

Year ended 31 December 2011

	Fees RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement benefit schemes RMB'000	Bonus RMB'000	Share-based payments (Note) RMB'000	Total RMB'000
Executive Directors						
Zhu Xiaokun	—	96	13	7,500	130	7,739
Zhu Zhihe	—	101	11	42	130	284
Yan Ronghua	—	106	12	39	104	261
Wu Suojun	—	105	12	45	130	292
Non-executive Directors						
Thong Kwee Chee (resigned on 4 January 2011)	—	—	—	—	—	—
Independent non-executive directors						
Li Zhengbang	60	—	—	—	—	60
Gao Xiang	36	—	—	—	—	36
Dannis Lee	96	—	—	—	—	96
Total	192	408	48	7,626	494	8,768

10 Directors' remuneration (continued)

Year ended 31 December 2010

	Fees RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement benefit schemes RMB'000	Bonus RMB'000	Share-based payments (Note) RMB'000	Total RMB'000
Executive Directors						
Zhu Xiaokun	—	83	12	6,120	—	6,215
Zhu Zhihe	—	85	10	35	—	130
Zhu Mingyao (resigned on 28 December 2010)	—	28	11	—	—	39
Yan Ronghua	—	86	11	32	—	129
Wu Suojun (appointed on 28 December 2010)	—	—	—	—	—	—
Non-executive Directors						
Thong Kwee Chee	—	—	—	—	—	—
Independent non-executive directors						
Li Zhengbang	60	—	—	—	—	60
Gao Xiang	36	—	—	—	—	36
Lau Siu Fai (resigned on 3 June 2010)	41	—	—	—	—	41
Dannis Lee (appointed on 1 September 2010)	14	—	—	—	—	14
Total	151	282	44	6,187	—	6,664

Note:

These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 3(n)(iii).

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option scheme" in the directors' report and note 30.

11 Individuals with highest emoluments

Of the five individuals with the highest emoluments, three (2010: one) are directors whose emoluments are disclosed in note 10 above. The aggregate of the emoluments in respect of the other two (2010: four) individuals are as follows:

	2011 RMB'000	2010 RMB'000
Basic salaries, allowances and other benefits	**731**	974
Contributions to retirement benefit schemes	**24**	55
Bonus	**106**	161
Share-based payments	**234**	—
	1,095	1,190

11 Individuals with highest emoluments (continued)

The above individuals' emoluments are within the band of Nil to Hong Kong dollars (HKD)1,000,000.

No emoluments were paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the year ended 31 December 2011.

12 Profit attributable to equity holders of the Company

The consolidated profit attributable to equity holders of the Company includes a loss of RMB39,766,000 (2010: a loss of RMB11,772,000) which has been dealt with in the financial statements of the Company (see Note 32(a)).

13 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 described in note 29 and note 30 respectively, 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 (Note 29)	**39,744,292**	—
Effect of equity settled share-based transactions (Note 30)	**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.

14 Property, plant and equipment

The Group

	Plant and buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:						
Balance at 1 January 2010	261,420	760,137	5,143	38,055	627,253	1,692,008
Additions	930	55,743	1,593	6,906	252,484	317,656
Transfer from construction in progress	149,919	599,372	2,879	2,558	(754,728)	—
Disposals	—	(3,375)	(2,889)	(2,372)	—	(8,636)
Balance at 31 December 2010	412,269	1,411,877	6,726	45,147	125,009	2,001,028
Additions	2,792	73,233	1,929	4,968	256,399	339,321
Transfer from construction in progress	9,698	60,829	—	—	(70,527)	—
Disposals	(700)	(5,534)	(972)	—	—	(7,206)
Balance at 31 December 2011	424,059	1,540,405	7,683	50,115	310,881	2,333,143
Depreciation:						
Balance at 1 January 2010	(65,239)	(247,947)	(1,995)	(28,542)	—	(343,723)
Charge for the year	(16,131)	(68,141)	(623)	(3,859)	—	(88,754)
Written back on disposals	—	2,614	942	1	—	3,557
Balance at 31 December 2010	(81,370)	(313,474)	(1,676)	(32,400)	—	(428,920)
Charge for the year	(19,817)	(86,711)	(744)	(6,114)	—	(113,386)
Written back on disposals	52	1,861	528	—	—	2,441
Balance at 31 December 2011	(101,135)	(398,324)	(1,892)	(38,514)	—	(539,865)
Carrying amounts:						
At 31 December 2011	322,924	1,142,081	5,791	11,601	310,881	1,793,278
At 31 December 2010	330,899	1,098,403	5,050	12,747	125,009	1,572,108

(i) All plant and buildings are located in the PRC.

(ii) Pursuant to the lease agreements entered into between the Group and Jiangsu Tiangong Group Company Limited ("TG Group") on 6 January 2010, the Group is required to pay RMB600,000 per annum for the lease of office premises from the TG Group effective from 1 January 2010 to 31 December 2012, and to pay RMB400,000 per annum for the lease of amenity facilities from the TG Group effective from 1 January 2010 to 31 December 2012 (see Note 35(a)).

(iii) The property, plant and equipment owned by the Company with carrying amounts of RMB43,000 at 31 December 2011 (2010: RMB75,000) are all office equipment.

15 Lease prepayments

	The Group 2011 RMB'000	2010 RMB'000
Cost:		
Balance at 1 January	**68,517**	68,517
Additions	**12,870**	—
Balance at 31 December	**81,387**	68,517
Amortisation:		
Balance at 1 January	**(7,205)**	(5,878)
Charge for the year	**(1,627)**	(1,327)
Balance at 31 December	**(8,832)**	(7,205)
Carrying amounts:		
At 31 December	**72,555**	61,312
At 1 January	**61,312**	62,639

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

16 Goodwill

	The Group RMB'000
Cost:	
At 31 December 2010 and 2011	21,959
Accumulated impairment losses:	
At 31 December 2010 and 2011	—
Carrying amounts:	
At 31 December 2010 and 2011	21,959

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

16 Goodwill (continued)

Goodwill is allocated to the Group's cash-generating units identified according to the reportable segments as follows:

	2011 RMB'000	2010 RMB'000
Die steel	**21,959**	21,959

The recoverable amount of the die steel cash-generating unit was determined based on value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rate, growth rate and gross margin. The Group prepared cash flow forecasts derived from the two-year financial budgets and extrapolated cash flows for the following eighteen years based on an estimated growth rate of 3%–10% (2010: 3%–10%), a discount rate of 6.08% (2010: 5.7%) and a gross margin of 15%–18% (2010: 16%–18%). The growth rate used does not exceed the long-term average growth rate for the business in which the cash-generating unit operates.

Management determined the budgeted gross margin and growth rate based on past performance and its expectation for market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

17 Interests in subsidiaries

	The Company	
	2011 RMB'000	2010 RMB'000
Unlisted shares, at cost	**6,869**	400
Receivables from subsidiaries	**807,196**	859,953
	814,065	860,353

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

17 Interests in subsidiaries (continued)

Details of the subsidiaries as at 31 December 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	Indirect	Issued and fully paid-up/ registered capital	Principal activities
China Tiangong Company Limited	British Virgin Islands, 14 August 2006	100%	–	USD–/ USD50,000	Investment holding
TG Tools (i)	the PRC, 7 July 1997	–	100%	RMB844,300,000/ RMB844,300,000	Manufacture and sales of high speed steel and cutting and drilling tools
TG Aihe (ii)	the PRC, 5 December 2003	–	100%	RMB401,438,000/ RMB401,438,000	Manufacture and sales of die steel
Tianfa Forging (ii)	the PRC, 11 October 2000	–	100%	USD18,600,000/ USD18,600,000	Precision forging and sales of high speed steel
Tianji Packaging (iii)	the PRC, 13 May 2002	–	100%	RMB2,000,000/ RMB2,000,000	Manufacture and sales of packaging materials
China Tiangong (Hong Kong) Company Limited	Hong Kong, 13 June 2008	–	100%	HKD1/ HKD1	Investment holding
TG Titan (iii)	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

Note:

(i) TG Tools is a wholly foreign-owned enterprise incorporated in the PRC.

(ii) TG Aihe and Tianfa Forging are incorporated in the PRC as sino-foreign equity joint ventures.

(iii) Tianji Packaging and TG Titan are incorporated in the PRC as domestic companies.

18 Interest in associates

	The Group 2011 RMB'000	2010 RMB'000	The Company 2011 RMB'000	2010 RMB'000
Unlisted shares, at cost	**—**	—	**41,648**	41,648
Share of net assets	**46,687**	46,908	**—**	—
	46,687	46,908	**41,648**	41,648
Less: impairment loss	**(9,342)**	(5,627)	**(9,342)**	(5,627)
	37,345	41,281	**32,306**	36,021

18 Interest in associates (continued)

Details of the Group's interest in associates as at 31 December 2011 which are unlisted corporate entities are set out below:

Name of company	Place and date of incorporation	Percentage of equity attributable to the Company Direct	Indirect	Issued and fully paid-up/ registered capital	Principal activities
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 Holdings ("SBSMH")	the United States, 6 January 2010	20%	–	USD8,250,000/ USD8,250,000	Investment holdings

Summary financial information on associates:

	Assets RMB'000	Liabilities RMB'000	Equity RMB'000	Revenues RMB'000	Profit/(loss) RMB'000
2011					
100 per cent	390,257	(186,704)	203,553	437,876	(2,350)
Group's effective interest	80,216	(42,871)	37,345	94,975	(221)
2010					
100 per cent	319,071	(116,537)	202,534	30,406	(5,090)
Group's effective interest	64,751	(23,470)	41,281	11,297	(974)

19 Interest in a jointly controlled entity

	The Group **2011** **RMB'000**	2010 RMB'000
Share of net assets	**5,835**	4,132

Details of the Group's interest in the jointly controlled entity which is an unlisted corporate entity as at 31 December 2011 are set out below.

Name of company	Place and date of incorporation	Percentage of equity attributable to the Company Direct	Indirect	Issued and fully paid-up/ registered capital	Principal activities
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

19 Interest in a jointly controlled entity (continued)

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

	2011 RMB'000	2010 RMB'000
Non-current assets	**1,451**	565
Current assets	**37,848**	28,959
Current liabilities	**(33,464)**	(25,392)
Net assets	**5,835**	4,132
Income	**38,509**	26,324
Expenses	**(36,806)**	(26,972)
Profit/(loss) for the year	**1,703**	(648)

According to the TGT's Articles of Association, no single shareholder is in a position to control the shareholders' meeting and no single director appointed by either shareholder is in a position to control the Board of Directors. Therefore, although the Group holds 70% of equity interests in TGT, management of the Group consider that the Group has no control over the operational, investing and financing activities of TGT unilaterally and deemed TGT to be a jointly controlled entity of the Group rather than a subsidiary.

20 Other financial assets

	The Group	
	2011 RMB'000	2010 RMB'000
Non-current financial assets		
Available-for-sale financial assets	**10,000**	10,000

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

The Group's exposure to credit risk related to other financial assets is disclosed in note 33(a).

21 Inventories

(a) Inventories in the statement of financial position comprise:

	The Group 2011 RMB'000	2010 RMB'000
Raw materials	**58,245**	84,426
Work in progress	**549,222**	666,392
Finished goods	**570,338**	467,514
	1,177,805	1,218,332
Carrying amount of inventories carried at fair value less cost to sell	**429,774**	391,668

(b) The analysis of the amount of inventories recognised as an expense is as follows:

	The Group 2011 RMB'000	2010 RMB'000
Carrying amount of inventories sold	**2,407,941**	1,883,533
Reversal for write-down of inventories	**(2,941)**	(1,552)
	2,405,000	1,881,981

22 Trade and other receivables

	The Group 2011 RMB'000	2010 RMB'000
Trade receivables	**858,750**	540,549
Bills receivable	**273,752**	316,294
Less: impairment provision for doubtful debts (Note 22(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.

The Group's and the Company's exposure to credit and currency risks related to trade and other receivables are disclosed in note 33.

22 Trade and other receivables (continued)

(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 (see Note 3(h)(i)).

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

22 Trade and other receivables (continued)

(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.

23 Pledged deposits

Bank deposits of RMB149,894,000 (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 related bills payables by the Group and the termination of related banking facilities.

The Group's exposure to credit, currency and interest rate risks are disclosed in note 33.

24 Time deposits

Time deposits on the consolidated statement of financial position represent bank deposits that are over 3 months of maturity at acquisition.

The Group's exposure to credit and interest rate risks are disclosed in note 33.

25 Cash and cash equivalents

As at 31 December 2010 and 2011, all of the Group's and the Company's cash and cash equivalents in the consolidated statement of financial position and the consolidated cash flow statement represented cash at bank and cash in hand.

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand	**103,089**	315,831	**2,600**	1,083

26 Interest-bearing borrowings

This note provides information about the contractual terms of the Group's interest-bearing borrowings, which are measured at amortised cost. More information about the Group's and the Company's exposure to interest rate, foreign currency and liquidity risks is disclosed in note 33.

		The Group	
		2011	2010
		RMB'000	RMB'000
Current			
Unsecured bank loans	(i)	**987,203**	765,250
Current portion of non-current unsecured bank loans		**529,000**	457,000
		1,516,203	1,222,250
Non-current			
Unsecured bank loans	(ii)	**956,000**	1,090,500
Less: Current portion of non-current unsecured bank loans	(ii)	**(529,000)**	(457,000)
		427,000	633,500
		1,943,203	1,855,750

(i) Current unsecured bank loans carried interest at annual rates ranging from 2.50% to 9.80% (2010: 2.66% to 5.56%) and were all repayable within one year.

No current unsecured bank loans were guaranteed by any third party (2010: RMB100,000,000 guaranteed by a third party in the same city).

26 Interest-bearing borrowings (continued)

(ii) Non-current unsecured bank loans carried interest at annual rates ranging from 0.30% to 6.98% (2010: 0.30% to 5.76%).

Non-current unsecured bank loans of RMB100,000,000 (2010: nil) were guaranteed by a customer in the same city.

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

	The Group	
	2011	2010
	RMB'000	RMB'000
Within 1 year	**529,000**	457,000
Over 1 year but less than 2 years	**427,000**	630,500
Over 2 years but less than 3 years	**—**	3,000
	427,000	633,500
	956,000	1,090,500

27 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

The Group's and the Company's exposure to liquidity and currency risks related to trade and other payables is disclosed in note 33.

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

28 Deferred income

Deferred income consists of conditional government grants received for completion of certain construction projects. At the end of 2009, the construction projects related to the conditional government grants had been completed and the deferred income had started to be amortised in line with the useful life of the related fixed assets. At 31 December 2011, the carrying amount of the deferred income in respect of government grants after amortisation (Note 6(i)) amounts to RMB7,190,000 of which RMB6,028,000 is classified as non-current.

29 Financial instruments

	Note	Derivative liabilities — warrants RMB'000
At 31 December 2010		—
Fair value recognised upon issuance	8(a)/29(a)	42,754
Change in fair value	8(a)/29(b)	(5,566)
Derecognised to capital reserve	29(b)	(37,188)
At 31 December 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 had 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 was 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.

(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.

29 Financial instruments (continued)

(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.

30 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.

30 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 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.

31 Income tax in the consolidated statement of financial position

(a) Current taxation in the consolidated statement of financial position represents:

	The Group 2011 RMB'000	2010 RMB'000
At the beginning of the year	**19,665**	14,964
Provision for PRC income tax for the year	**67,558**	34,194
PRC income tax paid	**(55,820)**	(29,493)
At the end of the year	**31,403**	19,665

(b) Deferred tax assets recognised

The components of the Group's deferred tax assets recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Unrealised profits RMB'000	Impairment provision for doubtful debts RMB'000	Write down of inventories RMB'000	Total RMB'000
At 1 January 2010	—	5,878	4,154	10,032
Recognised in consolidated statement of comprehensive income	569	(798)	(158)	(387)
At 31 December 2010	569	5,080	3,996	9,645
Recognised in consolidated statement of comprehensive income	952	2,640	(516)	3,076
At 31 December 2011	1,521	7,720	3,480	12,721

31 Income tax in the consolidated statement of financial position (continued)

(c) Deferred tax liabilities recognised and not recognised

The components of the Group's deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Undistributed profits of subsidiaries RMB'000	Deductible capitalised borrowing costs RMB'000	Total RMB'000
At 1 January 2010	2,541	5,661	8,202
Recognised in consolidated statement of comprehensive income	2,178	6,181	8,359
At 31 December 2010	4,719	11,842	16,561
Recognised in consolidated statement of comprehensive income	3,332	1,991	5,323
At 31 December 2011	8,051	13,833	21,884

Pursuant to the income tax law of the PRC, 10% withholding tax is levied on the foreign investor in respect of dividend distributions arising from a foreign investment enterprise's profits earned after 1 January 2008. As at 31 December 2011, deferred tax liabilities of RMB8,051,000 (2010: RMB4,719,000) have been recognised in respect of the tax that would be payable on the distribution of the retained profits of the Group's PRC subsidiaries. Deferred tax liabilities of RMB43,007,000 (2010: RMB22,516,000) have not been recognised, as the Company controls the timing of the reversal of temporary differences associated with undistributed profits of these subsidiaries and it has been determined that it is probable that profits earned by the Group's PRC subsidiaries for the period from 1 January 2008 to 31 December 2011 will not be distributed in the foreseeable future.

32 Capital, reserves and dividends

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital RMB'000 Note 32(c)	Share premium RMB'000 Note 32(d)(i)	Capital reserve RMB'000 Note 32(d)(ii)	Exchange reserve RMB'000 Note 32(d)(iv)	Retained earnings/ (deficit) RMB'000	Total RMB'000
At 1 January 2010	31,806	886,566	—	—	8,336	926,708
Dividends approved in respect of the previous year (Note 32(b)(ii))	—	—	—	—	(22,401)	(22,401)
Total comprehensive loss for the year	—	—	—	—	(11,772)	(11,772)
At 31 December 2010	31,806	886,566	—	—	(25,837)	892,535
Loss for the year	—	—	—	—	(39,766)	(39,766)
Other comprehensive loss	—	—	—	(3,715)	—	(3,715)
Total comprehensive loss for the year	—	—	—	(3,715)	(39,766)	(43,481)
Dividends approved in respect of the previous year (Note 32(b)(ii))	—	—	—	—	(47,194)	(47,194)
Derecognition of derivative financial liability in respect of warrants (Note 29)	—	—	37,188	—	—	37,188
Equity settled share-based transactions (Note 30)	—	—	6,469	—	—	6,469
At 31 December 2011	31,806	886,566	43,657	(3,715)	(112,797)	845,517

(b) Dividends

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

	2011 RMB'000	2010 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 RMB'000	2010 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

32 Capital, reserves and dividends (continued)

(c) Share capital

Authorised, issued and fully paid share capital:

Authorised:

	2011 No. of Shares ('000)	**2011** Amount USD '000	2010 No. of Shares ('000)	2010 Amount USD '000
Ordinary shares of USD0.0025 each (2010: USD0.0100)	**4,000,000**	**10,000**	1,000,000	10,000

Ordinary shares issued and fully paid:

	2011 No. of Shares ('000)	**2011** Amount USD '000	**2011** RMB equivalent '000	2010 No. of shares ('000)	2010 Amount USD '000	2010 RMB equivalent '000
At 1 January and at 31 December	**1,678,000**	**4,195**	**31,806**	419,500	4,195	31,806

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

(d) Nature and purpose of reserves

(i) Share premium

The share premium represents the difference between the par value of the shares of the Company and the proceeds received from the issuance of shares of the Company. Under the Companies Law of the Cayman Islands, share premium account is distributable to shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to repay its debts as they fall due in the ordinary course of business.

32 Capital, reserves and dividends (continued)

(d) Nature and purpose of reserves (continued)

(ii) Capital reserve

The capital reserve comprises the following:

— the waived payables due to TG Group in connection with the acquisition of land use rights and plant in 2007. These waivers of liabilities by TG Group were regarded as equity transactions and recorded in the capital reserve account;

— the portion of the grant date fair value of unexercised share options granted to employees of the Group that has been recognised in accordance with the accounting policy adopted for share-based payments in note 3(n)(iii); and

— the amount of the unexercised warrants issued by the Company recognised in accordance with the accounting policy adopted for financial instruments in note 3(e).

(iii) Merger reserve

The merger reserve comprises the excess amount, arising from the Group's reorganisation of Group entities under common control in 2006 and 2007, of its share of the net identifiable assets acquired in these subsidiaries over the consideration paid. The reorganisation transactions were regarded as equity transactions and the excess of the share of the net identifiable assets over the consideration paid was transferred to the merger reserve in the consolidated financial statements.

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign equity-accounted investees. The reserve is dealt with in accordance with the accounting policies set out in note 3(b) and (r).

(v) PRC statutory reserves

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

General reserve fund

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

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

Enterprise expansion fund

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

(e) Distributability of reserves

At 31 December 2011, the aggregate amount of reserves available for distribution to equity holders of the Company was RMB770,054,000 (2010: RMB860,729,000).

(f) Capital management

The Group's primary objectives when managing capital are to maintain investor, creditor and market confidence and to sustain future development of the business. The board of directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity. The board of directors also monitors the level of dividends to ordinary shareholders.

32 Capital, reserves and dividends (continued)

(f) Capital management (continued)

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

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

The gearing ratio of the Group for the year ended 31 December 2011 is 91% (2010: 104%). The gearing ratio is calculated by dividing total borrowings by total equity.

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

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

33 Financial risk management and fair values

Exposure to credit, liquidity, currency and interest rate risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The maximum exposure to credit risk without taking into account any collateral held is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance.

(i) Trade and other receivables

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 120 days depending on the creditworthiness of individual customers. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At 31 December 2011, 0% (2010: 4%) and 13% (2010: 12%) of the total trade and other receivables were due from the Group's largest customer and the five largest customers respectively.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 22.

33 Financial risk management and fair values (continued)

(a) Credit risk (continued)

(ii) Investments

The Group limits its exposure to credit risk by only investing in liquid securities and/or only with counterparties that have a credit rating equal to or better than the Group. Management does not expect any counterparty to fail to meet its obligations.

(iii) Deposits with bank

Substantially all of the bank deposits are deposited with Chinese state-owned banks and local commercial banks. The management does not expect any losses arising from non-performance of these financial institutions.

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, as at 31 December 2011, total banking and borrowing facilities available to the Group amounted to RMB4,463,000,000 (2010: RMB3,853,000,000) of which RMB1,967,000,000 (2010: RMB1,912,450,000) had been utilised.

The following table details the remaining contractual maturities at the reporting dates of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the reporting date) and the earliest date the Group and the Company can be required to pay.

The Group

	2011 Contractual undiscounted cash outflow				
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 3 years RMB'000	Total RMB'000	Statement of financial position carrying amount RMB'000
Non-derivative financial liabilities					
Interest-bearing borrowings	1,549,760	455,620	—	2,005,380	1,943,203
Trade and other payables	986,897	—	—	986,897	986,897
	2,536,657	455,620	—	2,992,277	2,930,100

33 Financial risk management and fair values (continued)

(b) Liquidity risk (continued)

The Group (continued)

	2010 Contractual undiscounted cash outflow				
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 3 years RMB'000	Total RMB'000	Statement of financial position carrying amount RMB'000
Non-derivative financial liabilities					
Interest-bearing borrowings	1,249,252	669,780	3,027	1,922,059	1,855,750
Trade and other payables	650,290	—	—	650,290	650,290
	1,899,542	669,780	3,027	2,572,349	2,506,040

The Company

	2011 Contractual undiscounted cash outflow				
	Within 1 year or on demand RMB'000	**More than 1 year but less than 2 years RMB'000**	**More than 2 years but less than 3 years RMB'000**	**Total RMB'000**	**Statement of financial position carrying amount RMB'000**
Non-derivative financial liabilities					
Trade and other payables	**3,497**	**—**	**—**	**3,497**	**3,497**
	3,497	**—**	**—**	**3,497**	**3,497**

	2010 Contractual undiscounted cash outflow				
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 3 years RMB'000	Total RMB'000	Statement of financial position carrying amount RMB'000
Non-derivative financial liabilities					
Trade and other payables	4,997	—	—	4,997	4,997
	4,997	—	—	4,997	4,997

33 Financial risk management and fair values (continued)

(c) Currency risk

The Group is exposed to currency risk primarily through sales, purchases and borrowings which give rise to receivables, payables, borrowings and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States dollars (USD), Euros (EUR), HKD and Sterling (GBP).

RMB is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through the People's Bank of China or other institutions authorised to buy and sell foreign exchange. The exchange rate adopted for the foreign exchange transactions are the rates of exchange quoted by the People's Bank of China.

The following table details the Group's and the Company's exposure at the reporting date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the year end date.

(i) Exposure to currency risk

The Group

	2011 Exposure to foreign currencies (expressed in RMB)	
	USD RMB'000	**EUR RMB'000**
Trade and other receivables	**214,707**	**52,121**
Cash and cash equivalents	**18,132**	**2,410**
Interest-bearing borrowings	**(110,203)**	**—**
Statement of financial position net exposure	**122,636**	**54,531**

	2010 Exposure to foreign currencies (expressed in RMB)	
	USD RMB'000	EUR RMB'000
Trade and other receivables	152,977	16,544
Cash and cash equivalents	29,046	2,545
Trade and other payables	(1,933)	—
Interest-bearing borrowings	(89,605)	—
Statement of financial position net exposure	90,485	19,089

33 Financial risk management and fair values (continued)

(c) Currency risk (continued)

(i) Exposure to currency risk (continued)

The Company

	2011 Exposure to foreign currencies (expressed in RMB) USD RMB'000	EUR RMB'000
Cash and cash equivalents	**479**	**3**
Statement of financial position net exposure	**479**	**3**

	2010 Exposure to foreign currencies (expressed in RMB) USD RMB'000	EUR RMB'000
Cash and cash equivalents	870	—
Statement of financial position net exposure	870	—

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise if foreign exchange rates to which the Group has significant exposure at the reporting date had changed at that date, assuming all other risk variables remained constant.

The Group

	2011 Increase/ (decrease) in foreign exchange rates	2011 Increase/ (decrease) on profit after tax and retained profits RMB'000	2010 Increase/ (decrease) in foreign exchange rates	2010 Increase/ (decrease) on profit after tax and retained profits RMB'000
USD	**5%**	**5,368**	5%	3,964
	(5)%	**(5,368)**	(5)%	(3,964)
EUR	**10%**	**4,771**	10%	1,672
	(10)%	**(4,771)**	(10)%	(1,672)

33 Financial risk management and fair values (continued)

(c) Currency risk (continued)

(ii) Sensitivity analysis (continued)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the reporting date for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the reporting date. The analysis is performed on the same basis for 2010.

(d) Interest rate risk

The Group's interest rate risk arises primarily from interest-bearing borrowings, pledged deposits and time deposits.

Pledged bank deposits are not held for speculative purposes but are placed to satisfy conditions for issuance of bank acceptance bills and other banking facilities granted to the Group.

Interest-bearing borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The interest rates and terms of repayment of the interest-bearing borrowings of the Group are disclosed in note 26.

(i) Interest rate profile

The following table details the interest rate profile of the Group's interest-bearing financial instruments at the reporting date:

The Group

	2011 Effective interest rate %	**2011** RMB'000	2010 Effective interest rate %	2010 RMB'000
Fixed rate instruments				
Interest-bearing borrowings	**0.30%–9.80%**	**(238,204)**	0.30%–5.56%	(1,125,250)
Pledged deposits	**3.30%**	**149,894**	2.25%	136,635
Time deposits	**3.30%**	**474,000**	—	—
		385,690		(988,615)
Variable rate instruments				
Interest-bearing borrowings	**2.50%–7.54%**	**(1,704,999)**	3.51%–5.76%	(730,500)

(ii) Sensitivity analysis

At 31 December 2011, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately RMB14,919,000 (2010: RMB6,392,000).

33 Financial risk management and fair values (continued)

(d) Interest rate risk (continued)

(ii) Sensitivity analysis (continued)

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise assuming that the change in interest rates had occurred at the reporting date and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the reporting date. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the reporting date, the impact on the Group's profit after tax (and retained profits) is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2010.

(e) Fair values

Available-for-sale financial assets are stated at cost less impairment losses as there is no quoted market price in an active market for these assets. Further disclosures in respect of these assets are set out in note 20.

Except for available-for-sale financial assets, all financial instruments measured at other than fair value are carried at amounts not materially different from their fair values as at 31 December 2011 and 2010 due to either the short maturities of these financial instruments or variable market interest rates for long-term bank borrowings.

34 Commitments

(a) Capital commitments

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

	The Group	
	2011	2010
	RMB'000	RMB'000
Contracted for		
— Land and buildings	**—**	12,870
— Equipment	**96,579**	95,191
	96,579	108,061
Authorised but not contracted for		
— Land and buildings	**84,130**	65,130
— Equipment	**306,784**	219,834
	390,914	284,964

34 Commitments (continued)

(b) Operating leases commitments

At 31 December 2011 and 2010, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**1,315**	1,268	**27**	116
After 1 year but within 5 years	**184**	1,168	**—**	—
	1,499	2,436	**27**	116

The Group leases certain properties located in the PRC and Hong Kong as the Group's offices under operating leases. The leases run for an initial period of 1–2 years.

35 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 these related parties for these periods presented.

(a) Significant related party transactions — recurring

	2011	2010
	RMB'000	RMB'000
Sale of goods to:		
Jointly controlled entity	**83,165**	75,383
Associates	**51,009**	17,511
	134,174	92,894
Freight expense to:		
Associates	**26,210**	16,482
Lease expense to:		
Ultimate shareholders' company	**1,000**	1,000
Lease income from:		
Associates	**50**	50

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.

35 Related party transactions (continued)

(b) Trade and other receivables due from related parties

	2011 RMB'000	2010 RMB'000
The Group		
Associates	**16,675**	15,143
Jointly controlled entity	**30,101**	35,905
	46,776	51,048

(c) Trade and other payables due to related parties

	2011 RMB'000	2010 RMB'000
The Group		
Associates	**174**	2,195

(d) Transactions with key management personnel

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 10 and certain of the highest paid employees as disclosed in note 11, is as follows:

	2011 RMB'000	2010 RMB'000
Short-term employee benefits	**9,371**	7,892
Post-employment benefits	**109**	119
Share-based payments	**1,145**	—
	10,625	8,011

Total remuneration is included in "staff costs" (see Note 8(b)).

36 Accounting estimates and judgements

Note 32(b) contains information about the assumptions and risk factors relating to dividends paid and payable. Other judgements made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment are as follows:

(a) Impairment losses on trade and other receivables

As explained in note 33(a), impairment losses for trade and other receivables are assessed and provided based on the directors' regular review of the ageing analysis and past collection history of each individual customer. A considerable level of judgement is exercised by the directors when assessing the creditworthiness and collectability of each receivable. Any increase or decrease in the impairment losses for bad and doubtful debts would affect the consolidated statement of comprehensive income in future years.

(b) Depreciation

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

(c) Net realisable value of inventories

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

(d) Income taxes

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

(e) Estimated carrying amounts of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. Details of the recoverable amount calculation are disclosed in note 16.

37 Parent and ultimate controlling party

At 31 December 2011, the directors consider the immediate parent and ultimate controlling party of the Company to be Tiangong Holdings Company Limited, which is incorporated in British Virgin Islands. This entity does not produce financial statements available for public use.

38 Non-adjusting subsequent events

(a) Subsequent to 31 December 2011, the Group established a new subsidiary registered in Hong Kong, Tiangong Development Hong Kong Company Limited ("TG Development"). The registered capital of TG Development was USD5,500,000 which was held 91% by TG Tools and 9% by China Tiangong respectively.

(b) Subsequent to 31 December 2011, the Group reached an agreement with Kushal Metal Steel Industries ("Kushal") to invest in a joint venture registered in the Republic of India named TGK Special Steel PVT Limited ("TGK"). The registered capital of TGK was USD2,000,000 held 50% each by TG Tools and Kushal.

(c) On 26 March 2012, the directors proposed a final dividend of RMB0.0480 per ordinary share (note 32(b)).

39 Possible impact of amendments and new standards issued but not yet effective for the year ended 31 December 2011

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and five new standards which are not yet effective for the year ended 31 December 2011 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to IFRS 7, *Financial instruments: Disclosures — Transfers of financial assets*	1 July 2011
Amendments to IAS 12, *Income taxes — Deferred tax: Recovery of underlying assets*	1 January 2012
Amendments to IAS 1, *Presentation of financial statements — Presentation of items of other comprehensive income*	1 July 2012
IFRS 9, *Financial instruments*	1 January 2013
IFRS 10, *Consolidated financial statements*	1 January 2013
IFRS 11, *Joint arrangements*	1 January 2013
IFRS 12, *Disclosure of interests in other entities*	1 January 2013
IFRS 13, *Fair value measurement*	1 January 2013
IAS 27, *Separate financial statements* (2011)	1 January 2013
IAS 28, *Investments in associates and joint ventures*	1 January 2013
Revised IAS 19, *Employee benefits*	1 January 2013

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

Financial Information Summary

	Year ended 31 December				
	2011	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**3,111,763**	2,348,644	1,323,752	1,993,269	1,735,763
Profit before income tax	**435,132**	278,861	119,320	115,112	181,357
Income tax expense	**(69,805)**	(42,940)	(7,242)	(2,602)	(437)
Profit for the year	**365,327**	235,921	112,078	112,510	180,920
Other comprehensive loss for the year	**(3,715)**	—	—	—	—
Attributable to:					
Equity holders of the Company	**361,612**	235,921	112,078	114,643	180,172
Minority interests	**—**	—	—	(2,133)	748
Earnings per Share					
Basic (RMB)	**0.218**	0.141	0.067	0.068	0.128

	As at 31 December				
	2011	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets					
Non-current assets	**1,953,693**	1,720,437	1,452,915	1,228,276	834,225
Current assets	**3,176,201**	2,611,423	2,349,310	2,002,804	1,668,262
Total assets	**5,129,894**	4,331,860	3,802,225	3,231,080	2,502,487
Liabilities					
Non-current liabilities	**454,839**	657,251	193,553	203,446	84,900
Current liabilities	**2,535,665**	1,893,367	2,040,950	1,549,505	1,033,223
Total liabilities	**2,990,504**	2,550,618	2,234,503	1,752,951	1,118,123
Equity					
Total equity	**2,139,390**	1,781,242	1,567,722	1,478,129	1,384,364

Note:

The results of the Group for the four financial years ended 31 December 2007, 2008, 2009 and 2010 and its assets and liabilities were extracted from the Prospectus and previous annual reports, which also set forth the details of the basis of presentation of the combined accounts.

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

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