天工國際有限公司*

TIANGONG INTERNATIONAL COMPANY LIMITED

(incorporated in the Cayman Islands with limited liability)

Stock Code : 826

Interim Report 2012

* For identification purpose only

Contents

Corporate Information

Registered Name
Tiangong International Company Limited

Chinese Name
天工國際有限公司

Stock Code
Hong Kong Stock Exchange 826

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

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

Company Secretary
Ms. Lee Man Yin

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

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

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

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

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

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

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

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

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

Principal Share Registrar and Transfer Office
Butterfield Fund Services (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 705
Grand Cayman KY1-1107
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office in Hong Kong
Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Center
183 Queen's Road East
Wanchai
Hong Kong

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

Management Discussion and Analysis

Market Review

In the first half of 2012, the global economy continued to deteriorate. Worse still, the Chinese economy showed signs of cooling down after years of continuous growth. Unlike the generic steel industry, high speed steel (HSS) and die steel are specialized products and their production required rare metals and complicated technology. As they are widely applied in many different industrial machineries; hence, demands remain firm and prices being relatively stable. The Group, being the largest HSS manufacturer and a leading die steel manufacturer in China, has strong competitive advantages over both foreign and most domestic competitors. These advantages have facilitated the Group in capturing greater market shares even under the adverse macro environment:

Competitive advantages:

1. *Sizable production scale*

   The Group is the dominant player in HSS industry with an annual production capacity of approximately 50,000 tons.

2. *Significant cost advantages over foreign competitors*

   China has the world's largest reserves of rare metals such as tungsten, molybdenum and vanadium, which are essential raw materials for high grade HSS and die steel production. In recent years, China has imposed strict quotes as well as hefty levies on "direct" exports of rare metals. This has led to foreign competitors suffering from higher raw material costs and unstable supply.

3. *Tight credit environment squeezes out small-scale players and speeds up market consolidation*

   To combat inflationary pressure, Chinese government has tightened monetary and credit conditions since 2010. Consequently, small-scale domestic players have been forced to close down. This market consolidation actually led to an increased market share for the Group.

Business Review

In the first half of 2012, the Group's revenue achieved substantial growth to RMB1,727,010,000, representing an increase of approximately 11.2% year-on-year. Core product segments including HSS, HSS cutting tools and die steel recorded an encouraging year-on-year growth of approximately 25.4%, 4.8% and 16.9% respectively.

	For the six months ended 30 June					
	2012		2011		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
HSS	**719,592**	**41.7**	573,672	36.9	145,920	25.4
HSS cutting tools	**307,362**	**17.8**	293,215	18.9	14,147	4.8
Die steel	**572,591**	**33.1**	489,990	31.5	82,601	16.9
Chemical goods	**127,465**	**7.4**	196,673	12.7	(69,208)	(35.2)
Total	**1,727,010**	**100.0**	1,553,550	100.0	173,460	11.2

During the period, the Group has achieved significant improvement in profitability with profit attributable to the equity shareholders of the Company surged by approximately 41.5% year-on-year. Gross profit margin of the Group was approximately 22.0% (1H2011: 19.6%) while net profit margin increased remarkably to approximately 12.3% (1H2011: 9.7%). The profit enhancement was mainly attributable to the improving production efficiency and curbing production wastage.

Management Discussion and Analysis

The Group has invested heavily in advanced forging machineries and automating HSS and die steel production facilities over the past few years. Such measures have significantly enhanced yield rate and alleviated the pressure brought by soaring labor cost.

HSS — accounted for 42% of the Group's revenue in 1H2012

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

During the period under review, HSS continued to be the greatest revenue contributor of the Group. Revenue from HSS grew by approximately 25.4% to RMB719,592,000 (1H2011: RMB573,672,000).

	For the six months ended 30 June					
	2012		2011		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
HSS						
Domestic	**632,420**	**87.9**	524,512	91.4	107,908	20.6
Export	**87,172**	**12.1**	49,160	8.6	38,012	77.3
	719,592	**100.0**	573,672	100.0	145,920	25.4

HSS cutting tools — accounted for 18% of the Group's revenue in 1H2012

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

In 1H2012, revenue generated from HSS cutting tools increased to RMB307,362,000 (1H2011: 293,215,000), representing a 4.8% year-on-year growth.

	For the six months ended 30 June					
	2012		2011		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
HSS cutting tools						
Domestic	**126,518**	**41.2**	108,617	37.0	17,901	16.5
Export	**180,844**	**58.8**	184,598	63.0	(3,754)	(2.0)
	307,362	**100.0**	293,215	100.0	14,147	4.8

Die steel — accounted for 33% of the Group's revenue in 1H2012

Die steel, used in die and mould casting and machining processing, is mainly applied in sectors such as automotive industry, high-speed railway construction, aviation and plastic product manufacturing. Its production involves various rare metals.

Revenue generated from die steel in 1H2012 reached RMB572,591,000 (1H2011:489,990,000), representing a 16.9% increase.

	For the six months ended 30 June					
	2012		2011		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
Die steel						
Domestic	**355,114**	**62.0**	257,415	52.5	97,699	38.0
Export	**217,477**	**38.0**	232,575	47.5	(15,098)	(6.5)
	572,591	**100.0**	489,990	100.0	82,601	16.9

Titanium Alloy

Titanium alloy is lighter and stronger with higher corrosion resistance as compared to aluminum alloy. Thus, it is mainly applied in aviation, marine engineering, medical and chemical industry. Its production involves sponge titanium and various rare metals.

With an initial production capacity of 1,500–2,000 tons, the titanium production line commenced production at the end of 2011. During the period, titanium alloy contributed approximately RMB18 million to the Group's revenue. The Group started by producing titanium ingots and rods in the first phase, and will gradually extend to higher margin products such as titanium pipes and flat sheets in the near future.

Titanium alloy segment is currently in the market development stage and satisfactory results have been achieved. Aerospace, chemical processing, military and other industrial application are the main sectors consuming titanium alloy. The Group has been actively seeking business opportunities in different potential areas. The Group aims to offer a broader range of products with higher grades and specifications to meet demands from various industries. It is expected that titanium alloy will soon become another pillar revenue source for the Group in the future.

Outlook

The Group remains optimistic towards the second half of 2012 with focuses on further controlling costs and advancing into new markets. During the period, the Group introduced a new production line for high speed steel and die steel production. Our consistent margin improvement has been a testimony for the success of all these cost reduction measures. Apart from that, the Group has expanded its footprint to emerging economies since 2011. A jointly controlled entity has been set up in India in June this year and another one is planning to be set up in Brazil in the future. As emerging economies are furious in urbanization and industrial development, which will subsequently fuel the demand of HSS, HSS cutting tools and die steel; hence, the Group believes that advancing into these markets will broaden our revenue base and generate promising return.

Other than our HSS, HSS cutting tools and die steel business, the Group is confident that our recently developed titanium alloy business will be a growth engine in the near future. Although titanium is often more expensive than other competing metals; however, it is a better alternative in industrial and aerospace application because of its strength, durability and overall performance. Through research & development and technology enhancement, we will continue to venture into the new material industry and create long term value for our shareholders.

Management Discussion and Analysis

Financial review

As a result of the increase penetration in the market share of the Group's products, revenue of all of the Group's main businesses increased. The net profit attributable to equity shareholders of the Company increased by approximately 41.5% to RMB212,981,000 in the first half of 2012 from RMB150,473,000 for the first half of 2011 was also due to the one-off fair value change of warrants amounting to RMB37,188,000 incurred in the prior period.

Revenue

Revenue of the Group for the first half of 2012 totalled RMB1,727,010,000, representing an increase of approximately 11.2% when compared with RMB1,553,550,000 in the first half of 2011. The increase was mainly attributable to the increase in sales volume of the products of the Group.

Cost of sales

The Group's cost of sales increased by RMB98,690,000 from RMB1,248,576,000 for the first half of 2011 to RMB1,347,266,000 for the first half of 2012, representing an increase of approximately 7.9%. The increase was due to the increase in revenue during the period. As a percentage of total revenue, the Group's cost of sales decreased from approximately 80.4% in the first half of 2011 to approximately 78.0% in the first half of 2012.

Gross margin

For the first half of 2012, the gross margin was approximately 22.0% (1H2011: 19.6%). Set out below is the gross margin for our four products for the first half of 2011 and 2012:

	For the period ended 30 June	
	2012	2011
HSS	**25.8%**	21.3%
HSS cutting tools	**15.0%**	16.2%
Die steel	**25.7%**	26.8%
Chemical goods	**1.0%**	1.8%

HSS

The HSS gross margin increased from 21.3% in the first half of 2011 to 25.8% in the same period in 2012, which was mainly due to the benefit from the operating leverage as a result from the increase in production volume.

HSS cutting tools

In the first half of 2012, the gross margin of HSS cutting tools decreased slightly to 15.0% (1H2011: 16.2%) as a result of the decrease in average selling price.

Die steel

The gross margin of die steel decreased slightly from 26.8% in the first half of 2011 to 25.7% in the first half of 2012. The decrease was mainly due to the increase in the sales of hot die steel which had a lower gross profit margin as compared with cold die steel.

Other income

The Group's other income totalled RMB13,504,000 in the first half of 2012, representing an increase of RMB1,436,000 from RMB12,068,000 in the first half of 2011. The increase was mainly attributable to the increase in government grants received from the government.

Distribution expenses

The Group's distribution expenses was RMB22,286,000 (1H2011: RMB17,867,000), representing an increase of approximately 24.7%. The increase was mainly attributable to the increase in transportation expenses as a result of the increase in shipping charges. For the first half of 2012, the distribution expenses as a percentage of revenue was 1.3% (1H2011: 1.2%).

Administrative expenses

For the first half of 2012, the Group's administrative expenses increased by RMB20,477,000 to RMB51,173,000 (1H2011: RMB30,696,000) primarily due to the increase in the share option costs and the increase of social security fund to the employees. For the first half of 2012, the administrative expenses as a percentage of revenue was 3.0% (1H2011: 2.0%).

Net finance cost

The Group's finance income was RMB6,316,000 for the first half of 2012, representing an increase of RMB4,793,000 when compared with the RMB1,523,000 for the first half of 2011. The increase was mainly due to the increase in time deposit as well as a higher bank deposit rate in the first half of 2012. The Group's finance expenses were RMB58,081,000 for the first half of 2012, representing a decrease of 23.5% when compared with the RMB75,904,000 for the first half of 2011. The decrease was attributable to the net effect of the recognition of the one-off fair value change of warrants amounting to RMB37,188,000 during the first half of 2011 and the increase in interest-bearing borrowings in 2012 compared with the same period last year.

Income tax expense

The Group's income tax expense increased by RMB10,688,000 from RMB30,799,000 in the first half of 2011 to RMB41,487,000 in the first half of 2012. Such increase was mainly due to the increase in sales and net profits.

Profit for the period

As a result of the factors discussed above, the Group's profit increased by approximately 41.5% to RMB212,981,000 for the first half of 2012 from RMB150,473,000 for the first half of 2011. The Group's net profit margin increased remarkably from 9.7% in the first half of 2011 to 12.3% in the same period of 2012 mainly due to the effect of the operating leverage.

Profit attributable to equity shareholders of the Company

For the first half of 2012, profit attributable to equity shareholders of the Company was RMB212,981,000 (1H2011: RMB150,473,000), representing an increase of 41.5%.

Liquidity and Financial Resources

As at 30 June 2012, the Group's current assets mainly included cash and cash equivalents of approximately RMB249,108,000, inventories of approximately RMB1,124,812,000, trade and other receivables of RMB1,593,975,000 time deposits of RMB330,000,000 and pledged deposits of RMB408,450,000. As at 30 June 2012, the interest-bearing borrowings of the Group were RMB2,019,604,000, RMB1,744,604,000 of which were repayable within one year and RMB275,000,000 of which were repayable over one year. The Group's gearing ratio (calculated based on the total outstanding interest-bearing debt divided by the total equity) was 80.9%, lower than 90.8% as at 31 December 2011. The decrease was mainly attributable to the placement of new shares which generated approximately RMB182 million of capital during the period. As at 30 June 2012, borrowings of RMB1,934,300,000 were in RMB, USD11,744,831 were in USD and EUR1,400,000 were in EUR. The majority of the borrowings of the Group were subject to interests payable at the rates ranging from 0.30% to 7.87%. The Group did not enter into any interest rate swap to hedge itself against the risks associated with interest rates.

Management Discussion and Analysis

Capital Expenditures and Capital Commitments

For the first half of 2012, the Group's net increase in fixed assets amounted to RMB175,582,000, which were mainly for the rod and wire rolling production line. As at 30 June 2012, capital commitments were RMB268,924,000, of which RMB59,700,000 was contracted and RMB209,224,000 was authorised but not contracted for. The majority of the capital commitments was related to the acquisition of production equipment.

Foreign Exchange Exposure

The Group's revenue were denominated in RMB, US dollars and Euros, with RMB accounting for the largest portion (approximately 58%). Approximately 42% of the total sales and the Group's costs and operating profit were subject to exchange rate fluctuations. The Group did not enter into any financial instrument to hedge against foreign exchange risk. The Group has put in place measures such as monthly review of product pricing in light of foreign exchange fluctuation and incentivising overseas customers to settle balances on a more timely basis to minimize the financial impact from exchange rate exposure.

Pledge of Assets

As at 30 June 2012, the Group pledged certain bank deposits amounting to approximately RMB408,450,000 (31 December 2011: RMB149,894,000). Details are set out in the notes to the financial statements.

Employee's Remuneration and Training

As at 30 June 2012, the Group employed 3,962 employees (31 December 2011: 3,910). The Group provided employees with remuneration packages comparable to the market rates and employees are further rewarded based on their performance according to the framework of the Group's salary, incentives and bonus scheme. In order to enhance the Group's productivity and further improve the quality of the Group's human resources, the Group provides compulsory continuous education and training for all of its staff on a regular basis.

Contingent Liabilities

The Company had no material contingent liabilities as at 30 June 2012.

Report of the Directors

Report of the Directors

The Board is pleased to submit the interim report together with the consolidated financial statements for the six months ended 30 June 2012 which have been reviewed by the Audit Committee of the Company.

Interim Dividend

The Directors do not recommend payment of an interim dividend for the period (no interim dividend for the six months period ended 30 June 2011).

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

As at 30 June 2012, the interests, long positions or short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were recorded in the register required to be kept under Section 352 of the SFO, or which were notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

(a) Interests in the Company

Director's name	Interests	Ordinary shares held	Approximate attributable interests (%)
Mr. Zhu Xiaokun(1 and 2)	Corporate interests	823,086,000 (L)	44.47
	Beneficial owner(3)	400,000 (L)	0.02
			44.49
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 30 June 2012,

(1) Tiangong Holdings Company Limited ("THCL") held 782,354,000 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 782,354,000 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.

Report of the Directors

(b) Interests in the shares of associated corporation

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

(L) Represents long position.

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

Substantial Shareholders' Interests

As at 30 June 2012, 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)	782,354,000 (L)	42.27
THCL (Note 1)	782,354,000 (L)	42.27

Note:

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

Share Options Scheme

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

Purchase, Sales or Redemption of Shares

Save as disclosed in this interim report, during the six months ended 30 June 2012, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its securities.

Corporate Governance Practice

During the period from 1 January 2012 till 31 March 2012, the Company has applied the principles of and has complied with all code provisions of the Code on Corporate Governance Practices (the "Old Code") as set forth in Appendix 14 of the Listing Rules and for the period from 1 April 2012 till 30 June 2012, the Company has complied with the code provisions included in the amendments to the Old Code which took effect since 1 April 2012 (the "New Code") and there has been no deviation from the code provisions as set forth and on the Old Code and the New Code for the six months ended 30 June 2012.

Audit Committee

The Audit Committee comprises three independent non-executive directors. The Audit Committee held a meeting on 20 August 2012 to consider and review the interim report and interim financial statements of the Group and to give their opinion and recommendation to the Board. The Audit Committee considers that the 2012 interim report and interim financial statements of the Company have complied with the applicable accounting standards and the Company has made appropriate disclosure thereof.

The Model Code for Securities Transactions by Directors of Listed Issuers

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

Pledge of Assets

As at 30 June 2012, the Group pledged certain bank deposits amounting to approximately RMB408,450,000 (31 December 2011: RMB149,894,000).

By order of the Board

20 August 2012

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2012 (unaudited)

	Note	Six months ended 30 June 2012 RMB'000	2011 RMB'000
Revenue	3	**1,727,010**	1,553,550
Cost of sales		**(1,347,266)**	(1,248,576)
Gross profit		**379,744**	304,974
Other income	4	**13,504**	12,068
Distribution expenses		**(22,286)**	(17,867)
Administrative expenses		**(51,173)**	(30,696)
Other expenses	5	**(13,018)**	(13,858)
Result from operations		**306,771**	254,621
Finance income		**6,316**	1,523
Finance expenses		**(58,081)**	(75,904)
Net finance costs	6(a)	**(51,765)**	(74,381)
Share of profits of associates	11	**561**	270
Share of (losses)/profits of jointly controlled entities	12	**(1,099)**	762
Profit before income tax	6	**254,468**	181,272
Income tax expense	7	**(41,487)**	(30,799)
Profit for the period attributable to the equity shareholders of the Company		**212,981**	150,473
Other comprehensive income for the period			
Foreign currency translation differences — equity-accounted investees		**265**	—
Total comprehensive income for the period attributable to the equity shareholders of the Company		**213,246**	150,473
Earnings per share (RMB)	8		
Basic		**0.122**	0.090
Diluted		**0.119**	0.087

The notes on pages 17 to 32 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in Note 19(a).

Consolidated Statement of Financial Position

As at 30 June 2012 (unaudited)

	Note	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Non-current assets			
Property, plant and equipment	9	**1,968,860**	1,793,278
Lease prepayments		**71,764**	72,555
Goodwill		**21,959**	21,959
Interest in associates	11	**44,533**	37,345
Interest in jointly controlled entities	12	**8,779**	5,835
Other financial assets		**10,000**	10,000
Deferred tax assets		**17,180**	12,721
		2,143,075	1,953,693
Current assets			
Inventories	13	**1,124,812**	1,177,805
Trade and other receivables	14	**1,593,975**	1,271,413
Pledged deposits	15	**408,450**	149,894
Time deposits		**330,000**	474,000
Cash and cash equivalents	16	**249,108**	103,089
		3,706,345	3,176,201
Current liabilities			
Interest-bearing borrowings	17	**1,744,604**	1,516,203
Trade and other payables	18	**1,261,685**	986,897
Income tax payables		**39,622**	31,403
Deferred income		**1,162**	1,162
		3,047,073	2,535,665
Net current assets		**659,272**	640,536
Total assets less current liabilities		**2,802,347**	2,594,229
Non-current liabilities			
Interest-bearing borrowings	17	**275,000**	427,000
Deferred income		**5,447**	6,028
Deferred tax liabilities		**24,739**	21,884
		305,186	454,912
Net assets		**2,497,161**	2,139,317

The notes on pages 17 to 32 form part of this interim financial report.

Consolidated Statement of Financial Position

As at 30 June 2012 (unaudited)

	Note	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Capital and reserves			
Share capital		**34,541**	31,806
Reserves		**2,462,620**	2,107,511
Total equity		**2,497,161**	2,139,317

Approved and authorised for issue by the board of directors on 20 August 2012.

Zhu Xiao Kun
Directors

Yan Rong Hua
Directors

The notes on pages 17 to 32 form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012 (unaudited)

	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Merger reserve RMB'000	Exchange reserve RMB'000	PRC statutory reserve RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2011	31,806	886,566	56,998	91,925	—	155,434	558,513	1,781,242
Changes in equity for the six months ended 30 June 2011								
Profit for the period	—	—	—	—	—	—	150,473	150,473
Total comprehensive income	—	—	—	—	—	—	150,473	150,473
Dividends approved in respect of previous year (Note 19(a))	—	—	—	—	—	—	(47,194)	(47,194)
Derecognition of derivative financial liability in respect of warrants	—	—	37,188	—	—	—	—	37,188
Equity settled share-based transactions	—	—	2,937	—	—	—	—	2,937
Balance at 30 June 2011 and 1 July 2011	31,806	886,566	97,123	91,925	—	155,434	661,792	1,924,646
Changes in equity for the six months ended 31 December 2011								
Profit for the period	—	—	—	—	—	—	214,854	214,854
Other comprehensive income	—	—	—	—	(3,715)	—	—	(3,715)
Total comprehensive income	—	—	—	—	(3,715)	—	214,854	211,139
Equity settled share-based transactions	—	—	3,532	—	—	—	—	3,532
Transfer to reserve	—	—	—	—	—	79,878	(79,878)	—
Balance at 31 December 2011 and 1 January 2012	**31,806**	**886,566**	**100,655**	**91,925**	**(3,715)**	**235,312**	**796,768**	**2,139,317**
Changes in equity for the six months ended 30 June 2012								
Profit for the period	**—**	**—**	**—**	**—**	**—**	**—**	**212,981**	**212,981**
Other comprehensive income	**—**	**—**	**—**	**—**	**265**	**—**	**—**	**265**
Total comprehensive income	**—**	**—**	**—**	**—**	**265**	**—**	**212,981**	**213,246**
Issuance of shares (Note 19(b))	**1,976**	**180,507**	**—**	**—**	**—**	**—**	**—**	**182,483**
Exercise of warrants (Note 19(c))	**759**	**52,237**	**(13,946)**	**—**	**—**	**—**	**—**	**39,050**
Dividends approved in respect of previous year (Note 19(a))	**—**	**—**	**—**	**—**	**—**	**—**	**(80,544)**	**(80,544)**
Equity settled share-based transactions	**—**	**—**	**3,609**	**—**	**—**	**—**	**—**	**3,609**
Balance at 30 June 2012	**34,541**	**1,119,310**	**90,318**	**91,925**	**(3,450)**	**235,312**	**929,205**	**2,497,161**

The notes on pages 17 to 32 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2012 (unaudited)

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Cash generated from operations	**304,837**	329,280
Tax paid	**(34,872)**	(30,330)
Net cash generated from operating activities	**269,965**	298,950
Net cash used in investing activities	**(348,416)**	(243,292)
Net cash generated from/(used in) financing activities	**224,470**	(163,994)
Net increase/(decrease) in cash and cash equivalents	**146,019**	(108,336)
Cash and cash equivalents at 1 January	**103,089**	315,831
Cash and cash equivalents at 30 June	**249,108**	207,495

The notes on pages 17 to 32 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

1. Basis of preparation

This interim financial report of Tiangong International Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("IAS") 34, *Interim financial reporting*, issued by the International Accounting Standards Board ("IASB"). It was authorised for issue on 20 August 2012.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2011 annual financial statements, except for the accounting policy changes and adoptions that are expected to be reflected in the 2012 annual financial statements. Details of these changes and adoptions of accounting policies are set out in Note 2. The interim financial report has not been audited by the Company's auditors, but has been reviewed by the Company's Audit Committee.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2011 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

The financial information relating to the financial year ended 31 December 2011 that is included in the interim financial report as being previously reported information does not constitute the Company's annual financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2011 are available from the Company's registered office. The auditor has expressed an unqualified opinion on those financial statements in the report dated 26 March 2012.

2. Changes in accounting policies

The IASB has issued a few amendments to IASs that are first effective for the current accounting period of the Group and the Company. These include the amendments to IFRS 7, *Financial instruments: Disclosures — Transfers of financial assets* and the amendments to IAS 12, *Income taxes — Deferred tax: recovery of underlying assets*. None of the developments are relevant to the Group's financial statements and the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Notes to the Unaudited Interim Financial Report

3. Segment reporting

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

The following summary describes the operations in each of the Group's reportable segments:

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

(a) Segment results, assets and liabilities

	Six months ended and as at 30 June 2012				
	HSS RMB'000	HSS cutting tools RMB'000	DS RMB'000	Chemical goods RMB'000	Total RMB'000
Revenue from external customers	719,592	307,362	572,591	127,465	1,727,010
Inter-segment revenue	107,373	—	—	—	107,373
Reportable segment revenue	826,965	307,362	572,591	127,465	1,834,383
Reportable segment profit (adjusted EBIT)	178,083	41,604	136,443	1,328	357,458
Reportable segment assets	1,612,002	775,368	2,283,289	94,237	4,764,896
Reportable segment liabilities	364,635	261,590	443,074	88,928	1,158,227

3. Segment reporting (Continued)

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

	Six months ended 30 June 2011				
	HSS RMB'000	HSS cutting tools RMB'000	DS RMB'000	Chemical goods RMB'000	Total RMB'000
Revenue from external customers	573,672	293,215	489,990	196,673	1,553,550
Inter-segment revenue	121,992	—	—	—	121,992
Reportable segment revenue	695,664	293,215	489,990	196,673	1,675,542
Reportable segment profit (adjusted EBIT)	117,335	43,493	122,706	3,573	287,107

	As at 31 December 2011				
	HSS RMB'000	HSS cutting tools RMB'000	DS RMB'000	Chemical goods RMB'000	Total RMB'000
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

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

	Six months ended 30 June	
Revenue	**2012 RMB'000**	2011 RMB'000
Reportable segment revenue	**1,834,383**	1,675,542
Elimination of inter-segment revenue	**(107,373)**	(121,992)
Consolidated revenue	**1,727,010**	1,553,550

Notes to the Unaudited Interim Financial Report

3. Segment reporting (Continued)

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

Profit	Six months ended 30 June 2012 RMB'000	Six months ended 30 June 2011 RMB'000
Reportable segment profit	**357,458**	287,107
Net finance costs	**(51,765)**	(74,381)
Share of profits of associates	**561**	270
Share of (losses)/profits of jointly controlled entities	**(1,099)**	762
Other unallocated head office and corporate expenses	**(50,687)**	(32,486)
Consolidated profit before income tax	**254,468**	181,272

Assets	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Reportable segment assets	**4,764,896**	4,324,566
Interest in associates	**44,533**	37,345
Interest in jointly controlled entities	**8,779**	5,835
Other financial assets	**10,000**	10,000
Deferred tax assets	**17,180**	12,721
Pledged deposits	**408,450**	149,894
Time deposits	**330,000**	474,000
Cash and cash equivalents	**249,108**	103,089
Other unallocated head office and corporate assets	**16,474**	12,444
Consolidated total assets	**5,849,420**	5,129,894

Liabilities	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Reportable segment liabilities	**1,158,227**	971,377
Interest-bearing borrowings	**2,019,604**	1,943,203
Income tax payables	**39,622**	31,403
Deferred tax liabilities	**24,739**	21,884
Other unallocated head office and corporate liabilities	**110,067**	22,710
Consolidated total liabilities	**3,352,259**	2,990,577

4. Other income

	Note	Six months ended 30 June 2012 RMB'000	2011 RMB'000
Government grants	(i)	**12,266**	5,968
Dividend income from unlisted securities		**800**	—
Foreign exchange gain		**—**	5,965
Others		**438**	135
		13,504	12,068

(i) Jiangsu Tiangong Tools Company Limited ("TG Tools"), a wholly-owned subsidiary of the Company located in the People's Republic of China (the "PRC"), received unconditional grants amounting to RMB11,685,000 (six months ended 30 June 2011: RMB5,387,000) from the local government in Danyang mainly to reward its contribution to the local economy and encourage its innovation of technology. It also recognised amortisation of government grants related to assets of RMB581,000 (six months ended 30 June 2011: RMB581,000) during the six months ended 30 June 2012.

5. Other expenses

	Six months ended 30 June 2012 RMB'000	2011 RMB'000
Provision of impairment losses for doubtful trade receivables	**7,651**	12,972
Net loss on disposal of property, plant and equipment	**72**	337
Foreign exchange loss	**5,239**	—
Others	**56**	549
	13,018	13,858

Notes to the Unaudited Interim Financial Report

6. Profit before income tax

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

(a) Net finance costs

	Note	Six months ended 30 June 2012 RMB'000	2011 RMB'000
Interest income		**(6,316)**	(1,523)
Finance income		**(6,316)**	(1,523)
Interest on bank loans		**71,389**	49,575
Fair value recognised upon warrants issuance		**–**	42,754
Change in fair value of warrants		**–**	(5,566)
Less: interest expense capitalised into property, plant and equipment under construction	9	**(13,308)**	(10,859)
Finance expenses		**58,081**	75,904
Net finance costs		**51,765**	74,381

(b) Other items

	Note	Six months ended 30 June 2012 RMB'000	2011 RMB'000
Cost of inventories*		**1,347,266**	1,248,576
Depreciation		**61,135**	55,927
Amortisation of lease prepayments		**791**	663
Provision for impairment of doubtful debts		**7,651**	12,972
Provision/(Reversal) for write-down of inventories	13	**2,359**	(5,052)
Equity settled share-based transactions		**3,609**	2,937

* Cost of inventories includes RMB51,911,000 (six months ended 30 June 2011: RMB39,952,000) relating to depreciation expenses and write-down/(write-back) of inventories provision which amounts are also included in the respective total amounts disclosed separately above for each of these types of expenses.

7. Income tax expense

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Current tax		
Provision for PRC income tax	**42,529**	29,293
Provision for Hong Kong profits tax	**562**	—
	43,091	29,293
Deferred tax		
Origination and reversal of temporary differences	**(1,604)**	1,506
	41,487	30,799

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

(b) The provision for PRC income tax is based on 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% (2011: 25%).

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

Due to the above-mentioned tax holiday, TG tools and Tiangong Aihe Special Steel Company Limited ("TG Aihe") are subject to the PRC corporate income tax rate at 50% of its applicable tax rate for 3 years from 2009 and 2010 respectively. In 2012, the applicable income tax rate of TG Aihe is 12.5% (2011: 12.5%).

TG tools was applying for renewal of its High and New Technology Enterprise status during the six months ended 30 June 2012 and if approved, it is eligible to enjoy a preferential income tax rate of 15%. TG tools was qualified as High and New Technology Enterprise during the years 2009 to 2011. Management is of the opinion that it is highly probable that this qualification will be renewed and approved by government before the end of year 2012 as it has met the conditions of qualification. In 2012, the estimated annual effective income tax rate of TG Tools to calculate the income tax expense is 15% (2011: 12.5%).

Danyang Tianfa Forging Company Limited ("Tianfa Forging"), Jiangsu Tiangong Titanium Technology Company Limited ("TG Titan") and Jiangsu Tiangong Mould Steel R&D Center Company Limited ("TG Mould") are all subject to the statutory income tax rate of 25%.

(c) Hong Kong profits tax has been provided at the rate of 16.5% (2011: Nil) on the estimated assessable profits arising in Hong Kong during the six months ended 30 June 2012.

Notes to the Unaudited Interim Financial Report

8. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB212,981,000 during the period presented (six months ended 30 June 2011: RMB150,473,000) and the weighted average number of ordinary shares outstanding of 1,739,618,785 (six months ended 30 June 2011: 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 RMB212,981,000 during the period presented (six months ended 30 June 2011: RMB150,473,000) and the weighted average number of potential ordinary shares outstanding of 1,791,814,846 (six months ended 30 June 2011: 1,721,317,781) for the six months ended 30 June 2012 after taking into account the potential dilutive effect of the warrants and equity settled share-based transactions.

9. Property, plant and equipment

During the six months ended 30 June 2012, the Group acquired items of plant and machinery with a cost of RMB223,842,000 (six months ended 30 June 2011: RMB76,085,000), excluding capitalised borrowing costs of RMB13,308,000 (six months ended 30 June 2011: RMB10,859,000). Items of machinery and motor vehicles with a net book value of RMB415,000 were disposed of during the six months ended 30 June 2012 (six months ended 30 June 2011: RMB862,000), resulting in a net loss on disposal of RMB72,000 (six months ended 30 June 2011: RMB337,000).

10. Interests in subsidiaries

Details of the subsidiaries as at 30 June 2012 are set out below. The class of shares held is ordinary unless otherwise stated.

Name of company	Place and date of incorporation	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Issued and paid-up/ registered capital	Principal activities
China Tiangong Company Limited ("CTCL")	British Virgin Islands, 14 August 2006	100%	–	USD-/USD50,000	Investment holding
TG Tools	the PRC, 7 July 1997	–	100%	RMB1,034,300,000/ RMB1,034,300,000	Manufacture and sales of high speed steel and cutting and drilling tools, and trading of chemical goods
TG Aihe	the PRC, 5 December 2003	–	100%	RMB401,438,000/ RMB401,438,000	Manufacture and sales of die steel
Tianfa Forging	the PRC, 11 October 2000	–	100%	USD18,600,000/ USD18,600,000	Precision forging and sales of high speed steel
China Tiangong (Hong Kong) Company Limited ("CTCL (HK)")	Hong Kong, 13 June 2008	–	100%	HKD1/HKD1	Investment holding
TG Titan	the PRC, 27 January 2010	–	100%	RMB300,000,000/ RMB300,000,000	Manufacture and sales of alloy, steel, cutting and drilling tools and titanium-related products
Tiangong Development Hong Kong Company Limited ("TG Development")	Hong Kong, 15 February 2012	–	100%	USD3,400,000/ USD5,000,000	Trading of alloy, steel, cutting and drilling tools and titanium-related products
TG Mould	the PRC, 5 March 2012	–	100%	RMB5,000,000/ RMB5,000,000	Research and development of alloy, steel, and titanium-related products

Notes to the Unaudited Interim Financial Report

11. Interest in associates

Details of the Group's interest in the associates which are all unlisted corporate entities as at 30 June 2012 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
Jiangsu 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	–	25%	TWD200,000,000/ 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	Sales of special steel related products

Summary financial information on associates:

	At 30 June 2012			Six months ended 30 June 2012	
	Assets RMB'000	**Liabilities RMB'000**	**Equity RMB'000**	**Revenues RMB'000**	**Profits RMB'000**
100 per cent	**448,569**	**(244,166)**	**204,403**	**266,175**	**828**
Group's effective interest	**95,049**	**(50,516)**	**44,533**	**57,599**	**561**

	At 31 December 2011			Six months ended 30 June 2011	
	Assets RMB'000	Liabilities RMB'000	Equity RMB'000	Revenues RMB'000	Profits RMB'000
100 per cent	390,257	(186,704)	203,553	45,085	1,249
Group's effective interest	80,216	(42,871)	37,345	12,698	270

12. Interest in jointly controlled entities

Details of the Group's interest in the jointly controlled entities which are unlisted corporate entities as at 30 June 2012 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")	Korea, 12 January 2010	–	70%	USD1,000,000/ USD1,000,000	Sales of special steel related products
TGK Special Steel Private Limited ("TGK")	India, 5 June 2012	–	50%	USD2,000,000/ USD2,000,000	Sales of special steel related products

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

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Non-current assets	**2,991**	1,451
Current assets	**63,257**	37,848
Current liabilities	**(57,469)**	(33,464)
Net assets	**8,779**	5,835

	Six months ended 30 June 2012 RMB'000	2011 RMB'000
Income	**31,606**	25,895
Expenses	**(32,705)**	(25,133)
(Losses)/profits for the period	**(1,099)**	762

Notes to the Unaudited Interim Financial Report

13. Inventories

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Raw materials	**75,192**	58,245
Work in progress	**462,181**	549,222
Finished goods	**587,439**	570,338
	1,124,812	1,177,805

During the six months ended 30 June 2012, the Group recognised a write-down of RMB2,359,000 (six months ended 30 June 2011: a write-back of RMB5,052,000) against those inventories with net realisable value lower than carrying value. The write-down/write-back is included in cost of sales in the consolidated statement of comprehensive income.

14. Trade and other receivables

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Trade receivables	**1,305,309**	858,750
Bills receivable	**203,964**	273,752
Less: impairment provision for doubtful debts	**(58,845)**	(51,194)
Net trade and bills receivable	**1,450,428**	1,081,308
Prepayments	**126,988**	173,768
Non-trade receivables	**16,559**	16,337
	1,593,975	1,271,413

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

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Current	**1,063,576**	809,438
Less than 3 months past due	**235,686**	169,559
More than 3 months but less than 6 months past due	**124,780**	88,579
More than 6 months but less than 12 months past due	**23,529**	8,040
More than 12 months but less than 24 months past due	**2,857**	5,692
Trade debtors and bills receivable, net of allowance for doubtful debts	**1,450,428**	1,081,308

14. Trade and other receivables (Continued)

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

15. Pledged deposits

Bank deposits of RMB408,450,000 (2011: RMB149,894,000) have been pledged to banks as security for the Group to issue bank acceptance bills and other banking facilities. The pledge in respect of the bank deposits will be released upon the settlement of the relevant bills payable by the Group and the termination of related banking facilities.

16. Cash and cash equivalents

All the balances of cash and cash equivalents as at 30 June 2012 are cash at bank and in hand.

17. Interest-bearing borrowings

		At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Current			
Unsecured bank loans	(i)	**1,189,104**	987,203
Current portion of non-current unsecured bank loans		**555,500**	529,000
		1,744,604	1,516,203
Non-current			
Unsecured bank loans	(ii)	**830,500**	956,000
Less: Current portion of non-current unsecured bank loans	(ii)	**(555,500)**	(529,000)
		275,000	427,000
		2,019,604	1,943,203

(i) Current unsecured bank loans carried interest at annual rates ranging from 2.50% to 7.87% (2011: 2.50% to 9.80%) and were all repayable within one year.

Current unsecured bank loans of RMB100,000,000 were guaranteed by a third party in the same city (2011: Nil).

Notes to the Unaudited Interim Financial Report

17. Interest-bearing borrowings (Continued)

(ii) Non-current unsecured bank loans carried interest at annual rates ranging from 0.30% to 6.98% (2011: 0.30% to 6.98%).

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

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Within 1 year	**555,500**	529,000
After 1 year but within 2 years	**275,000**	427,000
	830,500	956,000

18. Trade and other payables

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

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Due within 3 months	**729,751**	653,175
Due after 3 months but within 6 months	**267,962**	185,580
Due after 6 months but within 12 months	**39,317**	6,066
Due after 1 year but within 2 years	**129**	3,424
Due after 2 years	**20**	2,038
Total trade creditors and bills payable	**1,037,179**	850,283
Non-trade payables and accrued expenses	**143,962**	136,614
Dividends payable	**80,544**	—
	1,261,685	986,897

19. Capital, reserves and dividends

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

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Dividend in respect of the previous financial year, approved but not paid during the interim period, of RMB0.048 per share (six months ended 30 June 2011: RMB0.028125 per share)	**80,544**	47,194

(b) Issuance of new ordinary shares

During the six months ended 30 June 2012, the Company issued 125,000,000 new ordinary shares of HKD1.87 each. Total proceeds of RMB182,483,000, net of share issuance expenses, were raised of which RMB1,976,000 was credited to share capital and the balance of RMB180,507,000 was credited to the share premium account.

(c) Issuance of shares upon exercise of warrants

During the six months ended 30 June 2012, a total of 48,000,000 warrants were exercised at an aggregated price paid of RMB39,050,000. Following the exercise of warrants, the share capital and share premium accounts of the Company have been increased by RMB759,000 and RMB52,237,000, respectively. Included in the amounts is RMB13,946,000 which has been transferred from the capital reserve to the share premium account.

20. Related party transactions

The Group has transactions with a company controlled by a non-controlling shareholder ("non-controlling shareholder's company"), associates and jointly controlled entities. The following is a summary of principal related party transactions carried out by the Group with the above related parties for the periods presented.

(a) Significant related party transactions-recurring

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Lease expense to:		
Non-controlling shareholder's company	**500**	500
Sales of goods to:		
Associates	**22,680**	19,923
Jointly controlled entities	**64,845**	41,544
Freight expense to:		
Associates	**18,170**	14,426
Lease income from:		
Associates	**25**	13

Notes to the Unaudited Interim Financial Report

20. Related party transactions (Continued)

(a) Significant related party transactions-recurring (Continued)

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.

(b) Amounts due from related parties

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Associates	**15,091**	16,675
Jointly controlled entities	**68,414**	30,101
	83,505	46,776

(c) Amounts due to related parties

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Associates	**413**	174
Non-controlling shareholder's company	**500**	—
	913	174

21. Commitments

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

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Contracted for	**59,700**	96,579
Authorised but not contracted for	**209,224**	390,914
	268,924	487,493

(b) Operating leases commitments

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

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Within 1 year	**815**	1,315
After 1 year but within 5 years	**26**	184
	841	1,499