Annual Report 2012

天工國際有限公司*

TIANGONG INTERNATIONAL COMPANY LIMITED

(incorporated in the Cayman Islands with limited liability)

Stock Code : 826

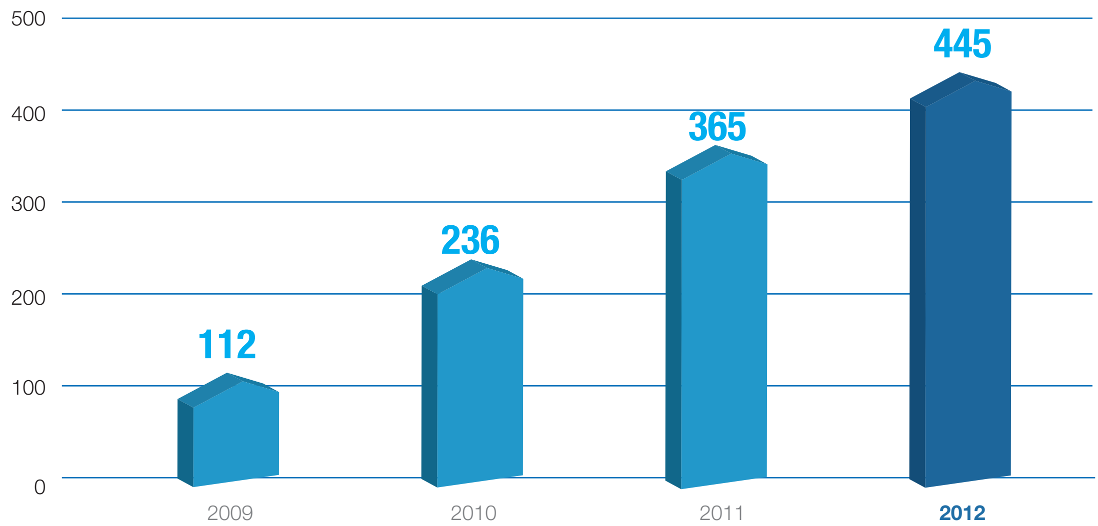
* For identification purpose only

Contents

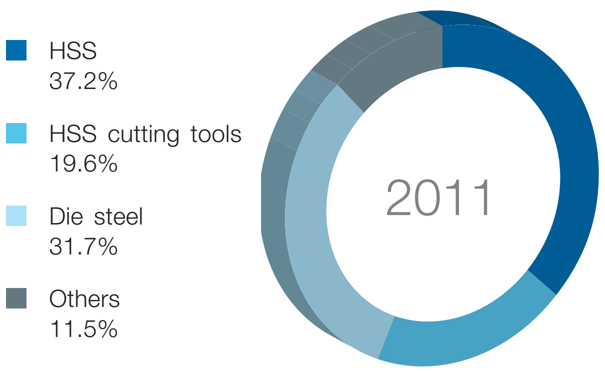
Financial Highlights

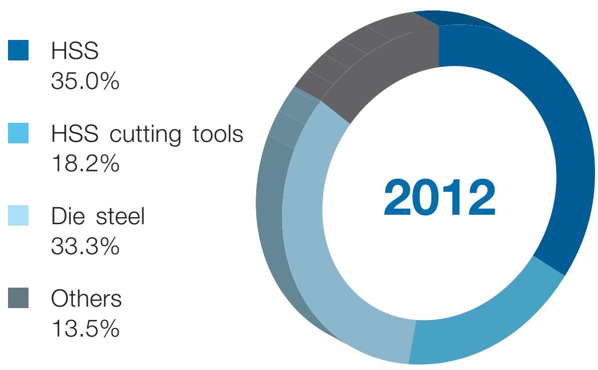
	2012 **RMB'000**	2011 RMB'000
Revenue	**3,118,251**	3,111,763
Profit for the year attributable to equity shareholders of the Company	**444,892**	365,327
Earnings per share (RMB)	**0.244**	0.218
Proposed final dividend per share (RMB)	**0.0461**	0.0480

Profit for the year attributable to equity shareholders of the Company
RMB' million



Revenue by Product Mix





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 2012.

In 2012, the U.S. economic recovery was impacted by fiscal cliff, while Europe suffered from economic tightening, and China's GDP growth slowed to 7.8%. Despite such a weak macro-economy backdrop, the Group achieved a moderate growth, mainly due to the surge of gross profit margin in HSS, improved capabilities and efficiency brought by facilities upgrade, as well as the decline in raw materials prices. Total revenue reached RMB3,118.3 million, compared to RMB3,111.8 million in the corresponding period of previous year. Gross profit increased by 3.2% year-on-year to RMB729.4 million. Profit from operations rose by 15.3% year-on-year to RMB648.7 million and profit attributable to equity shareholders surged by 21.8% year-on-year to RMB444.9 million.

Our healthy and stable financial performance amid an adverse macro backdrop is a testimony to our unrivalled leadership in the industry and effective internal cost controls derived from our unique vertically-integrated business model. During the year, sales volume of the Group's HSS and die steel still recorded increases of approximately 12% and 19%, respectively, which showcased the Group's strong influence in the markets. Nevertheless, the increase in sales volume was offset by the decrease of average selling price, which were impacted by decline of raw materials prices as well as a change in product mix to lower value products.

Looking ahead to 2013, we will continue to upgrade our production facilities, to develop new products and push proactively ahead with our business expansion by focusing on penetrating into different industries and exploring new markets. We aim to further expand our footprint to other countries such as Italy, Russia, South Africa and Brazil by establishing sales representative offices there. Apart from the traditional core segments, the Group is confident that its titanium alloy business will be a growth driver in the near future.

In the future, through research and development as well as technology enhancement, we will continue to develop the new materials industry with a focus on titanium alloy pipes and flat sheets in a prudent manner. The Group believes that advancing into these markets and the new business will broaden its revenue base and generate promising returns for its shareholders.

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 2013

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

The global economy lost steam in 2012, when we saw a slowdown in China's economy, uncertainties in the United States and austerity measures in Europe, etc. The estimated global GDP growth retreated to 2.3%, while the global GDP growth achieved 2.8% in 2011.

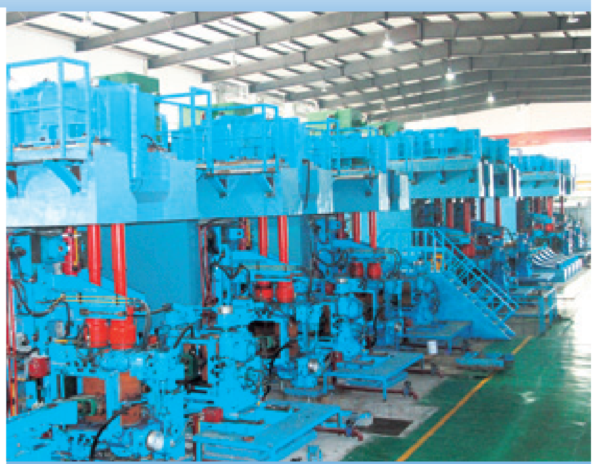
Despite a lackluster macro environment, the Group still managed to achieve a moderate growth in its operating results and recorded over 20% growth year-on-year for profit attributable to the equity shareholders of the Company. The increase was mainly attributable to the following reasons:

(1) The Group's unparalleled market leadership in HSS industry

According to China Special Steel Enterprise Association (the "CSSEA"), the Group remained China's largest HSS manufacturer by volume in 2012. Its unique business model features vertically integrated production process and the use of recycled materials, leading to greater efficiency and lower production costs. Moreover, the production processes of HSS and die steel are complementary to each other; hence their production lines can be operated more efficiently with increased productivity. The Group's annual production capacity in HSS is approximately 50,000 tons.

(2) Significant cost advantages over foreign competitors

Foreign competitors suffered from competitive disadvantages due to substantially higher material costs resulting from China's hefty levies on "direct" exports of rare metals as well as higher labour costs. 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, it has imposed strict quotas as well as hefty levies on "direct" exports of rare metals. Foreign competitors have thus suffered from higher raw material costs and unstable supply.



(3) *Peripheral domestic players were squeezed out in the tight credit environment*

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

(4) *Benefited from banks' support for more efficient private enterprises with strong cash flows*

Notwithstanding the overall tight credit conditions, the Group, as one of the largest enterprises in Danyang Municipality, has not encountered any problem in renewing its standby credit facility with the local banks because of its leading market position in China and strong cash inflow. As at 31 December 2012, the Group's available standby credit line reached RMB5.6 billion, of which only approximately RMB2.6 billion was utilized.

Business Review

Despite the adverse macro backdrop, the Group achieved moderate growth in its operating results for the year under review, which clearly reflects the Group's unparalleled leadership in the industry as well as the competitiveness and high quality of its products. During the year, the Group remained the largest manufacturer of HSS as well as a leading manufacturer of HSS cutting tools and die steel in China.

The Group's core products were widely recognized by its strategic partners spread across different sectors both in China and overseas. Moreover, we acquired a company that produces cutting tools in the auto sector in early 2013, which marked a milestone for the Group's successful penetration into China's auto sector and should give a strong boost to the Group's production of cutting tools and HSS products. As to the die steel segment, some of the die-steel products have been sold to auto manufacturers in Europe through distributors, which again showcases our international competitiveness. On the HSS segment, the Group recently developed a new key account in Russia in 2013 with expected annual HSS demand of 1,000 tons.

During the year under review, the Group continued to improve efficiency by expanding production lines and enhancing automation. Expansion of its taps production line was completed and commenced production. Its total investment amounted to RMB42 million. With an annual capacity of 12 million pieces, it is now one of the largest taps production lines in China.

The Group adhered to a low-carbon, green and sustainable development strategy. In 2012, it built an environmental-friendly natural gas heating system and to dismantle all chimneys. In addition, it spent over RMB6.5 million on a large-scale sewage project. The Group has made continuous efforts in environmental protection.

In 2012, all product segments achieved healthy and stable performance. For HSS and die steel, we saw increases by sales volume of approximately 12% and 19%, respectively, which showcased the Group's strong influence in the markets. Nevertheless, the increase in sales volume was offset by the decrease of average selling price impacted by decline of raw materials prices as well as a change in product mix to lower value products. For HSS cutting tools, there was an increase in domestic demand but was offset by the decrease in export sales.

	For the year ended 31 December					
	2012		2011		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
HSS	**1,092,587**	**35.0**	1,158,264	37.2	(65,677)	(5.7)
HSS cutting tools	**567,297**	**18.2**	609,675	19.6	(42,378)	(7.0)
Die steel	**1,038,826**	**33.3**	985,733	31.7	53,093	5.4
Titanium alloy	**33,465**	**1.1**	—	—	33,465	N/A
Trading of goods	**386,076**	**12.4**	358,091	11.5	27,985	7.8
	3,118,251	**100.0**	3,111,763	100.0	6,488	0.2

HSS — accounted for 35% of the Group's revenue in FY2012

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

HSS operation was the greatest revenue contributor for the Group during the year under review. Revenue from HSS decreased by 5.7% to RMB1,092,587,000 (2011: RMB1,158,264,000). Despite a slowdown in China's industrial output, HSS sales to domestic market remained resilient, reflecting the Group's leadership in home market and sound operation model. The increase in sales quantity of HSS was partly offset by the decrease in overall average selling price.

	For the year ended 31 December					
	2012		2011		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
HSS						
Domestic	**877,638**	**80.3**	944,118	81.5	(66,480)	(7.0)
Export	**214,949**	**19.7**	214,146	18.5	803	0.4
	1,092,587	**100.0**	1,158,264	100.0	(65,677)	(5.7)

HSS cutting tools — accounted for 18% of the Group's revenue in FY 2012

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

In 2012, revenue generated from HSS cutting tools declined by approximately 7% to RMB567,297,000 (2011: RMB609,675,000). 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, which accounted for 60% of the segment revenue, decreased by 16%. On the domestic market, the Group retained the growth momentum and achieved a sales growth of 11%.

	For the year ended 31 December					
	2012		2011		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
HSS cutting tools						
Domestic	**228,459**	**40.3**	205,842	33.8	22,617	11.0
Export	**338,838**	**59.7**	403,833	66.2	(64,995)	(16.1)
	567,297	**100.0**	609,675	100.0	(42,378)	(7.0)

Die steel — accounted for 33% of the Group's revenue in FY 2012

Die steel is mainly used in die and mould casting as well as machining processing. Many different manufacturing industries require moulds including 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 5.4% to RMB1,038,826,000 (2011: RMB985,733,000). 56% of the segment revenue was derived from domestic market while export sales accounted for the remaining 44%.

	For the year ended 31 December					
	2012		2011		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
Die steel						
Domestic	**582,543**	**56.1**	531,103	53.9	51,440	9.7
Export	**456,283**	**43.9**	454,630	46.1	1,653	0.4
	1,038,826	**100.0**	985,733	100.0	53,093	5.4

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 other various rare metals.

With an initial annual production capacity of 1,500–2,000 tons, the titanium production line commenced production at the end of 2011. During the year, titanium alloy contributed approximately RMB33 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. Nevertheless, satisfactory results have been achieved from this segment. 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.

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 alloy production.

Financial Review

Net profit attributable to equity shareholders of the Company increased significantly by approximately 21.8% from RMB365,327,000 in 2011 to RMB444,892,000 in 2012. The increase was mainly attributable to the Group's increase of gross margin, receipts of more government grants and due to the one-off fair value change of warrants amounting to RMB37,188,000 incurred in the prior year.

Revenue

Revenue for the Group for 2012 totaled RMB3,118,251,000, representing a slight increase as compared with RMB3,111,763,000 in the previous year.

Cost of sales

The Group's cost of sales was RMB2,388,862,000 in 2012, representing a slight decrease as compared with RMB2,405,000,000 in 2011. As a percentage of total revenue, the Group's cost of sales decreased slightly to 76.6% during the year (2011: 77.3%).

Gross margin

For 2012, the overall gross margin was approximately 23.4% (2011: 22.7%). Set out below is the gross margin of our five products segments in 2012 and 2011:

	2012	2011
HSS	**27.3%**	23.1%
HSS cutting tools	**16.4%**	16.0%
Die steel	**31.2%**	34.1%
Titanium alloy	**22.0%**	N/A
Trading of goods	**1.0%**	1.6%

HSS

Gross margin of HSS increased from 23.1% in 2011 to 27.3% in 2012. The increase was due to the benefit from the operating leverage as a result from the increase in production volume and was due to the decrease in raw material costs such as rare metals in the second half of the year.

HSS cutting tools

In 2012, the gross margin of HSS cutting tools remained stable at 16.4% (2011: 16.0%).

Die steel

The gross margin of die steel decreased from 34.1% in 2011 to 31.2% in 2012. The decrease was due to the change in product mix as compared with last year.

Titanium alloy

The Company started the production and selling of titanium alloy during the year. The major products produced were titanium ingot and titanium rods.

Trading of goods

This segment involves the purchase and sales of aluminum and 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 2012, trading of goods accounted for approximately 12% (2011: 11%) of the Group's revenue.

Other income

Other income totaled RMB78,944,000 in 2012, representing an increase of RMB66,243,000 from RMB12,701,000 in 2011. The increase was mainly attributable to the increase in government grants of RMB41,818,000 and a reversal of provision for doubtful debts of RMB21,916,000.

Distribution expenses

Distribution expenses in 2012 were RMB44,583,000 (2011: RMB36,890,000), representing an increase of approximately 21%. The increase was mainly attributable to the increase in transportation expenses as a result of the increase in shipping charges. For 2012, the distribution expenses as a percentage of revenue was 1.4% (2011: 1.2%).

Administrative expenses

Administrative expenses increased from RMB85,924,000 in 2011 to RMB100,437,000 this year. The increase was mainly due to the increase in personnel costs and other operating expenses due to implementation of various initiatives by the Group. For 2012, administrative expenses as a percentage of revenue was 3.2% (2011: 2.8%).

Net finance costs

The Group's finance income was RMB10,588,000 for 2012, representing an increase of RMB6,501,000 primarily due to the increase in average bank deposits in 2012. The Group's finance expense was RMB118,538,000 in 2012, representing a decrease of 10.9% from RMB133,030,000 in 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 in 2011 and the increase in interest-bearing borrowings in 2012 compared with last year.

Income tax

The Group's income tax increased by over 32% from RMB69,805,000 in 2011 to RMB92,008,000 in 2012. The increase was mainly due to the increase in profits tax as operating profit increased and increase in tax rate of TG Tools from 12.5% in 2011 to 15% in 2012.

Profit for the year attributable to equity shareholders of the Company

As a result of the factors discussed above, the Group's profit significantly increased by approximately 21.8% from RMB365,327,000 in 2011 to RMB444,892,000 in 2012. The net profit margin increased from 11.7% in 2011 to 14.3% in 2012.

Total comprehensive income for the year attributable to equity shareholders of the Company

For 2012, total comprehensive income for the year attributable to equity shareholders of the Company was RMB445,569,000 (2011: RMB361,612,000) after taking into account foreign currency translation differences.

Trade and bills receivable

The trade and bills receivable increased from RMB1,081,308,000 in 2011 to RMB1,299,613,000 in 2012 which was mainly due to the increase in sales in the fourth quarter in 2012 as compared with the fourth quarter sales in 2011. Approximately 81% of the trade and bills receivable were neither past due nor impaired. During the year, the Group also made more effort on collecting long outstanding receivables and reduced the provision for doubtful debts balance by RMB21,916,000 in 2012.

Outlook

Our healthy and stable financial performance in 2012 amid an adverse macro backdrop is a testimony to our unrivalled leadership in the HSS industry and effective internal cost control derived from our unique vertically-integrated business model.

The Group remains optimistic towards 2013 and will push ahead with its business expansion and focus on penetrating into different industries and exploring new markets. It aims to further expand its footprint on other countries such as Russia, Italy, South Africa and Brazil by setting up sales representative offices. In those countries, we see accelerating urbanization and industrial development, which will subsequently fuel the demand of HSS, HSS cutting tools and die steel. The Group believes that advancing into these markets will broaden our revenue base and generate promising return.

Apart from the traditional core segments, 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, it is a better alternative in industrial and aerospace applications because of its strength, durability and overall performance. Through research and development as well as technology enhancement, we will continue to develop the new material industry in a prudent manner with a focus on titanium alloy pipes and flat sheets.

Forward Looking Statements

This management discussion and analysis contains certain forward looking statements with respect to the financial condition, results of operations and business of the Group. These forward looking statements represent the Company's expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements.

Forward looking statements involve inherent risks and uncertainties. Readers should be cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward looking statement.

Liquidity and Financial Resources

As at 31 December 2012, the Group's current assets mainly included cash and cash equivalents of approximately RMB150,499,000, inventories of approximately RMB1,426,003,000, trade and other receivables of RMB1,530,598,000, pledged deposits of RMB238,479,000 and time deposits of RMB446,000,000. As at 31 December 2012, the interest-bearing borrowings of the Group were RMB2,088,045,000, RMB1,886,407,000 of which were repayable within one year and RMB201,638,000 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 75%, significantly lower than the 91% as at 31 December 2011.

The increase in borrowings was mainly attributable to the increase in investment in production equipment. As at 31 December 2012, borrowings of RMB1,317,000,000 were in RMB, USD107,770,000 were in USD, and EUR11,260,000 were in EUR. The borrowings of the Group were subject to interests payable at rates ranging from 0.30% to 7.22% per annum. The Group did not enter into any interest rate swaps to hedge itself against the risks associated with interest rates.

During the year, the net cash generated from operating activities was RMB373,257,000 (2011: RMB652,157,000).

Capital Expenditure and Capital Commitments

For 2012, the Group's net increase in fixed assets amounted to RMB350,447,000, which were mainly for the production plant and facilities for HSS and were financed by a combination of our internal cash resources and operating cash flows and bank borrowings. As at 31 December 2012, capital commitments were RMB537,922,000, of which RMB135,828,000 were contracted and RMB402,094,000 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 borrowings.

Foreign Exchange Exposure

The Group's revenues were denominated in RMB, US dollars and Euros, with RMB accounting for the largest portion (approximately 57.5%). Approximately 42.5% 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 the light of foreign exchange fluctuations 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 2012, the Group pledged certain bank deposits amounting to approximately RMB238,479,000 (2011: RMB149,894,000) and certain trade receivables amounting to approximately RMB143,618,000 (2011: Nil).

Employees' Remuneration and Training

As at 31 December 2012, the Group employed around 3,928 employees (31 December 2011: around 3,910 employees). Total staff costs during the year amounted to RMB173,220,000 (2011: RMB162,619,000). 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

As at the end of the reporting period, TG Tools has issued a guarantee to a bank in respect of a bank facility granted to TGT Special Steel Company Limited ("TGT"), a jointly controlled entity of the Group, which expires on 27 July 2013. As at the end of the reporting period, the directors do not consider it probable that a claim will be made against the Group under the guarantee. The maximum liability of the Group at the end of the reporting period under the guarantee issued is the outstanding amount of the facility drawn down by TGT of RMB15,049,000 (2011: RMB24,258,000). Included in bank deposits RMB11,500,000 (2011: RMB30,300,000) was pledged for the bank facility granted to TGT.

Directors & Senior Management

Executive Directors

Mr. ZHU Xiaokun, aged 56, 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 Open 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, the production of die steel in 2005 and the production of titanium products in 2012. 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, "Most Benevolent Model" on Charitable Donations in Jiangsu Province in 2011 and awarded National Labor Medal in 2012.

Mr. ZHU Zhihe, aged 62, 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 TG Tools. He is now in charge of the production, operation and sales of HSS.

Mr. YAN Ronghua, aged 44, is an Executive Director of the Group. He graduated from the Economic and Management Department of Jiangsu Open University. He joined the Group in 1994. He was appointed as the head of office administration and subsequently the assistant general manager, deputy general manager of the Group. Mr. Yan is currently in charge of human resources management, external investors relations, secretarial and office administration of the Group.

Mr. WU Suojun, aged 40, 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 steel.

Independent Non-Executive Directors

Mr. LI Zhengbang, aged 80, 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 69, 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 42, joined the Group as an Independent Non-executive Director in 2010. He obtained the Bachelor of Business Administration from Texas A&M University, the USA. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified

Public Accountants. He possesses over 20 years of experience in accounting and auditing field. Mr. Lee is an independent non-executive director of Geely Automobile Holdings Limited (HK Stock Code: 175). He was an executive director of both AMCO United Holding Limited (HK Stock Code: 630) and AMVIG Holdings Limited (HK Stock Code: 2300) and a non-executive director of Kam Hing International Holdings Limited (HK Stock Code: 02307).

Senior Management

Mr. SHI Guorui, aged 66, 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 61, is an executive director and a deputy general manager of TG Tools. 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 cutting tools of the Group. He has over 25 years of experience in the management of tools production.

Mr. ZHU Wanglong, aged 54, 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 production management of tools, HSS and die steel.

Mr. JIANG Rongjun, aged 44, is an executive director and a deputy general manager of TG Tools. 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 53, 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 33, 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.

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. Save as disclosed below, during the year ended 31 December 2012, the Group has complied with the applicable principles and code provisions set out in the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (the "Code") (effective from 1 April 2012) set out in 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 Board is responsible for determining the policy for corporate governance of the Company and performing the corporate governance duties including:

(a) to develop and review the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to review and monitor the Company's policies and practices in compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(e) to review the Company's compliance with the Code.

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. All Directors can give notice to the Chairman of the Board or the company secretary if they intend to include matters in the agenda for Board meetings. 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 intended date of a Board meeting, 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. Procedures have been agreed by the Board to enable the Directors to seek independent professional advice, at the Company's expense. Four Board meetings were held for the year ended 31 December 2012, with all the Directors attending except for Mr. Li Cheuk Yin Dannis, who had attended three out of the four meetings and Mr. Li Zhengbang who had not attended any of the meetings.

General Meetings With Shareholders

The Company's annual general meeting provides a useful platform for direct communication between the Board and its shareholders. Separate resolutions are proposed on each substantially separate issue at the general meetings.

The 2012 annual general meeting ("2012 AGM") was held on 23 May 2012. Mr. Yan Ronghua, Mr. Li Cheuk Yin Dannis and Mr. Gao Xiang had attend the 2012 AGM. Mr. Yan acted as the chairman of the 2012 AGM. Mr. Zhu Xiaokun did not attend the 2012 AGM as he has to attend an oversea business trip, In respect of the code provision A.6.7 of the Code, Mr. Li Zhengbang, an Independent Non-executive Director, was unable to attend the 2012 AGM due to health reason.

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. The Company has arranged appropriate insurance cover on Directors' liabilities in respect of legal actions against them arising from corporate activities.

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 Zhengbang, 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 pages 14 to 15 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 an annual confirmation of independence from each of the Independent Non-Executive Directors. The Company is of the view that all the Independent Non-Executive Directors meet the guidelines for assessing independence as set out in Rule 3.13 of the Listing Rules and considers each of them to be independent.

Directors and Company Secretary's Continuous Training and Development

Directors also participate in continuous professional development to develop and refresh their knowledge and skills. The Company has from time to time provided information and updates to the Directors on the latest development regarding the Listing Rules and other applicable regulatory requirements so as to ensure the Directors are in compliance with good corporate governance practices.

During the year, all Directors have been provided and read seminar materials covering topics including the new Corporate Governance Code, the disclosure of inside information and updates relating to the latest development of the Listing Rules and other applicable regulatory requirements. Each of the Directors has provided to the Company his records of training received during the financial year ended 31 December 2012 to the Company.

For the financial year ended 31 December 2012, the Company's company secretary has taken no less than 15 hours of relevant professional training.

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 and responsibilities are clearly defined to ensure their independence and a balance of power and authority. The Chairman of the Board provides leadership for the Board and he is responsible for the overall management of the Board and monitoring the Group's business strategies, while the chief executive officer is responsible for the Group's day-to-day management in accordance with the instructions issued by the Board and operating the business of the Group and implementing policies and strategies adopted by the Board.

The Chairman has held a meeting with the Independent Non-Executive Directors without the Executive Directors being present.

Appointment, Re-election and Removal of Directors

While there was no appointment of new Director 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. 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; reviewing and obtaining explanation from management and the external auditor on the results for the year, including causes of changes from the previous period, effects on the application of new accounting policies, compliance with the Listing Rules and relevant legislation, and any audit issues, before recommending their adoption by the Board; considered and proposed to the Board the re-appointment of the Company's external auditors; considered and approved the procedures and guidelines in employing the external auditor to perform non-audit assignments for the Company; received and reviewed the internal audit reports from the internal auditor; held meetings with the external auditors in the absence of management to discuss any audit issues; held meetings with the internal auditor in private to discuss internal audit issues; approved the internal audit program for the year; carried out a review of the internal control system of the Company during the year including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programs and budget 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 Audit Committee held two meetings in 2012 and one meeting to date in 2013 with full attendance except for Mr. Li Zhengbang who had not attended meetings.

The Audit Committee had held a meeting on 25 March 2013 to consider and review the 2012 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 2012 annual report and annual financial statements of the Company have complied with the applicable accounting standards and the Company has made appropriate disclosure thereof.

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. No former partner of KPMG, the existing auditing firm of the Company, was acting as a member of the Audit Committee for a period of 1 year from the date of his ceasing to be a partner of the firm; or to have any financial interest in the firm.

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 held two meetings in 2012 and one meeting to date in 2013, with full attendance except for Mr. Li Zhengbang who had not attended the 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

The Nomination Committee 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 to make recommendations to the Board on matters relating to the appointment or re-appointment of Directors and succession planning for Directors, and assessing the independence of the Independent Non-Executive Directors. The Nomination Committee has been provided with sufficient resources to discharge its duties.

The Nomination Committee held two meeting in 2012 and one meeting to date in 2013, with full attendance except for Mr. Li Zhengbang who had not attended the meetings. The meetings were held to discuss and review the composition and structure of the Board and senior management and the re-appointment arrangement of the Directors in the Company's forthcoming annual general meeting. 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 on a going concern basis, with supporting assumptions or qualifications as necessary, 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 year. 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 the Listing Rules, the Companies Ordinance, 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.

The Directors endeavor to ensure a balanced, clear and understandable assessment of the Company's position and prospects in annual reports, interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other statutory requirements.

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 internal control system 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 authorisation levels.

The Board, through the Audit Committee, have conducted a review covering all material controls, including financial, operational and compliance controls and risk management functions of the Group for the year ended 31 December 2012 and considered that an effective and adequate internal control system of the Group had been in place and had been functioning effectively.

External Auditors

KPMG was re-appointed as the external auditors of the Company by the shareholders at the annual general meeting held on 23 May 2012 until the next annual general meeting. 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. KPMG is primarily responsible for providing audit services in connection with the annual consolidated financial statements.

During the year ended 31 December 2012, the total remuneration paid or payable to KPMG in respect of statutory audit services was RMB2,350,000. In addition, approximately RMB500,000 was charged for non-audit services. The non-audit services represented a due diligence review of an investment.

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"). All of the Directors have confirmed, following specific enquiry by the Company, that they have 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 2012.

The Group has also adopted a code of conduct governing securities transactions by employees who may possess or have access to price sensitive information or inside information (with effect from 1 January 2013).

Shareholders' Rights

Set out below is a summary of certain rights of the shareholders of the Company as required to be disclosed pursuant to the mandatory disclosure requirement under paragraph O of the Corporate Governance Code:

Convening of extraordinary general meeting on requisition or putting forward proposals at general meetings by shareholders

In accordance with the section 79 of the Company's articles of association, general meetings may be convened on the written requisition of any two or more members of the Company deposited at the registered office of the Company in Hong Kong specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. General meetings may also be convened on the written requisition of any one member of the Company which is a recognised clearing house (or its nominee(s)) deposited at the registered office of the Company in Hong Kong specifying the objects of the meeting and signed by the requisitionist, provided that such requisitionist held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company.

If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionists themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionists as a result of the failure of the Board shall be reimbursed to them by the Company.

Shareholders may also make use of the above mechanism in putting forward proposals at general meeting. In order to allow shareholders to make an informed decision at the relevant general meeting, requisitionists are requested to provide contact details to the Board at the time of deposition of the requisition in case further information is required to be included in the notice of meeting.

Shareholders should note that the Company is required to give notice of extraordinary meeting of not less than 10 business days (pursuant to Listing Rules requirements) and not less than 14 clear days (pursuant to the articles of association of the Company).

Procedures for directing shareholders' enquiries to the Board

Shareholders may at any time send their enquiries and concerns to the Board of Directors of the Company in writing through the Company Secretary whose contact details are as follows:

The Company Secretary
Tiangong International Company Limited
Unit 1303, 13/F Jubilee Center
18 Fenwick Street, Wanchai, Hong Kong
Email: tiangong@biznetvigator.com
Tel No.: (852) 3102-2386
Fax No.: (852) 3102-2331

The Company Secretary shall forward the shareholders' enquiries and concerns to the Board of Directors and/or relevant Board Committees of the Company, where appropriate, to answer the shareholders' questions.

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. There is no change in the Company constitutional documents during the year.

Report of the Directors

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2012.

Principal Place of Business

Tiangong International Company Limited (the "Company") is a company incorporated and domiciled in Cayman Islands and has its principal place of business at Houxiang Town, Danyang City, Jiangsu Province, the PRC.

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 2012 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 30 to 94.

Results and Appropriations

The results of the Group for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income on page 30.

The Board proposed a final dividend payment of RMB0.0461 per share for the financial year ended 31 December 2012 (2011: RMB0.0480).

Charitable Donations

Charitable donations made by the Group during the year amounted to RMB390,000 (2011: RMB650,000).

Property, Plant and Equipment

Details of the movements in the property, plant and equipment of the Group 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 2012, calculated in accordance with the Companies Law (Cap. 22) (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to RMB1,158,699,000 (2011: RMB770,054,000).

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

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 Independent Non-Executive Directors are appointed for periods of one year. 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 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 (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 (%)
Zhu Xiaokun[1 and 2]	Corporate interests	783,086,000(L)	40.55
	Beneficial owner[3]	400,000(L)	0.02
			40.57
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 2012,

(1) Tiangong Holdings Company Limited ("THCL") held 742,354,000 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 742,354,000 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.

(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 end of the reporting period, as far as the Directors are aware, none of the 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 2012, save for the 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)	783,486,000(L)	40.57
THCL (Note 1)	742,354,000(L)	38.44
The Capital Group Companies, Inc. (Note 2)	98,342,000(L)	5.09

Notes:

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

(2) The Capital Group Companies, Inc. reported that it is deemed to be interested in the shares of the Company by virtue of its interest in Capital Research and Management Company, a corporation 100% controlled by it.

Arrangements to Acquire Shares or Debentures

Save as disclosed in this report (note Share Option Scheme below), 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 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 14 to 15.

Share Option Scheme

The Company has a share option scheme (the "Scheme") which was adopted on 7 July 2007. The major terms of the Scheme are as follows:

1. The Directors may, at their discretion, invite any directors (including executive directors, non-executive directors and independent non-executive directors) and employees of any member of the Group and any advisers, consultants, distributors, contractors, contract manufacturers, suppliers, agents, customers, business partners, joint venture business partners, service providers of any member of the Group who the Board considers, in its sole discretion, have contributed or will contribute to the Group (the "Participants") to participate in the Scheme.

2. The maximum number of shares over which options may be granted under the Scheme must not exceed 100,000,000 shares of nominal value US$0.0025 each in the capital of the Company.

3. The total number of shares of the Company issued and to be issued upon exercise of the options granted to each Participant (including both exercised, cancelled and outstanding options) under the Scheme in any 12 month period must not exceed 1% of the shares in issue. Any further grant of options which would result in the number of shares issued as aforesaid exceeding the said 1% limit must be subject to prior shareholders' approval with the relevant Participant and his associates abstaining from voting.

4. The period within which the options must be exercised will be specified by the Company at the time of grant. This period must expire no later than 10 years from the relevant date of grant (being the date on which the Board resolves to make an offer of option to the relevant grantee).

5. At the time of grant of the options, the Company may specify any minimum period(s) for which an option must be held before it can be exercised. The Scheme does not contain any such minimum period.

6. The amount payable on acceptance of an option is HK$1.00.

7. The subscription price for the shares the subject of the options shall be no less than the higher of (i) the closing price of the shares as stated in the daily quotations sheet issued by the Stock Exchange on the date of grant; (ii) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five Stock Exchange business days immediately preceding the date of grant; and (iii) the nominal value of a share on the date of grant. The subscription price will be established by the Board at the time the option is offered to the Participants.

8. The Scheme shall be valid and effective till 6 July 2017.

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 were 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 Scheme was adjusted to 19,880,000 shares of USD0.0025 each at an exercise price of HKD1.275.

At 31 December 2012, the Directors and employees of the Company had the following interests in options to subscribe for shares of the Company (market value per share at 31 December 2012 was HKD1.860) under the Scheme of the Company. The options are unlisted. Each option gives the holder the right to subscribe for one ordinary share of USD0.0025 each of the Company.

	No. of options outstanding at the beginning of the year	No. of options granted during the year	No. of shares acquired on exercise of options during the year	No. of shares forfeited during the year	Date granted	Period during which options are exercisable	Exercise price per share	Market value per share at date of grant of options*	Market value per share on exercise of options*
Directors									
Mr. Zhu Xiaokun	400,000	–	–	–	28 January 2011	01 July 2012-30 June 2016	HKD1.275	HKD1.275	–
Mr. Zhu Zhihe	400,000	–	–	–	28 January 2011	01 July 2012-30 June 2016	HKD1.275	HKD1.275	–
Mr. Yan Ronghua	320,000	–	–	–	28 January 2011	01 July 2012-30 June 2016	HKD1.275	HKD1.275	–
Mr. Wu Suojun	400,000	–	–	–	28 January 2011	01 July 2012-30 June 2016	HKD1.275	HKD1.275	–
Employees	18,360,000	–	–	(600,000)	28 January 2011	01 July 2012-30 June 2016	HKD1.275	HKD1.275	–

The options granted to the directors are registered under the names of the directors who are also the beneficial owners.

* being the weighted average closing price of the Company's ordinary shares immediately before the dates on which the options were granted or exercised, as applicable.

Information on the accounting policy for share options granted and the weighted average value per option is provided in note 3(n)(ii) and note 30 to the financial statements respectively.

Apart from the foregoing, at no time during the year was the Company, or any of its holding company or subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Directors' and Controlling Shareholders' Interests in Contracts

Save as disclosed under the heading "Connected transactions" below and "Related party transactions" in note 36 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

During the year ended 31 December 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 for the titanium production facilities and general working capital.

During the year ended 31 December 2012, all of the 128,000,000 warrants were exercised at an aggregated price paid of HKD128,000,000.

Save for disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the year.

Debentures

Save as disclosed in this annual report, during the year ended 31 December 2012, neither the Company nor any of its subsidiaries has issued any debentures.

Corporate Governance

During the year ended 31 December 2012, the Company has, so far where applicable, adopted and complied with the principles and code provisions set out in the Code on Corporate Governance Practices (effective until 31 March 2012) and the Code (effective from 1 April 2012) contained in Appendix 14 of the Listing Rules.

Audit Committee

The Audit Committee comprises three Independent Non-executive Directors. The Audit Committee held a meeting on 25 March 2013 to consider and review the 2012 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 2012 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 2012 is as follows:

	Percentage of the Group's total	
	Sales	**Purchases**
The largest customer/supplier	10.1%	16.2%
Five largest customers/suppliers in aggregate	28.9%	50.4%

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

The related party transactions as disclosed in note 36 to the financial statements also constituted connected transactions under the Listing Rules.

Continuing Connected Transactions

The continuing connected transactions of the Group fall under the de minimis provision set forth in Rule 14.A33(3) of the Listing Rules and are therefore exempt from reporting, announcement and independent shareholders' approval.

Pledge of Assets

As at 31 December 2012, the Group pledged certain bank deposits amounting to approximately RMB238,479,000 (31 December 2011: RMB149,894,000). The Group also pledged certain trade receivables amounting to approximately RMB143,618,000 (31 December 2011: Nil).

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 95. 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

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting. There has been no change in the Company's auditors in any of the preceding three years.

By order of the Board

Tiangong International Company Limited
Zhu Xiaokun
Chairman

Hong Kong, 26 March 2013

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") and its subsidiaries (together "the Group") set out on pages 30 to 94, which comprise the consolidated and company statements of financial position as at 31 December 2012, 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 information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB") 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 consolidated 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 consolidated 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 2012 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 2013

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

(Expressed in Renminbi)

	Note	2012 RMB'000	2011 RMB'000
Revenue	5	**3,118,251**	3,111,763
Cost of sales		**(2,388,862)**	(2,405,000)
Gross profit		**729,389**	706,763
Other income	6	**78,944**	12,701
Distribution expenses		**(44,583)**	(36,890)
Administrative expenses		**(100,437)**	(85,924)
Other expenses	7	**(14,661)**	(34,057)
Profit from operations		**648,652**	562,593
Finance income		**10,588**	4,087
Finance expenses		**(118,538)**	(133,030)
Net finance costs	8(a)	**(107,950)**	(128,943)
Share of losses of associates	18	**(209)**	(221)
Share of (losses)/profits of jointly controlled entities	19	**(3,593)**	1,703
Profit before taxation	8	**536,900**	435,132
Income tax	9	**(92,008)**	(69,805)
Profit for the year attributable to equity shareholders of the Company		**444,892**	365,327
Other comprehensive income/(loss) for the year			
Exchange differences on translation of financial statements of overseas associates and jointly controlled entities		**677**	(3,715)
Total comprehensive income for the year attributable to equity shareholders of the Company		**445,569**	361,612
Earnings per share (RMB)	13		
Basic		**0.244**	0.218
Diluted		**0.240**	0.212

The notes on pages 37 to 94 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 2012

(Expressed in Renminbi)

	Note	2012 RMB'000	2011 RMB'000
Non-current assets			
Property, plant and equipment	14	**2,143,725**	1,793,278
Lease prepayments	15	**70,972**	72,555
Goodwill	16	**21,959**	21,959
Interest in associates	18	**43,647**	37,345
Interest in jointly controlled entities	19	**6,637**	5,835
Other financial assets	20	**10,000**	10,000
Deferred tax assets	31(b)	**12,336**	12,721
		2,309,276	1,953,693
Current assets			
Inventories	21	**1,426,003**	1,177,805
Trade and other receivables	22	**1,530,598**	1,271,413
Pledged deposits	23	**238,479**	149,894
Time deposits	24	**446,000**	474,000
Cash and cash equivalents	25	**150,499**	103,089
		3,791,579	3,176,201
Current liabilities			
Interest-bearing borrowings	26	**1,886,407**	1,516,203
Trade and other payables	27	**1,147,200**	986,897
Current taxation	31(a)	**43,578**	31,403
Deferred income	28	**1,162**	1,162
		3,078,347	2,535,665
Net current assets		**713,232**	640,536
Total assets less current liabilities		**3,022,508**	2,594,229
Non-current liabilities			
Interest-bearing borrowings	26	**201,638**	427,000
Deferred income	28	**4,866**	6,028
Deferred tax liabilities	31(c)	**28,721**	21,884
		235,225	454,912
Net assets		**2,787,283**	2,139,317

The notes on pages 37 to 94 form part of these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2012

(Expressed in Renminbi)

	Note	**2012 RMB'000**	2011 RMB'000
Capital and reserves			
Share capital	32(a)/(c)	**35,803**	31,806
Reserves	32(d)	**2,751,480**	2,107,511
Total equity		**2,787,283**	2,139,317

Approved and authorised for issue by the board of directors on 26 March 2013.

Zhu Xiaokun
Director

Yan Ronghua
Director

The notes on pages 37 to 94 form part of these financial statements.

Statement of Financial Position

As at 31 December 2012

(Expressed in Renminbi)

	Note	2012 RMB'000	2011 RMB'000
Non-current assets			
Property, plant and equipment	14	**11**	43
Interest in subsidiaries	17	**1,174,371**	814,065
Interest in associates	18	**30,338**	32,306
		1,204,720	846,414
Current assets			
Cash and cash equivalents	25	**1,857**	2,600
		1,857	2,600
Current liabilities			
Trade and other payables	27	**1,997**	3,497
		1,997	3,497
Net current liabilities		**(140)**	(897)
Net assets		**1,204,580**	845,517
Capital and reserves			
Share capital	32(a)/(c)	**35,803**	31,806
Reserves	32(a)/(d)	**1,168,777**	813,711
Total equity		**1,204,580**	845,517

Approved and authorised for issue by the board of directors on 26 March 2013.

Zhu Xiaokun
Director

Yan Ronghua
Director

The notes on pages 37 to 94 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

(Expressed in Renminbi)

	Share capital RMB'000 (Note 32(c))	Share premium RMB'000 (Note 32(d)(i))	Capital reserve RMB'000 (Note 32(d)(ii))	Merger reserve RMB'000 (Note 32(d)(iii))	Exchange reserve RMB'000 (Note 32(d)(iv))	PRC statutory reserve RMB'000 (Note 32(d)(v))	Retained profits RMB'000	Total equity 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 2011:								
Profit for the year	–	–	–	–	–	–	365,327	365,327
Other comprehensive loss	–	–	–	–	(3,715)	–	–	(3,715)
Total comprehensive income	–	–	–	–	(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 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 2012:								
Profit for the year	–	–	–	–	–	–	444,892	444,892
Other comprehensive income	–	–	–	–	677	–	–	677
Total comprehensive income	–	–	–	–	677	–	444,892	445,569
Dividends approved in respect of previous year (Note 32(b))	–	–	–	–	–	–	(87,936)	(87,936)
Issuance of ordinary shares (Note 32(c))	1,976	180,507	–	–	–	–	–	182,483
Exercise of warrants (Note 29)	2,021	139,408	(37,188)	–	–	–	–	104,241
Equity settled share-based transactions (Note 30)	–	–	3,609	–	–	–	–	3,609
Transfer to reserve	–	–	–	–	–	86,186	(86,186)	–
Balance at 31 December 2012	35,803	1,206,481	67,076	91,925	(3,038)	321,498	1,067,538	2,787,283

The notes on pages 37 to 94 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2012

(Expressed in Renminbi)

	Note	2012 RMB'000	2011 RMB'000
Operating activities			
Profit before taxation		**536,900**	435,132
Adjustments for:			
Depreciation	8(c)	**121,295**	113,386
Amortisation of lease prepayments	8(c)	**1,583**	1,627
Interest income	8(a)	**(10,588)**	(4,087)
Interest on bank loans	8(a)	**118,538**	95,842
Loss on disposal of property, plant and equipment	7	**7,139**	629
Dividends received from unlisted securities	6	**(800)**	(800)
Impairment loss on non-trade receivables	22	**1,595**	—
Share of losses of associates	18	**209**	221
Share of losses/(profits) of jointly controlled entities	19	**3,593**	(1,703)
Fair value recognised upon issuance and change in fair value of warrants		**—**	37,188
Equity-settled share-based payment expenses		**3,609**	6,469
Operating profit before changes in working capital		**783,073**	683,904
Change in inventories		**(248,198)**	40,527
Change in trade and other receivables		**(248,304)**	(340,749)
Change in trade and other payables		**160,459**	325,457
Change in deferred income		**(1,162)**	(1,162)
Income tax paid		**(87,133)**	(56,925)
Income tax refund		**14,522**	1,105
Net cash generated from operating activities		**373,257**	652,157

The notes on pages 37 to 94 form part of these financial statements.

For the year ended 31 December 2012

(Expressed in Renminbi)

	Note	2012 RMB'000	2011 RMB'000
Investing activities			
Interest received	8(a)	**10,588**	4,087
Proceeds from disposal of property, plant and equipment		**5,840**	32,136
Payment for the purchase of property, plant and equipment		**(458,508)**	(348,453)
Net proceeds from maturity/(payment for acquisition) of time deposits		**28,000**	(474,000)
Net payment for purchase of pledged deposits		**(88,585)**	(13,259)
Loan to a third party		**(12,476)**	—
Dividends received from unlisted securities		**800**	800
Dividends received from an associate		**2,495**	—
Payment for increase of interests in an associate	18	**(6,420)**	—
Payment for establishment of a jointly controlled entity	19	**(6,304)**	—
Net cash used in investing activities		**(524,570)**	(798,689)
Financing activities			
Proceeds from new interest-bearing borrowings		**3,004,414**	1,905,668
Repayment of interest-bearing borrowings		**(2,859,572)**	(1,818,215)
Interest paid		**(144,907)**	(106,469)
Proceeds from issuance of ordinary shares	32(c)	**182,483**	—
Proceeds from exercise of warrants	29	**104,241**	—
Dividends paid to equity shareholders of the Company	32(b)	**(87,936)**	(47,194)
Net cash generated from/(used in) financing activities		**198,723**	(66,210)
Net increase/(decrease) in cash and cash equivalents		**47,410**	(212,742)
Cash and cash equivalents at 1 January		**103,089**	315,831
Cash and cash equivalents at 31 December		**150,499**	103,089

The notes on pages 37 to 94 form part of these 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 2012 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in associates and jointly controlled entities. 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)(ii)).

(c) Accounting estimates and judgement

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 37.

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 presently 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 profits arising from intra-group transactions, are eliminated in full 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.

3 Significant accounting policies (continued)

(b) Associates and jointly controlled entities (continued)

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, adjusted for any excess of the group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted 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)). Any acquisition-date excess over cost, 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.

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).

3 Significant accounting policies (continued)

(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.

(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.

3 Significant accounting policies (continued)

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 3(h)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

— Plant and buildings	20 years
— Machinery	10–20 years
— Motor vehicles	8 years
— Office equipment and others	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Construction in progress represents fixed assets under construction and equipment pending installation, and is stated at cost less impairment losses (see Note 3(h)). Cost comprises direct costs of construction as well as interest charges during the year of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to fixed assets when the asset is substantially ready for its intended use, notwithstanding any delays in the issue of the relevant commissioning certificates by the relevant authorities in the PRC.

No depreciation is provided in respect of construction in progress until it is substantially complete and ready for its intended use.

3 Significant accounting policies (continued)

(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.

(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.

(h) Impairment of assets

(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 the end of each reporting period 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 one or more of 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.

3 Significant accounting policies (continued)

(h) Impairment of assets (continued)

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

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 financial 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.

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.

— For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

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.

3 Significant accounting policies (continued)

(h) Impairment of assets (continued)

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period 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.

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.

3 Significant accounting policies (continued)

(h) Impairment of assets (continued)

(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 IAS 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.

(i) Inventories

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

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present 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 the estimated costs necessary to make the sale.

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 where the receivables are interest-free loans made to related parties without any fixed repayment terms 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 profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

3 Significant accounting policies (continued)

(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.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments 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 and contributions to defined contribution retirement plans

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) 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.

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.

3 Significant accounting policies (continued)

(o) Income tax (continued)

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.

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.

3 Significant accounting policies (continued)

(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 is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) 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.

(iii) Dividends

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

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

(v) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the group will comply with the conditions attaching to them. Grants that compensate the group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

3 Significant accounting policies (continued)

(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 profit or loss.

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.

(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) 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.

3 Significant accounting policies (continued)

(t) Related parties (continued)

(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.

(u) 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 certain amendments to IFRSs that are first effective for the current accounting period of the Group and the Company. These include amendments to IFRS 7, *Financial instruments: Disclosures — Transfers of financial assets* and 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.

5 Revenue and segment reporting

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

The Group has five 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.
— *Trading of goods*	The trading of goods segment sells aluminium and chemical goods (purified terepthatic acid).
— *Titanium alloy*	The titanium alloy segment manufactures and sells titanium alloy for the titanium industry.

(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 payable, 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 entities and other head office or corporate administration costs.

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 used by the segments in their operations.

5 Revenue and segment reporting (continued)

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

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 2012 and 2011 is set out below.

	Year ended and as at 31 December 2012					
	HSS RMB'000	HSS cutting tools RMB'000	DS RMB'000	Trading of goods RMB'000	Titanium alloy RMB'000	Total RMB'000
Revenue from external customers	**1,092,587**	**567,297**	**1,038,826**	**386,076**	**33,465**	**3,118,251**
Inter-segment revenue	**255,988**	**—**	**—**	**—**	**—**	**255,988**
Reportable segment revenue	**1,348,575**	**567,297**	**1,038,826**	**386,076**	**33,465**	**3,374,239**
Reportable segment profit (adjusted EBIT)	**285,931**	**83,275**	**304,493**	**3,757**	**7,350**	**684,806**
Reportable segment assets	**1,684,968**	**805,351**	**2,427,432**	**90,113**	**144,000**	**5,151,864**
Reportable segment liabilities	**396,387**	**179,036**	**519,991**	**27,913**	**13,692**	**1,137,019**

	Year ended and as at 31 December 2011					
	HSS RMB'000	HSS cutting tools RMB'000	DS RMB'000	Trading of goods RMB'000	Titanium alloy 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

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

	2012 RMB'000	2011 RMB'000
Revenue		
Reportable segment revenue	**3,374,239**	3,325,085
Elimination of inter-segment revenue	**(255,988)**	(213,322)
Consolidated revenue	**3,118,251**	3,111,763

5 Revenue and segment reporting (continued)

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

	2012 RMB'000	2011 RMB'000
Profit		
Reportable segment profit	**684,806**	669,873
Net finance costs	**(107,950)**	(128,943)
Share of losses of associates	**(209)**	(221)
Share of (losses)/profits of jointly controlled entities	**(3,593)**	1,703
Unallocated head office and corporate expenses	**(36,154)**	(107,280)
Consolidated profit before taxation	**536,900**	435,132

	2012 RMB'000	2011 RMB'000
Assets		
Reportable segment assets	**5,151,864**	4,324,566
Interest in associates	**43,647**	37,345
Interest in jointly controlled entities	**6,637**	5,835
Other financial assets	**10,000**	10,000
Deferred tax assets	**12,336**	12,721
Pledged deposits	**238,479**	149,894
Time deposits	**446,000**	474,000
Cash and cash equivalents	**150,499**	103,089
Unallocated head office and corporate assets	**41,393**	12,444
Consolidated total assets	**6,100,855**	5,129,894

	2012 RMB'000	2011 RMB'000
Liabilities		
Reportable segment liabilities	**1,137,019**	971,377
Interest-bearing borrowings	**2,088,045**	1,943,203
Current tax liabilities	**43,578**	31,403
Deferred tax liabilities	**28,721**	21,884
Unallocated head office and corporate liabilities	**16,209**	22,710
Consolidated total liabilities	**3,313,572**	2,990,577

5 Revenue and segment reporting (continued)

(c) Geographical information

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

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

	2012 RMB'000	2011 RMB'000
Revenue		
The PRC	**1,792,322**	1,681,064
North America	**387,689**	410,634
Europe	**313,181**	367,143
Asia (other than the PRC)	**607,843**	633,610
Others	**17,216**	19,312
Total	**3,118,251**	3,111,763

6 Other income

		2012 RMB'000	2011 RMB'000
Government grants	(i)	**50,075**	8,257
Dividend income from unlisted securities	(ii)	**800**	800
Reversal of provision for doubtful debts (Note 22(b))		**21,916**	—
Others		**6,153**	3,644
		78,944	12,701

(i) Jiangsu Tiangong Tools Company Limited ("TG Tools"), a wholly-owned subsidiary of the Company located in the PRC, received unconditional grants amounting to RMB48,913,000 (2011: RMB7,095,000) from the local government in Danyang 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 (2011: RMB1,162,000) during the year ended 31 December 2012 (see Note 28).

(ii) The Group received dividends totalling to RMB800,000 (2011: RMB800,000) from its unlisted equity investments (see Note 20) during the year ended 31 December 2012.

7 Other expenses

	2012 RMB'000	2011 RMB'000
Net foreign exchange loss	**5,414**	21,315
Impairment loss on non-trade receivables	**1,595**	—
Provision for doubtful debts	**—**	11,081
Net loss on disposal of property, plant and equipment	**7,139**	629
Others	**513**	1,032
	14,661	34,057

8 Profit before taxation

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

(a) Net finance costs

	2012 RMB'000	2011 RMB'000
Interest income	**(10,588)**	(4,087)
Finance income	**(10,588)**	(4,087)
Interest on bank loans	**144,751**	107,305
Less: interest expense capitalised into property, plant and equipment under construction*	**(26,213)**	(11,463)
Fair value recognised upon warrants issuance (Note 29)	**—**	42,754
Change in fair value of warrants (Note 29)	**—**	(5,566)
Finance expenses	**118,538**	133,030
Net finance costs	**107,950**	128,943

* The borrowing costs have been capitalised at a rate of 0.30%–9.80% per annum (2011: 0.30%–9.80%).

8 Profit before taxation (continued)

(b) Staff costs

	2012 RMB'000	2011 RMB'000
Salaries,wages and other benefits	**158,980**	149,048
Contributions to defined contribution retirement plans	**10,631**	7,102
Equity-settled share-based payment expenses (Note 30)	**3,609**	6,469
	173,220	162,619

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

	2012 RMB'000	2011 RMB'000
Cost of inventories*	**2,388,862**	2,405,000
Depreciation	**121,295**	113,386
Amortisation of lease prepayments	**1,583**	1,627
(Reversal)/provision for doubtful debts	**(21,916)**	11,081
Impairment loss on non-trade receivables	**1,595**	—
Auditor's remuneration	**2,350**	2,200
Provision/(reversal) for write-down of inventories	**773**	(2,941)
Operating lease charges	**1,315**	1,274

* Cost of inventories includes RMB240,526,000 (2011: RMB223,198,000) 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 in the consolidated statement of comprehensive income

(a) Taxation in the consolidated statement of comprehensive income represents:

	2012 RMB'000	2011 RMB'000
Current tax		
Provision for PRC income tax	**82,900**	67,558
Provision for Hong Kong profits tax	**1,886**	—
	84,786	67,558
Deferred tax		
Origination and reversal of temporary differences	**7,222**	2,247
	92,008	69,805

(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) 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 year ended 31 December 2012.

(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% (2011: 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 and Tiangong Aihe 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 is qualified as High and New Technology Enterprise during the years from 2012 to 2014 and subject to a preferential income tax rate of 15% in 2012 (2011: 12.5%).

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

9 Income tax in the consolidated statement of comprehensive income (continued)

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

	2012 RMB'000	2011 RMB'000
Profit before taxation	**536,900**	435,132
Notional tax on profit before taxation, calculated using the PRC statutory tax rate of 25% (2011: 25%)	**134,225**	108,783
Effect of preferential tax rates	**(51,358)**	(53,090)
Effect of different tax rates	**592**	9,948
Tax effect of non-deductible expenses	**1,235**	1,937
Withholding tax on undistributed profits of subsidiaries	**847**	3,332
Withholding tax on distributed dividends	**20,989**	—
Tax refund	**(14,522)**	(1,105)
Actual tax expense	**92,008**	69,805

10 Directors' remuneration

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

Year ended 31 December 2012

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Contributions to retirement benefit schemes RMB'000	Bonuses RMB'000	Share-based payments (Note) RMB'000	Total RMB'000
Executive directors						
Zhu Xiaokun	—	100	13	7,500	73	7,686
Zhu Zhihe	—	44	—	44	73	161
Yan Ronghua	—	114	12	45	59	230
Wu Suojun	—	106	12	47	73	238
Independent non-executive directors						
Li Zhengbang	60	—	—	—	—	60
Gao Xiang	36	—	—	—	—	36
Lee Cheuk Yin, Dannis	78	—	—	—	—	78
Total	174	364	37	7,636	278	8,489

10 Directors' remuneration (continued)

Year ended 31 December 2011

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Contributions to retirement benefit schemes RMB'000	Bonuses 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 director						
Thong Kwee Chee (resigned on 4 January 2011)	—	—	—	—	—	—
Independent non-executive directors						
Li Zhengbang	60	—	—	—	—	60
Gao Xiang	36	—	—	—	—	36
Lee Cheuk Yin, Dannis	96	—	—	—	—	96
Total	192	408	48	7,626	494	8,768

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)(ii).

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 (2011: three) are directors whose emoluments are disclosed in note 10. The aggregate of the emoluments in respect of the other two (2011: two) individuals are as follows:

	2012 RMB'000	2011 RMB'000
Salaries, allowances and benefits in kind	**704**	731
Contributions to retirement benefit schemes	**10**	24
Bonuses	**902**	106
Share-based payments	**95**	234
	1,711	1,095

The emoluments of the two (2011: two) individuals with the highest emoluments are within the band of Nil to RMB1,000,000.

12 Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB6,947,000 (2011: a loss of RMB43,481,000) which has been dealt with in the financial statements of the Company (see Note 32(a)).

	2012 RMB'000	2011 RMB'000
Amount of consolidated loss attributable to equity shareholders dealt with in the Company's financial statements	**(6,947)**	(43,481)
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	**163,613**	—
Company's profit/(loss) for the year	**156,666**	(43,481)

Details of dividends paid and payable to equity shareholders of the Company are set out in note 32(b).

13 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB444,892,000 (2011: RMB365,327,000) and the weighted average of 1,822,304,110 ordinary shares (2011: 1,678,000,000 shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2012	2011
Issued ordinary shares at 1 January	**1,678,000,000**	1,678,000,000
Effect of issuance of ordinary shares	**88,013,699**	—
Effect of exercise of warrants	**56,290,411**	—
Weighted average number of ordinary shares at 31 December	**1,822,304,110**	1,678,000,000

13 Earnings per share (continued)

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB444,892,000 (2011: RMB365,327,000) and the weighted average number of ordinary shares of 1,857,187,430 shares (2011: 1,720,505,706 shares), calculated as follows:

Weighted average number of ordinary shares (diluted)

	2012	2011
Weighted average number of ordinary shares at 31 December	**1,822,304,110**	1,678,000,000
Effect of warrants (Note 29)	**30,010,314**	39,744,292
Effect of equity settled share-based transactions (Note 30)	**4,873,006**	2,761,414
Weighted average number of ordinary shares (diluted) at 31 December	**1,857,187,430**	1,720,505,706

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 2011	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
Additions	12,725	41,323	4,435	1,390	424,848	484,721
Transfer from construction in progress	37,861	29,428	—	—	(67,289)	—
Disposals	—	(13,473)	(3,820)	—	—	(17,293)
Balance at 31 December 2012	474,645	1,597,683	8,298	51,505	668,440	2,800,571
Accumulated depreciation:						
Balance at 1 January 2011	(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)
Charge for the year	(20,912)	(95,541)	(1,018)	(3,824)	—	(121,295)
Written back on disposals	—	3,111	1,203	—	—	4,314
Balance at 31 December 2012	(122,047)	(490,754)	(1,707)	(42,338)	—	(656,846)
Net book value:						
At 31 December 2012	352,598	1,106,929	6,591	9,167	668,440	2,143,725
At 31 December 2011	322,924	1,142,081	5,791	11,601	310,881	1,793,278

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

14 Property, plant and equipment (continued)

The Group (continued)

(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 36(a)).

(iii) The property, plant and equipment owned by the Company with net book value of RMB11,000 at 31 December 2012 (2011: RMB43,000) are all office equipment.

15 Lease prepayments

	The Group	
	2012	2011
	RMB'000	RMB'000
Cost:		
Balance at 1 January	**81,387**	68,517
Additions	**—**	12,870
Balance at 31 December	**81,387**	81,387
Amortisation:		
Balance at 1 January	**(8,832)**	(7,205)
Charge for the year	**(1,583)**	(1,627)
Balance at 31 December	**(10,415)**	(8,832)
Net book value:		
At 31 December	**70,972**	72,555
At 1 January	**72,555**	61,312

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 2011 and 2012	21,959
Accumulated impairment losses:	
At 31 December 2011 and 2012	—
Carrying amount:	
At 31 December 2011 and 2012	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.

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

	2012 RMB'000	2011 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% (2011: 3%-10%), a discount rate of 6.82% (2011: 6.08%) and a gross margin of 15%-18% (2011: 15%-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	
	2012 RMB'000	2011 RMB'000
Unlisted shares, at cost	**10,478**	6,869
Receivables from subsidiaries	**1,163,893**	807,196
	1,174,371	814,065

(Expressed in Renminbi unless otherwise indicated)

17 Interests in subsidiaries (continued)

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

Details of the subsidiaries as at 31 December 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	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%	RMB1,234,300,000/ RMB1,234,300,000	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
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%	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	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 R&D (iii)	the PRC, 5 March 2012	—	100%	RMB5,000,000/ RMB5,000,000	Research and development of alloy, steel, 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) TG Titan and TG R&D are incorporated in the PRC as domestic companies.

18 Interest in associates

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted shares, at cost	**—**	—	**41,648**	41,648
Share of net assets	**54,957**	46,687	**—**	—
	54,957	46,687	**41,648**	41,648
Less: impairment loss	**(11,310)**	(9,342)	**(11,310)**	(9,342)
	43,647	37,345	**30,338**	32,306

Details of the Group's interest in associates as at 31 December 2012 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	Percentage of equity attributable to the Company: 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 LLC ("SBSMH")	the United States, 6 January 2010	20%	—	USD8,250,000/ USD8,250,000	Sales of special steel related products

During the year ended 31 December 2012, the Group's equity interest in XZG increased from 20 to 25 percent at a consideration of TWD30,000,000.

Summary financial information on associates:

	Assets	Liabilities	Equity	Revenues	Profit/(loss)
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2012					
100 per cent	**394,980**	**(188,990)**	**205,990**	**518,511**	**(1,909)**
Group's effective interest	**82,021**	**(38,374)**	**43,647**	**113,503**	**(209)**
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)

19 Interest in jointly controlled entities

	The Group	
	2012 RMB'000	2011 RMB'000
Share of net assets	6,637	5,835

Details of the Group's interest in the jointly controlled entities which are unlisted corporate entities as at 31 December 2012 are set out below:

Name of company	Place and date of incorporation	Percentage of equity attributable to the Company		Issued and fully paid-up/registered capital	Principal activities
		Direct	Indirect		
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
TGK Special Steel PVT Limited ("TGK")	India, 5 June 2012	—	50%	USD2,000,000/ USD2,000,000	Sales of special steel related products

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. In 2012, the Group received dividends of RMB2,495,000 from TGT.

During the year ended 31 December 2012, the Group, together with two individuals who are independent third parties and not connected persons of the Group in the steel industry, established TGK, a trading company in India. The Group's contribution to set up the investment was USD1,000,000 and resulted in the Group obtaining a 50 percent investment in TGK.

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

	2012 RMB'000	2011 RMB'000
Non-current assets	3,527	1,451
Current assets	70,547	37,848
Current liabilities	(67,437)	(33,464)
Net assets	6,637	5,835
Income	75,952	38,509
Expenses	(79,545)	(36,806)
(Loss)/profit for the year	(3,593)	1,703

20 Other financial assets

	The Group	
	2012	2011
	RMB'000	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 consolidated statement of financial position comprise:

	The Group	
	2012	2011
	RMB'000	RMB'000
Raw materials	**73,852**	58,245
Work in progress	**521,972**	549,222
Finished goods	**830,179**	570,338
	1,426,003	1,177,805

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	The Group	
	2012	2011
	RMB'000	RMB'000
Carrying amount of inventories sold	**2,388,089**	2,407,941
Provision/(reversal) for write-down of inventories	**773**	(2,941)
	2,388,862	2,405,000

22 Trade and other receivables

	The Group	
	2012	2011
	RMB'000	RMB'000
Trade receivables	**1,152,150**	858,750
Bills receivable	**176,741**	273,752
Less: provision for doubtful debts (Note 22(b))	**(29,278)**	(51,194)
Net trade and bills receivable	**1,299,613**	1,081,308
Prepayments	**189,467**	173,768
Non-trade receivables	**43,113**	16,337
Less: impairment loss on non-trade receivables	**(1,595)**	—
Net prepayments and non-trade receivables	**230,985**	190,105
	1,530,598	1,271,413

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

Trade receivables of RMB143,618,000 (2011: Nil) have been pledged to a bank as security for the Group to issue bank loans as disclosed in note 26.

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

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade debtors and bills receivable (which are included in trade and other receivables), based on the invoice date and net of provision for doubtful debts, is as follows:

	The Group	
	2012	2011
	RMB'000	RMB'000
1 to 3 months	**967,658**	682,048
4 to 6 months	**226,152**	284,320
7 to 12 months	**99,159**	90,384
1 to 2 years	**6,438**	24,556
Over 2 years	**206**	—
	1,299,613	1,081,308

Trade debtors and bills receivable are due within 0 to 120 days from the date of billing. Further details on the Group's credit policy are set out in note 33(a).

22 Trade and other receivables (continued)

(b) Impairment of trade and bills receivable

Impairment losses in respect of trade and bills receivable 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 receivable directly (see Note 3(h)(i)).

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

	The Group	
	2012	2011
	RMB'000	RMB'000
At 1 January	**51,194**	40,113
(Reversal)/provision for doubtful debts recognised	**(21,916)**	11,081
At 31 December	**29,278**	51,194

(c) Trade and bills receivable that are not impaired

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

	The Group	
	2012	2011
	RMB'000	RMB'000
Neither past due nor impaired	**1,077,661**	809,438
Less than 3 months past due	**25,423**	19,256
More than 3 months but less than 6 months past due	**—**	54,268
More than 6 months past due	**—**	1,561
Amounts past due but not impaired	**25,423**	75,085
	1,103,084	884,523

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 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.

23 Pledged deposits

Bank deposits of RMB238,479,000 (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 related bills payables by the Group and the termination of related banking facilities.

The Group's exposure to credit 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 2011 and 2012, 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	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand	**150,499**	103,089	**1,857**	2,600

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	
		2012	2011
		RMB'000	RMB'000
Current			
Secured bank loans	(i)	**345,703**	—
Unsecured bank loans	(ii)	**1,147,204**	987,203
Current portion of non-current unsecured bank loans	(iii)	**393,500**	529,000
		1,886,407	1,516,203
Non-current			
Secured bank loans	(i)	**157,138**	—
Unsecured bank loans	(iii)	**438,000**	956,000
Less: current portion of non-current unsecured bank loans	(iii)	**(393,500)**	(529,000)
		201,638	427,000
		2,088,045	1,943,203

26 Interest-bearing borrowings (continued)

(i) The secured bank loans were pledged by certain trade receivables at interest rates ranging from 3.61% to 3.91% per annum.

(ii) Current unsecured bank loans carried interest at annual rates ranging from 3.00% to 7.22% (2011: 2.50% to 9.80%), and were all repayable within one year.

(iii) Non-current unsecured bank loans carried interest at annual rates ranging from 0.30% to 6.65% (2011: 0.30% to 6.98%).

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

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

	The Group	
	2012	2011
	RMB'000	RMB'000
Within 1 year	**393,500**	529,000
Over 1 year but less than 2 years	**44,500**	427,000
	438,000	956,000

27 Trade and other payables

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade and bills payable	**978,009**	850,283	**—**	—
Non-trade payables and accrued expenses	**169,191**	136,614	**1,997**	3,497
	1,147,200	986,897	**1,997**	3,497

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

27 Trade and other payables (continued)

As of the end of the reporting period, the ageing analysis of trade creditors and bills payable (which are included in trade and other payables), based on the invoice date, is as follows:

	The Group	
	2012	2011
	RMB'000	RMB'000
1 to 3 months	**524,340**	608,724
4 to 6 months	**417,619**	197,834
7 to 12 months	**19,563**	26,316
1 to 2 years	**7,898**	10,217
Over 2 years	**8,589**	7,192
	978,009	850,283

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 2012, the carrying amount of the deferred income in respect of government grants after amortisation (Note 6(i)) amounted to RMB6,028,000 of which RMB4,866,000 was 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 and 2012		—

(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 a 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.

29 Financial instruments (continued)

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

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

(c) Fair value of the warrants and assumptions

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

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

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

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

During the year ended 31 December 2012, all of the 128,000,000 warrants were exercised at an aggregated price paid of HKD128,000,000 (2011:Nil). Following the exercise of warrants, the share capital and share premium accounts of the Company have been increased by RMB2,021,000 and RMB139,408,000 respectively. Included in these amounts is RMB37,188,000 which has been transferred from the capital reserve to the share premium account.

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 per share, 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 was 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 per share.

(Expressed in Renminbi unless otherwise indicated)

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	1,520,000	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	18,360,000	The audited net profit of 2011 should be no less than 120% audited net profit of 2010	5.4 years
Total share options granted	19,880,000		

(b) The number and weighted average exercise prices of share options are as follows:

	2012		2011	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	**HKD1.275**	**19,880,000**	—	—
Forfeited during the year	**HKD1.275**	**(600,000)**	—	—
Granted during the year	**—**	**—**	HKD1.275	19,880,000
Outstanding at the end of the year	**HKD1.275**	**19,280,000**	HKD1.275	19,880,000
Exercisable at the end of the year	**HKD1.275**	**19,280,000**	—	—

The options outstanding at 31 December 2012 had an exercise price of HKD1.275 (2011: HKD1.275) and a weighted average remaining contractual life of 3.5 years (2011: 4.5 years).

30 Equity settled share-based transactions (continued)

(c) 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.

During the year ended 31 December 2012, the amortisation of share option expenses of RMB3,609,000 was charged to capital reserve (2011: RMB6,469,000). No share options have been exercised for the year ended 31 December 2012 and 31 December 2011.

31 Income tax in the consolidated statement of financial position

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

	The Group	
	2012	2011
	RMB'000	RMB'000
At the beginning of the year	**31,403**	19,665
Provision for PRC income tax for the year	**82,900**	67,558
Provision for Hong Kong profits tax for the year	**1,886**	—
PRC income tax paid	**(72,611)**	(55,820)
At the end of the year	**43,578**	31,403

(b) Deferred tax assets recognised

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

	Unrealised profits	Provision for doubtful debts	Write-down of inventories	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax arising from:				
At 1 January 2011	569	5,080	3,996	9,645
Charged/(credited) to profit or loss	952	2,640	(516)	3,076
At 31 December 2011	1,521	7,720	3,480	12,721
Charged/(credited) to profit or loss	2,708	(2,938)	(155)	(385)
At 31 December 2012	4,229	4,782	3,325	12,336

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

(c) Deferred tax liabilities recognised and not recognised

The components of 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
Deferred tax arising from:			
At 1 January 2011	4,719	11,842	16,561
Charged to profit or loss	3,332	1,991	5,323
At 31 December 2011	8,051	13,833	21,884
Charged to profit or loss	847	5,990	6,837
At 31 December 2012	8,898	19,823	28,721

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 2012, deferred tax liabilities of RMB8,898,000 (2011: RMB8,051,000) 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 RMB82,383,000 (2011: RMB43,007,000) 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 above undistributed profits earned by the Group's PRC subsidiaries 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)	Retained profits/ (deficit) RMB'000	Total RMB'000
Balance at 1 January 2011	31,806	886,566	—	(25,837)	892,535
Changes in equity for 2011:					
Total comprehensive loss for the year	—	—	—	(43,481)	(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
Balance at 31 December 2011 and 1 January 2012	31,806	886,566	43,657	(116,512)	845,517
Changes in equity for 2012:					
Total comprehensive income for the year	—	—	—	156,666	156,666
Dividends approved in respect of the previous year (Note 32(b)(ii))	—	—	—	(87,936)	(87,936)
Issuance of ordinary shares (Note 32(c))	1,976	180,507	—	—	182,483
Exercise of warrants (Note 29)	2,021	139,408	(37,188)	—	104,241
Equity settled share-based transactions (Note 30)	—	—	3,609	—	3,609
Balance at 31 December 2012	35,803	1,206,481	10,078	(47,782)	1,204,580

32 Capital, reserves and dividends (continued)

(b) Dividends

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

	2012 **RMB'000**	2011 RMB'000
Dividend proposed after the end of the reporting period of RMB0.0461 per ordinary share (2011: RMB0.0480 per ordinary share)	**89,019**	80,544

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

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

	2012 **RMB'000**	2011 RMB'000
Dividend in respect of the previous financial year, approved and paid during the year of RMB0.0480 per share (2011: RMB0.028125 per share)	**87,936**	47,194

In respect of the final dividend for the year ended 31 December 2011, there is a difference of RMB7,392,000 between final dividend disclosed in the 2011 annual financial statements and amounts approved and paid during the year which represents dividends attributable to shares issued upon the exercise of 29,000,000 warrants and issuance of 125,000,000 ordinary shares, before the closing date of the register of members.

32 Capital, reserves and dividends (continued)

(c) Share capital

Authorised, issued and fully paid share capital

Authorised:

	2012 and 2011 No. of Shares ('000)	Amount USD'000
Ordinary shares of USD0.0025 each (2011: USD0.0025)	4,000,000	10,000

Ordinary shares issued and fully paid:

	2012			2011		
	No. of Shares ('000)	**Amount USD '000**	**RMB equivalent '000**	No. of shares ('000)	Amount USD '000	RMB equivalent '000
At 1 January	**1,678,000**	**4,195**	**31,806**	1,678,000	4,195	31,806
Issuance of ordinary shares	**125,000**	**313**	**1,976**	—	—	—
Exercise of warrants	**128,000**	**320**	**2,021**	—	—	—
At 31 December	**1,931,000**	**4,828**	**35,803**	1,678,000	4,195	31,806

During the year ended 31 December 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.

During the year ended 31 December 2012, a total of 128,000,000 warrants were exercised at an aggregated price paid of HKD128,000,000 (equivalent to RMB104,241,000), of which RMB2,021,000 was credited to share capital and the balance of RMB102,220,000 was credited to share premium. The previously recognised warrants charges of RMB37,188,000 have been transferred from the capital reserve to the share premium.

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.

32 Capital, reserves and dividends (continued)

(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.

(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, and

— 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)(ii).

(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 notes 3(b) and 3(r).

32 Capital, reserves and dividends (continued)

(d) Nature and purpose of reserves (continued)

(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 2012, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB1,158,699,000 (2011: RMB770,054,000).

(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.

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 as at 31 December 2012 is 75% (2011: 91%). 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 2012, 2% (2011: 0%) and 8% (2011: 13%) 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.

(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.

33 Financial risk management and fair values (continued)

(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 2012, total banking and borrowing facilities available to the Group amounted to RMB5,648,840,000 (2011: RMB4,463,000,000) of which RMB2,611,808,000 (2011: RMB1,967,000,000) had been utilised.

The following tables show the remaining contractual maturities at the end of the reporting period 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 end of the reporting period) and the earliest date the Group and the Company can be required to pay:

The Group

	2012 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	Carrying amount at 31 December RMB'000
Interest-bearing borrowings	**1,933,780**	**48,578**	**175,334**	**2,157,692**	**2,088,045**
Trade and other payables	**1,147,200**	**—**	**—**	**1,147,200**	**1,147,200**
	3,080,980	**48,578**	**175,334**	**3,304,892**	**3,235,245**

	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	Carrying amount at 31 December RMB'000
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 Company

	2012 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**	**Carrying amount at 31 December RMB'000**
Trade and other payables	**1,997**	**—**	**—**	**1,997**	**1,997**

	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	Carrying amount at 31 December RMB'000
Trade and other payables	3,497	—	—	3,497	3,497

(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) and Euros (EUR).

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.

33 Financial risk management and fair values (continued)

(c) Currency risk (continued)

(i) Exposure to currency risk

The following table details the Group's and the Company's exposure at the end of the reporting period 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. Differences resulting from the translation of the financial statements of foreign equity-accounted investees into the Group's presentation currency are excluded.

The Group

	2012 Exposure to foreign currencies (expressed in RMB)	
	USD RMB'000	**EUR RMB'000**
Trade and other receivables	**248,748**	**94,788**
Cash and cash equivalents	**57,327**	**7,337**
Interest-bearing borrowings	**(677,388)**	**(93,656)**
Net exposure arising from recognised assets and liabilities	**(371,313)**	**8,469**

	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)	—
Net exposure arising from recognised assets and liabilities	122,636	54,531

33 Financial risk management and fair values (continued)

(c) Currency risk (continued)

(i) Exposure to currency risk (continued)

The Company

	2012 Exposure to foreign currencies (expressed in RMB)	
	USD RMB'000	EUR RMB'000
Cash and cash equivalents	271	—
Net exposure arising from recognised assets and liabilities	271	—

	2011 Exposure to foreign currencies (expressed in RMB)	
	USD RMB'000	EUR RMB'000
Cash and cash equivalents	479	3
Net exposure arising from recognised assets and liabilities	479	3

(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 end of the reporting period had changed at that date, assuming all other risk variables remained constant.

The Group

	2012		2011	
	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) on profit after tax and retained profits RMB'000	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) on profit after tax and retained profits RMB'000
USD	5%	(15,504)	5%	5,368
	(5%)	15,504	(5%)	(5,368)
EUR	10%	579	10%	4,771
	(10%)	(579)	(10%)	(4,771)

33 Financial risk management and fair values (continued)

(c) Currency risk (continued)

(ii) Sensitivity analysis (continued)

The Group (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 end of the reporting period 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 end of the reporting period. The analysis excludes differences that would result from the translation of the financial statements of foreign equity-accounted investees into the Group's presentation currency. The analysis is performed on the same basis as for 2011.

(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 the Group to issue bank acceptance bills and other banking facilities.

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 end of the reporting period:

The Group

	2012 Effective interest rate %	**2012** RMB'000	2011 Effective interest rate %	2011 RMB'000
Fixed rate instruments				
Interest-bearing borrowings	**0.30%–7.22%**	**(945,896)**	0.30%–9.80%	(238,204)
Pledged deposits	**0.35%-3.30%**	**238,479**	3.30%	149,894
Time deposits	**3.05%**	**446,000**	3.30%	474,000
		(261,417)		385,690
Variable rate instruments				
Interest-bearing borrowings	**1.92%–7.20%**	**(1,142,149)**	2.50%–7.54%	(1,704,999)

(ii) Sensitivity analysis

At 31 December 2012, 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 RMB9,717,000 (2011: RMB14,919,000).

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 end of the reporting period 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 end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, 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 2011.

(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 2012 and 2011 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 31 December 2012 and 2011 not provided for in the consolidated financial statements were as follows:

	The Group	
	2012	2011
	RMB'000	RMB'000
Contracted for	**135,828**	96,579
Authorised but not contracted for	**402,094**	390,914
	537,922	487,493

(b) Operating leases commitments

At 31 December 2012 and 2011, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	The Group		**The Company**	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**1,184**	1,315	**184**	184
After 1 year but within 5 years	**3,000**	184	**—**	315
	4,184	1,499	**184**	499

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 1–3 years.

35 Contingent liabilities

As at the end of the reporting period, TG Tools has issued a guarantee to a bank in respect of a bank facility granted to TGT which expires on 27 July 2013.

As at the end of the reporting period, the directors do not consider it probable that a claim will be made against the Group under the guarantee. The maximum liability of the Group at the end of the reporting period under the guarantee issued is the outstanding amount of the facility drawn down by TGT of RMB15,049,000 (2011: RMB24,258,000). Included in bank deposits RMB11,500,000 (2011: RMB30,300,000) was pledged for the bank facility granted to TGT (see Note 23).

36 Related party transactions

The Group has transactions with a company controlled by the controlling shareholder ("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 these related parties for the periods presented.

(a) Significant related party transactions-recurring

	2012 RMB'000	2011 RMB'000
Sale of goods to:		
Jointly controlled entities	**116,224**	83,165
Associates	**48,544**	51,009
	164,768	134,174
Freight expense to:		
Associates	**34,783**	26,210
Lease expense to:		
Controlling shareholder's company	**1,000**	1,000
Lease income from:		
Associates	**50**	50
Financial guarantee issued to: (Note 35)		
Associates	**15,049**	24,258

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) Trade and other receivables due from related parties

The Group

	2012 RMB'000	2011 RMB'000
Jointly controlled entities	**89,548**	30,101
Associates	**13,115**	16,675
	102,663	46,776

36 Related party transactions (continued)

(c) Trade and other payables due to related parties

The Group

	2012 RMB'000	2011 RMB'000
Associates	**740**	174
Controlling shareholder's company	**1,000**	—
	1,740	174

(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:

	2012 RMB'000	2011 RMB'000
Short-term employee benefits	**10,176**	9,371
Post-employment benefits	**98**	109
Share-based payments	**623**	1,145
	10,897	10,625

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

(e) Applicability of the Listing Rules relating to connected transactions

The related party transaction in respect of lease expense paid to the controlling shareholder's company mentioned in note 36(a) above constitutes a connected transaction or continuing connected transaction as defined in Chapter 14A of the Listing Rules, however it is exempt from the disclosure requirements in Chapter 14A of the Listing Rules. Apart from this transaction, none of the other related party transactions mentioned in note 36 falls under the definition of connected transaction or continuing connected transaction as defined in Chapter 14A of the Listing Rules.

37 Accounting estimates and judgement

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 provision 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 end of the reporting period.

(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 amount 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.

38 Immediate and ultimate controlling party

At 31 December 2012, the directors consider the immediate parent and ultimate controlling party of the Group to be Tiangong Holdings Company Limited, which is incorporated in British Virgin Islands. This entity does not produce financial statements available for public use.

39 Non-adjusting events after the reporting period

(a) Subsequent to the end of the reporting period, a total of 10,160,000 share options were exercised.

(b) Subsequent to the end of the reporting period, the Group acquired 60% of the equity of Changchun FAW Miracle Jingrui Tools Company Limited ("FAW Miracle") for a total cash consideration of RMB3,488,603. FAW Miracle is principally engaged in manufacture and sales of cutting tools.

(c) After the end of the reporting period, the directors proposed a final dividend of RMB0.0461 per ordinary share (Note 32(b)).

40 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2012

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 2012 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 IAS 1, *Presentation of financial statements* — *Presentation of items of other comprehensive income*	1 July 2012
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
Annual Improvements to IFRSs 2009–2011 Cycle	1 January 2013
Amendments to IFRS 7, *Financial instruments: Disclosures* — *Disclosures — Offsetting financial assets and financial liabilities*	1 January 2013
Amendments to IAS 32, *Financial instruments: Presentation* — *Offsetting financial assets and financial liabilities*	1 January 2013
IFRS 9, *Financial instruments*	1 January 2015

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 consolidated financial statements except for the following:

IFRS 10, Consolidated financial statements

IFRS 10 replaces the requirements in IAS 27, *Consolidated and separate financial statements* relating to the preparation of consolidated financial statements and SIC 12 *Consolidation — Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

The application of IFRS 10 is not expected to change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013. However, it may in the future result in investees being consolidated which would not have been consolidated under the Group's existing policies or vice versa.

40 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2012 (continued)

IFRS 12, Disclosure of interests in other entities

IFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required in IFRS 12 are generally more extensive than those required in the current standards. The Group may have to make additional disclosures about its interests in other entities when the standard is adopted for the first time in 2013.

IFRS 13, Fair value measurement

IFRS 13 replaces existing guidance in individual IFRSs with a single source of fair value measurement guidance. IFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. IFRS 13 is effective as from 1 January 2013, but retrospective adoption is not required. The Group estimates that the adoption of IFRS 13 will not have any significant impact on the fair value measurements of its assets and liabilities, but additional disclosures may need to be made in the 2013 financial statements.

	Year ended 31 December				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**3,118,251**	3,111,763	2,348,644	1,323,752	1,993,269
Profit before taxation	**536,900**	435,132	278,861	119,320	115,112
Income tax	**(92,008)**	(69,805)	(42,940)	(7,242)	(2,602)
Profit for the year	**444,892**	365,327	235,921	112,078	112,510
Other comprehensive income/(loss) for the year	**677**	(3,715)	—	—	—
Attributable to:					
Equity shareholders of the Company	**445,569**	361,612	235,921	112,078	114,643
Non-controlling interests	**—**	—	—	—	(2,133)
Earnings per share (RMB)					
Basic (RMB)	**0.244**	0.218	0.141	0.067	0.068

	As at 31 December				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets					
Non-current assets	**2,309,276**	1,953,693	1,720,437	1,452,915	1,228,276
Current assets	**3,791,579**	3,176,201	2,611,423	2,349,310	2,002,804
Total assets	**6,100,855**	5,129,894	4,331,860	3,802,225	3,231,080
Liabilities					
Non-current liabilities	**235,225**	454,912	657,251	193,553	203,446
Current liabilities	**3,078,347**	2,535,665	1,893,367	2,040,950	1,549,505
Total liabilities	**3,313,572**	2,990,577	2,550,618	2,234,503	1,752,951
Equity					
Total equity	**2,787,283**	2,139,317	1,781,242	1,567,722	1,478,129

Note:

The results of the Group for the four financial years ended 31 December 2008, 2009, 2010 and 2011 and its assets and liabilities were extracted from 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

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
Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110, 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