Tiangong International Company Limited
天 工 國 際 有 限 公 司 *

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 826)

ANNOUNCEMENT OF THE INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2013

FINANCIAL HIGHLIGHTS

- Revenue of the Group for the first half of 2013 totaled RMB1,652 million, representing a decrease of 4.3% when compared with RMB1,727 million for the same period in 2012.
- Gross profit margin increased from 22.0% in the first half of 2012 to 26.5% for the same period in 2013.
- Profit attributable to equity shareholders of the Company increased by approximately 15.4% to RMB246 million (1H2012: RMB213 million).

The Board of Directors (the "Board") of Tiangong International Company Limited (the "Company") is pleased to announce the unaudited consolidated statement of profit or loss and other comprehensive income of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2013 and the consolidated statement of financial position of the Group as at 30 June 2013 which have been reviewed by the Company's auditor, KPMG, and the Audit Committee of the Company, together with the comparative figures for the same period of 2012 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2013 (unaudited)

		Six months ended 30 June	
		2013	2012
	Note	***RMB'000***	*RMB'000*
Revenue	4	**1,652,105**	1,727,010
Cost of sales		**(1,213,491)**	(1,347,266)
Gross profit		**438,614**	379,744
Other income	6	**36,442**	13,504
Distribution expenses		**(25,277)**	(22,286)
Administrative expenses		**(50,984)**	(51,173)
Other expenses	7	**(21,274)**	(13,018)
Profit from operations		**377,521**	306,771
Finance income		**2,137**	6,316
Finance expenses		**(63,023)**	(58,081)
Net finance costs	8(a)	**(60,886)**	(51,765)
Share of (losses)/profits of associates		**(907)**	561
Share of profits/(losses) of joint venture		**6,306**	(1,099)
Profit before income tax	8	**322,034**	254,468
Income tax expense	9	**(75,773)**	(41,487)
Profit for the period		**246,261**	212,981
Attributable to:			
Equity shareholders of the Company		**245,807**	212,981
Non-controlling interests		**454**	—
Profit for the period		**246,261**	212,981

	Note	Six months ended 30 June 2013 RMB'000	2012 RMB'000
Profit for the period		**246,261**	212,981
Other comprehensive income for the period			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences — equity-accounted investees		**(2,245)**	265
Total comprehensive income for the period		**244,016**	213,246
Attributable to:			
Equity shareholders of the Company		**243,562**	213,246
Non-controlling interests		**454**	—
Total comprehensive income for the period		**244,016**	213,246
Earnings per share *(RMB)*	10		
Basic		**0.127**	0.122
Diluted		**0.126**	0.119

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2013 (unaudited)

	Note	At 30 June 2013 *RMB'000*	At 31 December 2012 *RMB'000*
Non-current assets			
Property, plant and equipment		**2,281,736**	2,143,725
Lease prepayments		**70,181**	70,972
Goodwill		**22,086**	21,959
Interest in associates		**41,707**	43,647
Interest in joint ventures		**11,731**	6,637
Other financial assets		**10,000**	10,000
Deferred tax assets		**14,888**	12,336
		2,452,329	2,309,276
Current assets			
Inventories		**1,820,351**	1,426,003
Trade and other receivables	11	**1,704,059**	1,530,598
Pledged deposits		**215,202**	238,479
Time deposits		**529,000**	446,000
Cash and cash equivalents		**279,798**	150,499
		4,548,410	3,791,579
Current liabilities			
Interest-bearing borrowings		**2,320,082**	1,886,407
Trade and other payables	12	**1,384,062**	1,147,200
Current taxation		**50,663**	43,578
Deferred income		**1,162**	1,162
		3,755,969	3,078,347
Net current assets		**792,441**	713,232
Total assets less current liabilities		**3,244,770**	3,022,508
Non-current liabilities			
Interest-bearing borrowings		**263,968**	201,638
Deferred income		**4,285**	4,866
Deferred tax liabilities		**22,103**	28,721
		290,356	235,225
Net assets		**2,954,414**	2,787,283

	Note	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Capital and reserves			
Share capital		**35,962**	35,803
Reserves		**2,915,758**	2,751,480
Total equity attributable to equity shareholder of the Company		**2,951,720**	2,787,283
Non-controlling interests		**2,694**	—
Total equity		**2,954,414**	2,787,283

1. REPORTING ENTITY

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 interim financial report of the Company as at and for the six months ended 30 June 2013 comprises the Company and its subsidiaries (collectively referred to as the "Group") and the Group's interest in associates and jointly controlled entities.

2. BASIS OF PREPARATION

This interim financial report of Tiangong International Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("IAS") 34, *Interim financial reporting,* issued by the International Accounting Standards Board ("IASB"). It was authorised for issue on 23 August 2013.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2012 annual financial statements, except for the accounting policy changes and adoptions that are expected to be reflected in the 2013 annual financial statements. Details of these changes and adoptions of accounting policies are set out in Note 3.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2012 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

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

The financial information relating to the financial year ended 31 December 2012 that is included in the interim financial report as being previously reported information does not constitute the Company's annual financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2012 are available from the Company's registered office. The auditor has expressed an unqualified opinion on those financial statements in the report dated 26 March 2013.

3. CHANGES IN ACCOUNTING POLICIES

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

- *Amendments to IAS 1, Presentation of financial statements — Presentation of items of other comprehensive income*
- *IFRS 10, Consolidated financial statements*
- *IFRS 11, Joint arrangements*
- *IFRS 12, Disclosure of interests in other entities*
- *IFRS 13, Fair value measurement*

- *Annual Improvements to IFRSs 2009–2011 Cycle*
- *Amendments to IFRS 7 — Disclosures — Offsetting financial assets and financial liabilities*

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

Amendments to IAS 1, Presentation of financial statements — Presentation of items of other comprehensive income

The amendments to IAS 1 require entities to present the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met separately from those that would never be reclassified to profit or loss. The Group's presentation of other comprehensive income in these financial statements has been modified accordingly.

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 or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of IFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

IFRS 11, Joint arrangements

IFRS 11, which replaces IAS 31, *Interests in joint ventures*, divides joint arrangements into joint operations and joint ventures. Entities are required to determine the type of an arrangement by considering the structure, legal form, contractual terms and other facts and circumstances relevant to their rights and obligations under the arrangement. Joint arrangements which are classified as joint operations under IFRS 11 are recognised on a line-by-line basis to the extent of the joint operator's interest in the joint operation. All other joint arrangements are classified as joint ventures under IFRS 11 and are required to be accounted for using the equity method in the Group's consolidated financial statements. Proportionate consolidation is no longer allowed as an accounting policy choice.

As a result of the adoption of IFRS 11, the Group has changed its accounting policy with respect to its interests in joint arrangements and re-evaluated its involvement in its joint arrangements. The Group has reclassified the investment from jointly controlled entity to joint venture. The investment continues to be accounted for using the equity method and therefore this reclassification does not have any material impact on the financial position and the financial result of the Group.

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 by IFRS 12 are generally more extensive than those previously required by the respective standards. Since those disclosure requirements only apply to a full set of financial statements, the group has not made additional disclosures in this interim financial report as a result of adopting IFRS 12.

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. Some of the disclosures are specifically required for financial instruments in the interim financial reports. The group has provided those disclosures in note 22. The adoption of IFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

Annual Improvements to IFRSs 2009–2011 Cycle

This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations. Among them, IAS 34 has been amended to clarify that total assets for a particular reportable segment are required to be disclosed only if the amounts are regularly provided to the chief operating decision maker (CODM) and only if there has been a material change in the total assets for that segment from the amount disclosed in the last annual financial statements. The amendment also requires the disclosure of segment liabilities if the amounts are regularly provided to the CODM and there has been a material change in the amounts compared with the last annual financial statements. As the Group has adopted the same approach to disclose segment assets and segment liabilities in previous years' annual report, the adoption of amendments to IAS 34 does not have any material impact on the disclosure of segment information.

Amendments to IFRS 7 — Disclosures — Offsetting financial assets and financial liabilities

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32, *Financial instruments: Presentation* and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with IAS 32. The adoption of the amendments does not have an impact on the Group's interim financial report because the Group has not offset financial instruments, nor has it entered into master netting arrangement or similar agreement which is subject to the disclosures of IFRS 7.

4. 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, silicon iron, billet steel 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 joint ventures 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.

	Six months ended 30 June 2013					
	HSS	**HSS cutting tools**	**DS**	**Trading of goods**	**Titanium alloy**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Revenue from external customers	**398,174**	**223,336**	**598,948**	**405,243**	**26,404**	**1,652,105**
Inter-segment revenue	**95,276**	**—**	**—**	**—**	**—**	**95,276**
Reportable segment revenue	**493,450**	**223,336**	**598,948**	**405,243**	**26,404**	**1,747,381**
Reportable segment profit (adjusted EBIT)	**147,031**	**34,261**	**229,843**	**1,409**	**793**	**413,337**

	As at 30 June 2013					
	HSS	**HSS cutting tools**	**DS**	**Trading of goods**	**Titanium alloy**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Reportable segment assets	**1,933,377**	**993,024**	**2,728,597**	**59,082**	**126,155**	**5,840,235**
Reportable segment liabilities	**484,231**	**225,277**	**490,369**	**59,097**	**14,025**	**1,272,999**

	Six months ended 30 June 2012					
	HSS	HSS cutting tools	DS	Trading of goods	Titanium alloy	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	719,593	307,361	554,550	127,465	18,041	1,727,010
Inter-segment revenue	107,373	—	—	—	—	107,373
Reportable segment revenue	826,966	307,361	554,550	127,465	18,041	1,834,383
Reportable segment profit (adjusted EBIT)	178,082	41,604	134,211	1,328	2,233	357,458

	As at 31 December 2012					
	HSS	HSS cutting tools	DS	Trading of goods	Titanium alloy	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
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

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

	Six months ended 30 June	
	2013	2012
Revenue	***RMB'000***	*RMB'000*
Reportable segment revenue	**1,747,381**	1,834,383
Elimination of inter-segment revenue	**(95,276)**	(107,373)
Consolidated revenue	**1,652,105**	1,727,010

	Six months ended 30 June	
	2013	2012
Profit	***RMB'000***	*RMB'000*
Reportable segment profit	**413,337**	357,458
Net finance costs	**(60,886)**	(51,765)
Share of (losses)/profits of associates	**(907)**	561
Share of profits/(losses) of joint ventures	**6,306**	(1,099)
Other unallocated head office and corporate expenses	**(35,816)**	(50,687)
Consolidated profit before income tax	**322,034**	254,468

	At 30 June 2013	At 31 December 2012
Assets	***RMB'000***	*RMB'000*
Reportable segment assets	**5,840,235**	5,151,864
Interest in associates	**41,707**	43,647
Interest in joint ventures	**11,731**	6,637
Other financial assets	**10,000**	10,000
Deferred tax assets	**14,888**	12,336
Pledged deposits	**215,202**	238,479
Time deposits	**529,000**	446,000
Cash and cash equivalents	**279,798**	150,499
Other unallocated head office and corporate assets	**58,178**	41,393
Consolidated total assets	**7,000,739**	6,100,855

Liabilities	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Reportable segment liabilities	**1,272,999**	1,137,019
Interest-bearing borrowings	**2,584,050**	2,088,045
Current taxation	**50,663**	43,578
Deferred tax liabilities	**22,103**	28,721
Other unallocated head office and corporate liabilities	**116,510**	16,209
Consolidated total liabilities	**4,046,325**	3,313,572

(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.

Revenue	Six months ended 30 June 2013 RMB'000	2012 RMB'000
The PRC	**940,564**	1,114,053
North America	**221,432**	235,382
Europe	**186,180**	109,137
Asia (other than the PRC)	**293,912**	255,645
Others	**10,017**	12,793
Total	**1,652,105**	1,727,010

5. BUSINESS COMBINATION

On 21 February 2013, Jiangsu Tiangong Tools Co., Ltd. entered into an agreement to acquire Changchun FAW Miracle Equipment Company Limited's 40% and individual shareholders' 20% equity interests in Changchun FAW Miracle Jingrui Tools Company Limited ("Changchun FAW Miracle") at a consideration of RMB3,488,603. Changchun FAW Miracle was established in Changchun City, Jilin Province, and is principally engaged in manufacturing, processing and sale of tools. The acquisition enables the Group to expand its general cutting tools business into the automobile industry, thereby increasing its market awareness and influence in the sector.

The carrying amount and fair value on a provisional basis of each major identifiable assets and liabilities are as follows:

	As at the date of acquisition	
	Fair value on a provisional basis	**Carrying amount**
	RMB'000	*RMB'000*
Current assets	27,425	27,425
Non-current assets	194	194
Current liabilities	(22,017)	(22,017)
Net identifiable assets	5,602	5,602
Non-controlling interests arising on business combination	(2,240)	
Goodwill arising on acquisition	127	
Total purchase consideration	3,489	
Satisfied by:		
Cash paid	3,489	
Net cash outflow in respect of the acquisition	3,489	

The fair value of net identifiable assets of the acquiree is preliminarily determined by management with reference to the carrying value of the net assets of the acquiree on the acquisition date and may be subject to adjustments according to the valuation that is underway. The goodwill is mainly attributable to the synergies expected to be achieved from integrating Changchun FAW Miracle into the Group's existing business.

From the date of acquisition to 30 June 2013, Changchun FAW Miracle contributed revenue of RMB5,721,000 and net profit of RMB1,135,000. The Group's revenue and profit for the period ended 30 June 2013 would not be materially different had the acquisition occurred on 1 January 2013.

6. OTHER INCOME

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
Government grants (i)	**28,163**	12,266
Dividend income from unlisted securities	**800**	800
Others	**7,479**	438
	36,442	13,504

(i) Jiangsu Tiangong Tools Company Limited ("TG Tools"), a wholly-owned subsidiary of the Company located in the PRC, received unconditional grants amounting to RMB27,582,000 (six months ended 30 June 2012: RMB11,685,000) from the local government in Danyang mainly to reward its contribution to the local economy and encourage its innovation of technology. It also recognised amortisation of government grants related to assets of RMB581,000 (six months ended 30 June 2012: RMB581,000) during the six months ended 30 June 2013.

7. OTHER EXPENSES

	Six months ended 30 June 2013 RMB'000	2012 RMB'000
Provision of impairment losses for doubtful trade receivables	**17,327**	7,651
Foreign exchange loss	**2,664**	5,239
Net loss on disposal of property, plant and equipment	**956**	72
Others	**327**	56
	21,274	13,018

8. PROFIT BEFORE INCOME TAX

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

(a) Net finance costs

	Note	Six months ended 30 June 2013 RMB'000	2012 RMB'000
Interest income		**(2,137)**	(6,316)
Finance income		**(2,137)**	(6,316)
Interest on bank loans		**74,524**	71,389
Less: interest expense capitalised into property, plant and equipment under construction		**(11,501)**	(13,308)
Finance expenses		**63,023**	58,081
Net finance costs		**60,886**	51,765

(b) Other items

	Six months ended 30 June 2013 RMB'000	2012 RMB'000
Cost of inventories*	**1,213,491**	1,347,266
Depreciation	**63,933**	61,135
Amortisation of lease prepayments	**791**	791
(Reversal)/Provision for write-down of inventories	**(11,756)**	2,359

* Cost of inventories includes RMB48,175,000 (six months ended 30 June 2012: RMB51,911,000) relating to depreciation expenses and write-down/(write-back) of inventories provision which amounts are also included in the respective total amounts disclosed separately above for each of these types of expenses.

9. INCOME TAX EXPENSE

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
Current tax		
Provision for PRC income tax	**84,821**	42,529
Provision for Hong Kong profits tax	**—**	562
	84,821	43,091
Deferred tax		
Origination and reversal of temporary differences	**(9,048)**	(1,604)
	75,773	41,487

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

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

TG Tools and Tiangong Aihe Company Limited ("TG Aihe") are subject to a preferential income tax rate of 15% in 2013 available to enterprises which qualify as a High and New Technology Enterprise.

The statutory corporate income tax rate applicable to the Group's other operating subsidiaries in the PRC is 25% (2012: 25%).

(c) Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the six months ended 30 June 2013 (2012: 16.5%).

10. 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 RMB245,807,000 (six months ended 30 June 2012: RMB212,981,000) and the weighted average of 1,940,618,267 ordinary shares in issue during the interim period (six months ended 30 June 2012: 1,739,618,785).

(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 RMB245,807,000 (six months ended 30 June 2012: RMB212,981,000) and the weighted average number of potential ordinary shares of 1,944,835,296 (six months ended 30 June 2012: 1,791,814,846) for the six months ended 30 June 2013 after taking into account the potential dilutive effect of the share options.

11. TRADE AND OTHER RECEIVABLES

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Trade receivables	**1,273,993**	1,152,150
Bills receivable	**316,653**	176,741
Less: provision for doubtful debts	**(42,765)**	(29,278)
Net trade and bills receivable	**1,547,881**	1,299,613
Prepayments	**97,850**	189,467
Non-trade receivables	**63,763**	43,113
Less: impairment loss on non-trade receivables	**(5,435)**	(1,595)
	1,704,059	1,530,598

Trade receivables of RMB147,568,000 (2012: RMB143,618,000) have been pledged to a bank as security for the Group to issue bank loans.

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:

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
1 to 3 months	**1,118,783**	967,658
4 to 6 months	**222,234**	226,152
7 to 12 months	**196,265**	99,159
1 to 2 years	**10,433**	6,438
Over 2 years	**166**	206
	1,547,881	1,299,613

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

12. TRADE AND OTHER PAYABLES

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:

	At 30 June 2013 *RMB'000*	At 31 December 2012 *RMB'000*
1 to 3 months	**810,310**	524,340
4 to 6 months	**224,981**	417,619
7 to 12 months	**25,092**	19,563
1 to 2 years	**8,393**	7,898
Over 2 years	**10,440**	8,589
Total trade creditors and bills payable	**1,079,216**	978,009
Non-trade payables and accrued expenses	**215,358**	169,191
Dividend payables	**89,488**	—
	1,384,062	1,147,200

13. CAPITAL, RESERVES AND DIVIDENDS

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

	Six months ended 30 June	
	2013 *RMB'000*	2012 *RMB'000*
Dividend in respect of the previous financial year, approved but not paid during the interim period, of RMB0.0461 per share (six months ended 30 June 2012: RMB0.048 per share)	**89,488**	80,544

(b) Shares issued under share option scheme

During the six months ended 30 June 2013, options were exercised to subscribe for 10,160,000 ordinary shares in the Company at a consideration of RMB10,363,000 of which RMB159,000 was credited to share capital and the balance of RMB10,204,000 was credited to the share premium account. RMB5,311,000 has been transferred from the capital reserve to the share premium account (six months ended 30 June 2012: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Market Review

HSS — accounted for approximately 24% of the Group's revenue in 1H2013

HSS, manufactured with the metals tungsten, molybdenum, chromium and vanadium, is characterized by greater hardness, heat resistance and durability. These attributes make HSS suited to such applications as cutting tools and in the manufacturing of high-temperature bearings, high-temperature springs, dies, internal-combustion engines and roll, with wide usage in specific industrial applications including automotive, machinery manufacturing, aviation, and electronics industries.

In the 1H2013, due to our effort in expanding overseas market presence and strong market demand for quality HSS products in overseas markets, exports of HSS saw significant growth of 55.6%. However, due to the weak domestic market, our total revenue generated from HSS decreased by 44.7% to RMB398,174,000 (1H2012: RMB719,592,000).

	For the six months ended 30 June					
	2013		2012		Change	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Domestic	**262,530**	**65.9**	632,420	87.9	(369,890)	(58.5)
Export	**135,644**	**34.1**	87,172	12.1	48,472	55.6
	398,174	**100.0**	719,592	100.0	(321,418)	(44.7)

HSS cutting tools — accounted for approximately 14% of the Group's revenue in 1H2013

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 two main types of HSS cutting tools manufactured by the Group are twist drill bits and screw taps. The Group's vertical integration extending from upstream HSS production to downstream HSS cutting tool production gives us a significant cost advantage over our peers.

In 1H2013, revenue generated from HSS cutting tools decreased by approximately 27.3% to RMB223,336,000 (1H2012: RMB307,362,000), while domestic sales and exports recorded a decline of 64.3% and 1.4%, respectively. This was mainly attributable to the decrease in demand for cutting tools in manufacturing industry in the domestic markets.

	For the six months ended 30 June					
	2013		2012		Change	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Domestic	**45,114**	**20.2**	126,518	41.2	(81,404)	(64.3)
Export	**178,222**	**79.8**	180,844	58.8	(2,622)	(1.4)
	223,336	**100.0**	307,362	100.0	(84,026)	(27.3)

Die steel — accounted for approximately 36% of the Group's revenue in 1H2013, contributing the greatest revenue source

Die steel is another type of high alloy special steel manufactured using a production process similar to that used to manufacture HSS. Die steel is mainly used in die and mould casting as well as machining processing. Many different manufacturing industries require moulds, including automotive, high-speed railway construction, aviation and plastic product manufacturing.

In 1H2013, revenue generated from die steel increased by 8.0% to RMB598,948,000 (1H2012: RMB554,550,000). Due to our effort in expanding overseas market presence in overseas markets, exports of DS saw significant growth of 25.3%. For the domestic market, the sales volume was increase from the same period last year but was offset by the decrease of the average selling price and resulted in a decrease of 3.1%.

	For the six months ended 30 June					
	2013		2012		Change	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Domestic	**326,516**	**54.5**	337,073	60.8	(10,557)	(3.1)
Export	**272,432**	**45.5**	217,477	39.2	54,955	25.3
	598,948	**100.0**	554,550	100.0	44,398	(8.0)

Titanium alloy — generated considerable revenue in 1H2013, becoming another growth area for the Group's revenue.

Recently, the Group has successfully expanded into the high-value metal market and diversified its footprint to titanium and titanium alloy, aiming to offer a broader range of products with higher grades and specifications to meet demands from various industries.

The Group started by producing titanium ingots and rods in the first phase. It will gradually extend to higher margin products such as titanium pipes and flat sheets in the near future. Due to strong market demand for this key new material used in aviation, marine engineering and the medical industry, the titanium alloy segment of the Group has grown rapidly and achieved satisfactory results in 1H2013. Revenue generated from titanium alloy surged by 46.4% to RMB26,404,000 (1H2012: RMB18,041,000), accounting for approximately 1.6% of the Group's revenue in 1H2013.

The titanium production line commenced production at the end of 2011. It is expected that the annual production capacity of titanium will increase gradually, reaching 10,000 tons within the next five years.

The Group strongly believes that the new titanium products, along with its diversified product portfolio will further improve profitability and soon become another significant revenue source for the Group going forward.

Outlook

The Group remains optimistic towards the second half of 2013 and will push ahead with its business expansion and focus on penetrating into different industries and exploring new markets.

Unlike other steel manufacturers in China, the Group is principally engaged in the manufacture and sale of HSS, HSS cutting tools and die steel. By leveraging on the Group's competitive advantages and well-established "Tiangong" brand, we will continue to enhance our product portfolio by increasing products categories, in order to meet market demand for quality special steel products.

In order to stay competitive, the Group will continue to improve operational efficiency by purchasing new production equipment and upgrading its existing manufacturing facilities. This enables the Group to increase its production capacity and produce higher quality products with higher margin. Further establishing our global footprint and increasing our market share, the Group will also expand and explore new markets such as Russia, Czech Republic, Italy, Singapore and South Africa by setting up more overseas sales representative offices.

In addition to the strong growth potential offered by our existing businesses, our effort in expanding the titanium segment will provide us with yet another growth engine. As a manufacturer of a key new material, we anticipate demand for titanium alloy products will continue to grow in the future. Through research & development and technological enhancement, we will continue to venture into this industry and increase the annual production capacity of titanium.

As the leading industry player, we strive to establish the Group's leading position in China. We aim to maximize long term value for our shareholders and become one of the world's leading HSS steel manufactures in the near term.

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.

Financial review

Net profit attributable to equity shareholders of the Company increased significantly by approximately 15.4% from RMB212,981,000 in the first half of 2012 to RMB245,807,000 in first half of 2013. The increase was mainly attributable to the Group's increase of gross margin due to the reduction of the raw material costs.

Revenue

Revenue of the Group for the first half of 2013 totalled RMB1,652,105,000, representing a decrease of approximately 4.3% when compared with RMB1,727,010,000 in the first half of 2012. The decrease was mainly attributable to the decrease in the average selling price of the products of the Group.

Cost of sales

The Group's cost of sales decreased by RMB133,775,000 from RMB1,347,266,000 for the first half of 2012 to RMB1,213,491,000 for the first half of 2013, representing a decrease of approximately 9.9%. The decrease was mainly due to the decrease in raw material prices during the period. As a percentage of total revenue, the Group's cost of sales decreased from approximately 78.0% in the first half of 2012 to approximately 73.5% in the first half of 2013.

Gross margin

For the first half of 2013, the gross margin was approximately 26.5% (1H2012: 22.0%). Set out below is the gross margin for our five products for the first half of 2012 and 2013:

	For the period ended 30 June	
	2013	2012
HSS	**38.3%**	25.8%
HSS cutting tools	**17.5%**	15.0%
Die steel	**40.9%**	25.7%
Titanium alloy	**3.0%**	12.4%
Trading of goods	**0.3%**	1.0%

HSS

The HSS gross margin increased from 25.8% in the first half of 2012 to 38.3% in the same period in 2013, which was mainly due to the decrease in raw material cost and the production cost.

HSS cutting tools

In the first half of 2013, the gross margin of HSS cutting tools increased to 17.5% (1H2012: 15.0%) as a result of the decrease in the cost of production.

Die steel

The gross margin of die steel increased from 25.7% in the first half of 2012 to 40.9% in the first half of 2013. The increase was mainly due to the decrease in raw material cost and the production costs.

Titanium alloy

The gross margin of titanium alloy decreased to 3% mainly due to a provision for impairment was made to the inventories as a result of the decrease in selling price during the period and the development of new products which has a lower margin in the initial stage.

Other income

The Group's other income totalled RMB36,442,000 in the first half of 2013, representing an increase of RMB22,938,000 from RMB13,504,000 in the first half of 2012. The increase was mainly attributable to the increase in government grants received from the government.

Distribution expenses

The Group's distribution expenses was RMB25,277,000 (1H2012: RMB22,286,000), representing an increase of approximately 13.4%. The increase was mainly attributable to the increase in transportation expenses as a result of the increase in overseas sales volume and unit freight price in domestic market. For the first half of 2013, the distribution expenses as a percentage of revenue was 1.5% (1H2012: 1.3%).

Administrative expenses

For the first half of 2013, the Group's administrative expenses decreased slightly by RMB189,000 to RMB50,984,000 (1H2012: RMB51,173,000). For the first half of 2013, the administrative expenses as a percentage of revenue was 3.1% (1H2012: 3.0%).

Net finance cost

The Group's finance income was RMB2,137,000 for the first half of 2013, representing a decrease of RMB4,179,000 when compared with the RMB6,316,000 for the first half of 2012. The decrease was mainly due to the decrease in average pledged deposits during the first half of 2013 compared with the average pledged deposits in the first half of 2012. The Group's finance expenses were RMB63,023,000 for the first half of 2013, representing an increase of 8.5% when compared with the RMB58,081,000 for the first half of 2012. The increase was attributable to the increase in interest-bearing borrowings in 2013 compared with the same period last year.

Income tax expense

The Group's income tax expense increased by RMB34,286,000 from RMB41,487,000 in the first half of 2012 to RMB75,773,000 in the first half of 2013. Such increase was mainly due to the increase of net profits and 10% tax amounting to RMB22,222,000 (1H2012: Nil) withheld for a dividend distributed by TG Tools to its holding company for expanding its issued capital during the period.

Profit for the period

As a result of the factors discussed above, the Group's profit increased by approximately 15.6% to RMB246,261,000 for the first half of 2013 from RMB212,981,000 for the first half of 2012. The Group's net profit margin increased remarkably from 12.3% in the first half of 2012 to 14.9% in the same period of 2013 mainly due to the increase of the gross profit margin.

Profit attributable to equity shareholders of the Company

For the first half of 2013, profit attributable to equity shareholders of the Company was RMB245,807,000 (1H2012: RMB212,981,000), representing an increase of 15.4%.

Liquidity and Financial Resources

As at 30 June 2013, the Group's current assets mainly included cash and cash equivalents of approximately RMB279,798,000, inventories of approximately RMB1,820,351,000, trade and other receivables of RMB1,704,059,000, time deposits of RMB529,000,000 and pledged deposits of RMB215,202,000. As at 30 June 2013, the interest-bearing borrowings of the Group were RMB2,584,050,000, RMB2,320,082,000 of which were repayable within one year and RMB263,968,000 of which were repayable over one year. The Group's gearing ratio (calculated based on the total outstanding interest-bearing debt divided by the total equity) was 87.5%, higher than 74.9% as at 31 December 2012. The increase was mainly attributable to the increase of bank borrowings during the period. As at 30 June 2013, borrowings of RMB1,752,800,000 were in RMB, USD116,860,000 were in USD and EUR13,560,000 were in EUR. The majority of the borrowings of the Group were subject to interests payable at the rates ranging from 0.30% to 6.72%. The Group did not enter into any interest rate swap to hedge itself against the risks associated with interest rates.

Capital Expenditures and Capital Commitments

For the first half of 2013, the Group's net increase in fixed assets amounted to RMB138,011,000, which were mainly for the 4,500 tons fast forging machine and mid-frequency furnaces. As at 30 June 2013, capital commitments were RMB533,365,000, of which RMB46,295,000 was contracted and RMB487,070,000 was authorised but not contracted for. The majority of the capital commitments was related to the acquisition of production equipment.

Foreign Exchange Exposure

The Group's revenue were denominated in RMB, US dollars and Euros, with RMB accounting for the largest portion (approximately 57%). Approximately 43% of the total sales and the Group's costs and operating profit were subject to exchange rate fluctuations. The Group did not enter into any financial instrument to hedge against foreign exchange risk. The Group has put in place measures such as monthly review of product pricing in light of foreign exchange fluctuation and incentivising overseas customers to settle balances on a more timely basis to minimize the financial impact from exchange rate exposure.

Pledge of Assets

As at 30 June 2013, the Group pledged certain bank deposits amounting to approximately RMB215,202,000 (31 December 2012: RMB238,479,000) and certain trade receivables amounting to approximately RMB147,568,000 (31 December 2012: RMB143,618,000). Details are set out in the notes to the financial statements.

Employee's Remuneration and Training

As at 30 June 2013, the Group employed 3,846 employees (31 December 2012: 3,928). The Group provided employees with remuneration packages comparable to the market rates and employees are further rewarded based on their performance according to the framework of the Group's salary, incentives and bonus scheme. In order to enhance the Group's productivity and further improve the quality of the Group's human resources, the Group provides compulsory continuous education and training for all of its staff on a regular basis.

Contingent Liabilities

On 21 June 2013, TG Tools has issued a guarantee to a bank in respect of a bank facility granted to TGT which expires on 21 June 2014. As at 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 reporting date under the guarantee issued is the outstanding amount of the facility drawn down by TGT of USD2,000,000 (equivalent to RMB12,357,000) (2012: RMB15,049,000). Included in bank deposits USD2,000,000 (equivalent to RMB12,357,000) (2012: RMB11,500,000) was pledged for the bank facility granted to TGT.

INTERIM DIVIDEND

The Directors do not recommend payment of an interim dividend for the period (no interim dividend for the six months period ended 30 June 2012).

SHARE OPTIONS SCHEME

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

PURCHASE, SALES OR REDEMPTION OF SHARES

During the six months ended 30 June 2013, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its securities.

APPRECIATION

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

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

Hong Kong, 23 August 2013

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

Executive Directors: ZHU Xiaokun, YAN Ronghua, WU Suojun and JIANG Guangqing

Independent non-executive Directors: GAO Xiang, LEE Cheuk Yin, Dannis and YIN Shuming

* *For identification purpose*