



Interim Report **2015**



天工國際有限公司*

TIANGONG INTERNATIONAL COMPANY LIMITED

(incorporated in the Cayman Islands with limited liability)

Stock Code : 826



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Corporate Information

Stock Code

Hong Kong Stock Exchange 826

Board Of Directors

Executive Directors

Mr. Zhu Xiaokun (*Chairman*)
Mr. Wu Suojun (*Chief Executive Officer*)
Mr. Yan Ronghua
Mr. Jiang Guangqing

Independent Non-executive Directors

Mr. Gao Xiang
Mr. Lee Cheuk Yin, Dannis
Mr. Yin Shuming

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. Yin Shuming

Remuneration Committee

Mr. Yin Shuming (*Chairman*)
Mr. Zhu Xiaokun
Mr. Gao Xiang
Mr. Lee Cheuk Yin, Dannis

Nomination Committee

Mr. Gao Xiang (*Chairman*)
Mr. Zhu Xiaokun
Mr. Yin Shuming
Mr. Lee Cheuk Yin, Dannis

Registered Office in the Cayman Islands

P.O. Box 309
G.T. Uglan House
South Church Street
George Town, Grand Cayman
Cayman Islands

Principal Place of Business

Danbei 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

Management Discussion and Analysis

Business and Market Review

	For the six months ended 30 June					
	2015		2014		Change	
	RMB'000	%	RMB'000	%	RMB'000	%
Die steel	530,235	28.5	699,073	26.2	(168,838)	(24.2)
High Speed Steel ("HSS")	363,112	19.6	700,890	26.3	(337,778)	(48.2)
HSS cutting tools	304,465	16.4	307,327	11.5	(2,862)	(0.9)
Titanium alloy	97,353	5.2	49,346	1.8	48,007	97.3
Trading of goods	562,374	30.3	911,579	34.2	(349,205)	(38.3)
	1,857,539	100.0	2,668,215	100.0	(810,676)	(30.4)

Tiangong International Company Limited (the "Company") and its subsidiaries (collectively the "Group") encountered challenges in the drawbacks in domestic market in the first half of 2015 due to the slowdown on China's economic growth, leading to the decline in domestic demand and decrease in selling price within the Group's traditional core segment, Die steel and HSS. To supplement the low demand in the domestic market, the Group placed more focus on export sales to overseas markets in the traditional core segment. At the same time, the Group continued to develop a broader range of titanium alloy products which led to a satisfactory result in this rapid growing segment.

Die steel – accounted for approximately 29% of the Group's revenue in 1H2015

	For the six months ended 30 June					
	2015		2014		Change	
	RMB'000	%	RMB'000	%	RMB'000	%
Domestic	215,791	40.7	404,876	57.9	(189,085)	(46.7)
Export	314,444	59.3	294,197	42.1	20,247	6.9
	530,235	100.0	699,073	100.0	(168,838)	(24.2)

Die steel ("DS") is manufactured with rare metals including molybdenum, chromium and vanadium, a type of high alloy special steel. DS 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 1H2015, revenue generated from DS decreased by approximately 24.2% to RMB530,235,000 (1H2014: RMB699,073,000). The slowdown in China's economic growth led to a decline in demand and decrease in average selling price of DS. The effect accounted for a decrease in the Group's domestic revenue by 46.7% to RMB215,791,000 (1H2014: RMB404,876,000). With the decline in demand in domestic market, the Group continued to expand overseas markets. The Group's export revenue was all denominated in foreign currencies. Due to the depreciation in Euro, the increase in the Group's export revenue was partially offset, resulting a net increase of 6.9% to RMB314,444,000 (1H2014: RMB294,197,000).

HSS – accounted for approximately 20% of the Group's revenue in 1H2015

	2015		2014		Change	
	RMB'000	%	RMB'000	%	RMB'000	%
Domestic	261,082	71.9	608,322	86.8	(347,240)	(57.1)
Export	102,030	28.1	92,568	13.2	9,462	10.2
	363,112	100.0	700,890	100.0	(337,778)	(48.2)

HSS, manufactured with the rare metals including 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.

Similar to DS, HSS experienced a decline in demand and average selling price in domestic market. The domestic revenue decreased by 57.1% to RMB261,082,000 (1H2014: RMB608,332,000). On the overseas markets, we recorded an increase in export volume of 588 tons during the period. However, the increase in export volume was offset by the depreciation in Euro, resulting a net increase in export revenue by 10.2% to RMB102,030,000 (1H2014: RMB92,568,000).

HSS cutting tools – accounted for approximately 16% of the Group's revenue in 1H2015

	2015		2014		Change	
	RMB'000	%	RMB'000	%	RMB'000	%
Domestic	110,591	36.3	141,107	45.9	(30,516)	(21.6)
Export	193,874	63.7	166,220	54.1	27,654	16.6
	304,465	100.0	307,327	100.0	(2,862)	(0.9)

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.

The revenue generated from HSS cutting tools was relatively stable with a decrease of 0.9% to RMB304,465,000 (1H2014: RMB307,327,000). The significant decrease in the average selling price in domestic market resulted a decrease in domestic revenue by 21.6% to RMB110,591,000 (1H2014: RMB141,107,000). On the other hand, the significant increase in the sales volume in overseas market contributed an increase in export revenue by 16.6% to RMB193,874,000 (1H2014: RMB166,220,000).

Titanium alloy – increased by 97% to RMB97,353,000 in 1H2015 (1H2014: RMB49,346,000)

Titanium alloy segment has been a rapid developing segment among the Group's products. The corrosion resistance nature of the titanium alloy promoted the extensive applications of titanium alloy in various areas, including aerospace, chemical pipeline equipment, nuclear and ocean industry. The Group achieved a satisfactory result in this segment by taking the advantage of the increased demand and actively developing a broader range of products of titanium alloy. The increase in the result of this segment is mainly due to the increase in sales volume of titanium alloy products.

Trading of goods

This segment involves the purchase and sales of goods which mainly comprises billet steel and screw steel. Due to its slim profitability, the Group will spend less focus in this segment in the future.

Outlook

During the period, the Group's traditional core segment experienced the decline in demand and decrease in average selling price in domestic markets. More focus is placed in the overseas market. In the second half of 2015, given that the average selling price in the traditional core segment has already stayed low for a long period of time, we expect that the average selling price has bottomed out and will be stabilized. The Group will focus on improving the quality of the products and prepare to catch up the rebound in domestic demand. At the same time, the Group will still continue the expansion in the overseas markets by finding the appropriate trading partners.

Titanium alloy segment has been identified as a star business among the Group's various business. The Group is confident that the extensive application of titanium alloy in various industries will drive up the demand of titanium alloy in the near future. The Group will continue to focus on the research and development in the production process of titanium alloy pipes and flat sheets. By streamlining the whole production process, we target to increase the production capacity and reduce the production cost.

Finally, we re-affirm that maximization of shareholder value, whilst adhering to the highest standards of corporate governance is always our top priority.

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 Group'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 decreased by approximately 77.1% from RMB264,742,000 in the first half of 2014 to RMB60,547,000 in the first half of 2015. The decrease was mainly attributable to the (i) slowdown on China's economic growth during the period, leading to the decline in demand and decrease in average selling price of the Group's products; and (ii) the depreciation of Euro which affect the export revenue and profit of the Group as the prices of products exported to European countries are denominated in Euro.

Management Discussion and Analysis

Revenue

Revenue of the Group for the first half of 2015 totalled RMB1,857,539,000, representing a significant decrease of approximately 30% when compared with RMB2,668,215,000 in the first half of 2014. The decrease was mainly attributable to the decrease in revenue of the Group's traditional core segments, DS and HSS.

Cost of sales

The Group's cost of sales decreased from RMB2,190,264,000 for the first half of 2014 to RMB1,631,882,000 for the first half of 2015, representing a decrease of approximately 25.5%. The decrease was mainly due to the decrease in sales during the period.

Gross margin

For the first half of 2015, the gross margin was approximately 12.1% (1H2014: 17.9%). Set out below is the gross margin for our five segments for the first half of 2014 and 2015:

	For the six months ended	
	30 June 2015	2014
DS	19.0%	32.8%
HSS	18.0%	27.6%
HSS cutting tools	15.5%	15.6%
Titanium alloy	12.6%	14.9%
Trading of goods	0.08%	0.04%

DS

The gross margin of DS decreased from 32.8% in the first half of 2014 to 19.0% in the first half of 2015. The decrease was mainly due to the decrease in average selling price of individual products.

HSS

The HSS gross margin decreased from 27.6% in the first half of 2014 to 18.0% in the same period in 2015. The decrease was mainly due to the decrease in average selling price of individual products.

HSS cutting tools

In the first half of 2015, the gross margin of HSS cutting tools was relatively stable when compared with that in the first half of 2014, staying at 15.5% (1H2014: 15.6%).

Titanium alloy

The gross margin of titanium alloy decreased to 12.6% from 14.9% as a result of the increase in price of the major raw material, sponge titanium, in the first half of 2015.

Other income

The Group's other income decreased from RMB27,411,000 in the first half of 2014 to RMB11,972,000 in the first half of 2015 was mainly attributable to the decrease in government grants received from the government.

Distribution expenses

The Group's distribution expenses were RMB37,478,000 (1H2014: RMB31,670,000), representing an increase of approximately 18.3%. The increase was mainly attributable to the increase in transportation expenses as a result of the increase in export sales volume. For the first half of 2015, the distribution expenses as a percentage of revenue was 2.0% (1H2014: 1.2%).

Administrative expenses

For the first half of 2015, the Group's administrative expenses increased to RMB58,424,000 (1H2014: RMB57,210,000). The increase was mainly due to the increase in bank charges incurred for export sales by the Group. For the first half of 2015, the administrative expenses as a percentage of revenue was 3.1% (1H2014: 2.1%).

Net finance cost

The Group's finance income remained stable at RMB4,103,000 for the first half of 2015 when comparing to RMB4,128,000 for the first half of 2014. The Group's finance expenses increased from RMB71,493,000 for the first half of 2014 to RMB72,294,000 for the first half of 2015, which was attributable to the slight increase in the interest-bearing borrowings in 2015 compared with the same period last year.

Income tax expense

The Group's income tax expense decreased from RMB49,654,000 in the first half of 2014 to RMB13,401,000 in the first half of 2015. Such decrease was mainly due to the decreased in Group's taxable profit in the current period.

Profit for the period

As a result of the factors discussed above, the Group's profit decreased by approximately 77.3% to RMB60,055,000 for the first half of 2015 from RMB264,543,000 for the first half of 2014. The Group's net profit margin decreased from 9.9% in the first half of 2014 to 3.2% in the same period of 2015 mainly due to the decrease of gross margin and demand of the Group's traditional core products DS and HSS.

Profit attributable to equity shareholders of the Company

For the first half of 2015, profit attributable to equity shareholders of the Company was RMB60,547,000 (1H2014: RMB264,792,000), representing a decrease of 77.1%.

Trade and bills receivable

The net trade and bills receivable increased from RMB1,986,120,000 as at 31 December 2014 to RMB2,056,523,000 as at 30 June 2015 which was mainly due to the delay of settlement from customers suffering tight cash flow under market depression although great effort has been made to control credit risk and accelerate collection of receivables. The provision for doubtful debts of RMB74,050,000 (2014: RMB66,420,000) accounted for 3.5% (2014: 3.2%) of the trade and bills receivables.

Liquidity and Financial Resources

As at 30 June 2015, the Group's current assets mainly included cash and cash equivalents of approximately RMB78,776,000, inventories of approximately RMB1,936,306,000, trade and other receivables of RMB2,412,625,000, time deposits of RMB523,600,000 and pledged deposits of RMB469,119,000. As at 30 June 2015, the interest-bearing borrowings of the Group were RMB3,188,113,000, RMB2,911,816,000 of which were repayable within one year and RMB276,297,000 of which were repayable over one year. The Group's net gearing ratio (calculated based on the total outstanding interest-bearing debt less pledged deposits, time deposits and cash and cash equivalents and divided by the total equity) was 54.3%, comparing to 47.0% as at 31 December 2014. As at 30 June 2015, borrowings of 2,175,610,000 were in RMB, 148,323,000 were in USD and 15,380,000 were in EUR. The majority of the borrowings of the Group were subject to interests payable at the rates ranging from 0.76% to 6.60%. The Group did not enter into any interest rate swap to hedge itself against the risks associated with interest rates. The net cash used in operating activities during the period was RMB12,142,000.

Capital Expenditures and Capital Commitments

For the first half of 2015, the Group's net increase in fixed assets amounted to RMB96,701,000, which was mainly for the project of "continuous rolling mill". As at 30 June 2015, capital commitments were RMB95,593,000, of which RMB63,281,000 was contracted and RMB32,312,000 was authorised but not contracted for. The majority of the capital commitments was related to the acquisition and enhancement of production equipment.

Foreign Exchange Exposure

The Group's revenue was denominated in RMB, USD and EUR, with RMB accounting for the largest portion (approximately 67%). Approximately 33% of the total sales 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 2015, the Group pledged certain bank deposits amounting to approximately RMB469,119,000 (31 December 2014: RMB404,400,000) and certain trade receivables amounting to approximately RMB190,708,000 (31 December 2014: RMB285,273,000). Details are set out in the notes to the financial statements.

Employee's Remuneration and Training

As at 30 June 2015, the Group employed 3,120 employees (31 December 2014: 3,451). 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

Both the Group and the Company had no material contingent liabilities as at 30 June 2015.

Report of the Directors

The board of Directors (the "Board") is pleased to submit the interim report together with the consolidated financial statements for the six months ended 30 June 2015 which have been reviewed by the Company's auditor KPMG, and the audit committee of the Company.

Interim Dividend

The Directors do not recommend payment of an interim dividend for the period (no interim dividend for the six months period ended 30 June 2014).

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

As at 30 June 2015, the interests, long positions or short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were recorded in the register required to be kept under Section 352 of the SFO, or which were notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

(a) Interests in the Company

Director's name	Interests	Ordinary shares held	Approximate attributable interests (%)
Mr. Zhu Xiaokun ^(1 and 2)	Corporate interests	769,556,000 (L)	34.66
	Corporate interests	50,000,000 (S)	2.25
	Beneficial owner ⁽³⁾	900,000 (L)	0.04
			36.95
Mr. Wu Suojun	Beneficial owner ⁽³⁾	1,267,000 (L)	0.06
Mr. Yan Ronghua	Beneficial owner ⁽³⁾	620,000 (L)	0.03
Mr. Jiang Guangqing	Beneficial owner ⁽³⁾	700,000 (L)	0.03

Notes:

As at 30 June 2015,

(1) Tiangong Holdings Company Limited ("THCL") held 725,624,000 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 725,624,000 Shares held by THCL.

(2) Silver Power (HK) Limited, which was wholly-owned by Zhu Xiaokun, held 43,932,000 ordinary shares.

(3) Options granted under Share Option Scheme of the Company.

(L) Represents long position.

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

Substantial Shareholders' Interests

As at 30 June 2015, save for the Company's Directors or chief executives as disclosed above, the following persons have an interest or short position in the shares or the underlying shares of the Company which are required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, which were recorded in the register required to be kept under Section 336 of the SFO:

Substantial shareholders' name	Ordinary shares	Approximate attributable interest (%)
Yu Yumei (Note 1)	770,456,000 (L)	34.70
	50,000,000 (S)	2.25
THCL (Note 1)	725,624,000 (L)	32.68
	50,000,000 (S)	2.25
Delta Lloyd Asset Management NV (Note 2)	130,125,800 (L)	5.86

Note:

- (1) THCL is owned as to 89.02% by Mr. Zhu Xiaokun and 10.98% by his spouse, Madam Yu Yumei.
- (2) Delta Lloyd Asset Management NV reported that it is deemed to be interested in the shares of the Company as investment manager and by virtue of its interest in Delta Lloyd Azië Deelnemingen Fonds N.V., a corporation 85.00% controlled by it.
- (L) Represents long position.
- (S) Represents short position.

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 and 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 80,000,000 shares of nominal value USD0.0025 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 per grant is HKD1.00.
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 with a nominal value 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 with a nominal value of USD0.0025 each at an exercise price of HKD1.275.

Report of the Directors

On 17 January 2014, options entitled holders to subscribe for a total of 9,057,000 shares of USD0.0025 each were granted to and accepted by employees of the Company in respect of their services to the Group. These share options were vested on 1 June 2014 and have an initial exercise price of HKD2.50 per share of USD0.0025 each and an exercise period ranging from 1 June 2014 to 31 May 2016. The closing price of the Company's shares at the date of grant was HKD2.48 per share of USD0.0025 each.

On 18 August 2014, options entitled holders to subscribe for a total of 22,147,000 shares of USD0.0025 each were granted to and accepted by certain Directors and employees of the Company in respect of their services to the Group. These share options were vested on 19 August 2014 and have an initial exercise price of HKD1.78 per share of USD0.0025 each and an exercise period ranging from 19 August 2014 to 18 August 2019. The closing price of the Company's shares at the date of grant was HKD1.78 per share of USD0.0025 each.

At 30 June 2015, 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 30 June 2015 was HKD1.25) 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 financial period	No. of options granted during the financial period	No. of shares acquired on exercise of options during the financial period	No. of options cancelled during the financial period	No. of options lapsed during the financial period	No. of options outstanding at the end of the financial period	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	–	–	–	–	400,000	28 January 2011	01 July 2012 to 30 June 2016	HKD1.275	HKD1.275	–
	500,000	–	–	–	–	500,000	18 August 2014	19 August 2014 to 18 August 2019	HKD1.78	HKD1.78	–
Mr. Wu Suojun	400,000	–	–	–	–	400,000	28 January 2011	01 July 2012 to 30 June 2016	HKD1.275	HKD1.275	–
	867,000	–	–	–	–	867,000	18 August 2014	19 August 2014 to 18 August 2019	HKD1.78	HKD1.78	–
Mr. Yan Ronghua	320,000	–	–	–	–	320,000	28 January 2011	01 July 2012 to 30 June 2016	HKD1.275	HKD1.275	–
	300,000	–	–	–	–	300,000	18 August 2014	19 August 2014 to 18 August 2019	HKD1.78	HKD1.78	–
Mr. Jiang Guangqing	400,000	–	–	–	–	400,000	28 January 2011	01 July 2012 to 30 June 2016	HKD1.275	HKD1.275	–
	300,000	–	–	–	–	300,000	18 August 2014	19 August 2014 to 18 August 2019	HKD1.78	HKD1.78	–
Employees	1,560,000	–	–	–	–	1,560,000	28 January 2011	01 July 2012 to 30 June 2016	HKD1.275	HKD1.275	–
Employees	9,057,000	–	–	–	–	9,057,000	17 January 2014	01 June 2014 to 31 May 2016	HKD2.50	HKD2.48	–
Employees	20,180,000	–	–	–	–	20,180,000	18 August 2014	19 August 2014 to 18 August 2019	HKD1.78	HKD1.78	–
	34,284,000	–	–	–	–	34,284,000					

* 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.

Apart from the aforementioned, 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.

Purchase, Sales or Redemption of Shares

During the six months ended 30 June 2015, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its shares.

Corporate Governance

During the six months ended 30 June 2015, the Company has, so far where applicable, complied with the code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Audit Committee

The Audit Committee comprises three independent non-executive directors. The Audit Committee held a meeting on 26 August 2015 to consider and review the interim report and interim financial statements of the Group and to give their opinion and recommendation to the Board. The Audit Committee considers that the 2015 interim report and interim financial statements of the Company have complied with the applicable accounting standards and the Company has made appropriate disclosure thereof.

The Model Code for Securities Transactions by Directors of Listed Issuers

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

By order of the Board

26 August 2015

Independent Review Report



TO THE BOARD OF DIRECTORS OF TIANGONG INTERNATIONAL COMPANY LIMITED

For the six months ended 30 June 2015

(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial report set out on pages 15 to 36 which comprises the consolidated statement of financial position of Tiangong International Company Limited as of 30 June 2015 and the related consolidated statement of profit or loss, statement of profit and loss and other comprehensive income and statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review 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. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2015 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

KPMG

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

26 August 2015

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2015 (unaudited)

	Note	Six months ended 30 June	
		2015 RMB'000	2014 RMB'000
Revenue	3	1,857,539	2,668,215
Cost of sales		(1,631,882)	(2,190,264)
Gross profit		225,657	477,951
Other income	4	11,972	27,411
Distribution expenses		(37,478)	(31,670)
Administrative expenses		(58,424)	(57,219)
Other expenses	5	(8,685)	(42,462)
Profit from operations		133,042	374,011
Finance income		4,103	4,128
Finance expenses		(72,294)	(71,493)
Net finance costs	6(a)	(68,191)	(67,365)
Share of profits/(losses) of associates		2,153	(1,739)
Share of profits of joint ventures		6,452	9,290
Profit before income tax	6	73,456	314,197
Income tax expense	7	(13,401)	(49,654)
Profit for the period		60,055	264,543
Attributable to:			
Equity shareholders of the Company		60,547	264,742
Non-controlling interests		(492)	(199)
Profit for the period		60,055	264,543
Earnings per share (RMB)	8		
Basic		0.027	0.136
Diluted		0.027	0.136

The notes on pages 22 to 36 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in Note 16.

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the six months ended 30 June 2015 (unaudited)

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
Profit for the period	60,055	264,543
Other comprehensive income for the period (after tax and reclassification adjustments):		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of subsidiaries, associates and joint ventures outside of the People's Republic of China ("the PRC")	(473)	254
Total comprehensive income for the period	59,582	264,797
Attributable to:		
Equity shareholders of the Company	60,074	264,996
Non-controlling interests	(492)	(199)
Total comprehensive income for the period	59,582	264,797

The notes on pages 22 to 36 form part of this interim financial report.

Consolidated Statement of Financial Position

As at 30 June 2015 (unaudited)

	Note	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Non-current assets			
Property, plant and equipment	9	3,095,428	2,998,727
Lease prepayments		75,110	75,512
Goodwill		22,086	22,086
Interest in associates		36,719	33,997
Interest in joint ventures		18,455	12,998
Other financial assets		10,000	10,000
Deferred tax assets		19,076	15,337
		3,276,874	3,168,657
Current assets			
Inventories	10	1,936,306	1,952,781
Trade and other receivables	11	2,412,625	2,114,526
Pledged deposits	12	469,119	404,400
Time deposits		523,600	543,100
Cash and cash equivalents	13	78,776	181,373
		5,420,426	5,196,180
Current liabilities			
Interest-bearing borrowings	14	2,911,816	2,342,903
Trade and other payables	15	1,546,626	1,340,910
Current taxation		5,870	60,240
Deferred income		1,162	1,162
		4,465,474	3,745,215
Net current assets		954,952	1,450,965
Total assets less current liabilities		4,231,826	4,619,622
Non-current liabilities			
Interest-bearing borrowings	14	276,297	633,149
Deferred income		15,963	16,543
Deferred tax liabilities		42,962	40,109
		335,222	689,801
Net assets		3,896,604	3,929,821

The notes on pages 22 to 36 form part of this interim financial report.

Consolidated Statement of Financial Position
As at 30 June 2015 (unaudited)

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Capital and reserves		
Share capital	40,167	40,167
Reserves	3,855,033	3,887,758
Total equity attributable to equity shareholders of the Company	3,895,200	3,927,925
Non-controlling interests	1,404	1,896
Total equity	3,896,604	3,929,821

Approved and authorised for issue by the board of directors on 26 August 2015.

Zhu Xiao Kun
Directors

Yan Rong Hua
Director

The notes on pages 22 to 36 form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2015 (unaudited)

	Attributable to equity shareholders of the Company										
	Share capital	Share premium	Capital redemption reserve	Capital reserve	Merger reserve	Exchange reserve	PRC statutory reserve	Retained earnings	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2014	35,962	1,221,996	—	61,765	91,925	(5,068)	428,155	1,341,121	3,175,856	2,615	3,178,471
Changes in equity for the six months ended 30 June 2014											
Profit for the period	—	—	—	—	—	—	—	264,742	264,742	(199)	264,543
Other comprehensive income	—	—	—	—	—	254	—	—	254	—	254
Total comprehensive income	—	—	—	—	—	254	—	264,742	264,996	(199)	264,797
Dividends approved in respect of the previous year	—	—	—	—	—	—	—	(96,192)	(96,192)	—	(96,192)
Exercise of share options	93	9,117	—	(3,157)	—	—	—	—	6,053	—	6,053
Issuance of share options	—	—	—	3,772	—	—	—	—	3,772	—	3,772
Issuance of warrants	—	—	—	587	—	—	—	—	587	—	587
Balance at 30 June 2014 and 1 July 2014	36,055	1,231,113	—	62,967	91,925	(4,814)	428,155	1,509,671	3,355,072	2,416	3,357,488
Changes in equity for the six months ended 31 December 2014											
Profit for the period	—	—	—	—	—	—	—	198,724	198,724	(520)	198,204
Other comprehensive income	—	—	—	—	—	(1,658)	—	—	(1,658)	—	(1,658)
Total comprehensive income	—	—	—	—	—	(1,658)	—	198,724	197,066	(520)	196,546
Dividends approved in respect of the previous year	—	—	—	—	—	—	—	136	136	—	136
Transfer to reserve	—	—	—	—	—	—	90,951	(90,951)	—	—	—
Issuance of share options	—	—	—	10,401	—	—	—	—	10,401	—	10,401
Shares allotment	4,604	393,323	—	—	—	—	—	—	397,927	—	397,927
Issuance of warrants	—	—	—	999	—	—	—	—	999	—	999
Repurchase of own shares	(492)	(33,676)	492	—	—	—	—	—	(33,676)	—	(33,676)
Balance at 31 December 2014	40,167	1,590,760	492	74,367	91,925	(6,472)	519,106	1,617,580	3,927,925	1,896	3,929,821

The notes on pages 22 to 36 form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2015 (unaudited)

	Attributable to equity shareholders of the Company										
	Share capital	Share premium	Capital redemption reserve	Capital reserve	Merger reserve	Exchange reserve	PRC statutory reserve	Retained earnings	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2015	40,167	1,590,760	492	74,367	91,925	(6,472)	519,106	1,617,580	3,927,925	1,896	3,929,821
Changes in equity for the six months ended 30 June 2015											
Profit for the period	—	—	—	—	—	—	—	60,547	60,547	(492)	60,055
Other comprehensive income	—	—	—	—	—	(473)	—	—	(473)	—	(473)
Total comprehensive income	—	—	—	—	—	(473)	—	60,547	60,047	(492)	59,582
Dividends approved in respect of the previous year (note 16)	—	—	—	—	—	—	—	(92,799)	(92,799)	—	(92,799)
Balance at 30 June 2015	40,167	1,590,760	492	74,367	91,925	(6,945)	519,106	1,585,328	3,895,200	1,404	3,896,604

The notes on pages 22 to 36 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2015 (unaudited)

	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
Operating activities		
Cash generated from operations	56,515	429,993
Tax paid	(68,657)	(48,956)
Net cash (used in)/generated from operating activities	(12,142)	381,037
Investing activities		
Payment for the purchase of property, plant and equipment	(177,177)	(385,641)
Other cash flows arising from investing activities	(40,089)	(27,210)
Net cash used in investing activities	(217,266)	(412,851)
Financing activities		
Proceeds from new interest-bearing borrowings	2,399,928	2,495,091
Repayment of interest-bearing borrowings	(2,187,867)	(2,312,308)
Interest paid	(85,205)	(83,880)
Other cash flows arising from financing activities	—	6,642
Net cash generated from financing activities	126,856	105,545
Net (decrease)/increase in cash and cash equivalents	(102,552)	73,731
Cash and cash equivalents at 1 January	181,373	88,406
Effect of foreign exchange rates changes	(45)	471
Cash and cash equivalents at 30 June	78,776	162,608

The notes on pages 22 to 36 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

1. Basis of preparation

This interim financial report of Tiangong International Company Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (“IAS”) 34, *Interim financial reporting*, issued by the International Accounting Standards Board (“IASB”). It was authorised for issue on 26 August 2015.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2014 annual financial statements, except for the accounting policy changes and adoptions that are expected to be reflected in the 2015 annual financial statements. Details of these changes and adoptions of accounting policies are set out in Note 2.

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 reported 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 2014 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 on page 14.

The financial information relating to the financial year ended 31 December 2014 that is included in the interim financial report as comparative information does not constitute the Company’s annual consolidated financial statements for that financial year but is derived from those financial statements. The Company’s auditor has reported on those financial statements. The auditor’s report was unqualified and did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report.

2. Changes in accounting policies

The IASB has issued the following amendments to IFRSs that are first effective for the current accounting period of the Group and the Company:

- *Annual Improvements to IFRS 2010–2012 Cycle*
- *Annual Improvements to IFRS 2011–2013 Cycle*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. 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, titanium alloy and trading of goods after eliminating intercompany transactions.

The Group has 5 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 operations in each of the Group's reportable segments can be described as follows:

- | | |
|----------------------------|---|
| – <i>HSS</i> | The HSS segment manufactures and sells high speed steel for the steel industry. |
| – <i>HSS cutting tools</i> | The HSS cutting tools segment manufactures and sells HSS cutting tools for the tool industry. |
| – <i>DS</i> | The DS segment manufactures and sells die steel for the steel industry. |
| – <i>Titanium alloy</i> | The titanium alloy segment manufactures and sells titanium alloy for the titanium industry. |
| – <i>Trading of goods</i> | The trading of goods segment sells billet steel and screw steel. |

(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.

3. Revenue and segment reporting (Continued)

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

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 2015					
	HSS RMB'000	HSS cutting tools RMB'000	DS RMB'000	Titanium alloy RMB'000	Trading of goods RMB'000	Total RMB'000
Revenue from external customers	363,112	304,465	530,235	97,353	562,374	1,857,539
Inter-segment revenue	119,677	—	—	—	—	119,677
Reportable segment revenue	482,789	304,465	530,235	97,353	562,374	1,977,216
Reportable segment profit (adjusted EBIT)	58,786	37,471	79,190	12,299	433	188,179

	As at 30 June 2015					
	HSS RMB'000	HSS cutting tools RMB'000	DS RMB'000	Titanium alloy RMB'000	Trading of goods RMB'000	Total RMB'000
Reportable segment assets	2,420,982	1,442,437	3,246,304	380,035	22,813	7,512,571
Reportable segment liabilities	611,686	265,833	515,311	50,377	—	1,443,207

3. Revenue and segment reporting (Continued)

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

	Six months ended 30 June 2014					
	HSS		DS	Titanium alloy	Trading of goods	Total
	HSS	HSS cutting tools				
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	700,890	307,327	699,073	49,346	911,579	2,668,215
Inter-segment revenue	92,794	—	—	—	—	92,794
Reportable segment revenue	793,684	307,327	699,073	49,346	911,579	2,761,009
Reportable segment profit (adjusted EBIT)	186,165	41,803	210,581	7,346	386	446,281

	As at 31 December 2014					
	HSS		DS	Titanium alloy	Trading of goods	Total
	HSS	HSS cutting tools				
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Reportable segment assets	2,383,834	1,233,701	3,177,264	305,367	24,499	7,125,665
Reportable segment liabilities	567,810	244,634	492,218	27,725	—	1,332,387

3. Revenue and segment reporting (Continued)**(b) Reconciliations of reportable segment revenue, profit or loss, assets and liabilities**

Revenue	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
Reportable segment revenue	1,977,216	2,761,009
Elimination of inter-segment revenue	(119,677)	(92,794)
Consolidated revenue	1,857,539	2,668,215

Profit	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
Reportable segment profit	188,179	446,281
Net finance costs	(68,191)	(67,365)
Share of profits/(losses) of associates	2,153	(1,739)
Share of profits of joint ventures	6,452	9,290
Other unallocated head office and corporate expenses	(55,137)	(72,270)
Consolidated profit before income tax	73,456	314,197

Assets	At 30 June	At 31 December
	2015 RMB'000	2014 RMB'000
Reportable segment assets	7,512,571	7,125,665
Interest in associates	36,719	33,997
Interest in joint ventures	18,455	12,998
Other financial assets	10,000	10,000
Deferred tax assets	19,076	15,337
Pledged deposits	469,119	404,400
Time deposits	523,600	543,100
Cash and cash equivalents	78,776	181,373
Other unallocated head office and corporate assets	28,984	37,967
Consolidated total assets	8,697,300	8,364,837

Liabilities	At 30 June	At 31 December
	2015 RMB'000	2014 RMB'000
Reportable segment liabilities	1,443,207	1,332,387
Interest-bearing borrowings	3,188,113	2,976,052
Current taxation	5,870	60,240
Deferred tax liabilities	42,962	40,109
Other unallocated head office and corporate liabilities	120,544	26,228
Consolidated total liabilities	4,800,696	4,435,106

3. 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 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	
	2015 RMB'000	2014 RMB'000
The PRC	1,242,187	2,102,874
North America	217,622	212,679
Europe	212,604	210,309
Asia (other than the PRC)	162,504	125,511
Others	22,622	16,842
Total	1,857,539	2,668,215

4. Other income

	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
Government grants (i)	581	14,883
Sales of scrap materials	5,625	9,667
Dividend income from unlisted securities	800	800
Net foreign exchange gain	4,844	—
Others	122	2,061
	11,972	27,411

- (i) Jiangsu Tiangong Tools Company Limited ("TG Tools"), a wholly-owned subsidiary of the Company located in the PRC, recognised amortisation of government grants related to assets of RMB581,000 (six months ended 30 June 2014: RMB581,000) during the six months ended 30 June 2015. TG Tools did not receive any unconditional grants from the local government during the six months ended 30 June 2015 (six months ended 30 June 2014: RMB14,302,000).

5. Other expenses

	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
Provision of impairment losses for doubtful trade receivables	7,630	39,857
Foreign exchange loss	—	1,343
Net loss on disposal of property, plant and equipment	457	181
Others	598	1,081
	8,685	42,462

6. Profit before income tax

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

(a) Net finance costs

	Note	Six months ended 30 June	
		2015 RMB'000	2014 RMB'000
Interest income		(4,103)	(4,128)
Finance income		(4,103)	(4,128)
Interest on bank loans		86,094	83,612
Less: interest expense capitalised into property, plant and equipment under construction	9	(13,800)	(12,119)
Finance expenses		72,294	71,493
Net finance costs		68,191	67,365

(b) Other items

	Note	Six months ended 30 June	
		2015 RMB'000	2014 RMB'000
Cost of inventories*		1,631,882	2,190,264
Depreciation		95,619	83,694
Amortisation of lease prepayments		802	791
Provision for write-down of inventories	10	4,990	5,829

* Cost of inventories includes RMB96,817,000 (six months ended 30 June 2014: RMB85,384,000) relating to depreciation expenses and provision for write-down of inventories which amounts are also included in the respective total amounts disclosed separately above for each of these types of expenses.

7. Income tax expense

	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
Current tax		
Provision for PRC income tax — corporation tax	13,382	46,599
Provision for Hong Kong profits tax	905	—
	14,287	46,599
Deferred tax		
Origination and reversal of temporary differences	(886)	3,055
	13,401	49,654

- (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, Tiangong Aihe Company Limited (“TG Aihe”) and Jiangsu Tiangong Titanium Technology Company Limited (“TG Titan”) are subject to a preferential income tax rate of 15% in 2015 available to enterprises which qualify as a High and New Technology Enterprise (2014: 15%).

The statutory corporate income tax rate applicable to the Group’s other operating subsidiaries in the PRC is 25% (2014: 25%).

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

8. 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 RMB60,547,000 (six months ended 30 June 2014: RMB264,742,000) and the weighted average of 2,220,080,000 ordinary shares in issue during the interim period (six months ended 30 June 2014: 1,946,758,889).

(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 RMB60,547,000 (six months ended 30 June 2014: RMB264,742,000) and the weighted average number of potential ordinary shares of 2,220,204,127 (six months ended 30 June 2014: 1,947,732,865) for the six months ended 30 June 2015 after taking into account the potential dilutive effect of the share options.

9. Property, plant and equipment

During the six months ended 30 June 2015, the Group acquired items of plant and machinery with a cost of RMB176,547,000 (six months ended 30 June 2014: RMB379,690,000), excluding capitalised borrowing costs of RMB13,800,000 (six months ended 30 June 2014: RMB12,119,000). There were no material disposals of property, plants and equipment for the periods presented.

10. Inventories

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Raw materials	50,429	76,506
Work in progress	863,483	966,582
Finished goods	1,022,394	909,693
	1,936,306	1,952,781

During the six months ended 30 June 2015, the Group recognised a write-down of RMB4,990,000 (six months ended 30 June 2014: a write-down of RMB5,829,000) against those inventories with net realisable value lower than carrying value. The write-down is included in cost of sales in the consolidated statement of profit or loss and other comprehensive income.

11. Trade and other receivables

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Trade receivables	1,545,433	1,564,099
Bills receivable	585,140	488,441
Less: provision for doubtful debts	(74,050)	(66,420)
Net trade and bills receivable	2,056,523	1,986,120
Prepayments	306,273	90,450
Non-trade receivables	55,771	44,405
Less: impairment loss on non-trade receivables	(5,942)	(6,449)
	2,412,625	2,114,526

Trade receivables of RMB190,708,000 (2014: RMB285,273,000) have been pledged to a bank as security for the Group's bank loans as disclosed in note 14. As at 30 June 2015, no bills receivable were pledged (2014: Nil).

At 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 2015 RMB'000	At 31 December 2014 RMB'000
Within 3 months	1,447,270	1,532,947
4 to 6 months	362,702	321,869
7 to 12 months	199,522	94,236
1 to 2 years	42,520	24,742
Over 2 years	4,509	12,326
	2,056,523	1,986,120

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. Pledged deposits

Bank deposits of RMB469,119,000 (2014: RMB404,400,000) have been pledged to banks as security for the bank acceptance bills and other banking facilities of the Group. The pledge in respect of the bank deposits will be released upon the settlement of the relevant bills payable by the Group and the termination of related banking facilities.

13. Cash and cash equivalents

All the balances of cash and cash equivalents as at 30 June 2015 are cash at bank and in hand.

14. Interest-bearing borrowings

	Note	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Current			
Secured bank loans	(i)	345,751	429,059
Unsecured bank loans	(ii)	2,075,689	1,208,342
Current portion of non-current secured bank loans	(iii)	152,840	152,975
Current portion of non-current unsecured bank loans	(iv)	337,536	552,527
		2,911,816	2,342,903
Non-current			
Secured bank loans	(iii)	152,840	152,975
Unsecured bank loans	(iv)	613,833	1,185,676
Less: Current portion of non-current secured bank loans	(iii)	(152,840)	(152,975)
Current portion of non-current unsecured bank loans	(iv)	(337,536)	(552,527)
		276,297	633,149
		3,188,113	2,976,052

- (i) The current bank loans were secured by certain trade receivables and sales contracts at interest rates ranging from 0.76% to 5.51% per annum (2014: 1.55% to 6.72%) and were repayable within one year.
- (ii) Current unsecured bank loans carried interest at annual rates ranging from 1.25% to 6.60% (2014: 1.84% to 6.60%) and were repayable within one year.
- (iii) Non-current secured bank loan carried interest at 3.91% and was repayable within one year (2014: 3.91%).
- (iv) Non-current unsecured bank loans carried interest at annual rates ranging from 2.34% to 6.15% (2014: 3.33% to 6.15%).

14. Interest-bearing borrowings (Continued)

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

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Within 1 year	490,376	705,502
Over 1 year but within 2 years	262,535	187,535
Over 2 year but within 3 years	13,762	445,614
	766,673	1,338,651

At 30 June 2015, the Group's banking facilities contained various covenants, one of which includes the Group's consolidated earnings before interest, tax, depreciation and amortisation to the consolidated interest expenses in respect of the twelve months ended 30 June 2015 being not less than 5.50:1 ("financial covenant").

At 30 June 2015, the above financial covenant was not satisfied due to the decrease of the profits of the Group. The outstanding loans under this banking facility of USD70,000,000 (RMB427,952,000 in equivalent) are repayable on demand due to the breach of this loan covenant and so these loans have been classified as current liabilities.

On 20 August 2015, the Group obtained a waiver from lenders regarding the non-satisfaction of the financial covenant mentioned in preceding paragraph.

15. 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 2015 RMB'000	At 31 December 2014 RMB'000
Within 3 months	1,131,995	848,182
4 to 6 months	78,801	263,943
7 to 12 months	57,306	41,181
1 to 2 years	19,377	16,986
Over 2 years	15,896	14,942
Total trade creditors and bills payable	1,303,375	1,185,234
Non-trade payables and accrued expenses	150,452	155,676
Dividends payable	92,799	—
	1,546,626	1,340,910

16. Capital, reserves and dividends

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

	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
Dividend in respect of the previous financial year, approved but not paid during the interim period, of RMB0.0418 per share (six months ended 30 June 2014: RMB0.0494 per share)	92,799	96,192

17. Fair value measurement of financial instruments

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2014 and 30 June 2015.

18. Related party transactions

The Group has transactions with a company controlled by a controlling shareholder ("controlling shareholder's company"), associates and joint ventures. In addition to the related party information disclosed elsewhere in the notes to the consolidated financial statements, the Group entered into the following material related party transactions for the periods presented:

(a) Significant related party transactions – recurring

	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
Lease expense to:		
Controlling shareholder's company	500	500
Sales of goods to:		
Associates	13,739	21,017
Joint ventures	125,243	40,049
Freight expense from:		
Associates	5,741	6,790
Lease income from:		
Associates	25	25

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.

18. Related party transactions (Continued)**(b) Amounts due from related parties**

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Associates	6,357	6,263
Joint ventures	174,468	121,507
	180,825	127,770

(c) Amounts due to related parties

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Associates	4,446	5,376
Joint ventures	94	—
Controlling shareholder's company	1,700	1,200
	6,240	6,576

19. Commitments**(a) Capital commitments outstanding not provided for in the interim financial report**

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Contracted for	63,281	31,893
Authorised but not contracted for	32,312	110,534
	95,593	142,427

(b) Operating leases commitments

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

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Within 1 year	1,431	1,211
After 1 year but within 5 years	500	1,000
	1,931	2,211

19. Commitments (Continued)

(c) Investment commitments

The Group have entered into an investment agreement to incorporate a new joint venture in Russia. This investment project has been approved by Ministry of Commerce of the PRC. Up to the date of this report, the investment is still subject to the approval of local government authorities in Russia. As at 30 June 2015, the Group had an outstanding commitment of USD700,000 (equivalent to RMB4,279,500) (As at 31 December 2014: USD700,000 (equivalent to RMB4,283,300)) in respect of its foreign investment not provided for in the consolidated financial statements.

20. Non-adjusting events after reporting period

- (a) On 29 July 2015, TG Aihe established a wholly owned subsidiary, Jurong Tiangong New Materials Technology Company Limited ("TG New Material"), which is engaged in the research and development, manufacturing and sales of high speed steel and die steel related products. Up to the date of this report, TG Aihe had not contributed any capitals into TG New Materials.
- (b) On 5 August 2015, the Group sold all of its equity interest in a subsidiary, Changchun FAW Miracle Jingrui Tools Company Limited, at a consideration of RMB2,616,800, resulting in a loss on disposal of a subsidiary of RMB465,000.
- (c) On 20 August 2015, the Group obtained a waiver from lenders regarding the non-satisfaction of financial covenant as disclosed in Note 14.