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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 2016

FINANCIAL HIGHLIGHTS

RMB'million (unless otherwise specified)

	Six months ended 30 June 2016	Six months ended 30 June 2015	**Change**
Revenue	**1,568.2**	1,857.5	(15.6)%
Gross profit	**186.9**	225.7	(17.2)%
Profit attributable to equity shareholders of the Company	**25.7**	60.5	(57.5)%
Basic earnings per share *(RMB)*	**0.012**	0.027	(55.6)%
Diluted earnings per share *(RMB)*	**0.012**	0.027	(55.6)%
Gross profit margin	***11.9%***	*12.1%*	*(0.2 ppt)*
Net profit margin	***1.7%***	*3.2%*	*(1.5 ppt)*

	At 30 June 2016	At 31 December 2015	**Change**
Net Assets	**3,938.1**	3,876.3	1.6%
Net Debt[(1)]	**1,920.8**	1,898.0	1.2%
Net Gearing[(2)]	***48.8%***	*49.0%*	*(0.2 ppt)*

Notes:

(1) Net debt equals to total bank borrowings less pledged deposits, time deposits and cash and cash equivalents.

(2) Net gearing is measured as net debt to equity.

The board (the "Board") of directors (the "Directors") 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 (collectively, the "Group") for the six months ended 30 June 2016 and the consolidated statement of financial position of the Group as at 30 June 2016 which have been reviewed by the Company's auditor, KPMG, and the audit committee of the Company (the "Audit Committee"), together with the comparative figures for the same period of 2015 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016 (unaudited)

		Six months ended 30 June	
		2016	2015
	Note	***RMB'000***	*RMB'000*
Revenue	4	**1,568,234**	1,857,539
Cost of sales		**(1,381,307)**	(1,631,882)
Gross profit		**186,927**	225,657
Other income	5	**7,325**	11,972
Distribution expenses		**(28,829)**	(37,478)
Administrative expenses		**(67,363)**	(58,424)
Other expenses	6	**(16,424)**	(8,685)
Profit from operations		**81,636**	133,042
Finance income		**5,533**	4,103
Finance expenses		**(59,807)**	(72,294)
Net finance costs	7(a)	**(54,274)**	(68,191)
Share of profits of associates		**3,513**	2,153
Share of profits of joint ventures		**2,361**	6,452
Profit before income tax	7	**33,236**	73,456
Income tax expense	8	**(6,372)**	(13,401)
Profit for the period		**26,864**	60,055
Attributable to:			
Equity shareholders of the Company		**25,713**	60,547
Non-controlling interests		**1,151**	(492)
Profit for the period		**26,864**	60,055
Earnings per share *(RMB)*	9		
Basic		**0.012**	0.027
Diluted		**0.012**	0.027

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

For the six months ended 30 June 2016 (unaudited)

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
Profit for the period	**26,864**	60,055
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")	**72**	(473)
Total comprehensive income for the period	**26,936**	59,582
Attributable to:		
Equity shareholders of the Company	**25,785**	60,074
Non-controlling interests	**1,151**	(492)
Total comprehensive income for the period	**26,936**	59,582

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016 (unaudited)

	Note	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Non-current assets			
Property, plant and equipment		**3,247,098**	3,243,542
Lease prepayments		**73,498**	74,372
Goodwill		**21,959**	21,959
Interest in associates		**41,961**	38,503
Interest in joint ventures		**27,425**	24,509
Other financial assets		**10,000**	10,000
Deferred tax assets		**23,315**	20,089
		3,445,256	3,432,974
Current assets			
Inventories		**1,912,391**	1,886,643
Trade and other receivables	10	**1,782,913**	1,895,480
Pledged deposits		**488,230**	445,389
Time deposits		**400,000**	400,000
Cash and cash equivalents		**338,163**	323,486
		4,921,697	4,950,998
Current liabilities			
Interest-bearing borrowings		**3,018,539**	2,580,896
Trade and other payables	11	**1,195,398**	1,347,335
Deferred income		**5,097**	1,162
		4,219,034	3,929,393
Net current assets		**702,663**	1,021,605
Total assets less current liabilities		**4,147,919**	4,454,579
Non-current liabilities			
Interest-bearing borrowings		**128,675**	485,978
Deferred income		**41,965**	48,168
Deferred tax liabilities		**39,167**	44,146
		209,807	578,292
Net assets		**3,938,112**	3,876,287

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
As at 30 June 2016 (unaudited)

	At 30 June 2016 *RMB'000*	At 31 December 2015 *RMB'000*
Capital and reserves		
Share capital	**40,167**	40,167
Reserves	**3,847,474**	3,836,120
Total equity attributable to equity shareholders of the Company	**3,887,641**	3,876,287
Non-controlling interests	**50,471**	—
Total equity	**3,938,112**	3,876,287

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 2016 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 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 25 August 2016.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2015 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2016 annual financial statements. Details of any changes in 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 reported amounts of assets and liabilities, income and expenses on a period 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 2015 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a 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 2015 that is included in the interim financial report as comparative information does not constitute the Company's statutory 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; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report.

3. CHANGES IN ACCOUNTING POLICIES

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group:

- *Annual Improvements to IFRS 2012-2016 Cycle*
- *Amendments to IAS 1, Presentation of financial statements: Disclosure initiative*

None of these development 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.

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, 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:

- *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.
- *DS* — The DS segment manufactures and sells die steel for the steel industry.
- *Titanium alloy* — The titanium alloy segment manufactures and sells titanium alloy for the titanium industry.
- *Trading of goods* — 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.

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 2016					
	HSS	**HSS cutting tools**	**DS**	**Titanium alloy**	**Trading of goods**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	**206,838**	**237,519**	**534,209**	**98,416**	**491,252**	**1,568,234**
Inter-segment revenue	**76,174**	**—**	**—**	**—**	**—**	**76,174**
Reportable segment revenue	**283,012**	**237,519**	**534,209**	**98,416**	**491,252**	**1,644,408**
Reportable segment profit (adjusted EBIT)	**31,542**	**33,973**	**79,300**	**8,031**	**936**	**153,782**

	As at 30 June 2016					
	HSS	**HSS cutting tools**	**DS**	**Titanium alloy**	**Trading of goods**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Reportable segment assets	**2,148,240**	**1,337,906**	**3,232,301**	**284,785**	**11**	**7,003,243**
Reportable segment liabilities	**471,687**	**171,531**	**539,710**	**13,977**	**—**	**1,196,905**

	Six months ended 30 June 2015					
	HSS	HSS cutting tools	DS	Titanium alloy	Trading of goods	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*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 31 December 2015					
	HSS	HSS cutting tools	DS	Titanium alloy	Trading of goods	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Reportable segment assets	2,271,620	1,330,523	3,153,877	334,402	1,953	7,092,375
Reportable segment liabilities	596,742	207,943	543,883	19,861	—	1,368,429

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

	Six months ended 30 June	
	2016	2015
Revenue	***RMB'000***	*RMB'000*
Reportable segment revenue	**1,644,408**	1,977,216
Elimination of inter-segment revenue	**(76,174)**	(119,677)
Consolidated revenue	**1,568,234**	1,857,539

Profit	Six months ended 30 June **2016** ***RMB'000***	 2015 *RMB'000*
Reportable segment profit	**153,782**	188,179
Net finance costs	**(54,274)**	(68,191)
Share of profits of associates	**3,513**	2,153
Share of profits of joint ventures	**2,361**	6,452
Other unallocated head office and corporate expenses	**(72,146)**	(55,137)
Consolidated profit before income tax	**33,236**	73,456

Assets	**At 30 June 2016** ***RMB'000***	At 31 December 2015 *RMB'000*
Reportable segment assets	**7,003,243**	7,092,375
Trade and other receivables	**9,866**	3,192
Interest in associates	**41,961**	38,503
Interest in joint ventures	**27,425**	24,509
Other financial assets	**10,000**	10,000
Deferred tax assets	**23,315**	20,089
Pledged deposits	**488,230**	445,389
Time deposits	**400,000**	400,000
Cash and cash equivalents	**338,163**	323,486
Other unallocated head office and corporate assets	**24,750**	26,429
Consolidated total assets	**8,366,953**	8,383,972

Liabilities	**At 30 June 2016** ***RMB'000***	At 31 December 2015 *RMB'000*
Reportable segment liabilities	**1,196,905**	1,368,429
Interest-bearing borrowings	**3,147,214**	3,066,874
Deferred tax liabilities	**39,167**	44,146
Other unallocated head office and corporate liabilities	**45,555**	28,236
Consolidated total liabilities	**4,428,841**	4,507,685

(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.

	Six months ended 30 June	
	2016	2015
Revenue	***RMB'000***	*RMB'000*
The PRC	**1,108,314**	1,242,187
North America	**179,587**	217,622
Europe	**149,735**	212,604
Asia (other than the PRC)	**110,458**	162,504
Others	**20,140**	22,622
Total	**1,568,234**	1,857,539

5. OTHER INCOME

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
Government grants	**6,524**	581
Sales of scrap materials	**275**	5,625
Dividend income from unlisted securities	**—**	800
Reversal of impairment loss for doubtful debts	**21**	—
Net foreign exchange gain	**—**	4,844
Others	**505**	122
	7,325	11,972

Subsidiaries of the Company located in the PRC received unconditional grants amounting to RMB4,256,000 (six months ended 30 June 2015: Nil) from the local government in Danyang to reward their contribution to the local economy and encourage their innovation of technology during the six months ended 30 June 2016. The Group also recognised amortisation of government grants related to assets of RMB2,268,000 (six months ended 30 June 2015: RMB581,000) during the six months ended 30 June 2016.

6. OTHER EXPENSES

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
Provision of impairment losses for doubtful trade receivables	**—**	7,630
Net foreign exchange loss	**15,722**	—
Net loss on disposal of property, plant and equipment	**60**	457
Others	**642**	598
	16,424	8,685

7. PROFIT BEFORE INCOME TAX

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

(a) Net finance costs

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
Interest income	**(5,533)**	(4,103)
Finance income	**(5,533)**	(4,103)
Interest on bank loans	**66,275**	86,094
Less: interest expense capitalised into property, plant and equipment under construction	**(6,468)**	(13,800)
Finance expenses	**59,807**	72,294
Net finance costs	**54,274**	68,191

(b) Other items

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
Cost of inventories*	**1,377,160**	1,631,882
Depreciation	**103,474**	95,619
Amortisation of lease prepayments	**874**	802
Provision for write-down of inventories	**924**	4,990

* Cost of inventories includes RMB100,457,000 (six months ended 30 June 2015: RMB96,817,000) relating to depreciation expenses and provision for write-down of inventories, of which amounts are also included in the respective total amounts disclosed separately above for each of these types of expenses.

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
Current tax		
Provision for PRC income tax — corporation tax	**13,594**	13,382
Provision for Hong Kong profits tax	**983**	905
	14,577	14,287
Deferred tax		
Reversal of temporary differences	**(8,205)**	(886)
	6,372	13,401

(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. Jiangsu Tiangong Tools Company Limited, Tiangong Aihe Company Limited and Jiangsu Tiangong Technology Company Limited ("TG Tech") are subject to a preferential income tax rate of 15% in 2016 available to enterprises which qualify as a High and New Technology Enterprise (2015: 15%).

The statutory corporate income tax rate applicable to the Group's other operating subsidiaries in the PRC is 25% (2015: 25%).

(c) Hong Kong profits tax has been provided for Tiangong Development Hong Kong Company Limited at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits arising in Hong Kong for the period ended 30 June 2016.

9. 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 RMB25,713,000 (six months ended 30 June 2015: RMB60,547,000) and the weighted average of 2,220,080,000 ordinary shares in issue during the interim period (six months ended 30 June 2015: 2,220,080,000).

(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 RMB25,713,000 (six months ended 30 June 2015: RMB60,547,000) and the weighted average number of ordinary shares of 2,220,080,000 (six months ended 30 June 2015: 2,220,204,127 (including shares to be issued under share options)) in issue during the six months ended 30 June 2016 after taking into account the potential dilution effect of share options.

10. TRADE AND OTHER RECEIVABLES

	At 30 June 2016 *RMB'000*	At 31 December 2015 *RMB'000*
Trade receivables	**1,186,475**	1,217,005
Bills receivable	**460,477**	529,771
Less: provision for doubtful debts	**(76,597)**	(76,618)
Net trade and bills receivable	**1,570,355**	1,670,158
Prepayments	**174,174**	186,298
Current taxation	**9,866**	3,192
Non-trade receivables	**34,897**	41,969
Less: impairment loss on non-trade receivables	**(6,379)**	(6,137)
Net prepayments and non-trade receivables	**212,558**	225,322
	1,782,913	1,895,480

Trade receivables of RMB140,333,000 (2015: RMB91,509,000) have been pledged to a bank as security for the Group's bank loans. As at 30 June 2016, no bills receivable were pledged (2015: 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 2016	At 31 December 2015
	RMB'000	*RMB'000*
Within 3 months	**1,182,137**	1,246,347
4 to 6 months	**253,376**	279,986
7 to 12 months	**75,637**	76,963
1 to 2 years	**51,186**	54,985
Over 2 years	**8,019**	11,877
	1,570,355	1,670,158

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

	30 June 2016	31 December 2015
	RMB'000	*RMB'000*
Neither past due nor impaired	1,128,620	1,204,931
Less than 3 months past due	16,853	13,961
3 to 6 months past due	21,240	2,556
Over 6 months past due	20,276	13,772
Amounts past due but not impaired	58,369	30,289
	1,186,989	1,235,220

Receivables that were neither past due nor impaired relate to a wide range of customers with no recent history of default.

Receivables that were past due but not impaired relate to a number of customers that have a good payment track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

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 with credit period of maximum 150 days depending on the creditworthiness of individual customers. Normally, the Group does not obtain collateral from customers.

11. TRADE AND OTHER PAYABLES

At 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 2016 *RMB'000*	At 31 December 2015 *RMB'000*
Within 3 months	**652,449**	711,435
4 to 6 months	**287,949**	376,429
7 to 12 months	**24,595**	31,251
1 to 2 years	**28,052**	56,614
Over 2 years	**17,538**	15,882
Total trade creditors and bills payable	**1,010,583**	1,191,611
Non-trade payables and accrued expenses	**184,815**	155,724
	1,195,398	1,347,335

12. CAPITAL, RESERVES AND DIVIDENDS

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

	Six months ended 30 June	
	2016 *RMB'000*	2015 *RMB'000*
Dividend in respect of the previous financial year, approved but not paid during the interim period, of RMB0.0065 per share (six months ended 30 June 2015: RMB0.0418 per share)	**14,431**	92,799

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Market Review

	For the six months ended 30 June					
	2016		2015		Change	
	RMB'000	***%***	*RMB'000*	*%*	*RMB'000*	*%*
Die steel ("DS")	**534,209**	**34.1**	530,235	28.5	3,974	0.7
High Speed Steel ("HSS")	**206,838**	**13.2**	363,112	19.6	(156,274)	(43.0)
HSS cutting tools	**237,519**	**15.1**	304,465	16.4	(66,946)	(22.0)
Titanium alloy	**98,416**	**6.3**	97,353	5.2	1,063	1.1
Trading of goods	**491,252**	**31.3**	562,374	30.3	(71,122)	(12.6)
	1,568,234	**100.0**	1,857,539	100.0	(289,305)	(15.6)

After passing through the severe global economic situation in 2015, global economy recovery was still weak during the first half of 2016. China's economy remained stable and continued to settle into the "new normal state" with a slower development pace at a reported growth of 6.7%. The Group was slowly recovering from the trough in the second half of 2015. Although the average selling prices of the Group's products bounced from the bottom during the period, they were still relatively low and yet recovered to the average selling price level of the same period in 2015. Overall demands remained subdued, in particular on HSS. However, the Group grabbed some additional market shares in DS segment as a result of the cleaning up of some zombie corporations.

The industry faced challenges and opportunities in this new normal state. Under this environment, the Group continued to maintain its competitiveness by focusing on high-end product development and cost saving strategy, including automation and reengineering of production process.

DS — accounted for approximately 34% of the Group's revenue in 1H2016

	For the six months ended 30 June					
	2016		2015		Change	
	RMB'000	***%***	*RMB'000*	*%*	*RMB'000*	*%*
Domestic	**223,422**	**41.8**	215,791	40.7	7,631	3.5
Export	**310,787**	**58.2**	314,444	59.3	(3,657)	(1.2)
	534,209	**100.0**	530,235	100.0	3,974	0.7

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 1H2016, revenue generated from DS increased by approximately 0.7% to RMB534,209,000 (1H2015: RMB530,235,000). As a result of cleaning up some zombie corporations, the Group benefited from grabbing additional market shares in the DS market. The effect accounted for an increase in domestic revenue by 3.5% to RMB223,422,000 (1H2015: RMB215,791,000). On the other hand, the effort devoted to expand the overseas markets overcame the decrease in the average selling price. As a result, the Group's export revenue remained stable at RMB310,787,000 (1H2015: RMB314,444,000).

HSS — accounted for approximately 13% of the Group's revenue in 1H2016

	For the six months ended 30 June					
	2016		2015		Change	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Domestic	**138,405**	**66.9**	261,082	71.9	(122,677)	(47.0)
Export	**68,433**	**33.1**	102,030	28.1	(33,597)	(32.9)
	206,838	**100.0**	363,112	100.0	(156,274)	(43.0)

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.

Demand and average selling price of HSS remained subdued in both domestic and overseas markets. Comparing to the same period in 2015, when it was still in the initial period of the economic downturn, both the domestic and export revenue recorded a decrease of 47.0% and 32.9% to RMB138,405,000 (1H2015: RMB261,082,000) and RMB68,433,000 (1H2015: RMB102,030,000) respectively.

HSS cutting tools — accounted for approximately 15% of the Group's revenue in 1H2016

	For the six months ended 30 June					
	2016		2015		Change	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Domestic	**85,537**	**36.0**	110,591	36.3	(25,054)	(22.7)
Export	**151,982**	**64.0**	193,874	63.7	(41,892)	(21.6)
	237,519	**100.0**	304,465	100.0	(66,946)	(22.0)

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 price of HSS cutting tools was relatively stable throughout the trough and recovery period in the first half of 2016. However, the revenue generated from HSS cutting tools still decreased by 22.0% to RMB237,519,000 (1H2015: RMB304,465,000). It was mainly because of the decrease in demands in both domestic and overseas markets. Revenue contributed from the respective domestic and overseas markets remained stable comparing to the same period in 2015.

Titanium alloy — accounted for approximately 6% of the Group's revenue in 1H2016

	For the six months ended 30 June					
	2016		2015		Change	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Domestic	**98,416**	**100.0**	97,353	100.0	1,063	1.1

Titanium alloy segment has been a growing 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 recorded a 6.3% increase in sales volume of titanium alloys. However, the increase in sales volume was partially offset by the decrease in average selling price, resulting in a net increase by 1.1% to RMB98,416,000 (1H2015: RMB97,353,000).

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 not spend too much focus in this segment.

Outlook

During the period, the Group's operation was slowly recovering from the trough. However, demand of some of the Group's products remained subdued. Given that the average selling price of the Group's products has already bounced from the lowest, it is essential for the Group to strengthen internally to prepare for the rebound in the demand. Accordingly, more efforts will continue to be placed on strengthening internal resources, including high-end product development, downstream process extension, production process automation, research and development of new production technology, second echelon development and environment responsibility enhancement. Moreover, the Group will seek for appropriate partnership to develop sales channel on e-commerce platform, allowing the Group to have an additional channel in sales and marketing operation.

Given that titanium alloy segment is a growing business, the Group has actively sought for appropriate cooperation opportunities to expand its operation. One of the investors, Nanjing Iron & Steel Co., Ltd. ("Nanjing Steel"), was identified as a strategic partner to provide technology and funding for the essential development of this segment.

During the year, TG Tech, a non-wholly owned subsidiary of the Company, entered into a subscription agreement with Nanjing Steel for a subscription of 40 million TG Tech placing shares at the placing price of RMB1.24 per share for a cash consideration of up to approximately RMB49.6 million (the "First Placing"). After the completion of the First Placing, the equity interests held by the Company in TG Tech was diluted by approximately 11.76% from 100% to approximately 88.24% of the enlarged share capital of TG Tech. The proceeds from the First Placing has been used for procurement of material and utility expenses and the replenishment of its working capital, which enabled TG Tech to (i) increase its production capacity; (ii) strengthen its current research and development level; and (iii) increase its financial strength. For further details, please refer to the announcements of the Company dated 7 March 2016, 24 March 2016, 27 April 2016 and 25 August 2016.

Further, on 6 June 2016, TG Tech entered into another subscription agreement with Nanjing Steel, certain directors and core management of TG Tech for a subscription of total of 65 million TG Tech placing shares at the placing price of RMB1.24 per share for a cash consideration of up to approximately RMB80.6 million (the "Second Placing"). After the completion of the Second Placing, the equity interests held by the Company in TG Tech would be further diluted to approximately 74.07% of the enlarged share capital of TG Tech. TG Tech will remain as a subsidiary of the Group after the completion of the Second Placing. The proceeds from the Second Placing will be used for (i) research and development for new materials of high-quality, high-end titanium alloy, including but not limited to titanium wire for 3D printing and a co-developing project with Nanjing Steel on the development of a new composite material by the combination of titanium and steel; (ii) integration with upstream and downstream products suppliers/contractors/customers by way of alliance or investment; and (iii) replenishment of TG Tech's working capital to procure raw materials and meet any cashflow requirements that may arise from the daily operations of TG Tech. Subsequently on 11 July 2016, the Second Placing and the subscription agreement were resolved and approved in the extraordinary general meeting of the Company. As of the date of this announcement, the Second Placing has not been completed yet. For further details, please refer to the announcements of the Company dated 6 June 2016, 11 July 2016 and 25 August 2016 and the circular of the Company dated 23 June 2016.

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 57.5% from RMB60,547,000 in the first half of 2015 to RMB25,713,000 in the first half of 2016. The decrease was mainly attributable to the (i) weak global economic growth during the period, leading to the decrease in demand; and (ii) the relatively low average selling price of the Group's products after the negative impact on steel products during the year 2015, which has yet recovered to the average selling price level of the same period in 2015.

Revenue

Revenue of the Group for the first half of 2016 totalled RMB1,568,234,000, representing a decrease of approximately 15.6% when compared with RMB1,857,539,000 in the first half of 2015. The decrease was mainly attributable to the decrease in revenue of the Group's two major segments, HSS and HSS cutting tools.

Cost of sales

The Group's cost of sales decreased from RMB1,631,882,000 for the first half of 2015 to RMB1,381,307,000 for the first half of 2016, representing a decrease of approximately 15.4%. The decrease was mainly due to the decrease in sales during the period.

Gross margin

For the first half of 2016, the gross margin was approximately 11.9% (1H2015: 12.1%). Set out below is the gross margin for our five segments for the first half of 2015 and 2016:

	For the six months ended 30 June	
	2016	2015
DS	**18.2%**	19.0%
HSS	**17.0%**	18.0%
HSS cutting tools	**16.8%**	15.5%
Titanium alloy	**13.7%**	12.6%
Trading of goods	**0.19%**	0.08%

DS

The gross margin of DS decreased from 19.0% in the first half of 2015 to 18.2% in the first half of 2016. The decrease was mainly due to the decrease in average selling price of individual products.

HSS

The HSS gross margin decreased from 18.0% in the first half of 2015 to 17.0% in the same period in 2016. The decrease was mainly due to the decrease in average selling price of individual products.

HSS cutting tools

The gross margin of HSS cutting tools increased from 15.5% in the first half of 2015 to 16.8% in the same period in 2016. The increase was mainly due to the change in the sale mix in the first half of 2016 which included more higher-quality products with high average selling price.

Titanium alloy

The gross margin of titanium alloy increased to 13.7% from 12.6% as a result of the decrease in price of the major raw material, sponge titanium, in the first half of 2016.

Other income

The Group's other income decreased from RMB11,972,000 in the first half of 2015 to RMB7,325,000 in the first half of 2016. The decrease was mainly attributable to the combined effect of (i) decrease in sales of scrap materials during the period; and (ii) the Group recording a net foreign exchange gain in the first half of 2015 while a net foreign exchange loss in the first half of 2016 which were partially setoff by an increase in the government grants received from the PRC government.

Distribution expenses

The Group's distribution expenses were RMB28,829,000 (1H2015: RMB37,478,000), representing a decrease of approximately 23.1%. The decrease was mainly attributable to the decrease in transportation expenses as a result of the decrease in export sales volume. For the first half of 2016, the distribution expenses as a percentage of revenue was 1.8% (1H2015: 2.0%).

Administrative expenses

For the first half of 2016, the Group's administrative expenses increased to RMB67,363,000 (1H2015: RMB58,424,000). The increase was mainly due to the increase in the average salary to employees in the first half of 2016. For the first half of 2016, the administrative expenses as a percentage of revenue was 4.3% (1H2015: 3.1%).

Net finance cost

The Group's net finance cost decreased from RMB68,191,000 in the first half of 2015 to RMB54,274,000 in the first half of 2016, which was attributable to the decrease in interest rate charged on the bank borrowing.

Income tax expense

The Group's income tax expense decreased from RMB13,401,000 in the first half of 2015 to RMB6,372,000 in the first half of 2016. Such decrease was mainly due to the decrease in the 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 55.3% to RMB26,864,000 for the first half of 2016 from RMB60,055,000 for the first half of 2015. The Group's net profit margin decreased from 3.2% in the first half of 2015 to 1.7% in the same period of 2016.

Profit attributable to equity shareholders of the Company

For the first half of 2016, profit attributable to equity shareholders of the Company was RMB25,713,000 (1H2015: RMB60,547,000), representing a decrease of 57.5%.

Trade and bills receivable

The net trade and bills receivable decreased from RMB1,670,158,000 as at 31 December 2015 to RMB1,570,355,000 as at 30 June 2016 which was mainly due to the decrease in sales in the first half of 2016. The provision for doubtful debts of RMB76,597,000 (2015: RMB76,618,000) accounted for 4.7% (2015: 4.4%) of the trade and bills receivables.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2016, the Group's current assets mainly included cash and cash equivalents of approximately RMB338,163,000, inventories of approximately RMB1,912,391,000, trade and other receivables of RMB1,782,913,000, time deposits of RMB400,000,000 and pledged deposits of RMB488,230,000. The Group's current assets remained stable at RMB4,921,697,000 comparing to RMB4,950,998,000 at 31 December 2015.

As at 30 June 2016, the interest-bearing borrowings of the Group were RMB3,147,214,000 (31 December 2015: RMB3,066,874,000), RMB3,018,539,000 (31 December 2015: RMB2,580,896,000) of which were repayable within one year and RMB128,675,000 (31 December 2015: RMB485,978,000) 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 48.8%, comparing to 49.0% as at 31 December 2015.

As at 30 June 2016, borrowings of 2,122,620,000 (31 December 2015: RMB1,984,100,000) were in RMB, USD127,387,000 (31 December 2015: USD136,440,160) were in USD and EUR25,604,000 (31 December 2015: EUR29,411,544) were in EUR. The majority of the borrowings of the Group were subject to interests payable at the rates ranging from 0.70% to 6.00% (31 December 2015: 0.70% to 6.16%). The Group did not enter into any interest rate swap to hedge itself against the risks associated with interest rates. The net cash generated from operating activities during the period was RMB111,798,000 (31 December 2015: RMB632,532,000).

CAPITAL EXPENDITURES AND CAPITAL COMMITMENTS

For the first half of 2016, the Group's net increase in fixed assets amounted to RMB3,556,000 (1H 2015: RMB96,701,000). Comparing to the significant capital expenditures mainly incurred for the project of "continuous rolling mill" in the first half of 2015, the Group initiated fewer projects and therefore incurred less capital expenditures in the first half of 2016. As at 30 June 2016, capital commitments were RMB455,523,000 (31 December 2015: RMB467,945,000), of which RMB36,071,000 (31 December 2015: RMB45,449,000) was contracted and RMB419,452,000 (31 December 2015: RMB422,496,000) 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 70.7% (31 December 2015: 70.8%)). Approximately 29.3% (31 December 2015: 29.2%) 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 2016, the Group pledged certain bank deposits amounting to approximately RMB488,230,000 (31 December 2015: RMB445,389,000) and certain trade receivables amounting to approximately RMB140,333,000 (31 December 2015: RMB91,509,000). Details are set out in the notes to the financial statements.

EMPLOYEE'S REMUNERATION AND TRAINING

As at 30 June 2016, the Group employed 3,352 employees (31 December 2015: 3,270). 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 2016 (31 December 2015: No material contingent liabilities).

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 2015).

SHARE OPTIONS SCHEME

The Company adopted a share option scheme (the "Scheme") on 7 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 Scheme was adjusted to 19,880,000 shares of USD0.0025 each at an exercise price of HKD1.275 per share. All the remaining share options for 3,080,000 shares lapsed on 1 July 2016.

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. Among the total 9,057,000 shares options, 55,000 shares options were not vested and the remaining 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. All the remaining share options for 9,002,000 shares lapsed during the period.

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.

Subsequently on 22 July 2016, options entitled holders to subscribe for a total of 18,970,000 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 will be vested on 1 January 2017 and have an initial exercise price of HKD0.60 per share of USD0.0025 each and an exercise period ranging from 1 January 2017 to 31 December 2017. The closing price of the Company's shares at the date of grant was HKD0.56 per share of USD0.0025 each.

PURCHASE, SALES OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2016, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its listed securities.

CORPORATE GOVERNANCE

During the six months ended 30 June 2016, 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.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors. The Audit Committee held a meeting on 24 August 2016 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 2016 interim report and interim financial statements of the Company have complied with the applicable accounting standards and the Company has made appropriate disclosure thereof.

APPRECIATION

The Board 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, 25 August 2016

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 only*